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Grafenia plc

Final Results

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Grafenia plc
11 June 2018

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Grafenia plc
("Grafenia", "the Group" or "the Company")

Preliminary Results for the period ended 31 March 2018

Financial Highlights

	2018	2017
Turnover	**£14.63m**	£10.45m
Gross Profit	**£8.34m**	£6.59m
Adjusted EBITDA*	**£0.67m**	£0.76m
Operating Loss	**£(1.10)m**	£(0.98)m
Loss before Tax	**£(1.24)m**	£(0.98)m
Tax Income	**£0.29m**	£0.36m
Total Comprehensive Loss	**£(0.95)m**	£(0.63)m
EPS Continuing Activities **	**(2.07)p**	(1.37)p
Capital Expenditure***	**£4.55m**	£1.82m
Net (Debt)/Funds****	**£(3.04)m**	£0.21m

*** EBITDA is operating loss plus amortisation and depreciation before exceptional gain**
**** EPS - there are no dilutive factors**
***** Capital expenditure includes tangible and intangible assets**
****** Net debt is the net of cash and cash equivalents less other interest-bearing loans and borrowings**

Operational highlights

- **Sales increased 40% to £14.63m**
- **Boosted by acquisition of Image Everything Limited and Nettl of Exeter**
- **Gross margin increased 27% to £8.34m**
- **Nettl network in UK and Ireland grew by 45% to 157 locations**
- **Licence fee subscription income increased by 19% to £1.77m**
- **Network of 25 Nettl partners established in The Netherlands**
- **First 5 Nettl partners commenced trading in France**
- **Sign roll-up commenced with three businesses being integrated**
- **Post balance sheet events**
    - **Net £3.44m capital raised partly to fund future acquisitions**
    - **New Zealand Nettl master licence agreement extended for 18 years**
    - **Master licence agreement granted for Australia**

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Chairman's Statement

Dear Shareholders,

The transition of Grafenia plc has progressed well since I last wrote to you. The aim of this letter is to inform you about the decisions we made to develop the Group and our reasoning. There is no way to know if the choices we made in the last fiscal year will prove to be successful. However, we strive to be as open as possible with you - the owners of the firm - so that you can make up your own mind.

Operational Performance

In the recent fiscal year, our turnover increased by **40%** to £14.63m *(2017: £10.45m)* and gross profit increased by **27%** to **£8.34m** *(2017: £6.59m)*. Our EBITDA reduced by **12%** to **£0.67m** *(2017: £0.76m)*. Operating loss increased to **£1.10m** *(2017: £0.98m)* while we achieved an effective Tax income of **£0.29m** *(2017: £0.36m).* As in the prior year the Tax income was mainly due to the Group gaining Research & Development Relief. We finished the year with a cash position of **£0.17m** *(2017: £0.52m)* net debt of **£3.04m** *(2017: net funds of £0.21m)*, after spending capital investment of a net **£1.1m** *(2017: £0.89m)* plus consideration of **£2.61m** for the acquisition of Image Group *(2017: £0.05m for the acquisition of ADD Signs Limited)*.

These results are mainly impacted by the inclusion of newly acquired sign firms, most notably Image Group (Image Everything Limited), into our reporting. This causes the headline sales and gross margin to increase in comparison to last fiscal year. Underlying, there have been three broad trends that warrant further commentary:

1 Litho print revenues have been declining. This has mainly been due to decreasing prices in the marketplace. Given that a significant part of our production cost is fixed, any decrease in print revenues immediately causes our contribution margin to decline. This has been the case for many years and we do not expect this to change. It has been a significant drag on profitability in the last year. The only good news is that our reliance on profits from litho print are decreasing every day.

2 Licence revenues have been increasing. First and foremost, you can thank our Nettl team leaders Rob, Paul, Chris and Mat for relentlessly driving partner acquisition and partner

development. They've been doing a fine job indeed and their contribution to the Group is remarkable. Only a few years after launching, Nettl now helps more than 150 partners in the UK to offer better design products to their clients. Nettl has also been showing quite encouraging signs internationally, especially in the Netherlands. From an accounting perspective, you should consider two aspects. Firstly, due to the contracts in place, we recognise revenues from licence fees when the cash is due, i.e. primarily monthly. When the number of partners grows quickly (as it did at the end of this financial year) the recognised revenues for the accounting period understate the "run-rate" - meaning number of partners multiplied by monthly licence fees multiplied by 12 months. Secondly, the cost to acquire these new partner contracts tends to be front-loaded. We lay out capital to bring new partners on board - by paying our sales team, hosting exhibitions, marketing and so on - which we think of a bit like an investment. Due to accounting rules, we have to expense this cost in our profit and loss statement. If we stopped selling (which we have no plans to - quite the contrary!) our disclosed earnings would be significantly higher. This effect has been particularly severe in new markets such as the Netherlands. Over there, we essentially incur all the costs to set up shop in the very first trading period with all the fruits coming in pro-rata over time.

3 Our company-owned stores are improving, but are still not where we would like them to be. The good news is that our store performance has increased a lot over the last fiscal year. The bad news is overall it's still not where it needs to be. Some stores are losing money, partly due to the terms of leases signed many years back. I strongly believe that improving own studio performance is the proverbial lowest hanging fruit.

I wish I could present a higher level of granularity in our reporting, to help you better judge our performance. For a variety of reasons, changing our reporting to a more granular level didn't make great sense this reporting period. Priority has been on integrating the reporting systems of Image Group and figuring out how our financial controls change, with the change in our business focus. In fact, we need to have an internal debate and discuss how our KPIs or segments may change in light of the new focus on acquiring sign businesses. Rest assured though, we will progress to an increased level of transparency, especially around unit economics of the individual business lines.

The costs we incur by being public are still a major drag on our financial performance. We've started to disclose our estimate of "plc overhead" to illustrate the magnitude of the problem. This year EBITDA would have been £1.27m before corporate costs of **£0.60m** (compared with £0.62m in the previous year). Last year I wrote: "The success of my tenure should be measured by whether we figure out a way to make better use of our public listing." With our new focus on rolling-up (i.e. finding, evaluating, buying and integrating) sign businesses, I see a realistic chance to grow the group to a size that justifies a listing on a stock exchange. To that end, we need a) to find enough sign businesses to acquire, b) to pay prices that make financial sense and c) to integrate these sign businesses appropriately into a growing organisation. None of this should be taken for granted and will require great focus and flawless execution from the entire team. More on this later.

People at Grafenia, Board changes and Priorities in the past year

Frankly, I wouldn't be asking for your votes at the AGM if I weren't enjoying working with the Grafenia team. The big plus of this organisation is the amount of high quality people that are fun to work with. I admire the energy and sales focus of the teams. I'm thrilled by the thought that the growing organisation will offer larger responsibilities and development options for many team members. I think a lot can be done with our current team and within our current culture. This is terrifically important and good news.

In last year's report, I briefly mentioned the outstanding performance of both Richard and Gavin. In due course, the board decided to appoint both to the plc board. This promotion has been well deserved and I am delighted to give both guys even more responsibility.

I'd like to make special comment about new members to the Grafenia family - especially Neil and Dave of Image Group and Mark of Nettl Liverpool Waters Business Store (previously ADD Signs). When you put all your energy into growing a firm and then decide to sell it, it's a little bit like giving away your child. Neil, Dave and Mark have decided to stay on board after selling their firms to join us in growing Grafenia. And it has been working well for everyone - which is neither common, nor taken for granted. Neil once told me over dinner that his business rule number one is "people are everything". If you happen to be a finance-egghead (like me), such a statement can easily be disregarded as platitude. If you ever tried to make a merger work, you'll find out that it's anything but. People and culture matter very much indeed.

Last year, I called out three areas that Conrad and I can influence as your non-executive directors. Nothing has changed regarding the scope of our work (neither Conrad nor I have become great web designers yet!) This year, I want to self-evaluate how we did on these areas during the last fiscal year.

1. Finding the right governance structure.
   This looks good. While we will always make improvements to individual roles, both Conrad and I have perceived board work to be a productive and efficient process. We all care about the same goals and communication is high in content and low in politics. That's the tone we want to set for the entire organisation. Unlike a few years ago, we increasingly involve non-board employees in board discussions and will extend this even more in the future. We also decided to make the board a lot more accessible to shareholders. To that end, we overhauled our AGM format last year to be more inclusive, more informative and more fun.

2. Setting incentives right.
   I didn't do well on that one at all. Last year, I briefly described the free cash-flow based scheme that measures Peter's bonus. After testing it for a while, we found it's not optimal and Conrad and I started a review to introduce an effective management-wide incentive scheme. There isn't much to report on yet and I plan to update you in next year's letter at the latest, what changes we are making and why. In the meantime, we are very happy with the acceptance rate of our SAYE scheme and will offer a new opening this summer. Making team members shareholders is probably the best incentive alignment you can find and it's great to see that a large number of employees at Grafenia will also be co-owners of the business!

3. Capital allocation (including Post Balance Sheet event)
   We have come a long way on that one. Quite recently, the board gained enough confidence that rolling-up sign businesses is a great use of our capital. When we struck out to explore this strategy, we used internal funds and debt financing to buy a couple of sign firms and self-evaluate our performance. We were quite positively surprised by what we achieved and felt compelled to ask for more capital to deploy. Not only did this seem very reasonable from an investment perspective, but it also helped to scale our public company platform better. On 13 April 2018 we announced we'd conditionally raised £3.44 million by placing 29,258,331 new Ordinary Shares. These were priced at 12 pence per share. According to our plan, we should be able to deploy much of this capital over the next year or so, primarily to fund growth through acquisition and open further Nettl Business Superstores. We'll also repay and renegotiate existing debt arrangements. Investor interest did significantly exceed the amount raised. However we decided against raising more, to strike a balance between raising funds that can be deployed in an accretive way and diluting our prior shareholder base. We are big believers in staging decisions. Let's see what we can achieve with the

capital raised this spring. Once we have gathered more data and experience in buying more sign businesses, it may well be prudent to ask for more capital to deploy. But first comes the work and the ball is in our court to deliver! We thank all shareholders of the Group for their trust in our work. We are well aware of the goodwill and responsibility you put in us and we are determined to make your Grafenia investment worthwhile.

Outlook & Current priorities
Current trading is mixed. We see very encouraging progress growing the Nettl concept and are able to add new products our partners can resell to their clients. Print revenues continue to be under pressure and are incredibly hard to predict in the short-term. Meanwhile, we continue to talk to many sign businesses and are looking at several potentially joining the Grafenia family.

As I wrote last year, a key focus area for the non-executive team is to continue to improve our internal controls, forecasting function and reporting. We've made some progress and also hired some promising new team members in our finance function. Nevertheless, we need to improve much more and the current processes do not allow for scaling the firm as we plan to. For example, our receivables collection is inefficient and needs to be much more automated. This is a solvable problem which Conrad and I have prioritised. If Grafenia is to become a larger firm, it's better we build an infrastructure we can grow into, rather than utilising what may have been sufficient for a small business.

We are hosting our AGM on Friday, July 27th in Liverpool and cordially invite you to visit us. We decided to hold this year's AGM in our new Nettl of Liverpool Waters Business Store. It's important that you as our shareholders experience first-hand what our new sign focus looks like! In addition to the formal meeting, we will have plenty of time to elaborate on the signage industry and our sign acquisition model.

Jan-Hendrik Mohr
Chairman
8 June 2018

Strategic Report
Chief Executive's Statement

Dear Shareholders,

Simplify, then simplify again
From the outside looking in, it's fair to say that, over the last decade, our business has appeared confusing. When I meet with shareholders, there's often a misunderstanding of what our business actually is. It's clear that what we had been doing, was anything but clear.

If you've browsed our annual reports from previous years, it may have looked like someone with logo hayfever had sneezed over the pages. That was with the best of intentions of course. As our traditional business declined, we looked for the next big thing. And as we've tried different business models, different routes to market and different brands, we've introduced complexity to our messaging. Not everything has equal weight. Not everything has equal importance. Some of our brands are less equal than others.

One of my priorities has been to simplify our business.

That's why in my letter, I won't mention some of the names you've seen in the past. That's not to say those brands don't continue to generate revenues. Or that they aren't an important part of

our sales funnels. Or that we don't value the clients from these channels. We most certainly do.

But. Focus requires clarity. And simplicity beats complexity every time.

Our drive to simplify things extends to our systems. We've invested in our platform over the years and it runs almost every part of our business. Like any large system, new users sometimes find it daunting and unwieldy. This year we've put particular emphasis on redesigning the parts our studio teams use, to make tasks faster to accomplish and easier to navigate. To remove barriers. To automate repetitive tasks. And cut processing time.

Start at the end

A couple of years ago, if you'd asked a dozen team members and partners what they thought we 'were', you'd probably get twenty four different answers. Their view of where we were headed, would be heavily influenced by their job role or immediate experience.

That had to change. How could they know if they were doing the right things, if they didn't know what our ultimate goal was? How did they know whether to pursue opportunity A or B? When to say yes and when to politely decline?

We needed a 'north star'. Something to help our teams navigate.

Last year we published our vision for the first time. We didn't want it to be some corporate fluff which we engraved onto a big stone or stuck inside a gilded frame in the lobby. It should be something clear and something referred to frequently.

At regional 'town hall' meetings, we discussed our vision with team members. We saw everyone in production, in studios and from the sign businesses, new to the family. We also shared the vision with Nettl and printing.com partners. You'll see why.

Now, we ask our teams to refer to the vision when making decisions. Does what they're considering move us towards our vision? If so, let's evaluate it. If not, it's probably a distraction and will slow us down.

At last year's AGM, our resident Nettl of Trafford Park studio-manager-cum-DJ performed a special sunrise set. But that wasn't the only excitement. We also shared our vision with the gaggle of shareholders attending.

Our vision

So here it is. The same vision we shared with our teams:

"To be the world's leading network of web, design and print studios. Known as the local place for business, where business happens. Where customer experience is our priority. Where we deliver compelling value and reliable service every time. So we are rooted in every team member's and partner's success."

You'll see that our vision puts customers and brand partners firmly at the centre. They are our focus. I'll talk later about the things we're doing to make our relationships even stickier.

Our strategy

As Jan mentions in his letter, we remain too small to be a plc. We've made material steps in scaling the business. But to remain a plc, we need to scale further. To achieve this, we'll use three methods:

Build, buy and licence.

The Grafenia holy trinity, if you like. I'll take each in turn.

Build
It's 20 years ago since we opened our first retail store. It would become the blueprint for the original printing.com model. I'm not bringing this up to reminisce with misty eyes about the good old days, when it was all just fields. I'm mentioning it because we still believe retail is very relevant. It's changed, for sure. But it continues to have a place.

We own six company stores. Four are 'first generation' Nettl web studios (London, Manchester, Dublin and Exeter). We have one second generation Business Store in Birmingham and one Superstore in Liverpool.

Stores sell websites, signage, print and display to local SMEs who need help with creative services. Our company stores are brand beacons to help develop best practice. We use them to train and attract new Nettl partners and team members. They're the purest form of the Nettl model.

We opened our 'second generation' Business Store in Birmingham in 2016. At 2,000sqft it's significantly bigger than other studios. We designed the Business Store experience with the aim of increasing footfall. That was partly achieved with both informal and formal meeting space for hire and sales of coffee. It worked. The things we learned led to the next iteration - the Nettl Business Superstore. I'll talk about that in the next section.

Total sales in our company-owned stores grew **70%** this year to **£1.59m** (*2017: £0.94m)*. Like-for-like sales were up **23%** when we exclude Nettl of Exeter (acquired in 2nd December 2017) and Nettl of Liverpool Waters which had only completed three months trading in the comparative period from 2017. Revenues from web-to-print systems are now handled by our trade and online team so are also excluded from like-for-like.

Nettl of Exeter was one of our top performing partners. As a partner, they paid us licence fees. Print was purchased at wholesale price. When they became a company studio, we no longer get licence fees. However, we benefit from the retail margin - the difference between the wholesale price and the price we sell to end clients.

In our company studios, our strategy is to grow sales and profit per person utilising the Nettl system and outbound sales activity. Performance in our studios has been mixed. Some studios have improved performance much more than others. We've reset some teams this year. Overall, company studios improved their gross margin and improved profitability. But we still have work to do.

Buy
We've witnessed a convergence in the graphics sector. Designers, printers, sign businesses all offer similar and competing services to SME clients. Yet we believe SMEs only want a single creative relationship. They don't want to do three lots of briefing, get three different design styles and the inevitable incoherent branding that follows.

Design usually starts with web or signage. It used to be business cards. Now those often come later. We want to be at the start of the creative relationship, no matter where a client chooses to start. Our strategy is to sell SMEs a full suite of print, promo, exhibition products and web design services.

The signs industry has been growing and riding a trend of increased 'brandification'. We like the sector. We got to know it through our investment in direct-to-fabric soft signage. That's still growing rather nicely, thanks for asking. We've extended that range to include more outdoor products too.

The sector is highly fragmented, with several thousand independent businesses. It feels like the print sector did when we started opening printing.com locations. One of the challenges we have is actually determining the size of the market. Is a printed beanbag a sign? A logo doormat? What about branded ceiling tiles? These are all products we've launched this year and probably don't fit the traditional definition of signs. One thing's for certain - the addressable market is large and is forecast to grow.

We're rolling up sign businesses for a reason: to create a national installation capability serving SMEs. Our approach has three stages.

Stage one, we acquire a profitable business. We have published our criteria, to focus our search. This is the most important step, because the leader will stay. We call them 'the remainer'. At stage two, we look for a local sign business where the leader is exiting or retiring - 'the leaver'. There seems to be plenty of businesses like these, where the owner hasn't put a succession plan in place. Finally, stage three. When the timing is right, we relocate both businesses to a larger 'trade counter' location and rebrand as a Nettl Business Store. We might move the first business earlier if the right property pops up.

We think we can make cost savings by centralising HR, legal, accounting, systems and marketing. We take the sign business' client base and extend the range of products we can sell to them. We use the Nettl system. Add the Nettl marketing sparkle. Our aim is to create a better, more joined-up client experience.

On 16 January 2017 we acquired ADD Signs. One year later, we rebranded them as Nettl of Liverpool Waters and relocated them to become our first superstore. The doors opened in April 2018. We'll let you know what we learn from our experience and client feedback. In the first full year of our ownership, sales grew over 30% on the previous year.

Following a serendipitous happenstance, we met with the owners of Image Group. We shared our vision. There was a lot of overlap in culture and what they were trying to do. IG were a lot larger than the other sign businesses we've evaluated. However, as our network grew, we planned to centralise some production. We brought forward those plans. On 14 July 2017, Image Group became part of the family. The reporting period includes eight and a half months they have been under our ownership. During this time, we've launched a range of vinyl graphics and rigid substrates, which we sell through our company studios and brand partners. Image Group currently operate from a factory a few miles from our production hub. We're evaluating options for bringing these together when the timing is right.

Right now we're looking for more sign businesses to roll-up. With the first businesses acquired, we've been able to achieve valuation multiples of 2-5x EV/EBIT. From ongoing conversations, it doesn't seem unreasonable to expect to do more deals in this range.

Licence

The final piece of our strategy is to licence. We make Nettl and printing.com available to other graphic professionals (printers, designers, signmakers). We call them our *Brand Partners*, because our brands are exposed to end clients. Our systems, training and marketing empowers partners to sell higher margin web projects with their existing teams' skillset and enjoy a reliable supply chain for print and signage.

The Nettl network in the UK and Ireland grew by **45%** this year. At the year end we had **157** locations in UK and Ireland *(2017: 108)* and believe the UK will support 300 or more.

Nettl partners are granted geographic exclusivity in towns, city fringes and suburbs in exchange for an initial licence fee of around £2k. These locations are usually too small to support a standalone Nettl Business Store, but by bolting-on Nettl to an existing business, we can leverage existing relationships and help partners sell more. Partners sign multi-year software as a service ("SaaS") subscription agreements. We are paid subscription fees of typically £399 per month, which provide a reliable recurring revenue stream. City centre locations may be available to selected partners who wish to fully brand a Nettl Business Store location, with a higher "Grand Nettl" subscription.

Our licence fee income grew **19%** this year to **£1.77m** *(2017: £1.49m)*. Nettl partner fees grew by **72%** from £0.44m to **£0.76m**.

We also continue to licence printing.com as a subscription model. Starting as a printing.com partner is often a stepping stone to becoming a Nettl partner. We added over 30 new printing.com partners in 2018 and at the year end we had **108** locations *(2017: 88)*. Licence income from printing.com grew to **£0.31m** *(2017: £0.22m)*.

We sell print, promotional and signage products to partners at a wholesale price. Most core product is manufactured at either our litho or sign hub, although some is outsourced. Most Nettl partners are listed as resellers on the printing.com website too. So we lump together print sales from both. As Jan mentioned, price pressure has continued to be severe. We're working harder for each print pound and wholesale prices have been declining. Despite this, total print sales to Brand Partners grew slightly to **£3.87m** *(2017: £3.76m)*. A greater percentage of print sales now come from sign and display products.

This year we changed the way we support our brand partners. Previously, the network was split geographically and support provided by regional teams. We now think it makes sense to specialise help, according to the stage of their journey, rather than their postcode. We've grouped our support team into launch, growth and catalyst cells. To focus priorities, our system calculates a Metascore for each partner - an index from 0 to 100. The Metascore is refreshed daily, to spot trends and potential threats. We look at individual performance, relative to the rest of the network. The Metascore, and underlying data, helps us determine the kind of support needed - to help them grow, or to recover from potentially difficult situations.

Licensing internationally
We believe there is demand for Nettl in other countries.

In May 2017 we began marketing Nettl in The Netherlands. We are pleased with the results so far, with **25** partners in The Netherlands and Belgium *(2017: 0)*. For legacy reasons, we are currently restricted from supplying print products into the Netherlands. This restriction ends late 2018 and we are evaluating options.

We also started looking for Nettl Partners in France in December 2017. Progress there has been slower but we at the year end we had **5** partners *(2017: 0)* and expect to add more in 2018.

Our long-term partner in New Zealand extended their master licence agreement in April 2018 for a further 18 years. We were delighted with this demonstration of confidence in the Nettl business model. We are paid a share of initial and ongoing licence fees, subject to monthly minimums.

At the same time, we also granted our New Zealand partner the rights to market Nettl in Australia. The approach there is different to the UK. However, we have adapted our platform for Australia and the search for founder partners has begun. It's our job to operate the platform and provide high level and strategic support. Our master licence partner's job is to find local Nettl partners, train and support them.

Customer subscriptions

We used the phrase "rooted" in our vision. That choice of word was deliberate. We believe we need to continue to do things which are fundamental to the ongoing success of our partners. Since our systems help make their business more efficient and our marketing helps them win orders, we try to make sure life without us is unthinkable.

As we've developed Nettl, we've tailored our product range to sell things our customers want. Customer priorities have changed over time and our offering has had to change with it.

Just before the end of the financial year, we launched a new Search Engine Optimisation (SEO) offering. Launching a customer's website is just one part of the story. They need to drive traffic to it. Some choose to do that with paid search. Some with offline marketing. Others pay people to work on making their site climb search engine rankings.

We've trained a beta group of Nettl partners how to sell and support SEO. They sign customers up to a monthly subscription. We centrally take care of optimisation, in exchange for a share of fees. We think our method is more cost effective than our partner trying to do things themselves. That makes it better value for customers. It's early days for this new initiative, but we're pleased with the results so far. As customer subscription revenues become more meaningful, we'll share them with you.

Leadership values

Finally, I mentioned in the interim report that we'd made changes to our sales and support team structures. We focused the leaders into more specialist roles, to make them more accountable and less distracted in trying to do part of everything.

I want to touch on a further cultural change we've made. As we've grown and brought more people into the Grafenia family, it occurred to us that we've never really written down how we expect our leaders to behave. Sure, we've got disciplinary processes like everyone else. But we never told our people how we'd like them to act. The stuff they do that gets them promoted. And the stuff that makes us raise our eyebrows.

In the summer last year we published our first Leadership Values book. It's nineteen short paragraphs. Nineteen things we look for and measure people on. And nineteen things we ask them hold others to account over. Their peers, their colleagues and their leaders.

I hope we'll see you at our AGM where you can have good look round the new Nettl of Liverpool Waters Superstore. You might have already seen photos. But they really don't convey the feeling of being there.

After the formalities, our team will share some more detail on things we've been doing. And you'll be able to take away some swag, including your own copy of our Leadership Values book. Because there's nothing like the smell of print in the morning (well, apart from websites and signs of course).

Until then,

Peter Gunning
Chief Executive
8 June 2018

Strategic Report
Financial Review

Revenue

The year under review showed welcome growth in revenue and gross profit, driven through the acquisition of Image Group and increases in Subscriptions and Licence Fees. Group Revenues increased by **40%** to **£14.63m** *(2017: £10.45m)*. Revenues from the Eurozone were 3% of the total *(2017: 4%)* as disclosed in the Segmental Analysis in note 3. However, overall our losses increased for a number of reasons, which I will detail.

Gross Profit

The Group's definition of Gross Profit is revenue less direct materials (including the cost of distribution when made direct to customers). Gross Profit increased by **27%** to **£8.34m** *(2017: £6.59m).*

There has been a continued decline in traditional print volumes. Most of our raw materials are sourced from Europe. Our biggest material cost is paper. As long-term tenders ended, we were unable to avoid industry-wide cost increases.

Despite increasing pressure on our costs, we have been unable to increase print prices. Competition remains fierce and market prices have actually fallen further during the year. As a result, our gross margin percentage as a percentage decreased from 63% to **57%.** This change is also partly due to the acquisition of sign businesses, which have different margin characteristics to our traditional business.

We were also directly affected by the well-publicised cyber attack on TNT, our main carrier at the time. Our contingency plans worked and we were able to minimise disruption to our clients, by switching to an alternate courier for time-sensitive consignments. However, as the event was classed as force majeure, we were not able to recover the higher costs we incurred.

Other costs

We have invested in acquiring brand partners in the UK and Nettl in the Netherlands. All of these costs are front-loaded and we incur them before we see a return through subscription income. Resource was also put into improving company owned studio performance.

The acquisition of Image Group was achieved with debt finance, specifically vendor loan notes, asset finance and invoice financing. The debt generated additional finance interest costs. Post balance sheet, the share placing has enabled the debt position to be addressed and resources to be put in place to support the Group's development and signs business roll up strategy.

Adjusted EBITDA before exceptional gain

The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation and exceptional gain, to **£0.67m** representing a margin of **5%** *(2017: £0.76m 7%)* to turnover. EBITDA represents an indicator of the Group's potential to generate cash.

Exceptional Gain

The gain realised on the sale and leaseback of certain assets to assist in the financing of the

Image acquisition is being released over the term of the lease arrangements with **£0.1m** being released since July and a balance of **£0.27m** being deferred.

Interest Received and Charged

Interest received in the period was negligible. Interest charged increased to **£0.14m** *(2017: £0.02m)* from lease agreements and interest due on loan notes.

Pre-Tax Loss

The Group recorded a pre-tax loss of **£1.24m** *(2017: £0.99m)* being **8%** *(2017: 9%)* of Group revenue.

Staff costs increased in the year to **£4.58m** *(2017: £3.71m)*, falling as a percentage of revenue to **31%** from 36%. The depreciation and amortisation charge for the year was **£1.87m** *(2017: £1.75m)*. The amortisation of software development was **73%** of the total *(2017: 76%)* with write-off over 3 years.

Taxation

As in the prior year the Group gained Research & Development Relief and have accrued for the current year claim which contributed to a Tax income of **£0.29m** *(2017: £0.36m)*.

Earnings Per Share (EPS)

There is no dilution of continuing loss per share (EPS) in either year **2.07p** *(2017: 1.37p)*, based on a weighted average number of shares in issue of **45,638,192** *(2017: 45,500,884)*.

Cash Flow

At the year end the Group had cash balances of **£0.17m** *(2017: £0.52m)*. Net Debt was **£3.04m** with **£1.27m** of asset finance, **£0.84m** of vendor loan notes and **£0.93m** of net borrowings *(Net Funds 2017: £0.21m)*. Operational cash generated after movements in working capital was **£0.94m** *(2017: £0.84m)*.

Post Balance Sheet Event

As mentioned in our Chairman's statement on 13 April 2018, the Company announced it had conditionally raised approximately £3.5 million (before expenses) by way of a placing of 29,258,331 New Ordinary Shares, at a price of 12.00 pence per ordinary share, with certain new and existing investors. These funds were received on 3 May and will enable the Company to fund growth through acquisition, to open further Nettl Business Superstores and to repay and renegotiate existing debt arrangements.

Capital Expenditure

Capital expenditure excluding the Image Group acquisition was **£1.09m** *(2017: £0.89m).* Capital expenditure reflected investment in the development of the Group's systems the major item being software for Nettl and the Group's SaaS platforms totalling **£0.73m** *(2017: £0.77m)*.

Manufacturing capacity at the Manchester Hub has capacity to support growth without any major expenditure. Systems and processes are continually improved incurring ongoing investment on software development and enhancement to support our Partners and business streams.

Treasury Shares

In February 2018 the Company sold the 2,150,000 shares it had held in Treasury, to support our acquisition strategy. Shares had been repurchased over time, at an average price of 12.10 pence. They were sold at 11.50 pence, raising £247,250 and resulting in a loss of £13,000.

Principal Risks and Uncertainties

The following are some of the principal risks relating to the Group's operations:

- uncertainty in the general economic environment may impact upon revenues and profitability;
- markets operated in are extremely competitive posing a threat to profitability;
- technological advances in manufacturing and or software may impact on operational effectiveness and earnings potential;
- a major catastrophe could impact the UK Production Hub. A disaster plan exists and losses are insured against but there could be a significant impact in the short and medium term;
- the Group and its clients depend on the W3P SaaS platform and all reasonable operational contingency is embedded for resilience in the event of a catastrophe;
- the ability to retain and recruit key people, across a multitude of disciplines, is essential in maintaining and growing the business;
- Group SaaS platforms are developed in-house but use third party components, the necessary rights exist but there is no certainty that these rights will be retained indefinitely.

Treasury Policies

Surplus funds are intended to support the Group's short term working capital requirements. These funds are invested through the use of short term deposits and the policy is to maximise returns as well as provide the flexibility required to fund ongoing operations. The Board anticipate cash balances will rise moving forward.

The Board has developed a model to establish a fair value for the Company's shares and will only purchase shares when the offer price is materially below that value and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

Alan Q. Roberts
Finance Director
8 June 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2018

	Note	**2018**	2017
Continuing Operations		**£000**	£000
Revenue	*3*	**14,630**	10,445
Raw materials and consumables used		**(6,293)**	(3,860)
		-	-
Gross profit		**8,337**	6,585
Staff costs		**(4,577)**	(3,716)
Other operating charges		**(3,071)**	(2,049)
Restructuring costs		**(20)**	(57)
Adjusted EBITDA		**669**	763
Depreciation and amortisation		**(1,874)**	(1,746)
Exceptional gain		**102**	-
		-	-
Operating loss		**(1,103)**	(983)
		-	-

	Note		
Financial income		**1**	17
Financial expenses		**(138)**	(21)
Net financing expense		**(137)**	(4)
Loss before tax		**(1,240)**	(987)
Tax income	*4*	**294**	362
Loss for the year		**(946)**	(625)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(946)**	(625)
EPS - Continuing Operations(1)	*5*	**(2.07)p**	(1.37)p

(1) Earnings per share suffers no dilution

Consolidated Statement of Changes in Equity

Group - year ended 31 March 2017	**Share Capital £000**	**Merger reserve £000**	**Treasury Shares £000**	**Retained Earnings £000**	**Total £000**
Balance at 31 March 2016	475	838	(237)	4,186	5,262
Loss and total comprehensive income for the year	-	-	-	(625)	(625)
Own shares acquired	-	-	(24)	-	(24)
Total movement in equity	-	-	(24)	(625)	(649)
Balance at 31 March 2017	475	838	(261)	3,561	4,613
Group - year ended 31 March 2018					
Loss and total comprehensive income for the year	**-**	**-**	**-**	**(946)**	**(946)**
Own shares sold	**-**	**-**	**261**	**(13)**	**248**
Exchange differences	**-**	**-**	**-**	**70**	**70**
Total movement in equity	**-**	**-**	**261**	**(889)**	**(628)**
Balance at 31 March 2018	**475**	**838**	**-**	**2,672**	**3,985**

Consolidated Statement of Financial Position

At 31 March 2018

	Note	**Group**	Group

		2018	2017
		£000	£000
Non-current assets			
Property, plant and equipment		**2,076**	1,333
Intangible assets	*8*	**4,808**	2,305
Other receivables		**-**	50
		-	-
Total non-current assets		**6,884**	3,688
		-	-
Current assets			
Inventories		**450**	369
Trade and other receivables	*6*	**3,295**	2,386
Current tax repayable	*4*	**111**	138
Cash and cash equivalents		**171**	524
		-	-
Total current assets		**4,027**	3,417
		-	-
Total assets		**10,911**	7,105
		-	-
Current liabilities			
Borrowings		**(2,009)**	(83)
Trade and other payables		**(1,437)**	(1,370)
Accruals and deferred income		**(983)**	(389)
Other liabilities		**(504)**	(118)
		-	-
Total current liabilities		**(4,933)**	(1,960)
		-	-
Non-current liabilities			
Borrowings		**(1,055)**	(216)
Provisions		**(358)**	-
Deferred tax liabilities		**(580)**	(316)
		-	-
Total non-current liabilities		**(1,993)**	(532)
		-	-
Total liabilities		**(6,926)**	(2,492)
		-	-
Net assets		**3,985**	4,613
		-	-
Equity attributable to equity holders of the parent			
Share capital		**475**	475
Merger reserve		**838**	838
Treasury shares		**-**	(261)
Retained earnings		**2,672**	3,561
		-	-
Total equity		**3,985**	4,613
		-	-

Consolidated Statement of Cash Flows

for year ended 31 March 2018

	Group 2018 £000	Group 2017 £000
Cash flows from operating activities		
Loss for the year	**(946)**	(625)
Adjustments for:		
Depreciation, amortisation and impairment	**1,874**	1,746
Exceptional gain on sale and leaseback of plant and equipment	**(102)**	-
Net finance expense	**137**	4
Foreign exchange gains/(loss)	**-**	14
Tax income	**(294)**	(362)
	-	-
Operating cash flow before changes in working capital and provisions	**669**	777
Change in trade and other receivables	**(882)**	235
Change in inventories	**(81)**	(45)
Change in trade and other payables	**1,528**	(361)
	-	-
Cash generated from Operations	**1,234**	606
Interest paid	**(138)**	(21)
Income tax received /(paid)	**(3)**	259
	-	-
Net cash inflow from operating activities	**1,093**	844
	-	-
Cash flows from investing activities		
Interest received	**-**	3
Proceeds from sale of plant and equipment	**900**	-
Acquisition of plant and equipment	**(1,136)**	(119)
Capitalised development expenditure	**(424)**	(442)
Acquisition of other intangible assets	**(430)**	(327)
Acquisition of Subsidiary net of cash	**(1,000)**	(26)
Overdraft purchased on acquisition	**(38)**	-
	-	-
Net cash used in investing activities	**(2,128)**	(911)
	-	-
Cash flows from financing activities		
Funding from invoice finance	**1,098**	
Sale/(Purchase) of own shares	**246**	(24)
Payment of finance leases	**(404)**	(69)
Payment of loan notes	**(258)**	-
	-	-
Net cash generated from / (used in) financing activities	**682**	(93)
	-	-
Net decrease in cash and cash equivalents	**(353)**	(160)
Exchange loss on cash and cash equivalents	**-**	(2)
Cash and cash equivalents at start of year	**524**	686
	-	-
Cash and cash equivalents at 31 March 2018	**171**	524

Notes

(forming part of the preliminary financial statements)

1 Basis of preparation

Grafenia is a company incorporated and domiciled in the UK.

This financial information does not include all information required for full annual financial statements and therefore does not constitute statutory accounts within the meaning of section 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards. These should be read in conjunction with the Financial Statements of the Group as at and for the year ended 31 March 2018.

The comparative figures for the year ended 31 March 2017 are also not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The preliminary financial information was approved by the Board of Directors on 8 June 2018.

2 Significant accounting policies

The accounting policies applied by the Group in the preliminary financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 March 2017 along with any amendments to International Financial Reporting Standards effective for periods commencing on or after 1 January 2017.

3 Segmental information

As in the prior year the Group's operating and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service now states Licence Fees, Company owned Studio revenue, Brand Partner print and Online sales plus Trade print. This disclosure correlates with the information which is presented to the Chief Operating Decision Maker, the Chief Executive (CEO), who reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

Analysis by location of sales

	UK & Ireland	**Europe**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
Period ended 31 March 2018				
Segment revenues	**13,791**	**489**	**350**	**14,630**

	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000
Period ended 31 March 2017				
Segment revenues	9,634	430	380	10,444

Of the Group revenue of £14,630,000, £13,791,000 was generated in the UK *(2017: £9,342,000).* Revenue generated outside the UK is attributable to partners in France, New Zealand, Australia, Poland and the USA. No single customer provided the Group with over 10%

of its revenue.

In UK&IE Licence Fees Brand Partners, Nettl and printing.com, amounted to £1.07m *(2017: £0.73m).* Master Licensees were £0.56m *(2017: £0.53m).* Company Studios achieved Website sales of £0.16m *(2017: £0.15m).*

Of the Group's non-current assets (excluding deferred tax) of £6,884,000, £6,836,000 are located in the UK. Non-current assets located outside the UK are in France £8,000 (*2017: 12,000*) and the Republic of Ireland £40,000 (*2017: £49,000*).

Analysis by type

	Licence Fees	**Company Studios**	**Brand Partner Print**	**Signs**	**Online & Trade**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Period ended 31 March 2018						
Segment revenues	**1,773**	**1,594**	**3,870**	**4,000**	**3,393**	**14,630**

	Licence Fees	Company Studios	Brand Partner Print	Signs	Online & Trade	Total
	£000	£000	£000	£000	£000	£000
Period ended 31 March 2017						
Segment revenues	1,488	940	3,762	-	4,254	10,444

4 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The adjustment in the tax expense for prior years is primarily due to R&D tax reclaims. These amounts are recognised by the Group when the claims have been drafted. The amounts reclaimed differ from the development costs capitalised under IAS and therefore the difference is not recognised as part of the tax base of these assets.

Recognised in the income statement

	2018 £000	2017 £000
Current tax expense		
Current year	**-**	(123)
Foreign tax	**8**	7
Adjustments for prior years	**(40)**	(50)
	(32)	(166)
Deferred tax expense		
Origination and reversal of temporary differences (see note 8)	**(264)**	(132)
Movement due to change in rate of tax	**-**	(26)
Adjustment in respect of prior year	**2**	(38)
Total tax on continuing operations	**(294)**	(362)
The tax credit in the income statement is disclosed as follows:		
Total tax in income statement	**(294)**	(362)

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2017: lower)* than the standard rate of corporation tax in the UK of 20% *(2017: 20%)*. The differences are explained below:

	2018 £000	2017 £000
Loss on continuing operations	**(1,240)**	(987)
Loss for the period	**(1,240)**	(987)
Tax using the UK corporation tax rate of 20% (*2015:21%*)	**(247)**	(197)
Effects of:		
Permanent differences	**75**	13
Overseas tax losses not recognised	**-**	-
Difference in overseas tax rate	**-**	-
Other tax adjustments, reliefs and transfers	**(6)**	-
Adjustments in respect of prior periods - current tax	**(40)**	(50)
Adjustments in respect of prior periods - deferred tax	**2**	(38)
Unrelieved losses carried into following year	**-**	-
Withholding tax	**8**	9
R&D losses surrendered	**-**	46
R&D super deduction	**(117)**	(143)
Movement due to the change in the tax rate	**31**	(9)
Total tax repayment	**(294)**	(362)

The Group Tax Debtor amounts to £101,000 *(2017 Debtor: £138,000)*. The deferred tax liabilities as at 31 March 2018 have been calculated using the tax rate of 17% which was substantively enacted at the balance sheet date.

The UK corporation tax rate has been progressively reduced over the last 4 years. The October 2015 statement announced that the rate will further reduce to 19% from 1 April 2017 and 18% from 1 April 2020.

5 Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	2018 £000	2017 £000
Loss after taxation for the financial year from continuing operations	**(946)**	(625)

Weighted average number of shares	**Number of Shares**	Number of Shares
For basic earnings per ordinary share	**45,638,192**	45,500,884
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**45,638,192**	45,500,884

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

6 Trade and other receivables

	Group 2018	2017
	£000	£000
Trade receivables	**2,765**	1,854
Prepayments	**482**	469
Corporation tax	**111**	138
Other receivables	**48**	63
	3,406	2,524

At 31 March 2018 trade receivables are shown net of an impairment allowance of £339,000 (*2017: £415,000)*.

7 Acquisitions of subsidiaries

On 14 July 2017, the Company acquired all of the ordinary shares in Image Everything Limited (Image Group) for a consideration of £2.61m, satisfied in cash, vendor loan notes and deferred contingent consideration. The company is a leading large format sign manufacturer and exhibition contractor.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	Book and Fair values on acquisition	Intangibles acquired	Total assets and liabilities
	£000	**£000**	**£000**
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	**324**	**-**	**324**
Intangible assets	**-**	**3,119**	**3,119**
Inventories	**70**	**-**	**70**
Trade and other receivables	**718**	**-**	**718**
Cash and cash equivalents	**(38)**	**-**	**(38)**
Interest-bearing loans and borrowings	**(289)**	**-**	**(289)**
Trade and other payables	**(779)**	**-**	**(779)**
Deferred Tax	**-**	**(530)**	**(530)**
Net identifiable assets and liabilities	**6**	**2,589**	**2,595**
Goodwill			**16**
Consideration paid:			
Initial cash price paid			**1,150**
Vendor Loan Notes			**1,103**

Deferred consideration at fair value	**358**
Total consideration	**2,611**

8 Intangible assets

Group	Domains & Brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Cost							
Balance at 31 March 2017	**356**	**3,340**	**2,890**	**279**	**62**	**154**	**7,081**
Acquisitions - internally developed	-	-	424	-	-	-	424
Acquisitions - purchased	-	307	-	120	-	3	430
Acquisition of subsidiary	549	-	-	2,570	16	-	3,135
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2018	**905**	**3,647**	**3,314**	**2,969**	**78**	**157**	**11,070**
Amortisation and impairment							
Balance at 31 March 2017	**289**	**2,517**	**1,607**	**268**	**12**	**83**	**4,776**
Amortisation for the year	32	580	676	179	-	19	1,486
Balance at 31 March 2018	**321**	**3,097**	**2,283**	**447**	**12**	**102**	**6,262**
Net book value							
At 31 March 2017	67	823	1,283	11	50	71	2,305
At 31 March 2018	**584**	**550**	**1,031**	**2,522**	**66**	**55**	**4,808**

9 Annual Report

The Annual Report will be sent to shareholders on or around 30 June 2018 and will be available on the Company's website www.grafenia.com from that date.

Copies of this announcement are available on the Company's website www.grafenia.com.

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