Publishing Technology plc interim results

Publishing Technology plc (AIM: PTO), ("Publishing Technology", the "Company" or the "Group") the AIM quoted leading provider of world-class software and services to the global publishing industry, today announces its unaudited interim results for the six months to 30 June 2014.

As indicated in the Company's trading update on 19 June 2014, the interim results show a loss due to the recent actions taken by management to improve implementation on certain current contracts, resulting in both additional product development expenses being incurred and the deferral of revenue that was expected to be recognised in the period.

Financial Key Points

- Group revenues down 10.3% to £7.61m (2013: £8.49m)
- Gross profit down 25.1% to £2.18m (2013: £2.91m)
- Loss before tax £0.69m (2013: profit before tax £0.42m)
- Loss per share 8.55p (2013: profit per share 4.58p)
- Cash inflow from operations £0.2m (2013: cash outflow £0.84m)

Operational Key Points

- All *advance* modules being implemented
- Large contract wins for *pub2web* last year helping to drive recurring revenue
- Renewal of BioOne contract a significant result for PCG
- Vista performing well, with good margins and high renewal rates
- Relaunch for ingentaconnect helping to secure new customers
- China JV remains strong with new contract and project wins
- Strategic review completed and actions taken to address the issues
- Talks underway with third-party integrators to improve implementation and scalability
- Strong sales pipeline across the Group's products and services

Michael Cairns, Chief Executive of Publishing Technology plc, commented:

"The first half of 2014 has latterly been a period of review and assessment to ensure the Group has as strong a platform as possible from which it can reap the full benefits of its significant research and development investment and capitalise on the considerable embedded value in its products and services.

The strategic review I have undertaken over the past few months focused on two areas: some of the short-term issues the Group faced, which have now largely been addressed, but which as a result will hold back this year's results; and, building a new vision and approach, designed to improve the Group's performance and ensure the business is scalable and positioned for growth.

As a result of the review, the Group will focus on its core skills as a software developer and services provider and work with integration partners to optimise *advance* and pub2web implementations for global publishing clients. Working with integrators will enhance our project management skill set, increase our sales opportunities geographically and by market segment, and is expected to improve our achievable day rates and utilisation rates while reducing risk on project implementations. Overall this is expected to lead to greater scalability for the *advance* and pub2web divisions.

This essential re-positioning of the Group will allow it to take advantage of positive and supportive market trends. The global publishing industry is undergoing considerable change and publishers are keen to find partners that can help them capitalise on the growth in e-books and commercialise their content digitally.

The Group's fundamentals remain strong. Some 65% of revenue is recurring, the Group acts for 7 of the world's top 10 publishing groups, has a global blue-chip list of 400 publishing and academic customers while the new business pipeline across all products and services is robust."

Notes to Editors

Publishing Technology is the world-leading provider of content solutions that transform business. We cover the publishing process from end to end with content systems, audience development and content delivery software and services. Combining our unmatched publishing knowledge, global operations and perpetual support model with our *advance* operations system, ingentaconnect scholarly portal, pub2web custom hosting platform and PCG (Publishers Communication Group) sales and marketing consultancy, we offer the industry's only full spectrum of solutions to help publishers move their content forward.

Listed on the AIM market of the London Stock Exchange, the company operates jointly from Europe (Oxford) and North America (Boston and New Jersey), with representation or local offices in Brazil, India, China and Australia. Assisting over 400 trade and scholarly publishers for over thirty years, Publishing Technology plc solves the fundamental issues content providers face.

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Chief executive's statement

Strategic review

On my appointment as CEO in March this year, I was charged with conducting a group-wide strategic review to ensure that the business is in the best position possible to capitalise on the considerable investment in its products and services. This included identifying areas where the Group could improve its performance, making sure that as a business it is readily scalable and that it can take full advantage of the significant opportunities the positive market backdrop presents.

I reported some initial conclusions to the Board earlier this year and took some immediate actions to capitalise on the strength of the Group's assets. There were some implementation issues on a small subset of *advance* projects, mostly as a result of developing additional product functionality as part of the implementations, which have led to project delays and additional costs to ensure success. This will impact on revenue and profitability in the current year.

Publishing Technology has excellent products with enormous embedded value, created over a number of years and with more than £15m of investment. We now need to ensure we make returns from this investment and to do this we need better implementation skills, more structured selling and access to additional resource.

My conclusion is that the Group should focus on its recognised strengths in the engineering, design and development of world-class software and in providing services with deep subject matter expertise. We will do this by working with third party implementation partners to bring further skills, methodologies and scale to our offering, while reducing the implementation risk to Publishing Technology. This will require additional investment in product development to optimise the products for implementation by a third party, but this change in strategy will provide a firmer foundation for growth by creating a more scalable and lower risk business.

We will continue to implement in-house in some instances but will also work to a model used by competitors such as SAP to widen our potential market reach, which will offer us the best route for growth and allow us to take full advantage of the positive market backdrop.

Working with implementation partners

During my review it became clear that we lacked some of the processes and methodologies required to optimise our implementation services, in particular for the larger global publishers, and that we also lacked the necessary resources to rapidly scale these services and achieve the best returns from our investments.

Enhance skills

Working with internationally recognised implementation partners will provide the skills and processes needed to more effectively and efficiently implement the Group's products to the standards required by its global publishing clients. This 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.

Reduce risk

Publishing Technology will earn licence revenue and recurring maintenance revenue from all sales, as well as a proportion of the implementation revenue. It is important to understand this change. Currently the Group takes on the full implementation generally at or close to a fixed price contract which is a high risk for a business of our size. Where the implementation is run by an implementation partner, the Group will be able to earn higher day rates for its subject matter experts being charged to the implementer with lower risk to us, which will allow us to plan resource better and increase chargeable utilisation rates.

Increase scale

When considering an individual project, while working with an implementation partner will reduce revenues, more importantly, it will reduce the Group's risk attached to each project while increasing the number of concurrent projects that can be undertaken which could increase the scale of the business.

We therefore expect to achieve higher utilisation and higher day rates across a larger number of projects, with the consequential positive effect on margins.

Increase sales

Implementation partners have the human resources to increase the scale of the business after projects have been won, but they can also enhance the Group's ability to win projects. Joining forces with implementation partners in business development and presenting a united sales force will undoubtedly offer a stronger position from which to pitch and win multi-million pound projects for international publishers. In addition, the Group has at times been in a situation where it cannot take on any more work and has had to turn down the opportunity to bid for a contract. Working with implementation partners is likely to increase the pipeline of opportunities through an increased presence and more resource, and also increase our conversion rates.

Widen potential markets

Such partnerships will improve the scalability of our business by widening the Group's market and geographic reach. Global implementation partners can take the Group's products into geographic markets which we could not do as a standalone business. In addition, they can also take our products into other market segments, for instance using our *advance* contract, rights and royalties or permissions products in other media sectors, such as film and television.

The Company has already started working with an implementation partner on one project in Europe and detailed discussions are under way to create a wider partnership agreement. Further details on the progress of these discussions will be announced as appropriate.

Investing in new products

Substantial investment has been made across our products and services, in particular our new generation software products, *advance* and pub2web, where, as referred to above, over £15 million has been committed in aggregate.

All modules of *advance* have been or are now being implemented across all types of publisher as well as distributors. Limited further investment is on-going to ensure both products are optimised for the market which is expected to be completed by the end of the current financial year for pub2web and by the end of the first half of 2015 for *advance*.

The Group has also invested in the relaunch of ingentaconnect, including a new website design and new product enhancements, which are helping the portal to secure contract renewals and win more new clients.

Group restructuring and reorganisation

A further key aspect of my strategic review was to consider whether the management structure was optimal to deliver on the new strategy. My conclusion which has been endorsed by the Board is that we needed to strengthen our management capability by creating two new roles: a Chief Technology Officer (CTO) and a Global Projects Director.

A CTO is critical for the Group to maintain market leadership with its products and services in a fast moving technology landscape. In addition, a Global Projects Director is vital not only to ensure that those implementations retained in-house are efficient, but will also be the key senior management contact for the Group's implementation partners to maximise the benefit of these relationships to the Group.

The search for these two key posts has commenced. We will provide an update on these appointments in due course.

Financial review

The first half of 2014 has been a period of review and assessment for the Group. The fall in turnover of just over 10% against the same period in 2013 was largely due to delays in one major contract as a result of developing new product functionality as part of the implementation. This resulted in the deferral of revenues that were expected to be recognised in the period. The Group also incurred some additional product development expense and additional resource costs to ensure success on on-going contracts and improve the efficiency of both *advance* and pub2web.

The Board expects that most of the delayed revenue will be recaptured later in the year but that as a result some revenue which was expected in the second half of 2014 will also be delayed into 2015.

There is a substantial new business pipeline and a full order book of contracted on-going work for *advance* and pub2web, including some £4 million of new business wins in the past few months, as well as renewals of important client contracts, which have all helped to underpin core revenues which have a strong recurring element.

2013 was the best sales year so far for *advance*, with new client wins, including leading children's publisher Egmont and international distribution specialist Turpin, which have driven this year's time-based revenues.

Revenues in the pub2web division are being driven by the number of large sites which went live last year. In particular, those for significant clients, such as the American Institute of Physics and the American Society of Microbiology, which helped boost hosting revenue. Investment to improve pub2web's efficient implementation should be complete by the end of this financial year.

PCG continues to perform well aided during the first half of 2014 by the contract renewal with BioOne for another three years. A new divisional head has been recruited to drive the business forward with particular emphasis on high value revenue contracts, phasing out low level administration heavy contracts, while also building up the Full Service Representation division, which is delivering strong results.

The mature products, Vista and ingentaconnect continue to make healthy contributions. Vista's loyal client base underpins the Group's recurring revenues with strong margins. Now that *advance* is almost complete, we can begin to offer a migration path for Vista customers to move onto the *advance* platform should they wish to do so. ingentaconnect remains profitable with new publishers continuing to join the platform.

China

China is an exciting area for the Group and offers excellent growth opportunities. The Group's Chinese joint venture has ongoing time based services contracts valued at more than £2.0 million. These are to be delivered through the remainder of 2014 and 2015 and are with clients including China Law Press and China Publishing Group, the country's largest publisher and owner of CNPIEC (China National Publications Import and Export Corporation), which controls the majority of content moving in and out of China. The Chinese joint venture, in which the Group owns 49%, has approximately 50 staff, including 40 developers.

The joint venture company is one of only five Chinese government approved suppliers as part of an initiative to drive digital publishing, within which, the Group already has eleven pub2web projects underway as well as revenue from stand alone pub2webs, ingentaconnect and *advance* contracts. China has a strong new business pipeline across all products although profits so far this year have been held back by the increase in staffing and systems needed to fulfil the order book.

Cost of sales in the first half of this year fell as a consequence of lower revenues, being £0.23m lower in the 6 months to 30 June 2014 than in the same period in 2013. The Group continues to invest in customer support as we anticipate a rise in completed implementations, which will lead to more recurring maintenance, customer service and hosting revenues.

Administrative expenses in the first six months of this year were £0.23m higher than in the same period in 2013 which included a small amount of restructuring costs largely relating to the immediate measures taken as a result of the strategic review.

The Group benefited from an R&D tax credit of £235k in the six months to 30 June 2014 (2013: £237k) which was accrued in the accounts to 31 December 2013.

Cash inflow from operations in the first half of this year was £0.2m compared to an outflow of £0.82m in the first 6 months of 2013. This was due to large receipts from recurring revenue receivable in the first half of the year related to annual services. The accrued revenue remains high due to project delays, but is expected to wind out in the second half of 2014 with increased invoicing of larger implementations.

Borrowings at 30 June 2014 were £3.29m (2013: £3.0m), as the delayed billings affected cash. However interest payable during the period is only marginally higher at £163k (2013: £161k). The Board does not propose the payment of an interim dividend (2013: £nil).

I believe the strategic decisions we have already taken as a Board and subsequent repositioning of the Group, as a result of my review, gives the business a firmer foundation for further expansion and improves its scalability and performance.

Committing additional investment to our key *advance* and pub2web products, to enhance their effectiveness, while addressing the strategic issue of improving our implementation, by seeking to work with global implementation partners, are clearly the right decisions.

The Group has an unrivalled list of global publishing clients, products and services that are universally in demand, and I believe we can harness these fundamental strengths within our new strategy to deliver real value to shareholders.

M Cairns
Chief Executive Officer

Condensed Consolidated Interim Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2014 £'000	Unaudited Six months ended 30 June 2013 £'000
Group revenue		7,609	8,486
Less: revenue from equity accounted investment	3	255	175
Group revenue excluding equity accounted investment		7,354	8,311
Cost of sales		(5,177)	(5,406)
Gross profit		2,177	2,905
Sales and marketing expenses		(854)	(739)
Administrative expenses		(1,865)	(1,639)
(Loss) / profit from operations		(542)	527
Share of profit from equity accounted investment	3	20	50
(Loss) / profit from operations including equity accounted investment		(522)	577

Analysis of (loss) / profit from operations		
(Loss) / profit before net finance costs, tax, depreciation and foreign exchange gains and losses (EBITDA)	(283)	653
Depreciation	(110)	(107)
Foreign exchange (loss) / gain	(60)	31
Restructuring costs	(69)	-
(Loss) / profit from operations	(522)	577

	Note	30 June 2014 £'000	30 June 2013 £'000
Finance costs		(163)	(161)
(Loss) / profit before tax		(685)	416
Tax		-	(24)
Retained (loss) / profit for the period		(685)	392
Other comprehensive expenses which will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(35)	(7)
Total comprehensive (expense) / income for the period		(720)	385
(Loss) / profit attributable to owners of the parent		(685)	392
Total comprehensive (expense) / income attributable to owners of the parent		(720)	385
Basic and diluted (loss) / profit per share – pence	4	(8.55)p	4.58p

Condensed Consolidated Interim Statement of Financial Position

	Note	Unaudited 30 June 2014 £'000	Unaudited 30 June 2013 £'000
Non current assets			
Goodwill		3,737	3,737
Property, plant & equipment		328	413
Investments accounted for using the equity method	3	298	74
		4,363	4,224
Current assets			
Trade and other receivables	5	4,535	5,072
		4,535	5,072
Total assets		8,898	9,296
Equity			
Share capital		841	841
Merger reserve		11,055	11,055
Reverse Acquisition reserve		(5,228)	(5,228)
Translation reserve		(933)	(848)
Investment in own shares		(7)	(7)
Retained earnings		(6,893)	(6,697)
		(1,165)	(884)
Current liabilities			
Trade and other payables	8	6,773	7,183
Borrowings	6	3,290	2,997
		10,063	10,180
Total liabilities		10,063	10,180
Total equity and liabilities		8,898	9,296

Unaudited condensed consolidated interim statement of changes in equity

	Share capital	Merger reserve	Reverse acquisition reserve	Translation reserve	Investment in own shares	Retained Earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2014	841	11,055	(5,228)	(898)	(7)	(6,208)	(445)
Loss for the period	-	-	-	-	-	(685)	(685)
Other comprehensive income: Exchange differences on translation of foreign operations	-	-	-	(35)	-	-	(35)
Total comprehensive expense for the period	-	-	-	(35)	-	(685)	(720)
Balance at 30 June 2014	841	11,055	(5,228)	(933)	(7)	(6,893)	(1,165)

	Share capital	Merger reserve	Reverse acquisition reserve	Translation reserve	Investment in own shares	Retained Earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2013	841	11,055	(5,228)	(841)	(7)	(7,089)	(1,269)
Profit for the period	-	-	-	-	-	392	392
Other comprehensive income: Exchange differences on translation of foreign operations	-	-	-	(7)	-	-	(7)
Total comprehensive income / (expense) for the period	-	-	-	(7)	-	392	385
Balance at 30 June 2013	841	11,055	(5,228)	(848)	(7)	(6,697)	(884)

Condensed Consolidated Interim Statement of Cash Flows

	Note	Unaudited Six months ended 30 June 2014 £'000	Unaudited Six months ended 30 June 2013 £'000
(Loss) / profit before tax		(685)	416
Adjustments for:			
Share of profit from equity accounted investment	3	(20)	(50)
Depreciation		110	107
Interest expense		163	161
Unrealised foreign exchange differences		(35)	(7)
Decrease / (increase) in trade and other receivables		1,432	(326)
Decrease in trade and other payables		(763)	(1,143)
Cash inflow / (outflow) from operations		202	(842)
Interest paid		(162)	(161)
Tax Paid		-	(5)
R&D tax credit received		235	237
Net cash inflow / (outflow) from operating activities		275	(771)
Payment of finance leases		(45)	(49)
Loans received		450	-
Loans repaid		(649)	-
Net cash used in financing activities		(244)	(49)
Cash flows from investing activities			
Purchase of property, plant and equipment		(26)	(132)
Net cash used in investing activities		(26)	(132)
Net increase / (decrease) in cash and cash equivalents		5	(952)
Cash and cash equivalents at beginning of period		(1,345)	(545)
Cash & cash equivalents at end of period	7	(1,340)	(1,497)

Notes to the Unaudited Interim Report for the six months ended 30 June 2014

1. Nature of operations and general information

Publishing Technology plc (the “Company”) and its subsidiaries (together 'the Group') is a provider of technology and supporting services to content providers and publishers. The nature of the Group’s operations and its principal activities are set out in the full annual financial statements.

The Company is incorporated in the United Kingdom under the Companies Act 2006. The Company's registration number is 837205 and its registered office is 8100 Alec Issigonis Way, Oxford Business Park North, Oxford OX4 2HU. The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 5 August, 2014.

The financial information set out in this interim report does not constitute statutory accounts as defined in section 404 of the Companies Act 2006. The Group’s statutory financial statements for the year ended 31 December 2013, prepared under IFRS as adopted by the European Union, have been filed with the Registrar of Companies. The auditor’s report on those financial statements was unqualified and did not contain a statement under section 498 (2) or section 498 (3) of the Companies Act 2006.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements are for the six months ended 30 June 2014. They have been prepared following the recognition and measurement principles of IFRS as adopted by the European Union. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2013.

These condensed consolidated interim financial statements have been prepared on the going concern basis under the historical cost convention.

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2013.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated interim financial statements.

A detailed set of accounting policies can be found in the annual accounts available on our website, www.publishingtechnology.com or by writing to the Company Secretary at the registered office as above.

3. Equity accounted investment

The Group holds a 49% voting and equity interest in Beijing Ingenta Digital Publishing Technology Ltd (BIDPT), a joint venture company registered in the People's Republic of China.

This investment is accounted for under the equity method. BIDPT has a reporting date of 31 December. The shares are not publicly listed on a stock exchange and hence published price quotes are not available. Certain unaudited financial information on BIDPT is as follows:

	30 June 2014 £'000	30 June 2013 £'000
Assets	471	249
Liabilities	51	83

	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000
Revenues	520	357
Profit	40	102
Profit attributable to the Group	20	50

Changes in equity accounted investment

	Six months to 30 June 2014 £'000	Six months to 30 June 2013 £'000
Investment Book Value as at 1 January	278	24
Profit attributable to the Group	20	50
Investment Book Value as at 30 June	298	74

Dividends are subject to the approval of at least 51% of all shareholders of BIDPT. The Group has received no dividends.

4. (Loss) / earnings per share

Basic (loss) / earnings per share is calculated by dividing the (loss) / earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted (loss) / earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Since all outstanding options have an exercise price in excess of the average market rate in the period there is no dilutive impact from options granted.

	Six months ended 30 June 2014	Six months ended 30 June 2013
Attributable (loss) / profit (£'000)	(720)	385
Weighted average number of ordinary shares	8,413,610	8,413,610
(Loss) / profit per share (basic and dilutive) arising from both total and continuing operations	(8.55)p	4.58p

5. Trade and other receivables

Trade and other receivables comprise the following:

	30 June 2014 £'000	30 June 2013 £'000
Trade receivables – gross	2,479	3,065
Less: provision for impairment of trade receivables	(26)	(28)
Trade receivables – net	2,453	3,037
Other receivables	330	135
Prepayments and accrued income	1,752	1,900
	4,535	5,072

6. Borrowings

	30 June 2014 £'000	30 June 2013 £'000
Bank overdrafts	1,340	1,497
Loan note	1,500	1,500
Short Term Loans	450	-
	3,290	2,997
On demand or within one year	3,290	2,997
In second year	-	-
In third to fifth years inclusive	-	-
	3,290	2,997
Amount due for settlement after 12 months	-	-

7. Cash and cash equivalents

	30 June 2014 £'000	30 June 2013 £'000
Cash and cash equivalents	295	35
Bank overdraft	(1,635)	(1,532)
Cash and cash equivalents including overdraft	(1,340)	(1,497)

8. Trade and other payables

Trade payables comprise the following:

	30 June 2014 £'000	30 June 2013 £'000
Trade payables	779	724
Social security and other taxes	403	510
Other payables	1,672	1,399
Accruals	788	955
Deferred income	3,131	3,595
	6,773	7,183

9. Contingencies and commitments

There were no contingencies and commitments at the end of this or the comparative period.

10. Post balance sheet events

There were no material events subsequent to the end of the interim reporting period that have not been reflected in the interim financial statements.

11. Copies of the Interim Financial Statements

A copy of the interim statement is available on the Company's website, www.publishingtechnology.com, and from the Company's registered office, 8100 Alec Issigonis Way, Oxford Business Park North, Oxford OX4 2HU.