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Grafenia plc

Half-year Report

RNS Number : 6897I
Grafenia plc
28 November 2018

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")

Unaudited Interim Results for the period ended 30 September 2018

Financial highlights

	2018	2017
Turnover	**£8.31m**	£6.74m
Normalised EBITDA*	**£(0.31)m**	£0.43m
Operating Loss	**£(1.36)m**	£(0.47)m
Loss before Tax	**£(1.44)m**	£(0.49)m
Tax Income	**£0.18m**	£0.10m
Total Comprehensive Loss	**£(1.26)m**	£(0.39)m
EPS	**(1.75)p**	(0.86)p
Capital Expenditure (excluding acquisition)	**£0.22m**	£1.32m
Bank Cash/(Borrowings)	**£1.62m**	£(0.23)m
Net Debt**	**£(1.06)m**	£(2.54)m

* Normalised EBITDA is operating loss plus amortisation and depreciation excluding non-recurring costs
** Net debt is the net of cash and cash equivalents less other interest-bearing loans and borrowings

Operational highlights

- **Nettl UK partner network grows to over 170 locations**
- **Revenues in Nettl company-owned Stores up by 140%, up 12% on a like-for-like basis, driven by our new Nettl Business Store format**
- **Second Nettl Business Superstore planned**
- **25 Nettl locations in The Netherlands and Belgium**

- **First 10 Founder Nettl partners launched in France**
- **Nettl of America pre-launch activity commenced**
- **Growth in 'ink on fabric' displays continues, sales up 30%**
- **Continued investment in improving our finance and reporting infrastructure with negative short-term impact on cost**

For further information:

Grafenia plc	
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Interim Statement

In last year's annual report, we set out the next part of our transformation strategy. We're rolling-up sign businesses, building Nettl Business Stores and licencing our brands. During the interim period, revenues have grown in all of those segments and we're increasingly confident in the merits of our transformation strategy.

However, we continue to battle against certain headwinds, as our costs have been increasing and margins eroding in other parts of our business. Trade print has got tougher and prices are still falling. To address this we aim to become less reliant on litho trade print every day. We do this by scaling our company-owned operations that sell to end clients, broadening our product offerings (into areas like signs, ink on fabric and web services) and adding new Brand Partners who pay licence fees to use our platform and brands.

Trading Results and Cash

Turnover during the six month period was **£8.31m** *(2017: £6.74m),* an increase of 23% compared to the corresponding period last year. This period benefited from a full six month's trading of Image Everything Limited ("Image Group"), compared to 10 weeks in the previous interim period. It also includes revenue from two businesses we didn't own in the comparative period.

Gross profit increased to **£4.35m** *(2017: £3.88m)*, although as a percentage it reduced from 57.5% to **52.4%** (gross profit is calculated after deducting direct materials, carriage and production labour)**.** Like last year, there are three drivers for this.

Firstly, our input costs have increased. Almost all of our raw materials are sourced from Europe, or paid in US Dollars. Like the majority of printers, we've suffered from increased pricing on paper, our biggest raw material purchase. This has been exacerbated by demand for paper pulp created by the packaging industry and the drive to move away from single-use plastics.

Secondly, the margin characteristics for sign production are different to litho printing. As signage becomes a larger part of our business, we would expect the percentage to change in line and move closer to 50%.

Thirdly, despite rising costs, wholesale print prices continue to fall as competitors discount to grow market share. We monitor market pricing and take defensive action to maintain competitiveness.

Encouragingly, gross profit only declined by low single digits on an underlying basis (i.e. excluding businesses we bought during the period). We now have visibility to achieve increasing gross profits on a like-for-like basis after many years of decline. This is mainly driven by licence fees and company-owned store performance increasingly offsetting declines in trade litho print profits.

Our overheads increased to **£4.63m** compared to £3.45m in the same period last year. Much of this increase relates to businesses which we have acquired during the year. It includes £0.05m in respect of deferred consideration, shown as a cost to the business. We've also invested in our store and partner performance teams around the world and increased our finance team.

Normalised EBITDA before non-recurring costs was **£(0.31)m** *(2017: £0.43m).* Non recurring costs amounted to £0.13m. There was an operating loss of **£1.36m** *(2017: operating loss £0.47m).* We recorded a pre-tax loss of **£1.44m** *(2017: £0.49m)*.

At 30 September 2018, the Company had cash of **£1.62m** *(2017 borrowings: £0.23m)* and debt of **£2.69m** *(2017 debt: £3.06m)*, consisting of £0.99m in vendor loan notes, £1.03m of asset finance and £0.67m of other borrowings. Our operating activities utilised **£0.73m** of cash *(2017: generated £0.66m)* and, during the period, working capital decreased by **£0.38m** *(2017: decreased by £0.27m)*.

Capital expenditure was **£0.39m** *(2017: £1.32m)*. This total includes £0.35m invested in the ongoing development of our platform which underpins our operations and is licensed to our Partners.

As communicated in our last two annual reports, some of our investments might show as costs in our profit and loss statement. Others show as capital expenditure or M&A consideration in our cash-flow statement. To the board, they are all compared on the same basis. It doesn't matter if we invest in opening a new country operation for Nettl, buying a machine or increasing our sales teams. We focus on what we hope will get us an attractive cash-payback. This may distort our earnings figures temporarily. For example, the opening of a new Nettl country (as discussed in "Nettl of America" below) creates substantial start-up costs. However, we clearly view this as an investment for the future - but one that has to be booked in our profit and loss statement as a cost.

Trading Review

We manufacture printing, signs and displays in our own factories. Our range of products includes banners, business cards, fabric stands, window and vehicle graphics, together with business marketing materials.

We sell to businesses of all sizes, but we sell the most to SMEs. We use a variety of sales channels and routes to market: directly via company-owned stores, account managers and online channels, and indirectly via resellers to whom we license software and brands.

Nettl
Nettl is our retail store format. There are over 200 locations across the globe, with over 170 in the UK and Ireland alone. Nettl studios are popping up in France, Holland, Belgium, New Zealand and Australia. We own six Nettl studios directly. The rest are operated under licence by our Brand Partners.

Nettl studios help local businesses with their marketing. These days, that usually starts with a website or signage. Then it often leads to print, display and other online services like search engine optimisation.

Nettl Company Stores
We have 'first generation' Nettl web studios in London, Dublin, Exeter and a factory store in Manchester. In Birmingham, we operate a 'second generation' Business Store and a Superstore in Liverpool.

First generation Nettl web studios were typically 500sqft high street locations. All were re-purposed printing.com stores. While clients still come to meet us, footfall has been falling in these studios. Performance across these locations is mixed and legacy rent commitments affect unit profitability. We are not opening any more locations of this type.

As our product range has expanded, we've needed more space to display it. In 2016 we moved our Birmingham studio team to a larger 2,000sqft location. We called this a 'Business Store'. We wanted to test if we could drive footfall with the sale of coffee and meeting room hire. If we could, the increased rent for bigger locations could be offset with new revenue streams. The test was successful. In the interim period this 'Business Store' continued to grow. We expect to open more stores like this and to license the format to our Brand Partners.

In April 2018, we opened our first 5,000sqft Business Superstore in Liverpool. This was born after relocating the team from ADD Signs, acquired in January 2017. Like Birmingham, Liverpool has display space, a studio team and meeting room hire. However, it differs from the others - as it has some local manufacturing and a sign and graphics installation and vehicle wrapping team. In the first half, sales have grown by over 20% in this location. In the last few weeks of the interim period we rolled in a nearby Nettl team, which was previously partner-operated.

In December 2017, we acquired Nettl of Exeter - also formerly operated by a partner. In July 2018, we acquired AG Signs & Print, a nearby sign business. We plan to roll these businesses together and open our second Business Superstore in Exeter during the second half of our financial year. We have obtained planning consent for change of use on a unit and are currently finalising a lease.

When we acquire a sign business and convert it to a Nettl Superstore, or we begin preparations to merge teams, the revenues are disclosed as part of the company stores segment.

Total sales in our company-owned stores grew **140%** in the half year to **£1.20m** *(2017: £0.50m)*. Like-for-like sales were up **12%** when we exclude Nettl of Exeter and AG Signs (which we did not own in the comparative period).

We continue to search for and evaluate other sign businesses to acquire and convert to Nettl Business Superstores.

Our focus for company-owned locations is to improve sales performance by helping clients get more from their marketing activity. We continue to test new products and services in these stores, before rolling them out to our partner network.

Licencing our brands

We license Nettl and printing.com to selected businesses. We call them 'Brand Partners' since our brands are exposed to end-clients. Brand Partners are usually established graphics businesses, such as designers, printers or sign companies. They 'bolt-on' Nettl to their existing business and co-brand with their own name, or adopt Nettl branding if they prefer. In towns and suburbs, these bolt-on partners pay an initial subscription fee which is typically £2,000. That gets them an exclusive territory, plus classroom training and a marketing starter kit. New partners pay ongoing monthly subscription fees of £499.

We reserve city centre locations for fully-branded Nettl partners. Back in 1998, the first printing.com store opened in Edinburgh. Twenty years later, that store has relocated to become our first partner-operated Nettl Business Store. They're now in a former bank, a few doors along from the original site. This new 2,500sqft site has the same prominence of fabric displays as our Birmingham Business Store and multiple meeting rooms for hire.

In the interim period, we added **22** new Nettl partners in the UK and Ireland, taking the network to over 170 locations. We remain confident that the nation can support 300 locations.

We continue to license printing.com, also as a bolt-on format. Brand Partners pay monthly subscription fees of £299 and an initial subscription fee of £1k-£2k. Becoming a printing.com partner is often a stepping stone to upgrading to a Nettl partner. We added **25** new printing.com partners in the half year and have over 100 in operation today.

Licence income from UK Nettl and printing.com partners grew to **£0.60m** *(2017: £0.47m).* The total partner count we report is always the sum of current partners on the date of this letter and, like most subscription models, we experience some churn.

Brand Partners tell us our software makes their businesses run more efficiently, and our marketing attracts new clients and encourages existing clients to return.

Aside from licence fee income, Brand Partners are hooked into our supply chain and can buy our full range of print, display and signage at wholesale prices. Sales of print and product to Brand Partners was **£2.08m** *(2017: £2.01m)*. Print supply has got tougher. Despite rising input costs, there are plenty of competitors willing to discount heavily. We don't expect margins from the sale of print to recover in the near future while there is still overcapacity in the market.

However, the product mix sold via Brand Partners has changed during the year. It now includes a greater proportion of ink on fabric, signage and display products.

Nettl of The Netherlands and Belgium

We launched Nettl in The Netherlands during the summer of 2017. We hired a consultant to help us tailor the model for the Benelux market. His fixed-term contract ended after the first year.

Initially, we experienced a higher partner churn rate in The Netherlands than the UK,

albeit for similar reasons. However, since hiring and training a full-time Partner Acquisition Manager, we have seen a return to partner growth and expect to scale the network further, without materially increasing our cost base. We have **25** partners *(2017: 19)* in Holland and Belgium and our objective remains to get to 150. On a monthly basis, the Benelux business is now profitable.

Nettl of France

We have operated printing.com in France since 2003. For a variety of reasons, we have not yet managed to achieve the size of network seen in our home market. The business segment has traded around or slightly below breakeven for some time, although it has made a contribution to our print volumes. However, in December 2017 we began licensing Nettl partners. We now have **10** partners *(2017: 0)* and an encouraging deal pipeline. There is a plausible prospect of this segment becoming a meaningful contributor to profitability.

Nettl of New Zealand and Australia

We have a master licensee which covers both these countries.

In New Zealand, Nettl is a network of company-owned outlets and printing.com bolt-on franchisees. A new company-owned Nettl location was opened in Auckland during the half year.

In Australia, Nettl is being marketed as a software licence. The first licensees are trading and our partners continue to test and tweak their model.

Nettl of America

Back in 2007, we granted a printing.com master licence for the states of Florida and Georgia in the US. The network grew to around 50 franchise locations before pivoting to a white-label SaaS model. We were paid a share of licence fees for the use of our platform.

That licence agreement has now come to an end. To provide continuity and uninterrupted service, we now support the remaining SaaS licensees with our UK-based team. These licensees pay us subscription licence fees directly. The amounts we receive under these agreements should not materially change, compared to the share previously paid by the master licensee. However, the licencees are currently on rolling contracts with 30 day notice periods. We have migrated most product supply to a US-based printer and we intend to supply some niche products from our existing supply chain.

We believe there is product-market fit for the Nettl model and are making preparations to launch Nettl of America. The regulatory landscape in the US is different to the UK and requires our offering to be launched as a franchise. We are currently preparing legal agreements, marketing collateral and adapting the platform. Clearly, the US is a large market and potential upside is high. However, until we begin, we cannot know for certain whether the lifetime value characteristics and gestation period will be similar to Europe.

As we invest in the roll-out of this model, costs are front-loaded, like in other countries. We pay out before we receive a dollar in licence income. We have begun training US-based team members to acquire and support future franchisees and plan to commence granting Nettl 'bolt-on' Franchises in early 2019.

Image Group

We acquired Image Group, in July 2017. Sales in the half year were **£2.68m** *(2017: £1.68m in partial period)*.

We have made progress with integration. In the first half, the Image Group sign hub supplied over 5,000 discrete orders to our network. Those orders were a mix of large format posters, display boards and vinyl graphics. We continue to productise our signage range so that our Brand Partners can take advantage of the opportunities that open up.

Image Group has undertaken larger scale projects for most of our company-owned stores and a few of our Partners. We have system and process development to do before we can provide a national installation capability, but that remains our goal.

Other channels
We operate a variety of different web-to-print sites, some targeting trade suppliers, some private-branded portals and others for micro-businesses. They are all handled by the same centralised client service team. Whilst we value the business from clients of these sites, we do not currently find the customer acquisition and lifetime value metrics to be scalable. In the interim period, we have continued to redeploy team members into supporting and developing our Nettl Brand Partners. Sales in trade and online channels were **£1.45m** *(2017: £1.70m)* during the half year.

Growth of fabric
We sell a range of exhibition displays and corporate furniture through our network. Many of the products have two components - a frame and a fabric cover. We bulk import the frames and print and finish the fabric covers at our central hub. We have extended the range during the interim period and have a wider selection of displays suitable for outdoor promotion. During the interim period, we sold over **£0.50m** *(2017: £0.39m)* of ink-on-fabric - up 30% on the comparative period.

Dividend
The Directors are not declaring an Interim Dividend *(2017: Nil).*

Finance Systems Investment
Since we changed the leadership of our finance team in the summer, we have identified several areas for improvement. In light of our strategy to roll-in various sign businesses, our reporting has to become more agile and granular. To that end, we are overhauling the entire finance organisation and are rebuilding processes to be scalable and ready for a much larger Grafenia organisation. We incurred substantial costs for consulting, additional software and new team members. In addition, our focus on improving our finance processes has taken a substantial amount of management attention away from other areas, such as M&A. However, the board believes this investment of time and capital is necessary to support further M&A. We have changed how we report on our business internally and are considering changing our future external reporting format as well. We welcome shareholder input regarding any changes we can make to make our reporting more useful and clear.

Acquiring other businesses
We remain on the lookout for other sign businesses to roll into Grafenia. The signs sector is highly fragmented and we have evaluated many business opportunities.

In each primary location, we are seeking a 'remainer' looking to grow their business. That could be a sign business or a Nettl partner. Once we have made that acquisition, our focus shifts to finding other local businesses to roll-in. Usually, those are where the

owner is retiring. Our plan is to replicate what we have done in Liverpool and Exeter and to convert those businesses into Nettl Business Superstores.

We are also looking for a few larger sign businesses - similar in scale to Image Group. These will act as regional manufacturing and installation hubs, to support a local network of Nettl Business Stores and studios.

Integrating sign businesses

When we're looking at prospective acquisitions, we place a high degree of importance on cultural fit. We have a few methods to help with that. During the interim we've developed GrafOS, our operating system for people. We've defined roles with required competencies, which we call 'intelligences'. Our teams will begin collecting 'badges' as they gain competence in a certain intelligence.

The aim of GrafOS is to structure and standardise the roles that we'll need in future superstores. We're doing this so that people can have a view of their 'storyline' or career path - and see what mission goals they need to complete to collect a badge and be qualified for promotion.

This project is a major undertaking. But we believe it's necessary to put this development in at this stage to prepare for scale.

Outlook

After the interim period ended, trading has been mostly positive. We beat a previous record for sales of ink-on-fabric in October and in that month our company stores outperformed the same period last year. We continue to see growth in the number of partners across our brands.

Starting Nettl of America will be a headwind to our reported operating costs in the coming half-year and into the next fiscal year. However, the opportunity is significant.

The Board continues to look for M&A opportunities in the sign space, that would, if they should materialise, change the size and structure of the Group materially.

However, given the political and economic situation, we remain cautious on quantifying the outlook.

Jan Mohr	**Peter Gunning**
Chairman	**Chief Executive Officer**
27 November 2018	

Unaudited Interim Results for the period ended 30 September 2018

Consolidated Statement of Comprehensive Income
for the six months ended 30 September 2018

	Unaudited	**Unaudited**	Audited

Continuing Operations	Note	Period ended 30 September 2018 £'000	Period ended 30 September 2017 £'000	Year ended 31 March 2018 £'000
Revenue	3	**8,309**	**6,738**	14,630
Raw materials and consumables used		**(3,957)**	**(2,861)**	(6,293)
Gross profit		**4,352**	**3,877**	8,337
Staff costs		**(2,709)**	**(2,067)**	(4,577)
Other operating charges		**(1,922)**	**(1,383)**	(3,071)
Share based payments		**(26)**	**-**	-
Normalised EBITDA		**(305)**	**427**	689
Non-recurring costs	4	**(132)**	**18**	82
Depreciation and amortisation		**(918)**	**(892)**	(1,874)
Operating loss		**(1,355)**	**(467)**	(1,103)
Financial income		**-**	**-**	1
Financial expenses		**(82)**	**(40)**	(138)
Net financing (expense)		**(82)**	**(40)**	(137)
Loss before tax		**(1,437)**	**(487)**	(1,240)
Taxation		**181**	**97**	294
Loss for the period		**(1,256)**	**(390)**	(946)
Total comprehensive expense for the period		**(1,256)**	**(390)**	(946)
EPS - Continuing Operations	8	**(1.75)p**	**(0.86)p**	(2.07)p

Consolidated Statement of Financial Position
at 30 September 2018

	Note	**Unaudited 30 September 2018 £000**	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Non-current assets				
Property, plant and equipment		**1,949**	1,897	2,076
Intangible assets		**4,614**	4,691	4,808
Other receivables		**-**	63	-
Total non-current assets		**6,563**	6,651	6,884
Current assets				
Inventories		**466**	439	450
Trade and other receivables	5	**3,305**	3,331	3,295
Current tax receivable		**159**	191	111
Cash and cash equivalents		**1,616**	-	171
Total current assets		**5,546**	3,961	4,027
Total assets		**12,109**	10,612	10,911
Current liabilities				

Other interest-bearing loans and borrowings	6	**(1,432)**	(1,101)	(2,009)
Trade and other payables		**(1,201)**	(1,550)	(1,437)
Accruals and deferred income		**(1,022)**	(963)	(983)
Other liabilities		**(383)**	(268)	(504)
Total current liabilities		**(4,038)**	(3,882)	(4,933)
Non-current liabilities				
Other interest-bearing loans and borrowings	6	**(1,242)**	(2,241)	(1,055)
Provisions		**-**	-	(358)
Deferred tax liabilities		**(584)**	(267)	(580)
Total non-current liabilities		**(1,826)**	(2,508)	(1,993)
Total liabilities		**(5,864)**	(6,390)	(6,926)
Net assets		**6,245**	4,222	3,985
Equity				
Share capital	7	**768**	475	475
Share premium account		**3,151**	-	-
Merger reserve		**838**	838	838
Retained earnings		**1,462**	3,170	2,672
Share Option reserve		**26**	-	-
Treasury Shares		**-**	(261)	-
Total equity		**6,245**	4,222	3,985

Consolidated Statement of Changes in Shareholders Equity
for the six months ended 30 September 2018 (unaudited)

	Share Capital	**Share Premium**	**Merger Reserve**	**Treasury Shares**	**Retained earnings**	**Share based payment reserve**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Opening shareholders' funds at 1 April 2017	475	-	838	(261)	3,561	-	4,613
Loss and total comprehensive income for the period	-	-	-	-	(390)	-	(390)
Exchange difference	-	-	-	-	(1)	-	(1)
Closing shareholders' funds at 30 September 2017	**475**	**-**	**838**	**(261)**	**3,170**	**-**	**4,222**
Opening shareholders' funds at 1 October 2017	**475**	**-**	**838**	**(261)**	**3,170**	**-**	**4,222**
Loss and total comprehensive income for the period	-	-	-	-	(556)	-	(556)
Own shares sold	-	-	-	261	(13)	-	248
Exchange differences	-	-	-	-	71	-	71
Closing shareholders' funds at 31 March 2018	**475**	**-**	**838**	**-**	**2,672**	**-**	**3,985**
Opening shareholders' funds at 1 April 2018	475	-	838	-	2,672	-	3,985
Shares issued in the period	293	3,218	-	-	-	-	3,511

Costs associated with share issue	-	(67)	-	-	-	-	(67)
Loss and total comprehensive income for the period	-	-	-	-	(1,256)	-	(1,256)
Share based payments	-	-	-	-	-	26	26
Exchange difference	-	-	-	-	46	-	46
Closing shareholders' funds at 30 September 2018	**768**	**3,151**	**838**	**-**	**1,462**	**26**	**6,245**

Consolidated Statement of Cash Flows

for the six months ended 30 September 2018

	Unaudited Six months to 30 September 2018 £'000	Unaudited Six months to 30 September 2017 £'000	Audited Year ended 31 March 2018 £'000
Cash flows from operating activities			
Loss for the period	**(1,256)**	(390)	(946)
Adjustments for:			
Depreciation, amortisation and impairment	**918**	892	1,874
Profit on sale of plant and equipment	**(105)**	(18)	(102)
Net finance expense/(income)	**82**	37	137
Exchange loss	**46**	3	-
Share option costs	**26**	-	-
Taxation	**(181)**	(97)	(294)
Operating cash flow before changes in working capital and provisions	**(470)**	427	669
Change in trade and other receivables	**32**	(474)	(882)
Change in inventories	**6**	(70)	(81)
Change in trade and other payables	**(314)**	816	1,528
Cash generated from operations	**(746)**	699	1,234
Interest paid	**(82)**	(40)	(138)
Tax (paid)/received	**103**	(4)	(3)
Net cash inflow from operating activities	**(725)**	655	1,093
Cash flows from investing activities			
Proceeds from sale of plant and equipment	**-**	900	900
Acquisition of plant and equipment	**(42)**	(1,299)	(1,136)
Capitalised development expenditure	**(164)**	(226)	(424)
Acquisition of other intangible assets	**(186)**	(125)	(430)
Acquisition of subsidiary net of cash	**(100)**	(2,391)	(1,000)
Overdraft purchased on acquisition	**-**	-	(38)
Net cash used in investing activities	**(492)**	(3,141)	(2,128)
Cash flows from financing activities			
Proceeds from share issue	**3,444**	-	-
(Repayment)/Proceeds from invoice finance	**(423)**	-	1,098
Net change on vendor loan notes	**184**	1,145	-
Payment of loan notes	**(297)**	900	(258)
Deferred consideration	**37**	-	-
Sale of own shares	**-**	-	246

Payment of supplier finance	**-**	(295)	(40)
Payment of finance leases	**(316)**	-	(404)
Net cash inflow/(outflow) from financing activities	**2,629**	1,750	682
Net increase/(decrease) in cash and cash equivalents	**1,432**	(736)	(353)
Exchange difference on cash and cash equivalents	**-**	1	-
Cash acquired on acquisition	**13**	-	-
Cash and cash equivalents at start of period	**171**	524	524
Cash and cash equivalents at end of period	**1,616**	(211)	171

Notes

(forming part of the interim financial statements)

1. Basis of preparation

Grafenia plc (the "Company") is a company incorporated and domiciled in the UK.

These financial statements do not include all information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 March 2018.

The comparative figures for the year ended 31 March 2018 are 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 Directors review a two year forecast when approving the interim financial statements to ensure that adequate cash resources are in operational existence to support trading for the foreseeable future.

These condensed consolidated interim financial statements were approved by the Board of Directors on 27 November 2018.

2. Significant accounting policies

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended 31 March 2018 with the addition of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers.

IFRS 9 in respect of Financial Instruments requires the Group to value financial assets either at amortised cost or fair value. The Groups financial assets are its debtors where the assets are held to collect contractually specified cash flows. Therefore, the Group carries the debtors at amortised cost.

There has been no financial effect on the results on the implementation of IFRS 9.

IFRS 15 in respect of the recognition of Revenue from Contracts with customers required the Group to recognise revenue with respect to various components of the contractual arrangements with the customer. The Group contracts with its customers on two main bases:

- Production of product. The revenue is recognised when the product is delivered and where required installed.
- Licence fees for SaaS products are recognised monthly as supplied. Any initial fees are spread over the period of the agreement.

There has been no financial effect on the results on the implementation of IFRS 15.

IFRS 16, Leases, is not yet in force for the Group. The Group is reviewing its leases and the impact that IFRS 16 will have on the financial statements.

3. Segmental information

The Company's primary operating segments are geographic being UK & Ireland, Europe and others. The secondary segmental analysis is by nature of sales channel and service.

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 Company'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.

Analysis by location of sales

Period ended 30 September 2018	**UK & Ireland £'000**	**Europe £'000**	**Other £'000**	**Total £'000**
Segment Revenues	**7,897**	**244**	**168**	**8,309**

Period ended 30 September 2017	UK & Ireland £'000	Europe £'000	Other £'000	Total £'000
Segment Revenues	6,339	217	182	6,738

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

Analysis by type

Period ended 30 September 2018	**Licence Fees £'000**	**Company Studios £'000**	**Brand Partners £'000**	**Signs £'000**	**Online & Trade £'000**	**Total £'000**
Segment Revenues	**901**	**1,202**	**2,080**	**2,676**	**1,450**	**8,309**

Period ended 30 September 2017	Licence Fees £'000	Company Studios £'000	Brand Partners £'000	Signs £'000	Online & Trade £'000	Total £'000
Segment Revenues	840	505	2,015	1,675	1,702	6,738

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

4. Non-recurring costs

	Unaudited Six months to 30 September 2018 £'000	Unaudited Six months to 30 September 2017 £'000	Audited Year ended 31 March 2018 £'000
Profit on sale and leaseback of assets	**105**	18	102
Restructuring costs	**(107)**	-	(20)
Other non-recurring costs	**(130)**	-	-
Total non-recurring costs	**(132)**	18	82

5. Trade and other receivables

	Unaudited Six months to 30 September 2018 £'000	Unaudited Six months to 30 September 2017 £'000	Audited Year ended 31 March 2018 £'000
Trade receivables	2,958	2,708	2,765
Prepayments	240	602	482
Other receivables	107	21	48
	3,305	3,331	3,295

Trade receivables as at 30 September 2018 are shown net of an impairment allowance of £(362,000), *September 2017: £(385,000) and 31 March 2018 £(339,000).*

6. Other interest-bearing loans and borrowings

Current liabilities in respect of other interest-bearing loans, representing finance leases, vendor loans and invoice financing, amounted to £1,432,000 *(30 September 2017: £1,101,000 and 31 March 2018: £2,009,000)*.

Non-current liabilities in respect of other interest-bearing loans, representing finance leases vendor loans and invoice financing amounted to £1,242,000 *(30 September 2017 £2,241,000 and 31 March 2018 £1,055,000)*.

7. Share Capital

On 3 May 2018, the company issued 29,258,331 ordinary shares of £0.01 each at an issue price of £0.12. The difference between the issue price and the nominal value being taken to the share premium account.

	Number of Ordinary Shares	**£'000**
At 31 March 2018	**47,557,835**	**475**
Shares Issued on 3 May 2018	**29,258,331**	**293**
At 30 September 2018	**76,816,166**	**768**

8. Earnings per share

The calculation of the basic earnings per share is based on the loss after taxation divided by the weighted average number of shares in issue, being 71,671,884 in the period ended 30 September 2018 (*45,407,835: period ended 30 September 2017; 45,638,192: year ended 31 March 2018).*

	Unaudited	Unaudited	Audited
	30 September 2018	30 September 2017	31 March 2018
	£'000	£'000	£'000
Loss after taxation for the period	**(1,256)**	(390)	(949)
Weighted average number of shares in issue	**71,671,884**	45,407,835	45,638,192
Basic earnings per share	**(1.75)p**	(0.86)p	(2.07)p

Share options had no dilutive effect on the weighted average number of shares and therefore no diluted earnings per share have been stated.

9. Acquisitions of subsidiaries

Acquisitions in previous period

The Acquisition Agreement with the vendors of Image Group reported in the prior year has been amended in that the potential "Earn-out" of £0.6m is replaced with a fixed additional deferred consideration of £0.55m, payable in cash (the "Deferred Consideration"). The Deferred Consideration will be paid in 12 monthly instalments commencing 30 September 2019. Under the original terms of the acquisition, approximately one third of the Earn-out would have been payable in September 2018 with the remaining two thirds payable in September 2019.

Additionally, it has been agreed that the repayments to be made in respect of the vendor loan notes of £1.25m issued in conjunction with the acquisition of Image will be reduced in total by £0.19m, in respect of warranty claims made in the prior year and current year.

Following the variation of the terms of the acquisition, the total consideration for Image is expected to be £2.76m, including costs allocated to the income statement in respect of deferred consideration dependent on various terms, satisfied in cash of £1.15m on completion, secured vendor loan notes of £1.06m repayable in monthly instalments over a period of approximately two years from completion (final payment August 2019) and unsecured deferred consideration of £0.55m, payable in monthly instalments over the following 12 month period (final payment August 2020).

Acquisitions in the current period

On 5 July 2018, the Company acquired all of the ordinary shares in AG Signs Limited (AG) for a consideration of £150,000, satisfied in cash and deferred consideration. AG is a sign manufacturer and exhibition contractor.

In the three months to the period end, AG contributed an operating profit of £11,000 to the consolidated results for the period. If the acquisition had occurred on 1st April 2018, Group revenue would have been £164,000 higher and an estimated net profit of £31,000 would have been added to Group results. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of the accounting period.

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	**47**	**-**	**47**
Intangible assets	**-**	**81**	**81**
Inventories	**22**	**-**	**22**
Trade and other receivables	**85**	**-**	**85**
Cash and cash equivalents	**13**	**-**	**13**
Trade and other payables	**(125)**	**-**	**(125)**

Deferred tax	-	**(15)**	**(15)**
Net identifiable assets and liabilities	**42**	**66**	**108**
Goodwill			**39**
			147
Consideration paid:			
Initial cash price paid			**100**
Deferred consideration			**47**
Total consideration			**147**

Intangibles acquired include the Customer Base arising on the acquisition and recognising the value placed upon acquired customer revenues.

The initial consideration, paid on completion, comprised cash of £100,000, together with deferred consideration payable over 12 months of £52,800 less warranty deductions of £7,785.

The Company's half yearly report will shortly be sent to shareholders and will be available on the Company's website www.grafenia.com.

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