



22 September 2014

Publishing Technology plc

(“Publishing Technology”, “the Group” or “the Company”)

### Trading Statement

Publishing Technology plc (AIM: PTO.L), the leading provider of world-class software and services to the global publishing industry, announces that the strategic review undertaken by the new Group CEO, Michael Cairns, is now complete and the Board has implemented a new growth based strategy for the Group with a target to exceed £25m revenue with a 20% PBIT within the next 5 years.

As a consequence of higher investment, some historic implementation decisions and one-off costs to realign the business, the Board expects the results for the year to 31 December 2014 to be significantly below the market expectations and extend the loss reported for the first half. However, it believes the new strategy will place the Group in a strong position to resume growth in revenues and profits in 2015. The Board expects the revised bank facilities recently negotiated to be sufficient to deal with the cash requirement created by these actions in the interim.

#### Conclusions of the strategic review

The Group will work with internationally recognised third-party implementation partners to provide the skills and processes needed to effectively and efficiently implement the Group’s products *advance* and *pub2web*.

The Group is pleased to announce that it has signed its first partnership with Cognizant, a Fortune 500 and S&P 500 ranked company headquartered in New York and a global leader in business and technology services. Publishing Technology is already working with Cognizant in ongoing implementations and on a number of significant sales opportunities. Discussions are expected to commence with other similar potential partners over the coming months.

As well as providing a better service to our customers and reducing overall risk for the business, working with Cognizant is expected to bring Publishing Technology a wealth of opportunity for the following reasons:

Firstly, the relationship brings skills. The Group’s project management skill set will be significantly enriched by utilising world-class project management procedures and controls ensuring past mistakes and inefficiencies do not reoccur. This should also ensure that revenue generation matches additional services provided.

Secondly, it is expected to increase sales. Joining forces in business development initiatives is expected to boost the Group’s pipeline and improve win rates. Global publishers and information providers are more comfortable dealing with larger organisations and we are already seeing doors that were previously closed open up again.

Thirdly, working with truly global partners is expected to scale the Publishing Technology business. The number of possible concurrent implementations will rise exponentially, the potential geographic market is greater and such a partnership can also open new market segments. The Group expects to be able to address European and Asian markets much earlier and expand into other media segments such as film and television with for example its *advance* contracts, rights and royalties software, for example.

Lastly, working with partners reduces risk on the Group and improves margins. The Group's subject matter experts have the potential to be released from low-level work and be available to a wider variety of projects resulting in better utilisation rates and higher than previously achieved day rates.

Partnering with independent integrators does not mean that Publishing Technology will pay high day rates to use third party resources, but rather that the third party implementation partner will contract with the publisher to deliver the Group's products (the same model as used by SAP and Oracle). Publishing Technology will continue to earn licence revenue and recurring maintenance and managed services revenue, as well higher day rates for subject matter experts as a proportion of the total implementation revenue.

To realise the maximum benefits of working with implementation partners, the Group's software had to be complete, which is why this is the right time for such a relationship. However the products also have to be fully optimised which requires some additional development but mainly documentation support. As a result, research and development investment will continue at current rates to at least the second half of 2015. All *advance* modules will be fully developed and ready for third party deployment by mid-2015, although modules will be able to be deployed during the next nine months, and pub2web is expected to be 'productised' ready for deployment by the end of 2014.

#### Structural change

The Group is in the process of restructuring from product-led business unit 'silos', each with its own business head, to a skills-led organisation with senior staff working across the Group. Instead of each business manager controlling a product P&L from sales to implementation, the business will be split into global skill-based groups requiring a new CTO and a Global Projects Director to be hired, the search for both of which is underway. Existing divisional managers will manage a new global products group and global customer services / account management group. PCG, ingentaconnect and current Group functions, such as business development and administrative functions, will not be affected by the change.

#### China

The value of ongoing implementations in China is currently similar to the value of ongoing implementations in the rest of the world, which, given the lower sales value achievable, is a strong indication of the growth being experienced in the region.

The Group wants to capitalise on the joint venture's impressive position in the Chinese publishing market where we have built up exceptional relationships with the country's largest and most important publishing houses.

As a result, the Group's strategy will now give more focus to China by making sure its products are optimised for quick deployment in the Chinese market and have China specific requirements built in. It will also build a dual language bridge between the UK and Chinese developers so that subject matter experts from both countries can work together more closely.

The Board believes there is enormous potential and excellent opportunities in China and will ensure the region is core to Publishing Technology's future strategy.

#### Historic issues

A number of issues were identified during the strategic review concerning the implementation of certain projects, and action has now been taken to address them.

There were a number of circumstances where the Group agreed to develop additional product functionality as part of an implementation contract, which was a natural consequence of still being in the development stage of the *advance* products. With hindsight, too many product enhancements were agreed to and this led to resource issues and implementation delays which have had a direct impact on revenue recognition in 2014.

At the same time, the business was operating without either a Global Projects Director or a CTO to ensure that these issues were resolved quickly and efficiently.

Now that the product development is closer to completion and the Group is in the process of hiring the required skill sets, the Board is confident that these issues will not recur.

The Group has taken the difficult decisions this year to resolve the key issues which were, in the Board's opinion, holding back the business. As a result of which, the Board expects the Group's results for the year ending 31 December 2014 will be significantly below market expectations. The majority of the reduction in expected profitability (amounting to approximately £1.0m) is due mainly to one major *advance* project and the additional resource and development effort required to ensure its success. The Board believes that as a result of this investment, the product is enhanced and that this project and the future revenue from further phases is now secure.

In addition, there are expected to be a number of one-off costs which will be incurred in the year, including restructuring costs of around £0.3m, investments to support China of approximately £0.3m, additional £0.4m unbudgeted development cost for pub2web to improve the speed and responsiveness of the software, and £0.3m of bad debts relating to a client in the US who is in default. We are actively seeking recovery but are being prudent and planning to make a provision against this debt in 2014.

The board expects a cash outflow in the year as a result of the higher than expected costs and lower than expected billing related to the major *advance* project mentioned above. As a result, the Board has agreed increased borrowing facilities with the Group's bankers who have extended the overdraft facilities to £3m to cover the expected funding requirement into 2015.

The Board believes that, as a result of the decisions made and the new strategy being implemented, the business has been optimised for growth and scalability. It is now in the best position to capitalise on the substantial product investment and can take full advantage of the latent potential in the market.

**Michael Cairns, CEO Publishing Technology commented:**

"I am pleased that we are moving forward with the restructure of our business to ensure our core strengths of software development and customer service are enhanced. We hope to announce shortly the appointment of a CTO and a Global Projects Director.

I am excited to deepen our relationship with Cognizant, which I believe will de-risk our business considerably, improve margins and give us the opportunity to finally scale this business based on our world class products which are consistently well received.

Having recently returned from the Beijing Book Fair, I am convinced that China is a tremendous opportunity for Publishing Technology and we will now ensure that we invest in the areas necessary to support our joint venture as it grows.

We have taken some tough decisions in the last few weeks and months which I feel are necessary to address the short-term issues that were holding back the business and to invest in future growth. These initiatives will have an impact on results for 2014 and will be significantly below market expectations. However, I believe the new strategy will fundamentally strengthen the Group's market

position, improve our prospects for future growth, and in particular will allow us to move forward through 2015 cleansed of historic issues.

Next year Publishing Technology will be in a stronger position to reap the benefits of the considerable investment in our software by embracing the fundamental, strategic changes which I believe will accelerate the Group's growth and build value by focussing on our core skills as a software developer and services provider."

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