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Grafenia plc

Final Results

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28 August 2019

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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 year ended 31 March 2019

Grafenia plc (AIM: GRA) announces its full year audited results for the year ended 31 March 2019.

Operational Highlights

- Nettl of America successfully launched
- Over 220 Nettl partner locations now operating in 8 countries
- Second Nettl Superstore open in Exeter
- Revenues increased at company-owned stores
- Upgrade of Manchester production hub completed
- Relocation of Image Group to Manchester production hub completed in July 2019
- Post year end placing completed to support sign roll-up strategy

Financial Overview

	CONTINUING OPERATIONS	
	Year ended 31 March 2019	Year ended 31 March 2018
	£'000	£'000
Revenue	**15,962**	14,630
Gross Profit	**8,545**	8,337
Earnings before interest, tax, depreciation and amortisation	**(1,112)**	771
Operating Loss	**(2,987)**	(1,103)
Net finance expense	**(179)**	(137)
Tax Income	**343**	294
Loss for the Year	**(2,823)**	(946)
EPS - Continuing Operations	**(3.79)p**	(2.07)p
Investment in property plant and equipment	**£2.47m**	£1.94m
Acquisitions of subsidiaries	**£0.27m**	£2.61m
Net Debt	**£(3.12m)**	£(3.04m)

For further information:

Grafenia plc

Peter Gunning (CEO) 07973 191 632

Jan Mohr (Chairman) 0049 175 734 2740

Allenby Capital Limited (Nominated Adviser and Broker) 0203 328 5656

David Hart / Liz Kirchner / Nicholas Chambers

Chairman's Statement

Dear Shareholders,

I re-read my past Chairman's statements when preparing this letter. Spoiler alert: a lot of what you will be reading in this year's statement is consistent with what I talked about in the last two years. When we embarked on our journey two years ago to **build, buy and licence Nettl**, we didn't know whether we were on the right path. Of course, certainty is an unrealistic state in any business, but we have gained confidence over the last months and years that we are on the right path.

So how did we do?

Operational Performance

In the recent fiscal year, our turnover increased by **9%** to **£15.96m** *(2018: £14.63m)* and gross profit increased by **2.5%** to **£8.55m** *(2018: £8.34m)*. The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation, to **(£1.11m)** *(2018: profit £0.75m)*. Our loss for the year came in at **£2.82m** versus £0.95m last year. We finished the year with a cash position of **£1.35m** (2018: £0.17m) and net debt (including deferred consideration) of **£3.12m** *(2018: £3.04m)*. We invested **£2.46m** on capex *(2018: £1.09m)* - mainly for our new litho printing press strategy that Peter will discuss later - and capitalised **£0.74m** in R&D *(2018: £0.84m).*

Importantly, these results include several cost items that are either one-time in nature, or constitute up-front costs, rather than ongoing operating costs. An example of a one-time cost is the improvement program in our finance function. As we have discussed on previous occasions, we decided to improve our financial capabilities to support our strategy. To that end, we have hired new team members and have had to part with others. The entire process was overseen very well by Simon, our Interim FD, and we are now seeing significant progress. Such restructuring does increase costs in the short-term, but we strongly believe it's a worthwhile investment, given the planning and reporting requirements of our journey.

An example for an 'up-front cost' is our start-up US business. Here, we have invested heavily in legal expenses, travel and salaries for the launch of Nettl of America.

While it is not easy to put a precise number on both examples, it's safe to assume they each cost us substantial amounts each in the last fiscal year.

Some firms decide to back-out many costs from their profit and loss statement to arrive at some 'adjusted' figure. I find that a slippery slope, as it opens the door to mark every cost as 'extraordinary' or 'non-recurring'. Such accounting doesn't help with cost discipline internally. Also, communicating what ends up being a 'profit before cost' doesn't help external readers either.

One pragmatic way to measure our progress is to consider our like-for-like (i.e. excluding acquisitions) development of gross profit. In the last fiscal year, that figure declined by 3.2% This decline has been significantly more severe in the past and we believe we are getting close to the point where declines from litho print are offset by increases in our other product lines. We are determined to grow our gross profit consistently and I encourage you to measure our progress by how we drive gross profits in the future.

People at Grafenia & Priorities in the last year

This past year has been the year of getting processes right. Especially in finance, we increased our capabilities in areas such as reporting speed, debtor collection, planning and expense management. This is the boring part of the business, but it can make a team's life easy when these processes work well. Given that we are looking to grow the Group significantly - in part by acquisitions which always adds complexity - we had to get our finance foundation right before continuing to build. I'd like to express my thanks to all the people at Grafenia who were involved in the continuing improvement of our finance capabilities- your work will pay off!

In past letters, I wrote that there were three areas where my fellow non-executive director Conrad and I can impact the Grafenia organisation. Firstly, get governance right. Secondly, set the right incentives. Thirdly, make rational capital allocation decisions. The first we announced to be well on track last year. I still believe this to be true but encourage feedback from shareholders if they see ways where we can improve our governance. The second aspect, incentives, I'll discuss in the next paragraph, as this is a priority for the on-going fiscal year.

That leaves us with capital allocation - of which we had quite some news in the recent past! During the last 18 months prior to publishing of this report, we raised (or announced to raise) equity capital three times. We announced that we had raised £3.5m at 12p per share in April 2018, £1.1m at 13.5p per share in March 2019 and £4.01m at 14p share in July 2019. Why did we do this and how did we come up with valuation and amounts?

The core reason for raising capital has been that we see attractive capital deployment opportunities within our business. Some are truly arising from day-to-day business (including launching Nettl in the US, our new litho printing press remodelling, combining Image Group's production in Trafford Park and the like). Other opportunities arise when we bring in other businesses into the Group; our focus is on complementary sign businesses as Peter will explain later.

For each of these investments we prepare an investment case which sketches out the expected cash-flows under different scenarios. When deciding, we try not to lose ourselves in detail, but rather only pursue investments that are clearly attractive.

We've made great strides over the last year to improve our budgeting and forecasting. In fact, we now have a pretty decent idea of how many sign businesses we can sensibly buy, what steps we need to take in our existing business to improve performance and where that would bring us in terms of revenue and profitability. I'd like to reaffirm our guidance from the July 3rd trading update: our current business should be able to generate 10-15% EBITDA margins in the mid-term and we think we can continue to bring complementary sign businesses into the group at sub-5x EBIT multiples.

With the placing of £4.01m announced in July 2019, we should now have enough funds to add a few more regional sign hubs to our network. Peter will elaborate later on exactly how we plan to do this and why we think it's attractive.

In terms of valuation, we have tried to strike a sensible balance between offering an attractive investment to incoming shareholders, whilst not diluting existing shareholders. In the context of our base case forecast, we derived an implicit valuation of what Grafenia stock is worth if we achieve our plan. That value is significantly above where the stock has been trading and the valuations at which we raised funds seem to strike a balance between current trading and what we think the shares are worth.

I'd like to note that we received a mix of astonishment and confusion when we planned to raise new capital at a price above the prevailing trading level. Several observers found this to be very 'unusual', as most firms tend to raise new capital at a discount to trading. However, given the magnitude of our equity raises vs the existing share capital, this would have caused tremendous dilution to shareholders who didn't participate in the placings. This is frankly not the way we treat our shareholder partners - many who are employees, family of employees or local small investors - as most cannot pro-rata increase their shareholdings.

The entire team would like to thank all shareholders who have participated in our three placing rounds for their support of our funding strategy - even if it's slightly weirder than usual - we feel energised by the trust shareholders put in our work!

Apart from lots of work with numbers, we had some (quite literally) heavy-lifting to do in our business. Very notably was the complete overhaul of our production logic. We replaced three old printing presses with one new press and have been moving the operations of Image Group into our existing hub at Trafford Park. There were potential risks involved in the entire operation and multiple different timelines had to be managed in parallel. The mastermind and terrific manager of our production overhaul is John Prior, Grafenia's Production Director. I'd like to express my thanks to him this year. We put a lot of trust in his managerial skills during the last year and he truly delivered. Thanks again John and team!

Outlook and Current Priorities

Our clear priority for the ongoing fiscal year and beyond is to execute on the strategy that we have previously communicated. Over the past year, a lot of energy has gone into improving internal processes and it's exciting to now focus on getting things done.

I still owe you the "setting incentives" item on Conrad and my score card! It is important to remember, we do have several plans in place already. First and foremost, our SAYE scheme is taken up by 41% of the team. This plan makes shareholders out of employees and is structured in a tax-friendly way. Employees save a portion of their monthly salary which they can convert into shares after three years at a pre-set price. In past rounds, the subscription price was fixed at 7.8p and 11.5p per share. I'm pleased to know that some employee-owners of Grafenia have nice paper increases in their investment so far. Well deserved fruits for hard work indeed.

We have applied a similar logic to structure our new management incentive plan. The idea is to give team members the option to buy shares at the price of the last financing round (i.e. 14p) with their own money. Grafenia will then issue a number of options for each share purchased which will vest after a period of time and upon achieving key parts of the aforementioned business forecast. Indeed, if management meets or exceeds targets, a nice payoff is due. But if targets are missed, their hard-earned own money is at risk (like that of our shareholders). We think this is the way incentives should be structured and have received positive feedback when sounding this among key shareholders. Please review our AGM invitation for specifics of the plan and do get back to me if you have input or questions.

On a final note, I announce the sad news that my predecessor as Chairman, Les Wheatley, has recently passed after a long illness. Les has done great service to Grafenia and chaired the board for many years. Our thoughts are with his family.

I look forward to seeing you at the Annual General Meeting on 25 September 2019 at our Nettl of Birmingham Business Store.

Jan-Hendrik Mohr
Chairman

Strategic Report
Chief Executive's Statement

Dear Shareholders,

Say it, then do it
Writing this annual letter is a natural reflection point on what's gone well and what hasn't quite gone to plan.

We've made substantial progress in a number of important areas. Within our company studios segment this year we've opened new Nettl Business Stores and we've increased sales in our other company-owned stores. Our first Nettl franchisees are operating in the United States and we've grown our Nettl partner network in every country we operate. A modernisation programme is underway at our production hub and we've relocated and further integrated Image Group. We've also made a couple of small acquisitions and have an interesting future pipeline.

However, the print industry is dealing with the perfect storm. Most businesses are facing rising costs, shrinking volumes, falling demand and increased competition. Capacity is coming out from our sector, but not quickly enough. Every day we decrease our reliance on traditional print sales, but we need to move faster.

This year we've continued to execute the plan as we said we would. Along the way, we've made a few big decisions which I'd like to explain in more detail.

But first, it's worth taking a moment to recap on our strategy.

Build, buy, licence
Three words, each as important as the other.

We own five company stores. One is a 'first generation' Nettl web studio in Dublin. We have two second generation Business Stores in Birmingham and in Manchester and two Superstores in Liverpool and Exeter.

Stores sell websites, signage, print and display to local SMEs who need help with creative services. We use our company stores to figure out best practice and to test new things. They are also places we use to train new Nettl partners and team members.

On 2 December 2017 we acquired Nettl of Exeter, one of our top performing partners. Then on 5 July 2018, we acquired AG Signs which was located in an industrial estate in Honiton, near Exeter. In March 2019, we relocated both businesses to open our second Nettl Business Superstore near Exeter city centre. This 7,500sq.ft location was formerly a car dealership. Inside, we have display space, our studio team and three meeting rooms for hire. The sign manufacturing and installation team is based here and we have ample room for vehicle graphic application inside.

We made two further small acquisitions of Nettl partners this year, both of which rolled into our company stores: The client list of H & H Print Services Limited trading as Nettl of Liverpool Limited in Liverpool and Artichoke Design Limited, which was trading as Nettl of The Jewellery Quarter, in Birmingham.

Total sales in our company-owned stores grew **69%** this year to **£2.69m** (*2018: £1.59m)*. Like-for-like sales were up 8% when we exclude acquisitions in the period.

We closed a legacy store in central London after the year end. This store was loss making and, given its small footprint, no longer fitted the profile we look for in establishing Nettl Business Stores. As we've previously said, opening new small stores was unlikely. This former printing.com location has seen its rent nearly double in the last few years. As our lease came up for renewal, we made the difficult decision to terminate and offered the team roles in other locations. It's always regrettable when we have to say goodbye and we thank the team for their efforts.

In May 2019, also after the year-end, we opened "Nettl of Deansgate", a 7,000sq.ft Business pop-up Store in Manchester city centre. We have an opportunistic short-term lease on a prime retail location, which is earmarked for redevelopment in the not too distant future. Our existing Manchester hub-based Nettl team have relocated to Nettl of Deansgate until the redevelopment begins. As this is a temporary pop-up store, we've made minimal investment in fit-out. Instead we're using the space to present our exhibition range - in fact, it's the only place we have in the UK big enough to display our full range.

The mix of products we now sell through our Nettl company stores and partner network has continued to evolve. Sales of ink-on-fabric soft signage has kept growing and all our stores have now completed signage projects.

We've learnt from operating these stores ourselves. Our systems were originally designed to deliver print and then web projects, so we've had to extend our proprietary w3p back-office system to handle and invoice sign projects. There's still work needed to enable us to manage all aspects of sign manufacture in our process; from survey, quoting and installation. Some things are made in-store and some things they source centrally. Our central teams work to productise and systemise new products, so that they can be sold and shipped all over the country.

Buy more sign businesses
Despite our increase in size, we believe we are still too small to be a plc as we currently stand. As well as building our company stores organically, we have an acquisition strategy. This is centred around rolling up the signs sector. There are lots of reasons why we think this makes sound industrial logic, and these businesses are a natural extension of our product range. And we sell to the same kind of clients.

So far, we've acquired a couple of smaller sign businesses. With both, we've combined them with a Nettl studio team and relocated them to create new Nettl Business Superstores. That's likely to happen again. Other Nettl partners have expressed an interest in joining Grafenia, as we roll-out future Superstores. Their history and behaviour as licenced partners will be a helpful indicator as to whether they are a suitable match.

However, opening new Nettl Business Superstores is capital intensive. As we are currently loss-making, it would take some time to make a sufficient contribution to profitability with just the incremental acquisition and conversion of smaller businesses alone.

That's why we're looking at acquisition opportunities in two size brackets. We'll continue to look for suitable Superstore targets - those typically have up to 10 employees and revenues of up to £500k.

We're also looking at a second group of larger businesses. They tend to have up to 100 employees and revenues of £3m to £5m. These would act as regional hubs for our network.

After the year end, we raised **£4.01m** to support our execution of this strategy. We are prioritising acquisitions of businesses in the second group. Once these are in place, we should be able to acquire smaller businesses and convert them to Nettl Business Superstores from cash-flow.

There are 50 towns and cities we've identified as potential targets for a Nettl Business Store or Superstore and have an abundance of sign businesses for sale. However, we are selective about which businesses to approach. Finding businesses with a cultural fit and a team with the desire to rebrand as a Nettl Business Superstore is our priority.

Signs and display graphics are a logical extension to the range of products both our company-owned and partner-operated stores sell. However, there's often a gap in knowledge and sales competence levels that can lead to a lack of confidence, both of which are an obstacle to sales.

We aim to help clients choose the right product, within their budget and without confusing them with jargon. We've developed marketing tools, like our "Wall of Wonder" and companion buying guide. It helps explain the options, with easy-to-follow price brackets. As we launch new products, it's important we develop design templates, technical documentation and marketing collateral to support them.

In July 2017 we acquired Image Group ("Image"). They had sales of over £5m and at the time, we believed they would act as our national sign hub. Since the acquisition, we've rolled out a range of printed vinyl and rigid substrate products, which we sell through our company stores and licenced Nettl and printing.com partner network. Some items, like our giant deckchair, are hybrid products, with components made by the Image team and finished by our fabric printing team. These have been popular at events and venues who want to create "Instagrammable moments". These 'products' can be shipped by overnight carrier and flow through our supply chain just like flyers and business cards.

However, we've still yet to crack the conundrum of national manufacture and installation. Whilst we've won some national project work, we've found that the distance from manufacture to installation directly affects competitiveness and/or profitability.

We believe that regional hubs are part of the answer. We call them 'Nettl Works'.

When the first Nettl Business Superstore opened in Liverpool, we just relocated all the manufacturing equipment ADD Signs, which we purchased in 2018, was using. In Exeter, AG Signs, acquired this year, was subcontracting more manufacturing and so our Superstore has less equipment. Instead there's more meeting and display space.

We believe we need five Nettl Works in the UK to get sufficient geographic coverage. These hubs will manufacture sign projects, leaving Superstores to focus on sales, design and installation and printing of fast turnaround graphics.

Unlike a Superstore, these hubs will retain their existing identity and continue to service their client base. We plan to implement our supply chain software and co-brand them as 'Nettl Works'. Image will be the first Nettl Works.

A licence to Nettl
The Nettl business model is licenced to third parties. Designers, printers and sign businesses can access our training, systems and marketing to sell websites, printing and displays to their own clients. We grant them an exclusive territory, in exchange for a licence fee of up to £2,999. We call them "Brand Partners" and they pay a monthly subscription of typically £399. They contract for a minimum of three to five years.

Partners also have access to our supply chain and can buy print and display at wholesale prices. They use w3p, our proprietary platform to manage client relationships, print orders and web projects. This year we've overhauled big parts of the interface, to simplify common tasks. We developed a Kanban card-based, drag 'n' drop dashboard to re-imagine how partners juggle lots of jobs in their studios. We also rolled out a new visual production workflow, optimised for touch interface on tablets, to help manage their in-house production

Our Nettl partner network has grown to **228** locations around the world *(2018: 192).* At the date of our last trading update, we had 173 active Nettl partners in the UK and Ireland, 27 in Benelux, 13 in France, eight in the USA, four in New Zealand and three in Australia. During the year, we also added 44 new printing.com partners and currently have **85** printing.com locations *(2018: 108)*. Our total subscription and licence fee income grew to approximately **£1.98m** for the year ended 31 March 2019 *(2018: £1.77m).*

Sales of print and products to Brand Partners was **£3.58m** *(2018: £3.87m).* There's a couple of points to note here. Firstly, the product mix has changed. We sold more ink on fabric, displays and signs than last year, but less litho print.

To address this, we've introduced Personal Shopper. Whilst the vast majority of orders are placed by our partners without speaking to a human, they often need help with more complex projects. Our product range has grown and with it, a corresponding increase in product knowledge is required. Personal Shopper routes queries to appropriate specialists, who can assist with product selection or setting up projects correctly. As a result, we're winning higher value orders which, previously, partners might have lacked confidence to sell.

Despite rising input costs, wholesale prices have continued to fall. There's always someone willing to fill some spare capacity at a discount. As we publish transparent pricing, competitors might try to tempt people to stray with a few pounds knocked off. Personal Shopper will price match genuine competitor quotes on a like-for-like service. While we will never be a price leader, we will match aggressive discounting, providing there is gross margin available. So far, we've matched hundreds of quotes and have found this particularly successful with multi-part orders, purchased as a group.

Last year we introduced a new Search Engine Optimisation ("SEO") service for clients. Designing and launching a website is one thing. Getting it found on Google is quite another. SEO is a process which helps to improve a website's ranking. The higher up the results list, the more likely someone is to click. As you can imagine, there's a lot of competition to be on the first page. Getting there requires skill, technical knowledge and ongoing commitment and investment.

Our programme trains our studio teams and Nettl partners how to sell SEO, and then manage client relationships. Partners use our system to set objectives. Clients subscribe for a minimum of six months and packages range from £100 per month to £1,000+. Then our central "SEO Geeks", do the technical work. So far, we've trained over 100 people how to sell SEO and certified over 50 partners. We think revenue from SEO subscriptions will grow next year as we continue to train more of our Nettl partners.

We expect to add more Nettl partners this year and anticipate more printing.com locations will upgrade to Nettl, like many did in the current year.

The home of the brave
We launched Nettl of America on 7 March 2019. To comply with federal and state laws, we positioned Nettl as a co-brand franchise model. The compliance and registration process is now complete and we are able to grant franchises in 37 of the 50 US states. We anticipated there would be a longer gestation period to acquire franchise partners, partly down to local laws requiring cooling off periods and the disclosure processes. This has turned out to be the case. However, we are delighted to have granted nine franchises so far, in the states of Florida, Ohio and Georgia. We expect to grant more in the coming months.

Clearly, the United States is a major market. When we research launching Nettl into a new country, we estimate the number of potential locations, relative to the density of the SME population. Using that rule of thumb, we believe the US could support between 1,500 and 2,000 Nettl locations. When we launch, much of the cost is front-loaded. Although we evaluate the project as if it were an investment, we expense the costs as we incur them. This adversely affects our earnings and inflates our short-term overheads, but we are confident the future upside is worth the management time, opportunity cost and effort.

Sunsetting of white label platforms
As part of our licencing income strategy, we have during the last decade, entered long-term agreements to master licence our w3p software platform as 'white label' in other countries. This year, three out of four of those agreements came to the end of their term, including one terminated prematurely as result of insolvency. We don't anticipate that we'll licence our software this way in future. Instead, we'll always welcome approaches from potential partners who'd like to master licence Nettl in their country. Where possible we have migrated legacy white label end users to become Nettl partners.

Online and trade channels
Product sales on our online and trade channels were **£2.87m** *(2018: £3.39m)*. Although volumes dropped, so did our overheads, as we redeployed people and resource to support our brand partner network. We continue to test new initiatives on these channels. After the year end, Marqestpace.com became the world's first online printer to offer "Pay later" credit facilities powered by challenger bank, Klarna. This allows clients to apply for 30 or 60 days interest free credit, with an instant decision during checkout. Klarna undertakes collection and takes credit risk. We plan to roll this out across our channels.

Why buy a new printing press?
As I mentioned, our litho volumes have been declining over time. Most research forecasts litho print will continue to decline. So why would we invest over £2m in a new press? Last year we began a substantial evaluation exercise. We looked at outsourcing our litho print function, in whole or in part. Finding a reliable local source, with sufficient capacity and ability to meet our service level requirements proved challenging. Since our review, two of the three of the final shortlisted candidates have closed their plants.

As run lengths have got shorter, the key drivers are how long it takes to change from one batch to another and how many sheets of paper are wasted while the machine gets to 'sellable' print. During this evaluation, it became clear quite how much technology has advanced since we last invested in presses. We found that we'd be able to produce the same amount of work on a single press, with half the press labour and power and reductions in consumable costs.

So as previously announced, we made the decision to replace three ageing presses with a single new high-specification machine. More importantly, it has released space in our Manchester production hub. Since the year end, we've installed a new mezzanine floor and have combined Image's main factory with our hub. As well as operational efficiencies, this combined hub will result in savings on rent, rates and other occupation costs like power. Our analysis indicated that a new press would be cash generative in the year two and we believed the investment was the right decision. We are forecasting that sales of litho print will continue to decline and we will experience further margin pressure. However, we are expecting further growth in the sales of signage, display and ink-on-fabric digital textiles, all of which have grown this year.

Outlook
As a result of these changes to our cost base, we estimate we will be breakeven on a monthly EBITDA run rate during the current financial year. As Jan said, we are targeting an EBITDA margin of 10-15% in the medium term, although we make decisions for the long-term sustainability of the business, rather than short-term performance.

Meet you in Birmingham?
We'd like to invite you to our AGM. Last year, we had some shareholders want to attend but couldn't because it was in holiday season. So we've decided to move the AGM to a time when everyone is 'back to school'. We like to hold the AGM in a different location each year, so our shareholders can see different parts of the business. This year it will be at our Nettl of Birmingham Business Store, a short stroll from Birmingham Central New Street Station.

As with last year, once the formalities are over, we'll share some more insights about our plans. Different members of our team will talk about different topics and be around to answer questions over a nibble.

Until then,

Peter Gunning
Chief Executive

Strategic Report
Financial Review

Revenue
The year under review showed growth in revenue and gross profit, partly through the acquisition of Image Group which now includes a full year of revenue and increases in Subscriptions and Licence Fees. Group Revenues increased by **9%** to **£15.96m** *(2018: £14.63m)*. Revenues from the Eurozone were 3% of the total *(2018: 3%)* as disclosed in the Segmental Analysis in note 3. However, overall our losses increased for a number of reasons mentioned below.

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 **2.5%** to **£8.55m** *(2018: £8.34m)*.

There has been a continued decline in traditional print volumes. Most of our raw materials are sourced in the UK but originate from Europe. Our biggest material cost is paper.

Despite increasing pressure on our costs, we have continued to find it difficult to increase print prices. Competition remains fierce, as evidenced by recent insolvencies in the market and market prices falling further during the year. As a result, our gross margin percentage decreased from 57% to **54%.** This change is also partly due to the acquisition of sign businesses last year and this year, which have different margin characteristics to our traditional business.

Other costs

We continue to invest in acquiring brand partners in the UK and Nettl in the Netherlands and more recently in the US. All of these costs are front-loaded and we incur them before we see a return through subscription income. Staff costs increased significantly with new business coming on stream last year and during the year. Staff costs increased in the year to **£6.08m** *(2017: £4.56m)*.

EBITDA

The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation, to **(£1.11m)** *(2018: profit £0.751m)*. EBITDA represents an indicator of the Group's potential to generate cash. The EBITDA loss represents the continued price pressures experienced in the business.

Interest Received and Charged

Interest received in the year was **£7,000** (*2018: £1,000*). Interest charges increased to **£0.19m** *(2018: £0.14m)* from lease agreements, interest due on vendor loan notes and the utilisation of the invoice discounting facility**.**

Pre-Tax Loss

The Group recorded a pre-tax loss of **£3.17m** *(2017: £1.24m).* The depreciation and amortisation charge for the year was **£1.87m** *(2018: £1.87m)*.

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 **£0.34m** *(2018: £0.3m)*.

Earnings Per Share (EPS)

There is no dilution of continuing loss per share (EPS) in either year **3.79p** *(2018: 2.07p)*, based on a weighted average number of shares in issue of **74,504,359** *(2017: 45,638,192)*.

Cash Flow

At the year end the Group had cash balances of **£1.35m** *(2018: £0.17m)*. Net Debt was **£3.12m** with **£2.59m** of asset finance, **£0.81m** of vendor loan notes and deferred consideration, and **£0.28m** of net funds *(Net borrowings 2018: £0.93m)*. Operational cash utilised after movements in working capital was **(£0.96m)** *(2018: generated £1.23m)*.

Capital Expenditure

Capital investment on plant and equipment, excluding acquisitions, was **£2.46m** *(2018: £1.09m)* financed in the main by new finance leases. This included the investment in the new printing press, as discussed in the Chief Executive's statement, of £2.01m. This will enable the Group to reduce operating costs. 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 **£0.74m** *(2018: £0.85m)*.

Share Capital

On 3 May 2018 the company completed a fundraise of approximately £3.5 million before expenses through a placing of 29,258,331 new ordinary shares of 1 pence each at an issue price of 12 pence per share.

On 29 March 2019 the company raised approximately £1.1 million, before expenses, by way of a subscription for 7,868,517 new ordinary shares of 1 pence each at an issue price of 13.5 pence per share from existing investors.

Acquisitions

During the year the Group also spent £0.15m on the acquisitions of AG Sign and Print Limited and Artichoke Design Limited *(2018: £1.15m initial consideration on Image Group acquisition)*. The Group also acquired the clients list of H&H Print Services Limited trading as Nettl of Liverpool for non-cash consideration of £0.04m.

Also, the Group amended the purchase price of Image Group during the year. An Earn-out agreement totalling £0.6m was part of the acquisition agreement for of Image Group when acquired in July 2017. On 26 September 2018 it was agreed with the vendors of Image Group that the potential earn-out be replaced with a fixed additional deferred consideration of £0.55m, payable in cash. This deferred consideration will be paid in 12 monthly instalments commencing 30 September 2019. Under the original terms of the acquisition, the earn-out was to be fully paid by September 2019. The agreement delayed the full payment of the lower amount over the period to 31 August 2020 which is the final instalment date of the Deferred Consideration.

It was 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 by £0.19m.

Following the variation of the terms of the acquisition the total consideration for Image is expected to be £2.76m, 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).

Post Balance Sheet Events

On 1 April 2019 the business of ADD Signs Limited was hived up into Grafenia Operations Limited.

On 2 July 2019, agreement was reached in respect of a further variation to the terms of its acquisition of Image Everything Limited ("Image"). This variation relates to Neil Cousins, one of the vendors of Image, who will step down as an executive of the Group on 30 August 2019.

Mr Cousins has entered a new consultancy agreement, together with a Nettl partner licence agreement. Under the consultancy agreement, he will continue to provide services to the Group for a minimum of 12 months. He will forgo his pro rata share of the £0.55m Deferred Consideration due to the vendors of Image, being £0.22m.

On 24 July 2019 the Group announced that it had conditionally raised approximately £4.01m before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each at an issue price of 14 pence per share. The placing was approved at the General Meeting on 12 August 2019.

Future developments

The future developments of the business are included in the Chairman's statement and the Chief Executive's statement.

Brexit

The Group has reviewed its operations as a result of the UK's referendum to leave the European Union ("Brexit"). Whilst it is impossible to forecast what will happen, it is not expected to have a material impact on the operations or financial results of the Group. The Group will endeavour to pass on any additional cost to customers. Strategic suppliers, particularly paper, are ensuring that supply is not interrupted and as we get closer to 31 October 2019 the Group will consider what levels of stock to hold. It is recognised that depending on the specific exit arrangements that are agreed and how these are implemented, there could be an impact on exchange rates, however this is not expected to impact significantly on the Group as the majority of revenue is in sterling.

Principal Risks and Uncertainties

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

- uncertainty in the general economic environment, including Brexit, that may impact upon revenues and profitability;
- markets in which the Group operates 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.

Simon Barrell
Interim Finance Director

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	2019	2018
Continuing Operations		**£000**	£000
Revenue	*3*	**15,962**	14,630
Raw materials and consumables used		**(7,417)**	(6,293)
Gross profit		**8,545**	8,337
Staff costs		**(6,077)**	(4,577)
Other operating charges		**(3,533)**	(2,989)
Share based payments		**(47)**	-
Earnings before interest, tax, depreciation and amortisation		**(1,112)**	771
Depreciation and amortisation		**(1,875)**	(1,874)
Operating loss		**(2,987)**	(1,103)
Financial income		**7**	1
Financial expenses	*4*	**(186)**	(138)
Net financing expense		**(179)**	(137)
Loss before tax		**(3,166)**	(1,240)
Tax income	*5*	**343**	294
Loss for the year		**(2,823)**	(946)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(2,823)**	**(946)**
Loss per share attributable to the ordinary equity shareholders of Grafenia plc			
Basic and diluted, pence per share	*6*	**(3.79)p**	(2.07)p

Consolidated Statement of Financial Position

At 31 March 2019

	Note	**Group 2019**	Group 2018
		£000	£000
Non-current assets			
Property, plant and equipment	*7*	**4,060**	2,076
Intangible assets	*8*	**4,371**	4,808
Investments in subsidiaries	*8*	**-**	-
Deferred tax assets		**10**	-
Total non-current assets		**8,441**	6,884
Current assets			
Inventories	*9*	**455**	450
Trade receivables	*10*	**2,573**	2,765
Other receivables	*10*	**154**	48
Prepayments		**548**	482
Current tax receivable		**281**	111
Cash and cash equivalents	*11*	**1,354**	171
Total current assets		**5,365**	4,027
Total assets		**13,806**	10,911
Current liabilities			
Other interest-bearing loans and borrowings	*13*	**1,695**	2,009
Deferred consideration	*13*	**366**	-
Trade payables	*12*	**1,488**	1,437
Other payables and accruals	*12*	**1,344**	1,207
Deferred income	*12*	**256**	280
Total current liabilities		**5,149**	4,933
Non-current liabilities			
Other interest-bearing loans and borrowings	*13*	**2,180**	1,055
Deferred consideration	*13*	**229**	358
Deferred income	*12*	**36**	-
Deferred tax liabilities		**576**	580
Total non-current liabilities		**3,021**	1,993
Total liabilities		**8,170**	6,926
Net assets		**5,636**	3,985

Equity attributable to equity holders of the parent

	Note		
Share capital	*14*	**847**	475
Merger reserve		**838**	838
Share premium	*15*	**4,125**	-
Share based payment reserve		**47**	-
Retained earnings		**(221)**	2,672
Total equity		**5,636**	3,985

Consolidated Statement of Changes in Shareholders' Equity

Group - year ended 31 March 2018	**Share Capital**	**Merger reserve**	**Treasury Shares**	**Share Premium**	**Share Based Payment reserve**	**Retained Earnings**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2017	475	838	(261)	-	-	3,561	4,613
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
Group - year ended 31 March 2019							
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(2,823)**	**(2,823)**
Shares issued in the period	**372**	**-**	**-**	**4,202**	**-**	**-**	**4,574**
Costs associated with share issue	**-**	**-**	**-**	**(77)**	**-**	**-**	**(77)**
Share option reserve	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Exchange differences	**-**	**-**	**-**	**-**	**-**	**(70)**	**(70)**
Total movement in equity	**372**	**-**	**-**	**4,125**	**47**	**(2,893)**	**1,651**
Balance at 31 March 2019	**847**	**838**	**-**	**4,125**	**47**	**(221)**	**5,636**

Consolidated Statement of Cash Flows

for year ended 31 March 2019

	Note	**Group 2019**	Group 2018
		£000	£000
Cash flows from operating activities			
Loss for the year		**(2,823)**	(946)
Adjustments for:			
Depreciation, amortisation and impairment		**1,876**	1,874
Profit on sale of plant and equipment		**(105)**	-
Release of deferred profit on sale of plant and equipment		**(218)**	(102)
Share based payments		**47**	-
Net finance expense		**179**	137
Foreign exchange loss		**(70)**	-
Tax income		**(343)**	(294)
Operating cash flow before changes in working capital and provisions		**(1,457)**	669
Change in trade and other receivables		**(154)**	(882)
Change in inventories		**439**	(81)
Change in trade and other payables		**214**	1,528
Cash (utilised by)/generated from Operations		**(958)**	1,234
Interest paid		**(179)**	(138)
Income tax received /(paid)		**97**	(3)
Net cash (outflow)/ inflow from operating activities		**(1,040)**	1,093
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**265**	900
Acquisition of plant and equipment		**(480)**	(1,136)
Capitalised development expenditure	*8*	**(375)**	(424)
Acquisition of other intangible assets	*8*	**(325)**	(430)
Acquisition of Subsidiary net of cash (group)		**(134)**	(1,000)
Overdraft purchased on acquisition		**-**	(38)
Net cash used in investing activities		**(1,049)**	(2,128)
Cash flows from financing activities			
Funding from invoice finance		**(1)**	1,098
Payment of loan notes		**(634)**	(258)
Sale of own shares		**-**	246
Payment of finance leases		**(561)**	(404)
Payment of deferred consideration		**(29)**	-
Issue of shares (net of costs)		**4,497**	-
Net cash generated from financing activities		**3,272**	682
Net increase/(decrease) in cash and cash equivalents		**1,183**	(353)
Cash and cash equivalents at start of year		**171**	524
Cash and cash equivalents at 31 March 2019	*11*	**1,354**	171

Notes to the preliminary statement

1. Basis of preparation

Grafenia plc (the "Company") is a public limited company incorporated and domiciled in the UK. The company's registered office is Third Avenue, The Village, Trafford Park, Manchester M17 1FG.

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 2018 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 27 August 2019.

Adoption of new and revised International Financial Reporting Standards

The new standards, interpretations and amendments have not had a material effect on the financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue Recognition

IFRS 9 Financial Instruments

The Group has adopted the new IFRS 9 standard on 1 April 2018. The adoption of IFRS 9 has had no impact on the financial statements and the prior year has not been restated. The standard looks at how an entity should classify and measure financial assets, financial liabilities, and contracts to buy or sell non-financial items.

The Group has reviewed its classification and measurement of financial assets and liabilities as from the implementation of IFRS 9 and considered the effects of transitioning to the new standard. The classification of financial assets and liabilities has changed however, they are still carried at amortised cost and there has been no impact on the result for the current or prior year.

Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model, The Group continues to trade with the similar customers in the same market sectors and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables. The implementation of IFRS 9 has therefore not resulted in a change to the impairment provision in the current or prior year.

Intercompany debtors represent financial assets and are also considered for impairment on an expected credit loss model, the implementation of IFRS 9 on intercompany debtors has resulted in an impairment provision in the current year, but no impairment in the prior year.

IFRS 15 Revenue recognition

The Group has adopted the new revenue recognition standard, IFRS 15, from 1 April 2018. The standard looks at the timing of revenue recognition on contracts with customers. The new standard has had no impact on the Group result in 2019 as the revenue was previously recognised when the risk and rewards of the product or service were transferred to the customer. Assessing the performance obligations of customer contracts for the sale of products and services the Group has assessed that control passes to the customers at the same time the risk and rewards transfer under IAS 18, and thus there is no change in the revenue recognition for the Group. The Group considered this for all outstanding obligations in respect of the transition to IFRS 15 at 31 March 2019 and found that there was no transition impact of the adoption of the standard.

The amendments and interpretations to published standards that have an effective date on or after 1 January 2019 or later periods have not been adopted early by the Group.

IFRS 16 Leases

IFRS 16 will become effective for accounting periods commencing on 1 January 2019. The Group has undertaken an evaluation of the potential impact of IFRS 16 in respect of leases. IFRS 16 requires the Group to account for the lease liability of the asset and the right of use asset at cost. This will mainly affect the treatment of operating leases which were previously recorded as an annual cost to the Group. The Group has determined to use the cumulative catch up approach for the valuation of leases, rather than the full transition method due to the current leases held.

The Group currently leases land and building and motor vehicles that has been historically recorded as operating leases. These leases have been assessed under IFRS and there will be a material effect on the financial statements as follows:

	As per financial statements at 31 March 2019	Adjusted for IFRS 16 at 31 March 2019
	£000	£000
EBITDA	(1,112)	(590)
Loss before tax	(3,166)	(3,228)
Property Plant and equipment	4,060	6,732
Net Debt	(3,116)	(5,753)

2 Acquisitions of subsidiaries

Acquisitions in the current period

On the 30 September 2018, the company acquired all of the ordinary shares of AG Signs and Print Limited for an initial consideration of £0.102m, satisfied in cash and £0.45m in vendor loan notes repayable over 12 months. The company is a leading signage business. On 1 October 2019 the company was hived up into Grafenia Operations Limited as part of the new Exeter superstore.

In the six months of ownership the subsidiary contributed sales of £0.39m. If the acquisition had occurred on the 1st April 2018 Group revenue would have increased by £0.51m and generated an estimated net profit of £0.05m.

On the 25 March 2019, the company acquired all of the ordinary shares of Artichoke Design Limited Print for a consideration of £0.053m, satisfied in cash and £0.027m vendor loan notes repayable over 12 months. The company is a leading design business and was hived up into Grafenia Operations Limited on the date of acquisition and now operates as part of our existing Birmingham business store.

The period of less than one week is immaterial to the period, however we expect the full year sales to contribute circa £0.1m sales and an estimated net profit of £0.02m in future years.

On 1 September 2019 Grafenia Operations Limited acquired the client list of H&H Print Service Limited trading as Nettl of Liverpool in exchange for the debt owed to the business of £0.043m.

These acquisitions further complement our strategy of rolling up signage businesses alongside our existing print businesses. 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 accounting period.

Effect of acquisitions

The acquisitions 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	**-**	**196**	**196**
Inventories	**22**	**-**	**22**
Trade and other receivables	**76**	**-**	**76**
Cash and cash equivalents	**20**	**-**	**20**
Interest-bearing loans and borrowings	**(23)**	**-**	**(23)**
Trade and other payables	**(99)**	**-**	**(99)**
Deferred Tax	**-**	**(29)**	**(29)**
Net identifiable assets and liabilities	**43**	**167**	**210**
Goodwill			**60**
Consideration paid:			
Initial cash price paid			**155**
Non cash consideration			**43**
Deferred consideration at fair value			**72**
Total consideration			**270**

Intangibles acquired include the Customer Base and Brand Recognition arising on the acquisition and recognising the value placed upon acquired customer revenues, those Intangibles result in a Deferred Tax charge.

3 Revenue and Segmental information

The Group's operating and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service includes 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 Board, which 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**
Year ended 31 March 2019				
Segment revenues	**15,163**	**447**	**352**	**15,962**
Year ended 31 March 2018				
Segment revenues	13,791	489	350	14,630

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 6% of its revenue.

DISAGGREGATION OF REVENUE

The disaggregation of revenue from contracts with customers is as follows:

	Licence Fees	Company Studios	Brand Partner Print	Signs	Online & Trade	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Year ended 31 March 2019	**1,975**	**2,629**	**3,577**	**4,910**	**2,871**	**15,962**
Year ended 31 March 2018	1,773	1,594	3,870	4,000	3,393	14,630

Of the Group's non-current assets (excluding deferred tax) of £8,276,000, £8,242,000 are located in the UK. Non-current assets located outside the UK are in France £7,000 (*2018: £8,000*) and the Republic of Ireland £33,000 (*2018: £40,000*).

4 Finance income and expense

Finance expense

	2019	2018
	£000	£000
Lease interest	**139**	88
Invoice finance	**24**	17
Loan note interest	**23**	32
Interest payable	**186**	137

5 Taxation

Recognised in the income statement	**2019**	2018
	£000	£000
Current tax expense		
Current year	**(201)**	-
Foreign tax	**6**	8
Adjustments for prior years	**(86)**	(40)
	(281)	(32)
Deferred tax expense		
Origination and reversal of temporary differences (see note 8)	**(213)**	(264)
Adjustment in respect of prior year	**151**	2
Total tax in income statement	**(343)**	(294)

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2018: lower)* than the standard rate of corporation tax in the UK of 18% *(2018: 20%)*. The differences are explained below:

	2019	2018
	£000	£000
Loss for the period	**(3,166)**	(1,240)
Tax using the UK corporation tax rate of 18% (*2018:20%*)	**(570)**	(247)
Effects of:		
Permanent differences	**-**	75
Other tax adjustments, reliefs and transfers	**3**	(6)
Adjustments in respect of prior periods - current tax	**(87)**	(40)
Adjustments in respect of prior periods - deferred tax	**151**	2
Deferred tax not recognised	**174**	-
Withholding tax	**7**	8
Research and Development losses surrendered	**54**	-
Research and Development super deduction	**(128)**	(117)
Movement due to the change in the tax rate	**53**	31
Total tax credit	**(343)**	(294)

The Group tax debtor amounts to £253,000 *(2018 Debtor: £111,000)*. 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 18% from 1 April 2020.

6 Earnings per share

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

	2019	2018
	£000	£000
Loss after taxation for the financial year from continuing operations	**(2,823)**	(946)

	Number of Shares	Number of Shares
For basic earnings per ordinary share	**74,504,359**	45,638,192
Exercise of share options	**-**	-

For diluted earnings per ordinary share	**74,504,359**	45,638,192
Basic loss and diluted, pence per share	**(3.79)p**	**(2.07)p**

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.

The holders of deferred shares shall not be entitled to any participation in the profits or the assets of the Company and the deferred shares do not carry any voting rights.

7 Property, plant and equipment

	Land and buildings	**Plant and equipment**	**Assets held for resale**	**Motor Vehicles**	**Fixtures and Fittings**	**Total**
	£000	**£000**		**£000**	**£000**	**£000**
Cost						
Balance at 31 March 2017	576	6,801	-	86	853	8,316
Additions	-	27	-	-	209	236
Acquisition of subsidiary	-	282	-	2	40	324
Revaluation of sale and leaseback assets in the year	-	(3,412)	-	-	-	(3,412)
Balance at 31 March 2018	576	3,698	-	88	1,102	5,464
Balance at 31 March 2018	576	3,698	-	88	1,102	5,464
Additions	-	2,261	-	-	206	2,467
Acquisition of subsidiary	-	54	-	24	16	94
Revaluation of sale and leaseback assets in the year	-	(150)	-	-	-	(150)
Disposals	-	(230)	-	(29)	-	(259)
Transfer asset to held for resale	-	(250)	250	-	-	-
Revaluation of assets held for resale	-	-	15	-	-	15
Balance at 31 March 2019	**576**	**5,383**	**265**	**83**	**1,324**	**7,631**
Depreciation and impairment						
Balance at 31 March 2017	573	5,860	-	65	485	6,983
Depreciation charge for the year	1	206	-	10	171	388
Acquisition of subsidiary	-	-	-	-	-	-
Revaluation of sale and leaseback assets in the year	-	(3,983)	-	-	-	(3,983)
Balance at 31 March 2018	574	2,083	-	75	656	3,388
Balance 31 March 2018	574	2,083	-	75	656	3,388
Depreciation charge for the year	2	327	-	12	142	483
Acquisition of subsidiary	-	29	-	6	12	47
Revaluation of sale and leaseback assets in the year	-	(163)	-	-	-	(163)
Disposals	-	(75)	-	(24)	-	(99)
Transfer asset to held for resale	-	(85)	85	-	-	-
Revaluation of assets held for resale	-	-	(85)	-	-	(85)
Balance at 31 March 2019	**576**	**2,116**	**-**	**69**	**810**	**3,571**
Net book value						
At 31 March 2017	3	941	-	21	368	1,333
At 31 March 2018	2	1,615	-	13	446	2,076
At 31 March 2019	**-**	**3,267**	**265**	**14**	**514**	**4,060**

Leased plant, machinery and fixture & fittings

At 31 March 2019, the Group had leased assets with a carrying value of £2,589,000 *(2018: £1,272,000)*.

8 Intangible assets and investments

Research and development costs

	Domains & Brand	**Software**	**Development costs**	**Customer Lists**	**Goodwill**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost							
Balance at 31 March 2017	356	3,340	2,890	279	62	154	7,081
Additions - internally developed	-	-	424	-	-	-	424
Additions - purchased	-	307	-	120	-	3	430
Acquisitions of subsidiary	549	-	-	2,570	16	-	3,135
Balance at 31 March 2018	905	3,647	3,314	2,969	78	157	11,070
Balance at 31 March 2018	905	3,647	3,314	2,969	78	157	11,070
Additions	-	-	-	-	3	-	3
Additions - internally developed	-	-	372	-	-	-	372
Additions - purchased	7	318	-	43	-	-	368
Acquisition of subsidiary	-	-	-	153	60	-	213
Balance at 31 March 2019	**912**	**3,965**	**3,686**	**3,165**	**141**	**157**	**12,026**
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
Balance at 31 March 2018	321	3,097	2,283	447	12	102	6,262
Amortisation for the year	45	396	589	357	-	6	1,393
Balance at 31 March 2019	**366**	**3,493**	**2,872**	**804**	**12**	**108**	**7,655**

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
At 31 March 2019	**546**	**472**	**814**	**2,361**	**129**	**49**	**4,371**

Impairment testing

Goodwill
The recoverable amount of goodwill is determined from value in use calculations.

The Group prepares cash flow forecasts derived from budgets and two-year business plans. For the purposes of impairment testing inflationary growth of 3% is assumed beyond this period. The sales growth relates to all key revenue streams of the business.

Rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites.

A pre-tax discount factor of 12.5% *(2018: 12.5%)* was applied.

If the growth rate were not achieved and was reduced 1% and the discount factor was increased to 15% there would be no impairment in the carrying value

Amortisation and impairment charge

The amortisation charge of £1,393,000 (*2018: £1,486,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil (*2018: £nil)* was recognised during the year.

9 Inventory

	Group		**Company**	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Raw Materials	**452**	429	-	-
Work in progress	**3**	21	-	-
	455	450	-	-

10 Trade and other receivables

Other receivables due from subsidiary companies do not have fixed repayment terms.

At 31 March 2019 trade receivables are shown net of an impairment allowance of £412,000 (*2018: £339,000)*.

Trade and other receivables denominated in currencies other than sterling comprise £149,000 *(2018: £133,000)* of trade receivables.

	Group	
	2019	2018
	£000	£000
Trade receivables	**2,985**	3,104
Less provision for trade receivables	**(412)**	(339)
Trade receivables net	**2,573**	2,765
Total financial assets other than cash and cash equivalents classified at amortised cost	**2,573**	2,765
Corporation tax	**281**	111
Other taxes	**154**	-
Other receivables	**-**	48
Total Other receivables	**435**	159
Total trade and other receivables	**3,008**	2,924

The carrying value of trade and other receivables classified at amortised cost approximates fair value

	Under 6 months	Over 6 months	Total
	£000	£000	£000
Gross carrying amount	2,242	743	2,985
Loss provision	(112)	(300)	(412)
Net carrying amount	**2,130**	**443**	**2,573**

Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model. The Group continues to trade with the same customers and in the same market place and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables. The implementation of IFRS 9 has therefore not resulted in a change to the impairment provision in the current or prior year.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on factors affecting the Group's customers including the area of operations of those debtors and the market for the Group's products. The assessment of the expected credit risk for the year has not increased, when looking at the factors affecting the risk noted above.

Movements in the impairment allowance for trade receivables are as follows:

Impairment

Group	**As at 31 March 2019 £000**	As at 31 March 2018 £000
Balance at 31 March 2018 under IAS 39	**339**	414
Restated through opening reserves	**-**	-
Receivable written off during the year as uncollectible	**(136)**	(107)
Increase in impairment allowance	**209**	32
Balance at 31 March 2019	**412**	**339**

Of the total impairment provision £110,000 *(2018: £136,000)* relates to Partners that have ceased trading.

There is no material difference between the net book value and the fair values of trade and other receivables due to their short-term nature.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

Of the net trade receivables £1,075,000 (2018: £1,076,000) was pledged as security for the invoice discounting facility. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the

debts sold within trade receivables until the debtors repay or default. Since the trade receivables continue to be recognised, the business model of the Group is not affected. The proceeds from transferring the debts of are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

11 Cash and cash equivalents

	Group	
	2019	2018
	£000	£000
Cash and cash equivalents	**1,354**	171

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash in transit and other short term highly liquid investments. All cash is held in Sterling other than Euro of £52,000 (2018: £78,000).

12 Trade and other payables

	Group	
Current Liabilities	**2019**	2018
	£000	£000
Trade payables	**1,488**	1,437
Accruals	**925**	703
Other liabilities	**419**	504
Total financial liabilities, excluding 'non-current' loans and borrowings classified as financial liabilities measured at amortised cost	**2,832**	2,644
Deferred income	**256**	280
Total trade and other payables	**3,088**	2,924

	Group	
Non-current Liabilities	**2019**	2018
	£000	£000
Deferred income	**36**	-
Total non-current liabilities	**36**	-

Other trade payables denominated in currencies other than Sterling comprise £42,000 (2018: £67,000) denominated in Euro**.**

The invoice discounting arrangement is secured upon the trade debtors to which the arrangement relates see note 10.

There is no material difference between the net book value and the fair values of current trade and other payables due to their short-term nature.

13 Borrowings

	Group	
Current Liabilities	**2019**	**2018**
	£000	**£000**
Invoice Financing	**1,075**	1,076
Finance Lease	**409**	333
Vendor Loan Notes	**211**	600
	1,695	2,009
Deferred consideration	**366**	-
Non-Current Liabilities		
Finance Lease	**2,180**	810
Vendor Loan Notes	**-**	245
	2,180	1,055
Deferred consideration	**229**	358

14 Share capital

Share capital

	Ordinary shares	
In thousands of shares	**2019**	2018
In issue at 31 March 2018	**47,558**	47,558
Issued by the Company	**37,127**	-
Shares on the market at 31 March 2019 - fully paid	**84,685**	47,558

Allotted, called up and fully paid	**£000**	£000
84,684,683 *(2018: 47,557,835)* ordinary shares of £0.01 each	**847**	**475**
63 deferred shares of £0.10 each	**-**	**-**
	847	475

On 24 July 2019 the Group announced that it had conditionally raised approximately £4.01 million before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each ("Placing Shares") at an issue price of 14 pence per share (the "Placing"). The placing was approved at the General Meeting on 12 August 2019.

Dividends

During the year and prior year no dividends were proposed or paid. After the balance sheet date, the Board proposed no final dividend would be made (2018: £nil)

15 Share premium

	Group and company	
	2019	2018
	£000	£000
At 31 March 2019	**-**	-
Premium on shares issued by the Company in the year	**4,202**	-
Share issue costs	**(77)**	-
At 31 March 2019	**4,125**	-

16 Related parties

The Company provides cross company guarantees in respect of the invoice discounting from the Group's bankers for £1.08m.

In the year ended 31 March 2019 no dividends were received (*2018: nil)*.

Transactions with key management personnel

At the year end the Directors of the Company controlled 3.27 per cent of the voting shares of the Group.

On the 13 April 2018 the Company issued 29,258,331 ordinary shares, Conrad Bona participated and increased his holding to 865,000 shares Peter Gunning also increased his holding to 1,625,000 shares.

On the 28 March 2019 the company issued 7,868,517 ordinary shares, Conrad Bona participated and increased his holding by 222,222.

The compensation of the Directors, who are the key management personnel, is disclosed in note 5.

17 Post balance sheet events

On 1 April 2019 the business of ADD Signs Limited was hived up into Grafenia Operations Limited.

On the 2 April 2019 the relocation of The Image Group from its current location to Trafford Park Hub was confirmed. This will leverage culture and capabilities of the two businesses and help provide financial synergies across the two groups. The major works have been completed along with relocation of The Image Group. The expected savings from this project are circa £0.25m annually.

On 2 July 2019 an agreement in respect of a further variation to the terms of its acquisition of Image Everything Limited ("Image"). This variation relates to Neil Cousins, one of the vendors of Image, who will step down as an executive of the Group on 30 August 2019.

Mr Cousins has entered a new consultancy agreement, together with a Nettl partner licence agreement. Under the consultancy agreement, he will continue to provide services to the Group for a minimum of 12 months. He will forgo his pro rata share of the £550,000 Deferred Consideration due to the vendors of Image, being £220,000.

On 24 July 2019 the Group announced that it has conditionally raised approximately £4.01 million before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each ("Placing Shares") at an issue price of 14 pence per share (the "Placing"). The placing was approved at the General Meeting on 12 August 2019.

18 Annual Report

The Annual Report and notice of AGM will be sent to shareholders on or around 30 August 2019 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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