Grafenia plc

Half-year Report

RNS Number : 3900G
Grafenia plc
25 November 2020

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.

25 November 2020

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

Unaudited Interim Results for the period ended 30 September 2020

Financial highlights

	Six months to 30 September 2020	Six months to 30 September 2019
Turnover	**£5.25m**	£8.41m
EBITDA*	**£(0.13)m**	£0.02m
Operating Loss	**£(1.11)m**	£(1.01)m
Loss before Tax	**£(1.29)m**	£(1.20)m
Tax	**£0.12m**	£0.12m
Total Comprehensive Income	**£(1.17)m**	£(1.08)m
EPS	**(1.03)p**	(1.17)p
Capital Expenditure (excluding acquisitions and IFRS 16 adjustments)	**£0.37m**	£0.65m
Bank Cash	**£3.68m**	£2.54m
Net debt (excluding right of use assets)	**£(1.95)m**	£(0.25)m

*Earnings before interest, tax, depreciation and amortisation

Operational highlights

- Completed acquisition of Sign Right, Dublin, Ireland
- Completed acquisition of Eggshell Solutions, Birmingham, England
- Merged Clear Designs with Nettl of Dublin company store
- Nettl Works Maker third party products launched in Belgium, France and The Netherlands
- First new batch of w3shop by Nettl web-to-print online stores now trading
- New, digital-first, sign and display installation platform upgrade in beta testing

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Interim Statement

This report really should be called the Interim Lockdown Statement. It begins in April 2020, with the UK entering its first national lockdown. It ends as battered businesses began to re-emerge, bleary-eyed and looking to the future. As we write this, the UK is currently in a second, unexpected national lockdown and a fresh phase of business uncertainty.

We discussed all the things we'd done during the first lockdown in our Annual Report. The steps we'd put in place. The ways we were supporting our partner network and team members. How we'd adapted our marketing and developed new products. Although we're repeating that activity during lockdown 2, we'll not repeat it here.

Instead we'd like to share how we see our place in a very different future. And we'll talk about the investment we've made in our platform to adapt to a changing world.

Oh, and we rolled three more businesses into our family. Tell you more about those later.

Trading Results and Cash

As we've previously reported, sales were severely impacted by the first lockdown. All events and exhibitions were cancelled. Many of our clients were forced to close. As a result, turnover during the six-month period decreased to **£5.25m***(2019: £8.41m)*. Gross profit was **£2.96m***(2019: £4.35m).*

However, gross profit as a percentage of sales increased to **56.3%***(2019: 51.8%)*. Why's that? Well, we have a pretty diverse product range. And lockdown didn't treat all things equally. We sell print, signage and promotional products to businesses. Cancelled events deflated those sales. But safety screens, branded masks and Covid-secure signage helped to mitigate that a bit. We also sell digital services, like website design, ecommerce platforms and search engine optimisation. Demand for all of those increased. And finally, we license our brands and systems to third parties. Subscription fees were resilient during lockdown, although impacted by support measures we put in place to help partners to trade through the storm.

Prior to Covid, we'd taken steps to reduce our cost-base. That included combining two factories and restructuring teams. As it became clear the downturn wasn't temporary, we took further overhead-reduction measures in the autumn. Despite the significant impact the pandemic had on revenue and gross margin, EBITDA (which is earnings before interest, tax, depreciation and amortisation) was more robust at **a loss of £0.13m***(2019: £0.02m profit)*. Our loss after tax was **£1.17m** compared with *£1.08m* for the same period last year.

Our overheads significantly decreased to **£3.08m** compared to *£4.32m* in the same period last year. Within overheads, staff costs decreased to **£1.94m***(2019: £2.92m)*. The Government's Job Retention Scheme contributed with **£0.49m** of support.

At 30 September 2020, the Company had cash of **£3.68m***(2019: £2.54m)* and debt of **£7.35m***(2019: £4.97m)*, consisting of £2.06m of corporate bonds, £0.99m of Coronavirus Business Interruption Loan (CBILS), £2.30m of asset finance, £1.73m of lease liabilities related to assets capitalised under IFRS 16, and £0.27m of other borrowings. Our operating activities generated **£0.33m** of cash *(2019: utilised £0.60m)* during the period, whilst working capital increased by **£0.15m***(2019: decreased by £0.43m)*.

Capital expenditure was **£0.37m***(2019: £0.65m)*. The total also includes £0.21m *(2019: £0.33m)* invested in the ongoing development of our platform which underpins our operations and is licensed to our partners.

Trading Review

Our core client base is SMEs. But we sell to businesses of all sizes. Start-ups and scale-ups. Micro-businesses and multinationals. They can find all the things they need to promote themselves, online and offline, in our range. It used to just be the kind of print you hold - brochures, direct mail, letterheads. Now it's also signage and point-of-sale. Tidy vehicle wraps. Incredible wall graphics. And when events are allowed again, we'll be there to provide dramatic backdrops and must-have promotional swag.

We also build websites, booking apps and online shops. Out of necessity, clients are adding click and collect options. The lockdown has forced businesses to prioritise their digital presence more than ever. We help drive traffic to their sites through pay-per-click management and we work to move them up in search engine rankings. In fact, our network has now invoiced more than £1m of search engine optimisation packages.

We have a few different routes to market. We own Nettl stores in Birmingham, Dublin, Exeter, Liverpool and Manchester. Our stores were forced to close to the public for the majority of the first half of the year. After re-opening in late July, they closed again in early November for the second lockdown. Our teams serviced clients remotely, working from home. This was a pretty easy transition. Our systems were designed to work this way. We connect our stores and partners to clients and to multiple production centres. It doesn't really matter where they are. During lockdown, our stores stayed active in their local communities and built support websites, so that businesses could help one another. Despite being closed, Company Stores sold **£0.77m** of products and services *(2019: £1.45m)*.

Roll-ins to Company Stores
On 22 September 2020 we said we'd rolled Clear Designs into our Nettl of Dublin company store in Ireland. Those two teams are now integrated and relocated together, eliminating duplicate costs.

In October 2020 we were delighted to acquire Sign Right, a small sign business also in Dublin. They're an established sign fitter and manufacturer, with a client base throughout Ireland. Sign Right will become Nettl "Works Dublin" and increase our presence and capabilities in Ireland. We've migrated production to our Nettl platform and have begun producing signage and display products for clients of our expanded team. We plan to roll-out a range of sign manufacture and installation services to our Irish Nettl partners.

We also acquired Eggshell Solutions Limited, a digital design and marketing agency in Birmingham, England. We have a fifteen-year relationship with the vendors of Eggshell, who previously operated printing.com territory franchises. One of the vendors has retired. The rest of Eggshell's team moved into our Nettl of Birmingham company store, again maximising merger benefits. We look forward to continuing to serve Eggshell's client base of local and national clients.

Where we've got a Nettl company store, roll-ins are appealing. We have detailed partner performance data to help our decision making. We know them and they know us. It's likely there will be more roll-ins in the future.

Brand Partners
As well as our company stores, we sell via licensed partners. These are established graphics businesses who 'bolt-on' a Nettl licence. They're print shops, graphic designers, sign businesses, marketing agencies and web designers. We call them *"Brand Partners"* because our brands are exposed to their clients.

For a monthly subscription, partners get access to the Nettl platform and digital toolkit. Our platform makes their studio more productive, by streamlining many client touch-points. Our Nettl Geeks provide technical guidance, helping build and deploy complex web projects. And partners can dip into a huge wealth of marketing collateral - with multiple ways to keep in touch with existing clients and find new ones. We automate delivery of digital and physical campaigns on their behalf, meaning partners can spend more time on sales, design and building relationships.

Income from **Subscriptions and licence fees** was reasonably resilient at **£0.98m***(2019: £1.04m).* This segment includes initial licence fees, system usage fees, click charges and monthly licence fees. It also includes the wholesale value of search engine optimisation subscriptions, website hosting, website deployment royalties and stock photography licences where the end client paid one of our partners. In some cases we supported partners who chose to hibernate during lockdown. In those cases, we paused their subscription in exchange for extending their next renewal date. That adversely impacted subscription income. But we believe helping partners to survive the crisis is essential in enabling them to thrive when better days come.

As at 30 September 2020, there were **239** Nettl locations in the world *(30 September 2019: 235)*. 182 in the UK and Ireland, 20 in the Netherlands, 10 in France, 17 in the USA, 3 in Belgium, 4 in New Zealand and 3 in Australia. In Europe and America, we support and acquire partners directly. New Zealand and Australia operate under master licence and partners are supported locally. We've consistently added new partners during the first half. Nettl is now a proven way for printers to escape the commodity trap. However, we've lost more than we would have liked. Partners are SMEs themselves and the recent challenges facing small business are widely reported. We've seen an increase in distress situations, where businesses haven't been able to access sufficient government support. And cases where payment plan arrears have forced us to terminate. We also have 55 printing.com subscribers *(2019: 77)*. Traditional print has been hit hardest during the lockdown. More than ever, we encourage those reliant on reselling print to diversify and upgrade to Nettl.

Nettl and printing.com partners are hooked into our supply chain. They buy print, displays and signage under a service level agreement. Like our company stores, many partners were physically forced to close for much of the first half. Sales of print and products to **Brand Partners** was **£0.92m***(2019: £1.90m)*. This segment includes the wholesale price of printing, fabric displays, signage and similar physical products.

Other channels
As smaller sign businesses are rolled in, they move to our Company Stores segment. Businesses which retain their identity, appear in our **Signs** revenue segment. In the half year, that segment features just Image Group. Although

our usual exhibition and event work was cancelled, we quickly switched to making hand sanitiser stations, sneeze screens and floor graphics. Sales were **£1.92m***(2019: £2.60m)*.

Finally, we sell to graphic professionals via online websites. This is a very competitive space. However, it's an important source of future partners and a place to test automation. During lockdown, many resellers hibernated. Some furloughed their teams and shut down their presses. We kept our production open and sales in our **Online and Trade** segment were **£0.67m***(2019: £1.43m).* Although print declined the most, signage grew during lockdown and today is a greater proportion of sales than before the pandemic.

The Nettl Academy
Over the last six months we moved all of our training courses online. Now we deliver the entire syllabus through a mix of pre-recorded content and live group sessions. We do this globally, with people joining from different countries. That's made it much more productive to train new partners and refresh knowledge. It's also meant that we've been able to do things differently. And enabled us to rethink the way we acquire, onboard, launch and train future partners.

So what now?
The pandemic has given us plenty of time for soul-searching. To consider what things will look like on the other side. Nothing will be exactly the same again. Habits formed during the lockdown are likely to linger. Things that were always *going* to happen, are happening now. At a faster rate of change than expected.

To return to growth, our focus must remain on three things. Sell more products and services. Add more partners. Win more clients. *Simple, right?*

The secret sauce is our platform. We've been quietly working on some major developments.

We've rebooted, repackaged and relaunched some core parts of our platform. We've changed onboarding and sign-up processes to be self-service. And refreshed our marketing approach, to test different messaging and acquisition methods.

Selling online shops
An example of this is w3shop by Nettl. If you're a long time listener, you might remember that name from the past. All our online stores run on w3shop. It powers www.printing.com and hundreds of other w3shop sites operating around the world. It's our bespoke, web-to-print ecommerce platform.

Now of course we offer ecommerce solutions to our clients with Nettl. And if you're selling guitars and cannabis oil, aloe vera eye serum and beard trimmers, we have any number of ways to make that happen. But selling print online is different. You need a specialist web-to-print platform which connects everything. From the client to the studio and to production. You need a powerful back-office to efficiently manage orders and work with file checking, proofing and all the parts of a custom-designed and manufactured product.

Opening an online shop is a big commitment. It can take weeks, months even, to merchandise a fully-stocked store. To import products, upload images, write marketing descriptions and set pricing takes time. Keeping that range up-to-date is a challenge.

We thought there must be an easier way. For a print entrepreneur to just get going. To launch an online print shop, in their own brand and promote it to their client base. With w3shop, we think we've eliminated the pain. A fully-functioning web shop, ready to start selling in minutes not months. *It's like ten minute abs.* For a graphics business. *Without the squats.*

There are two flavours of web-to-print store. 'Open' shops, selling to existing clients or new businesses. And 'closed' shops, which are password-protected and branded for an individual corporate client. Closed shops are ideally suited to franchise networks and multi-site organisations, many of whom will be working on digital transformation and cost-cutting programmes. We have w3shop packages for both.

The first batch of new Shopkeepers have signed-up. Their w3shop storefronts are live, seamlessly hooked into our ready made, ready merchandised supply chain. Ready to sell Black Friday deals and seasonal business gifts, as well as our full range of print and display. Ready to grow their online selves.

We also see Shopkeepers as a potential first foray into becoming fully fledged Nettl partners. *Wise* Shopkeepers know they need to up their online sales game. The *wisest* Shopkeepers know that's just the start of what's possible.

Sell more products
Every day our partners get weird and outrageous client requests. And every day they're *strumming their lips* and asking our community for supplier recommendations.

So we launched Nettl Works Makers. A way for third party manufacturers to sell their products to tens of thousands of our clients. We've made it easy to list their products and retrieve orders using our production dashboard. The same way we process orders in our Nettl superstores and Works Manchester production hub.

We think of these as mass-niche products. A way to service long-tail demand, without increasing inventory or capex on specialist machinery. To connect the makers with our buyers. And to efficiently harness overcapacity in the industry.

Since the summer, we've added hundreds of new products from dozens of Works Makers. Business gifts and giveaways. Packaging and labels. Point-of-sale and apparel. Branded air fresheners. Baubles, bunting and badges. Hi-viz workwear and umbrellas. *Who knew there were so many ways to brand a cappuccino?* Served in a printed recycled cup or branded ceramic mug. Plonked on a beer mat or gently placed on a wooden coaster.

Once a product is approved, our platform translates it for sale in the UK, Ireland, Belgium, France and The Netherlands. Then it's instantly available to partners and listed for sales on all w3shops. We're all attracted to the shiny and new. Another reason for our partners to contact clients.

Actually, there's a bit of a *network effect* at play here. We reckon the more products we list, the more clients we'll attract for our partners and shopkeepers. And the more orders we send to Works Makers, the more products they'll want to list.

We sell and invoice Works Maker products via our partners and company stores, just like other things we make. Then we pay suppliers directly.

The boundaries of supplier and partner are not as clear cut as you might think. Our first Works Maker has turned partner. They've licensed Nettl, to help grow their business. Who knows, maybe some Works Makers will want a w3shop. Or to use our platform to manage the rest of their production workflow.

We'll use our Works Maker platform to hook in suppliers across our global network, without significant increase in overhead, or reliance on a single supplier. We're inviting commercial printers outside of the UK who'd like to offer w3shop to their reseller networks, to get in touch and start creating stickier relationships.

Crafters of the curious. *Builders of the brilliant.* Manufacturers of the magical. Join, for free, at www.nettl.works.

Sell more installation services
Since we acquired Image Group back in 2017 we've been busy standardising products, now sold and processed through our proprietary platform. Things like floor stickers and magnetic signs, canvases and acrylics. *life-sized* cardboard characters and *dinosaur-sized* vinyl banners.

However, custom projects and bespoke installations are still managed on a legacy third party system.

That's changing.

We didn't just want to make the existing process a *littlebit* better. We wanted to completely re-think it. To make the whole sign and graphics installation process, *digital-first.*

Surveys. Quoting. Proposals. Installation. Bookings. All are essential parts of the lifecycle of a sign project. And all ripe for digital transformation.

We plan to use our national network of partners, to survey and design. Manufacture graphics in our centralised production hub. And then install using a network of local Works Fitters.

In the first half we've been working on a major upgrade of our platform to make this happen. Right now, we're beta testing the foundations in our Works Manchester production hub. There's more work to do. We'll talk more about this as we roll it out, first in our company stores and selected partners.

Add more partners
We continue to bring on board Nettl partners, despite the pandemic. We're finding ways to tweak our sales process and build our platform. To keep adding value for current and potential partners. Creating ways that mean our partners can scale their business, without needing to invest in fixed overheads. That's a key part of growing the Nettl network and adding more partners.

The Nettl toolkit helps our partners sell and build websites, amongst many other things. As our partners move through their journey and get busier, we're often asked *"If I sell a website, can you design it for me?"* We've experimented with different ways of doing this. And learned a few things along the way.

Weirdly, signs and websites actually have a lot in common. They both start with a survey. Then a project is quoted and turned into a proposal. When the client signs off, then we get to work on the installation. So it makes a lot of sense to use the same platform to connect those who sell websites *(Nettl partners)* with website designers *(Nettl creators)*. And make the process more productive.

We launched the Nettl Academy Scholarship in the summer. It's a six month online programme, for designers and sales people who've been made redundant. We're seeing the pandemic race through our industry and lots of talented people are losing their jobs through no fault of their own. We wanted to do something to help.

As we've moved all our training online, the marginal cost of adding more seats on each course is essentially zero. *We don't even have to buy them egg mayo sandwiches at lunch.* This scholarship is a way for these individuals to start a business, use our platform and supply chain and tap their local network and contacts.

At the end of the scholarship, we'd like scholars to graduate and become Nettl partners. However, there's no obligation. It might be that we've helped them upskill and get a new job. Maybe they'll think fondly of us and become clients, in their new position of power. Or maybe they'll become Nettl Creators, and build websites for partners who need that resource.

Nettl partners come in many shapes. With diverse backgrounds and different levels of experience. We'll continue to experiment with ways of bringing new partners into our network. Whether that's as a client, a scholar, a Works Maker, a Creator or as a shopkeeper. *We love them all equally.*

Win more clients

And so the circle is complete. With more products, we attract more shopkeepers. With more shopkeepers we find more partners. With more partners, we access more clients. With more clients, we sell more services. Sometimes long-term relationships are born from satisfying these strange, long-tail product requests. Extending our product range with Works Makers increases our share of wallet and purse.

As we acquire businesses, we also introduce cross-selling opportunities. It's one of the reasons we like the signs sector. Clients all need other things, not just signs.

We've talked to lots of potential businesses about becoming part of Grafenia. In the signs sector, we continue to look for larger businesses to convert into regional hubs, or Nettl Works. As part of our due diligence process, we like to get to know each other, starting with a trading relationship. Some potential acquisitions are supplying our network as Works Makers. We're not in a rush to do deals. It's important that any business joining Grafenia has the right reputation, right team, and is the right fit. *We're fussy who we invite inside.* As Works Makers, we get a preview of what they're like to work with. We can see how responsive they are, how they pick up our systems and gauge their reliability. So we're getting to know each other, while both of us earn some revenue. Well, that's nice too.

Thank you

This period has been an incredibly stressful time for our teams and our partners. We appreciate all the efforts that every individual in our business has made. To those that have been with us for decades. And those new to our network, who we've not yet met in real life. For the things you've done to support clients. Help out your colleagues. To keep things moving. Keep shipping. Making stuff happen. For the times you've done more than was expected of you. And especially for the times you've done that, while nobody was watching. Thank you.

Outlook

After the interim period ended, the UK entered further significant coronavirus restrictions. We're currently in the middle of a second lockdown and just a few weeks away from the end of the Brexit transition period. It's impossible to forecast the near term with any certainty.

However, on an annualised basis, our overhead base is c. £1.4m lower than the same period last year. We have invested in automation to scale our platform, without a significant increase in overhead. We've strengthened our cash position with additional long-term bond and CBILS facilities.

We believe the steps we're taking to change our business will put us in a position to capitalise when better days emerge. We reiterate our mid-term goal of an EBITDA margin of 10-15%.

Now then, anything in our new Business Gifting range that's caught your eye? Some personalised socks with your face on? *They're very you.*

Jan Mohr Peter Gunning
Chairman Chief Executive Officer
24 November 2020

Unaudited Interim Results for the period ended 30 September 2020

Consolidated Statement of Comprehensive Income

for the six months ended 30 September 2020

	Unaudited	Unaudited	Audited

	Note	**Six months to 30 September 2020 £000**	Six months to 30 September 2019 £000	Year ended 31 March 2020 £000
Revenue	3	**5,252**	8,410	15,604
Raw materials and consumables used		**(2,293)**	(4,056)	(7,627)
Gross profit		**2,959**	4,354	7,977
Staff costs		**(1,937)**	(2,922)	(5,686)
Other operating charges		**(1,142)**	(1,395)	(3,553)
Share based payments		**(5)**	(14)	(27)
Earnings before interest, tax depreciation and amortisation		**(125)**	23	(1,289)
Depreciation and amortisation		**(980)**	(1,031)	(2,025)
Operating loss		**(1,105)**	(1,008)	(3,314)
Financial income		**13**	7	25
Financial expenses		**(199)**	(195)	(342)
Net financing expense		**(186)**	(188)	(317)
Loss before tax		**(1,291)**	(1,196)	(3,631)
Taxation		**122**	119	258
Loss for the period		**(1,169)**	(1,077)	(3,373)
Total comprehensive income for the period		**(1,169)**	(1,077)	(3,373)
Loss per share	8	**(1.03)p**	(1.17)p	(3.27)p

Consolidated Statement of Financial Position
at 30 September 2020

	Note	**Unaudited 30 September 2020 £000**	Unaudited 30 September 2019 £000	Audited 31 March 2020 £000
Non-current assets				
Property, plant and equipment		**5,193**	5,978	5,483
Intangible assets		**3,706**	4,104	3,858
Deferred tax assets		**-**	11	-
Total non-current assets		**8,899**	10,093	9,341
Current assets				
Inventories		**430**	395	346
Trade and other receivables	4	**2,239**	3,323	2,150
Prepayments		**284**	257	447
Cash and cash equivalents		**3,679**	2,536	1,104
Total current assets		**6,632**	6,511	4,047
Total assets		**15,531**	16,604	13,388
Current liabilities				
Other interest-bearing loans and borrowings	6	**779**	734	753
Deferred consideration		**146**	315	147
Trade and other payables	5	**2,605**	2,417	2,160
Deferred income	5	**67**	64	143

	Note			
Total current liabilities		**3,597**	3,530	3,203
Non-current liabilities				
Other interest-bearing loans and borrowings	6	**6,429**	3,919	3,483
Deferred income	5	**-**	88	-
Deferred tax liabilities		**411**	530	448
Total non-current liabilities		**6,840**	4,537	3,931
Total liabilities		**10,437**	8,067	7,134
Net assets		**5,094**	8,537	6,254
Equity				
Share capital	7	**1,136**	1,135	1,135
Share premium		**7,804**	7,801	7,801
Merger reserve		**838**	838	838
Retained earnings		**(4,763)**	(1,298)	(3,594)
Share Option reserve		**79**	61	74
Total equity		**5,094**	8,537	6,254

Consolidated Statement of Changes in Shareholders Equity
for the six months ended 30 September 2020 (unaudited)

	Share Capital £000	**Share Premium £000**	**Merger Reserve £000**	**Retained earnings £000**	**Share based payment reserve £000**	**Total £000**
Opening shareholders' funds at 1 April 2019	847	4,125	838	(221)	47	5,636
Shares issued in the period	288	3,738	-	-	-	4,026
Costs associated with share issue	-	(62)	-	-	-	(62)
Loss and total comprehensive income for the period	-	-	-	(1,077)	-	(1,077)
Share option reserve	-	-	-	-	14	14
Closing shareholders' funds at 30 September 2019	**1,135**	**7,801**	**838**	**(1,298)**	**61**	**8,537**
Opening shareholders' funds at 1 October 2019	1,135	7,801	838	(1,298)	61	8,537
Loss and total comprehensive income for the period	-	-	-	(2,296)	-	(2,296)
Share option reserve	-	-	-	-	13	13
Closing shareholders' funds at 31 March 2020	**1,135**	**7,801**	**838**	**(3,594)**	**74**	**6,254**
Opening shareholders' funds at 1 April 2020	1,135	7,801	838	(3,594)	74	6,254
Shares issued in the period	1	3	-	-	-	4
Loss and total comprehensive income for the period	-	-	-	(1,169)	-	(1,169)
Share option reserve	-	-	-	-	5	5
Closing shareholders' funds at 30 September 2020	**1,136**	**7,804**	**838**	**(4,763)**	**79**	**5,094**

Consolidated Statement of Cash Flows
for the six months ended 30 September 2020

	Unaudited	Unaudited	Audited
	Six months to 30 September 2020	Six months to 30 September 2019	Year ended 31 March 2020
	£000	£000	£000
Cash flows from operating activities			
Loss for the period	**(1,169)**	(1,077)	(3,373)
Adjustments for:			
Depreciation, amortisation and impairment	**980**	1,031	2,025
Profit on sale of plant and equipment	**(4)**	(101)	(99)
Release of deferred profit on sale of plant and equipment	**(8)**	(29)	(12)
Release of Deferred consideration	**-**	(220)	(220)
Share based payments	**5**	14	27
Net finance expense	**186**	188	317
Bad debt expense	**138**	50	588
Tax income	**(122)**	(119)	(258)
Operating cash flow before changes in working capital and provisions	**6**	(263)	(1,005)
Change in trade and other receivables	**(115)**	(86)	444
Change in inventories	**(82)**	60	109
Change in trade and other payables	**348**	(399)	(708)
Cash generated/(utilised) by operations	**157**	(688)	(1,160)
Tax received	**175**	84	67
Net cash inflow/(outflow) from operating activities	**332**	(604)	(1,093)
Cash flows from investing activities			
Proceeds from sale of plant and equipment	**10**	265	265
Acquisition of plant and equipment	**(45)**	(317)	(383)
Capitalised development expenditure	**(206)**	(174)	(373)
Acquisition of other intangible assets	**(122)**	(158)	(305)
Acquisition of subsidiary	**(20)**	-	-
Net cash used in investing activities	**(383)**	(384)	(796)
Cash flows from financing activities			
Repayment of invoice finance	**(2)**	(987)	(947)
Proceeds from loans	**3,010**	-	-
Repayment of loans	**(20)**	(211)	(211)
Capital payment of lease liabilities	**(165)**	(348)	(622)
Interest payment of lease liabilities	**(136)**	(188)	(317)
Payment of deferred consideration	**(102)**	(60)	(228)
Issue of shares (net of costs)	**4**	3,964	3,964
Net cash inflow from financing activities	**2,589**	2,170	1,639
Net increase in cash and cash equivalents	**2,538**	1,182	(250)
Cash acquired on acquisition	**37**	-	-
Cash and cash equivalents at start of period	**1,104**	1,354	1,354
Cash and cash equivalents at end of period	**3,679**	2,536	1,104

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 2020. 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.

These interim financial statements are prepared on the same basis as the financial statements for the year ended 31 March 2020, in which our full set of accounting policies, including critical judgements and key sources of estimation uncertainty, can be found.

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 24 November 2020.

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 2020.

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

	UK & Ireland	**Europe**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
Six months ended 30 September 2020	**4,935**	**114**	**203**	**5,252**
Six months ended 30 September 2019	8,033	205	172	8,410
Year ended 31 March 2020	14,791	384	429	15,604

Revenue generated outside the UK is attributable to partners in Belgium, France, Ireland, New Zealand, The Netherlands 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:

	Subscriptions & Licence Fees	**Company Stores**	**Brand Partners**	**Signs**	**Online & Trade**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Six months ended 30 September 2020	**977**	**768**	**915**	**1,918**	**674**	**5,252**

Six months ended 30 September 2019	1,036	1,445	1,895	2,600	1,434	8,410
Year ended 31 March 2020	2,083	2,806	3,414	4,624	2,677	15,604

4 Trade and other receivables

	Unaudited **Six months to 30September 2020** **£000**	Unaudited Six monthsto 30 September 2019 £000	Audited Year ended 31 March 2020 £000
Trade receivables	**3,022**	3,430	2,743
Less provision for trade receivables	**(1,093)**	(461)	(1,000)
Trade receivables net	**1,929**	2,969	1,743
Total financial assets other than cash and cash equivalents classified at amortised cost	**1,929**	2,969	1,743
Corporation tax	**252**	269	354
Other taxes	-	-	-
Other receivables	**58**	85	53
Total Other receivables	**310**	354	407
Total trade and other receivables	**2,239**	3,323	2,150

5 Trade and other payables

Current liabilities	**Unaudited Six monthsto 30 September 2020** **£000**	Unaudited Six months to 30 September 2019 £000	Audited Year ended 31 March 2020 £000
Trade payables	**1,158**	1,200	1,326
Accruals	**356**	816	472
Other liabilities	**1,091**	401	362
Total financial liabilities, excluding 'non-current' loans and borrowings classified as financial liabilities measured at amortised cost	**2,605**	2,417	2,160
Deferred Income	**67**	64	143
Total trade and other payables	**2,672**	2,481	2,303

Non-current liabilities			
Deferred income	-	88	-
Total non-current liabilities	-	88	-

6 Borrowings

	Unaudited Six months to 30 September 2020	Unaudited Six months to 30 September 2019	Audited Year ended 31 March 2020
Current liabilities	**£000**	£000	£000
Invoice financing	**126**	81	128
Lease liabilities	**594**	653	625
Loans	**59**	-	-
	779	734	753
Deferred consideration	**146**	315	147
Non-current liabilities			
Lease liabilities	**3,439**	3,919	3,483
Loans	**2,990**	-	-
	6,429	3,919	3,483

On 15 July 2020 the company created a £50.00m perpetual bond facility and issued £3.00m of the bonds, at nominal value, to investors, raising £2.01m before expenses.

On 31 July 2020 the company secured an additional term loan for £1.00m through the Coronavirus Business Interruption Loan Scheme.

7 Share Capital

On 12 August 2019 the company issued 28,653,569 ordinary shares of £0.01 each at an issue price of £0.14. The difference between the issue price and the nominal value being taken into the share premium account.

On 26 September 2019 an employee, who was a good leaver, exercised options over 187,094 ordinary shares of £0.01 each at an issue price of £0.0775. The difference between the issue price and the nominal value being taken to the share premium account.

On 3 September 2020 the company announced the exercise of 46,450 options over ordinary shares of £0.01 each at an issue price of £0.0775. The difference between the issue price and the nominal value being taken into the share premium account.

8 Earnings per share

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

	Unaudited Six months to 30 September 2020	Unaudited Six months to 30 September 2019	Audited Year ended 31 March 2020
	£000	£000	£000
Loss after taxation for the period	**(1,169)**	(1,077)	(3,373)
Weighted average number of shares in issue	**113,571,796**	92,403,217	102,993,216
Basic earnings per share	**(1.03)p**	(1.17)p	(3.27)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. Dividend
The Directors are not declaring an Interim Dividend *(2019: Nil).*

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