Ingenta plc interim results

Ingenta plc (AIM: ING), ("Ingenta", the "Company" or the "Group") a 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 2018.

During the period, the Group has largely completed a substantial restructuring exercise to improve the operational efficiency of the business. The new structure aligns processes across all product sets whilst delivering annual cost savings of more than £2m along with improved cash generation.

Financial Key Points

- Group revenues £6.4m (2017: £7.75m)
- Adjusted EBITDA* £449K (2017: £659K)
- Cash inflow from operations £459K (2017: outflow £466K)
- Cash at 30 June 2018: £2.1m (2017: £1.3m)
- China Joint Venture non-cash impairment charge of £320K (2017: £nil)
- Exceptional restructuring costs of £537K (2017: £112K)
- Operating loss after impairment and exceptional charges is £588K (2017: profit £321K)
- Strong cash conversion and balances are stated after dividend payments, acquisition and exceptional costs

Operational Key Points

- Substantial progress made in business combination and operational efficiency plan
- Ingenta Open launched
- Significant Commercial go live with 3 more projected in the second half of the year
- All software implementations remain on track
- Advertising customer base expanded into retail market with Sainsburys implementation
- Growth in digital capabilities and reach with new advertising partnerships
- Good sales pipeline growth with 2 Content deals closed in Q3

*Earnings before Interest, Tax, Depreciation and Amortisation is calculated before foreign exchange differences and restructuring costs.

Martyn Rose, Chairman of Ingenta plc, commented:

The first half of 2018 has seen a decisive and constructive move by the Board and management to execute the final stage of Ingenta's transformation into a unified software company providing a coherent set of products and services under a single, simplified structure and branding.

The exceptional costs in the period relate to this restructuring effort and include £537K of staff costs and £320K of non-cash impairment charges against the Group's joint venture investment in China. The Company has no further cash or balance sheet exposure to China and expects a materially lower level of staff restructuring costs of approximately £250K in the second half of the year.

During this period of change, cash conversion and underlying EBITDA profitability remained strong. The resulting shape of the business following the reorganisation is simpler, leaner and better positioned for growth in both revenues and profits. Annualised costs have been reduced by over £2m to an ongoing run rate of approximately £11m and our simplified structure allows easier cross-selling to clients and better career progression for our people.

Going forward, the business has over 200 customers across all our product sets with recurring revenues representing approximately 75% of the total income. As we move into the second half of the year, the new systems and processes will put the business in a better position to service its loyal customer base and accelerate our new business acquisition.

The Board believes the Group's restructuring efforts have significantly de-risked the business and will allow it to more easily convert its revenue into profit and cash, producing a higher quality earnings stream whereby the fixed costs of the business are at least met by the highly visible revenues of the Group.

The Board expects to see a further improvement in the operating fundamentals in the second half of the year. In addition, the Board is pleased to note that concurrent with the restructuring, our future sales pipeline growth has been accelerating which gives us cause for cautious optimism in this financial year and beyond.

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Nicholas Wells / Harry Hargreaves

Ingenta business

During the first half of 2018, the Group initiated the final stage of its long-term business combination and operational efficiency strategy. The changes have been far reaching. We have moved away from a divisional product siloed structure to a modern, product and services company providing robust software and a product agnostic professional services and support framework. With successful customer go lives across all product lines, the Group has now been able to merge fragmented teams to provide a wider range of more flexible and responsive services to its customers and offer broader opportunities to Ingenta staff.

In the 2017 financial statements, the Group outlined it has been actively engaged in discussions to sell or dispose of its shareholding in the Chinese Joint Venture and had reclassified it as an asset held for sale. These discussions are ongoing, but the Board does not believe a deal is imminent and have subsequently reclassified the Group's holding in the Joint Venture as an investment. Given the inherent uncertainty around valuing a Chinese non-listed, minority shareholding combined with flat earnings and an increasingly uncertain mechanism to repatriate funds, the Group have decided to fully impair the investment. The Group's strategy going forward is to concentrate on its core product set and given the lack of control it exerts over the Joint Venture, it will not continue to consolidate results into the Group.

As announced in March, Ingenta plc has also completed a capital reduction of its share premium account. The parent company now has distributable reserves of £8.3m after payment of the latest full year dividend.

Financial review

Revenues in the first half are down on the prior period due to several factors. Firstly, there was a significant £600K licence sale in the prior period. Secondly, there were a number of projects in full flight last year, earning significant implementation revenue, that have now been completed or are at the final stages of delivery in 2018. Thirdly, contractual negotiations on new business have taken longer to finalise, although 2 new wins have been signed during Q3 with further opportunities being progressed for later in the year.

Administrative expenses during the first half have been impacted by the decision to fully impair the £320K value attributed to the Group's 49% shareholding in its Chinese Joint venture. In addition, the Group incurred £537K of exceptional costs related to its business realignment and improved operational efficiency strategy.

The Group's adjusted EBITDA is £449K (2017: 659K) and excluding last year's licence sale, like for like EBITDA gives the Board optimism that its restructuring strategy is having the desired effects on the efficiency of the Group's core operations.

Cash flow

Further evidence of the Group's improved operational efficiency can be seen in the cash performance of the business. The Group generated £459K of positive cash inflows from operations (2017: outflow £466K) which helped finance the final £248K contingent payment on acquisition of the advertising business plus the payment of an increased dividend of £254K (2017: £169K) and still retain cash balances of £2.1m (2017: £1.3m) at half year.

As in the prior year, the R&D tax credit of £174K (2016: £143K) is due for receipt in the second half of the year and did not impact the first half cash flow.

Scott Winner
Acting Chief Executive Officer

Condensed Consolidated Interim Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2018 £'000	Unaudited Six months ended 30 June 2017 £'000
Group revenue		6,404	7,747
Cost of sales		(3,921)	(4,860)
Gross profit		2,483	2,887
Sales and marketing expenses		(602)	(655)
Administrative expenses		(2,469)	(1,911)
(Loss) / profit from operations		(588)	321
Share of (loss) / profit from equity accounted investment	4	-	(150)
Finance costs		(6)	(20)
(Loss) / profit before tax		(594)	151
Tax		(1)	(5)
Retained (loss) / profit for the period		(595)	146
Other comprehensive expenses which will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(25)	(46)
Total comprehensive (loss) / income for the period		(620)	100
Basic (loss) / profit per share – pence	5	(3.67)	0.59p
Diluted (loss) / profit per share – pence	5	(3.61)	0.58p

Analysis of (loss) / profit from operations:

Profit before net finance costs, tax, depreciation and foreign exchange gains and losses (EBITDA)	449	659
Depreciation	(432)	(132)
Foreign exchange (loss)	(68)	(94)
Restructuring costs	(537)	(112)
(Loss) / profit from operations	(588)	321

Condensed Consolidated Interim Statement of Financial Position

	Note	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000
Non-current assets			
Goodwill	3	4,900	4,900
Other intangible assets	3	308	408
Property, plant & equipment		220	172
Investments accounted for using the equity method	4	-	218
		5,428	5,698
Current assets			
Trade and other receivables	6	2,767	3,790
Research and development tax credit receivable		174	143
Cash and cash equivalents		2,051	1,255
		4,992	5,188
Total assets		10,420	10,886
Equity			
Share capital		1,692	1,692
Share premium		-	8,999
Merger reserve		11,055	11,055
Reverse acquisition reserve		(5,228)	(5,228)
Translation reserve		(870)	(917)
Share option reserve		51	80
Retained earnings		(1,274)	(10,263)
		5,426	5,418
Non-current liabilities			
Deferred tax liability		62	82
Finance leases		76	21
		138	103
Current liabilities			
Trade and other payables	7	3,037	3,538
Deferred income		1,819	1,827
		4,856	5,365
Total equity and liabilities		10,420	10,886

Unaudited Condensed Consolidated Interim Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Translation reserve £'000	Share option reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2018	1,692	8,999	11,055	(5,228)	(845)	51	(9,373)	6,300
Dividends paid	-	-	-	-	-	-	(254)	(254)
Share premium reduction	-	(8,999)	-	-	-		8,999	-
Transactions with owners	-	(8,999)	-	-	-		8,745	(254)
Loss for the period	-	-	-	-	-	-	(595)	(595)
Other comprehensive income: Exchange differences on translation of foreign operations	-	-	-	-	(25)	-	-	(25)
Total comprehensive income / (expense) for the period	-	-	-	-	(25)	-	(595)	(620)
Balance at 30 June 2018	1,692	-	11,055	(5,228)	(870)	51	(1,224)	5,426

	Share capital £'000	Share premium £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Translation reserve £'000	Share option reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2017	1,692	8,999	11,055	(5,228)	(871)	-	(10,240)	5,407
Dividends paid	-	-	-	-	-	-	(169)	(169)
Share based payment expense	-	-	-	-	-	80	-	80
Transactions with owners	-	-	-	-	-	80	(169)	(89)
Profit for the period	-	-	-	-	-	-	146	146
Other comprehensive income: Exchange differences on translation of foreign operations	-	-	-	-	(46)	-	-	(46)
Total comprehensive income / (expense) for the period	-	-	-	-	(46)	-	146	100
Balance at 30 June 2017	1,692	8,999	11,055	(5,228)	(917)	80	(10,263)	5,418

Condensed Consolidated Interim Statement of Cash Flows

	Note	Unaudited Six months ended 30 June 2018	Unaudited Six months ended 30 June 2017
		£'000	£'000
(Loss) / profit before tax		(594)	151
Adjustments for:			
Share of loss / (profit) from equity accounted investment	4	-	150
Depreciation		432	132
Share based payment expense		-	80
Interest expense		6	20
Unrealised foreign exchange differences		(25)	(46)
Decrease in trade and other receivables		1,927	1,600
Decrease in trade and other payables		(1,287)	(2,553)
Cash inflow / (outflow) from operations		459	(466)
Tax Paid		(1)	(5)
Net cash outflow from operating activities		458	(471)
Cash flows from financing activities			
Dividends paid		(254)	(169)
Payment of finance leases		(29)	(61)
Interest paid		(6)	(20)
Net cash used in financing activities		(289)	(250)
Cash flows from investing activities			
Acquisition of subsidiaries, contingent consideration		(248)	-
Purchase of property, plant and equipment		(1)	(52)
Net cash used in investing activities		(249)	(52)
Net decrease in cash and cash equivalents		(80)	(773)
Cash and cash equivalents at beginning of period		2,131	2,028
Cash & cash equivalents at end of period		2,051	1,255

Notes to the Unaudited Interim Report for the six months ended 30 June 2018

1. Nature of operations and general information

Ingenta 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 OX4 2HU. The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 18 September 2018.

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 2017, 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 2018. 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 2017.

These condensed consolidated interim financial statements have been prepared on the going concern basis under the historical cost convention and have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2017.

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.ingenta.com or by writing to the Company Secretary at the registered office as above.

3. Goodwill and Intangibles

Full details of the Group’s policies on Goodwill and Intangibles is presented in the financial statements for the year ended 31 December 2017.

4. 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.

In the 2017 financial statements, the Group outlined it has been actively engaged in discussions to sell or dispose of its shareholding in the Chinese Joint Venture and had reclassified it as an asset held for sale. These discussions are ongoing, but the Board does not believe a deal is imminent and have subsequently reclassified the Group's holding in the Joint Venture as an investment. Given the inherent uncertainty around valuing a Chinese non-listed, minority shareholding combined with flat earnings and an uncertain mechanism to repatriate funds, the Group have decided to fully impair the investment. The Group's strategy going forward is to concentrate on its core product set and given the lack of control it exerts over the Joint Venture, it will not continue to consolidate results into the Group.

5. Profit / (loss) per share

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

For diluted profit / (loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

	Six months ended 30 June 2018	Six months ended 30 June 2017
Attributable profit (£'000)		100
Weighted average number of ordinary basic shares (basic)	16,919,609	16,919,609
Weighted average number of ordinary shares (diluted)	17,191,942	17,375,609
(Loss) / profit per share (basic) arising from both total and continuing operations	(3.67)p	0.59p
(Loss) / profit per share (dilutive) arising from both total and continuing operations	(3.61)p	0.58p

6. Trade and other receivables

Trade and other receivables comprise the following:

	30 June 2018 £'000	30 June 2017 £'000
Trade receivables – gross	1,918	2,712
Less: provision for impairment of trade receivables	(31)	(12)
Trade receivables – net	1,887	2,700
Other receivables	115	117
Prepayments and accrued income	765	973
	2,767	3,790

7. Trade and other payables

Trade payables comprise the following:

	30 June 2018 £'000	30 June 2017 £'000
Trade payables	475	423
Social security and other taxes	344	396
Other payables	1,299	1,083
Accruals	919	1,636
	3,037	3,538

8. Contingencies and commitments

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

9. 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.

10. Copies of the Interim Financial Statements

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