Grafenia plc

Final Results

RNS Number : 6744G
Grafenia plc
28 July 2021

28 July 2021

Prior to publication, the information contained within this announcement was deemed by the Company to constitute inside information as stipulated under the UK Market Abuse Regulation. With the publication of this announcement, this information is now considered to be in the public domain.

Grafenia plc

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

Preliminary Results for the period ended 31 March 2021

Grafenia plc (AIM: GRA) announces its full year audited results for the year ended 31 March 2021.

Operational Highlights

- Subscription and Licence income steady, despite pandemic
- Continued investment in development of software platform, new launches imminent
- Gross margin increased to 57.2% *(2020: 51.1%)*
- EBITDA around breakeven for second half
- Loss significantly reduced to £2.1m *(2020: £3.4m)*
- Operations generated £0.2m cash *(2020: utilised £1.1m)*

Financial Overview

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Total revenue	**9,748**	15,604
Gross Profit	**5,575**	7,977
Earnings before interest, tax, depreciation and amortisation	**(160)**	(1,289)
Operating loss	**(1,865)**	(3,314)
Net finance expense	**(461)**	(317)
Tax income	**241**	258
Loss for the year	**(2,085)**	(3,373)
Cash inflow / (outflow) from operating activities	**211**	(1,093)
EPS - Continuing Operations	**(1.83)p**	(3.27)p
Development expenditure	**£0.68m**	£0.67m
Net debt	**£(4.34m)**	£(3.28m)

For further information:

Grafenia plc

Peter Gunning (CEO)   07973 191 632

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

David Hart / Liz Kirchner (Corporate Finance)
Matt Butlin (Sales & Corporate Broking)

Chairman's Statement

I'd like to start this year's Chairman's Statement by thanking everyone at Grafenia for their hard work during the year. During several lock-downs and re-openings we brought Covid-19 protection equipment to market quickly, helped small businesses build their on-line presence and engaged in our communities. It was a challenging year but we are emerging as a more focussed and competitive business. Thank you to everyone who helped achieve this.

On to our scorecard of the 2020/21 fiscal year:

Operational Performance
In the recent fiscal year, our turnover decreased by 37.5% to £9.75m *(2020: £15.60m)* and gross profit decreased by 30.1% to £5.58m *(2020: £7.98m)*. However, the gross profit margin has increased from 51.1% to 57.2% thanks to cost management efforts and a shift in product mix toward the more profitable licence and subscription fees. The year showed a reduction in EBITDA loss, which is earnings before interest, tax, depreciation and amortisation, to £0.16m *(2020: loss £1.29m)*. Our loss for the year came in at £2.09m versus £3.37m last year. We finished the year with a cash position of £2.74m *(2020: £1.10m)* and net debt (including deferred consideration and lease liabilities arising due to IFRS 16) of £4.34m *(2020: £3.28m)*. We invested £0.18m on capex *(2020: £0.43m)*, and capitalised £0.68m in development expenditure *(2020: £0.67m)*.

Importantly, these results include several cost items that are either one-time in nature, or constitute up-front costs, rather than ongoing operating costs. Such costs went down in the fiscal year in comparison to the prior year.

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

It would be an easy way out to disregard the Covid-19 impact on our business as extraordinary and to not analyse last year's figures in much detail. Clearly, the pandemic was an extraordinary event and skewed everything - right?

I beg to disagree and find a few aspects in our financial performance absolutely noteworthy and insightful:

Firstly, we managed to significantly reduce our losses, although our sales contracted substantially. In particular, the largest driver has been an intense focus on reducing operating cost in the business, making processes more efficient and reducing team sizes. When we model out our cost base from last year it gives us confidence that, with modest increases in revenue, profitability will continue to improve. That should bring us closer to reaching the mid-term objective of 10-15% EBITDA we believe this business can achieve in future years, once activity fully recovers post-Covid.

Secondly, our subscription and licence fees have proven to be incredibly resilient and stable. Most of our subscriptions and licence agreements are billed monthly and provide an essential and "infrastructure-like" service to partners and end-clients. In particular, the pandemic has shown why it makes great sense to be a Nettl partner. Nettl partners benefit from our community, our agile tools, access to new product categories like protective equipment and our inspiration for selling tactics add real value - in particular during times of crisis. Increasingly, I believe that the major sources of value in our business are the products we sell on a recurring and "software-like" basis. The great resilience of that part of the business motivates our increased focus on building the business around software. A fantastic example is our "Works Makers" initiative, allowing third party suppliers to easily list and sell their products within our platform. We once believed that we had to make most products ourselves. In fact, we spent a lot of time evaluating the roadmap to a UK-wide sign hub network. While we still - *strongly* - believe signage is a very complementary product category for our partners, Covid-19 has shown that we are much better at opening up to third party suppliers than we previously thought. That every partner can now sell signage to their clients doesn't necessarily mean that we have to be the largest sign maker ourselves.

People at Grafenia & Priorities in the last year
Our average number of employees went down to 159 in the year from 203 in the prior year. We are a leaner organisation now - but parting with long-term team members is never easy. Nevertheless, our actions were necessary to make it through the pandemic and I'd like to thank every manager at Grafenia for your empathy and patience in driving change. The Board is fully aware of the effects our decisions had on families and communities. On behalf of the Board, I would like to sincerely thank every team member of Grafenia - current and former - for their contributions. Last year wasn't easy. But as Peter says: "choose your hard" - and Grafenia decided to pick the road of getting leaner and more agile to emerge from Covid as a better company.

In past Chairman's statements, I wrote that there were three areas where my fellow non-executive directors and I can impact the Grafenia organisation. Firstly, get governance right. Secondly, set the right incentives. Thirdly, make rational capital allocation decisions.

We were rather quiet on the capital allocation and M&A front in the last fiscal year. With the exception of adding two smaller (but very nice indeed!) sign firms, we didn't find valuations particularly attractive. Certainly, we expected to see more opportunities during the crisis. It is not that we haven't looked at any deals - we couldn't get close enough in terms of valuation or business quality or culture (or all of the above!)

As discussed earlier, we have grown increasingly sceptical as to whether adding manufacturing capacity is the right strategic choice. We can offer our partners all kinds of capabilities by leveraging our software and systems. We are currently evaluating our way forward but opening up our system to dozens of signage firms seems like a *really interesting* option, whereas buying dozens of signage firms may be less promising than we originally thought.

In the end, we believe Nettl will be the leading neighbourhood design studio. That requires offering breadth of products and great capabilities. I strongly view adding signage to the offering as the right strategic choice and we clearly benefited from that last year. Nonetheless, we set out to make the group substantially larger by acquiring signage firms in a financially accretive way. The latter hasn't materialised which drove us to reconsider our strategy.

Outlook and Current Priorities
We provided a strategy update on 16 April 2021 and set out how we will think about, and report on, the business going forward. We will provide a more comprehensive update in due course but felt it was the right thing to share our thinking early.

Most importantly, we now think about the business in two groups: Works Manchester and Nettl Systems. Very broadly, that splits the business into "everything production" and "everything software and licence".

The core reason we've made that change in reporting is to create visibility and transparency on where revenue is earned and costs are incurred. Historically, Grafenia has been very much integrated. The problem with that has been that certain parts of the business (mainly in production) have been essentially cost centres helping customer facing parts (like Nettl) do business. There are clearly virtues in integrating functions but what gets lost is accountability and profit focus for each part of the value chain. For example, we have in the past declined production work because it had nothing to do with our partner business and strategy. If you thought about Works Manchester as a stand-alone profit centre within a larger group, additional production work might be quite welcome indeed, regardless of whether it has anything to do with other business of the group!

Once more, that change in perspective was motivated by our experiences during the pandemic. Our systems proved capable of opening up and adding third party supply in ways we'd not explored before. That traction inspired the insight to think about the business in a less integrated fashion.

We strongly believe that additional transparency will empower both groups and release entrepreneurial energy in our teams.

In the strategy update we also announced we'll look for complementary software acquisitions that help us broaden our offering in Nettl Systems. Today, we are already the operating system for several hundred design studios across the world and are keen to keep adding to our systems and capabilities.

We will keep you updated how our thinking evolves and how we develop both businesses going forward.

Last year we held a closed meeting. This year's AGM will be an 'in person' meeting. However, we can't be certain that travel will be allowed, so we strongly discourage any shareholders from seeking to attend the AGM in person this year. Please submit your votes by way of proxy. We received good feedback on our virtual post AGM presentation last year and will repeat that format this year. We are quite keen to resume our usual 'in person' AGM again when it's practical: did anyone not miss the saxophone after all?

The AGM will take place at 10am on Wednesday 15 September 2021 and we'd be very happy to have you join our on-line presentation afterwards where we'll answer your questions.

Jan-Hendrik Mohr
Chairman

Chief Executive's Statement

Dear Shareholders,

What for the love of
I mean, *really*. Another annual report and we're still banging on about some novel virus. Well, the novelty has well and truly worn off.

Our production hub and HQ is based in Manchester. Now, *of course*, Manchester is famous for doing things differently. Like being under local lockdown restrictions for longer than any other part of the country. It's taken its toll.

Early on in this letter, I'd like to commend our teams on your behalf. They've worked solidly throughout the pandemic. Adapting to relentless change. In times of anxiety, they've kept going. We've remained open the whole time. Maybe not 'there', but always there. It's not been easy and we recognise and appreciate the efforts of each and every team member. Thank you.

The canary in the coronamine
We're like a business barometer. A metronome of markets. A trade thermometer, taking the temperature from the throat of business sentiment.

We sell to clients of different shapes and sizes. From different sectors. In different parts of the country. Some are doing exceptionally well, despite the pandemic. And not just those in a Government minister's Whatsapp group. Others have kept going, pushing on. Reacting to an endlessly changing environment. Exhausted. And weary. And some poor souls still haven't been able to re-open. They're hurting.

It's been well over a year since events were banned. Exhibitions prohibited. Parties outlawed. Gatherings forbidden. Weddings cancelled. Stores shuttered.

That's our business. These are our clients, our friends, our families. We all know people affected. We're in hundreds of neighbourhoods and our relationships transcend transactions.

Our business relies on healthy business clients. When they're hurting, we hurt too. When doors reopen and punters return, we'll be there to help. As restrictions tightened, product sales slowed. As the taps of the economy turned on, orders flowed. Taps off, back to trickles.

But that's it. We're not going to use the c-word from here on in.

Build, buy and license
Our strategy is pretty simple. It's worth repeating. Those three words. We build performance in our company-owned Nettl locations. We buy businesses to extend our capability and resilience. And we license our know-how and systems to others. I'll go into more detail on each of the sections in turn.

Nettl company stores
We have five company-owned Nettl locations. In these stores, we sell to local businesses. The kind of things a business would want to promote themselves online and offline. That's websites, ecommerce shops, online booking systems, social media, SEO, printing, displays, exhibition and signage. We mostly sell to SME clients, who often don't have their own in-house marketing department.

Our stores are in Manchester, Birmingham, Exeter, Liverpool and Dublin.

Sales in our company stores were **£1.83m***(2020: £2.81m)*. In this revenue segment, we count all invoiced sales to end clients of our company stores, whether they be print, display, design, websites or search engine optimisation. Essentially, everything we ring through the till in our own stores.

Except those tills stood silent for many months this past year. Lights remained off. Unwashed mugs recorded vacant days. But our studios worked remotely. Helping clients who were still trading, or preparing to re-open.

In the hazy warm days of summer 2020, we rolled a Nettl partner and small sign business into the Dublin store. That brought us sign installation capability in Ireland and we've serviced new and existing clients.

Buying businesses
We've talked about our acquisition strategy in our recent update on 16 April 2021. We made two small roll-in deals last year. While we're happy with how they integrated, they didn't really move the needle. Revenues are included in the Company Stores segment, but bear in mind that they were affected by the lockdown like the rest.

You'll recall we acquired Image Group back in 2017. That's in the revenue segment, "Works sign businesses". Sales were **£2.80m***(2020: £4.62m)*. In the summer last year we were able to sell and produce floor graphics, protective screens and other pandemic paraphernalia. However, for the rest of the year, sales were impacted by the cancellation of events and exhibitions. Those make up the biggest part of Image Group's work and so that sucked.

As Jan mentioned in the Chairman's Statement, we spoke with a lot of other sign businesses last year. We just didn't find enough of the right deals at the right price. However, we learned a lot about the systems and processes these businesses were using. And it made us re-evaluate whether we could achieve our objective of national graphics installation, without buying more sign businesses. I'll come back to that.

We also discussed a change to our acquisition strategy. Take a look at www.grafenia.com/acquisition to see the full detail. We're refocusing our search on software businesses to complement the Nettl offering.

License our systems
The system we use in our company stores is called w3p Flyerlink.

If you're a long-time reader, you might recall we started public life as printing.com. We developed a system to connect the central production hub with our local studio 'spokes'. And then those studios with their clients.

In the olden days, *when it was all just fields,* we had one objective: to make sure the right design was printed on the right rectangle of paper, the right way up, packed into the right box, delivered to the right address, by the right date. Our software and systems made it more likely. Over the years, we improved and tweaked and licensed that software to third parties. To make their print businesses more efficient and iron out their creases.

Now think back to 2014. *The Hunger Games* was a movie, not a reality TV show. Pharrell Williams was *Happy*. One balmy autumn day we opened our first Nettl store.

We'd taken our software platform, geared for print. And we'd extended it to manage web projects too. Automating the little things that have to happen for every site launch. Hiding a load of complex stuff behind a little simple 'go live' button.

It meant that printers and folk with a graphic design skill-set could build and deploy websites. Nettl studios could do more for their clients, in less time, with the same people.

As people get more expensive, a few minutes trimmed here, a couple of hours saved there, soon start to matter. And now they matter a lot. The Nettl system helps a studio to scale, without having to recruit a load more people.

We sometimes describe Nettl as a tool-kit. A Swiss army knife of modules to write proposals, manage recurring payments, set up subscriptions and *get wee stones out of horse's hoove*s.

Now I'm going to ask you to think of a three-legged stool. And now your brain just said stool-kit and I can't help that.

As you're sat on your Nettl stool, look down at the legs. One of them is the systems. It's got software written on it. Another says training. And, without straining your neck, good, yes that last one says marketing.

We licence Nettl and our software to other folks. Sometimes under white label, sometimes in conjunction with a brand.

A little context, if you'll allow the meander.

The longer lockdown went on, the more people got used to online shopping. It takes twenty one repetitions for a habit to form. Twenty one times of repeating something, before it becomes instinctive. A lot of folk had been buying online, pre-pandemic. But the vast majority had not. Yet, the more days that 'normal' retail was closed, the more people tried online shopping for the first time. And they liked it. *Oh boy, did they like it.* You've seen the stats. Once behaviours have formed, there's no going back.

Now, of course, a lot of printers had transactional websites before the pandemic. But for many, their website was somewhere to put pictures of their presses and their plant list and…. *oh sorry I nodded off were you saying something?*

A better way to shop
As part of our platform, there's a core ecommerce shopping cart. That's the bit that shows products and pricing, with checkout and payment gateway. It powers Marqetspace, printing.com, nettl.com and hundreds of public and private web2print websites. We call it w3shop by Nettl.

There's lots of ways an entrepreneur could start selling online. But a lot of people underestimate just how much effort there is in merchandising a product range for sale. If all you do is sell Spanish brandy or strawberry shortcake vapes or oven chips, then sure, you could be set up in a few days. But to merchandise the range of signage, display, print and promo items that businesses want. Well that's going to take, *like*, forever. If we were at a BBQ and your cousin started talking about that as an idea for a startup, we'd have to stage an intervention. Friends don't let friends start down that path.

Instead, our w3shop-keepers get an instant product range. In their own brand, on their own domain. Sure, they can still set their own pricing, add other products and connect their bank account. But in a few days they can be selling. Not blowing on throbbing digits, weary from typing in prices. Monthly subscriptions start at £99 and up. We've added more than 25 new w3shop subscribers during the pandemic.

Selling online has turned from *nice-to-have* into *must-have-to-survive*.

It's a huge thing. But it's not the whole thing.

The other thing
For many, an online shop is a gateway to the digital world. Clients want to do more than just buy online. They've got their own agendas. Their own problems to solve. Things they're trying to do. Some, time-consuming. Some, technically challenging.

And so the Nettl system helps SME clients to do things online. Like add QR codes to menus, for speedy table service. Or make reservations. Or fill out quote requests. Or buy online. Or all the things you do every day. And the things you want to do, but tut when you can't and have to speak to someone.

One thing is certain. The thing that made a local print store successful a decade ago, is long gone. Those that can adapt, that can learn. They'll be the survivors.

Got a first class ticket to Zoom
When someone becomes a Nettl, it's a commitment to learning. As a time-poor business owner, doing these things is hard. Even for the tech-savvy, figuring out how to do something the first time is always a leap into the unknown. Learning is never complete.

By necessity we've moved all of our training online. Not going to lie, we always wanted to do that. Travel bans forced it. And it's never going back to the way it was. It's so much better to stick in your earpods and join a group from your desk, than join a queue at Euston and stick your armpit in a stranger's face. It makes refreshing knowledge easier. Courses can be shorter. And if someone gets lost in the trainer's *blue steel*, then they can always watch again on catch-up.

Front of mind
That third leg of the stool was marketing. Our partners use content and promotional material, such as e-shots, website landing pages, catalogues, brochures, direct mail, point-of-sale and product samples that we create. They use that to keep in touch with existing clients and attract new ones. It helps them sell print, websites and signs. We release beautifully crafted fresh content multiple times a month, to stay in clients' front-of-mind.

Partners pay us a subscription fee, depending on the size of their exclusive territory, ranging from £300 to £1,000 per month. To grant them geographical exclusivity, they pay an initial licence fee of around £2,000. Our standard licence agreement is three or five years, sometimes with an option to break at 18 or 24 months.

It's been a tough time for the print industry. Litho print has been hit in particular and hit hard. We've supported our partners through this. Not with mutual sobbing and singing songs around a fading camp-fire. But by relentlessly marching forward with new products. Working with them to bring new services to sell. And investing in our platform and new technology to improve their productivity.

We've come out of the pandemic with a similar number of Nettl partners than we went into it with. We lost some. Some new faces joined. A few after completing a scholarship. We cheer those that made the brave choice to change. And we salute the fallen.

As lockdown has eased, and people feel more confident about the future, we're seeing a shortening of the gestation period. For, becoming a Nettl is a commitment. Jan mentioned "Choose your hard" in his statement. That message is simple. Nothing is easy in life. There are no easy answers. Entrepreneurs can plough their own track. Or they can ride the rails, as part of a proven system. Both options are valid. But we ask, doesn't it make sense to take the path that leads to the greater chance of success? If you fancy a distraction, have a read https://www.nettl.com/uk/chooseyourhard/

Our Nettl partner network now stands at **232** locations around the world *(2020: 239)*. At the date of our last trading update, we had 174 active Nettl partners in the UK and Ireland, 20 in Benelux, 12 in France, 20 in the USA, 4 in New Zealand and 2 in Australia. We also currently have 46 printing.com locations *(2020: 59)*. Upgrading from printing.com to Nettl is a path well trodden and we anticipate further partners will diversify their businesses away from simply selling print.

Subscription and Licence Fees held firm at **£2.08m***(2020: £2.08m)*. In this segment, we count initial licence fees, monthly subscriptions, website deployment royalties, the wholesale price of hosting, domain names, digital stock photography and search engine optimisation sold via our brand partners.

As well as licence fees, Nettl and printing.com partners are able to buy printing, exhibition kit, displays and signs from our Works Manchester hub. They pay a wholesale price and resell to end clients. With events mothballed and locations closed, it's not surprising that sales of product to Brand Partners was **£1.92m***(2020: £3.41m)*.

Plans for plans
No, you're thinking of an eighties pop band. Over the past two years we've been building a whole new part of our platform. We call it "Plans". And it's the central component which allowed us to migrate from the software system which Image Group was using.

The first iteration of our platform was for print. The second, web and digital services. This new layer is to enhance the whole process of quoting and managing sign and display projects.

We're big believers in self-service. Sure, people like personal service and a helping hand from a human. Being able to complete a complex task yourself, whenever you like, is the key to eternal happiness. And it's at the heart of our continuous reinvention.

With Plans, team members can build multi-part sign, display and print projects in a simple interface. Customising options and materials. As well as an instant price, a production route is automatically built. They'll add to a proposal, share online with the client and once the client has accepted, graphic files are checked and fixed automatically.

Great people are hard to find. We're grateful for the individual efforts our teams have made. And particularly where they are multiplied. Where the systems they've built enable hundreds of people to do tasks faster or even not at all.

We're rolling out Plans in stages, with upgrades available to our Nettl network in the autumn 2021.

Marqetspace.com and online channels
We sell print and signs to professional buyers through Marqetspace.com and a few other online channels. This space remains super-competitive. Marqetspace is important to us for a number of reasons. It's often where our relationships start. We get to know printers, graphic designers and sign companies with a simple trading relationship. Then we build trust. Then we figure out if any of our software tools or systems can help them achieve their own objectives. And so Marqetspace is a fertile ground for cultivating Nettl partners.

Of all our channels, Marqetspace typically had the biggest percentage of litho print to resellers. Unsurprisingly, it was hardest hit and sales were **£1.12m***(2020: £2.68m)*.

Nettl of America
Since the US travel ban in February 2020 we haven't been able to set foot on American soil. We've had to adapt how we acquire, launch and support our American friends. It's gone more slowly than we would have liked, but we've continued to add new Nettl locations. It's now a common path to start as a Nettl System user, get to know the software, and then start the process of becoming a Nettl Franchise. We now have franchisees and partners in the states of Florida, Georgia, Ohio, New Jersey and Illinois.

Brexit
We mentioned in our most recent update that since leaving the customs union, we'd experienced disruption in shipping to mainland Europe. Things haven't improved. Consignments are routinely delayed and customs charges incorrectly applied. We're now making the significant majority of products sold in mainland Europe with Works Makers on the mainland. We don't see that volume returning to the UK any time soon.

For materials we import, we're constantly having to work around supply issues. Items which were previously available in a few days can be out of stock for weeks or months. That's a combination of Brexit, the pandemic and a boat having a snooze in the Suez.

Outlook
We made significant steps reducing our overheads last year. Despite spending more of the second half of the year locked down than unlocked, we almost achieved EBITDA breakeven.

Our new financial year started in April. Trading has improved and the first quarter finished ahead of last year. July started well and should be our best month since September 2020. *The roads are busier.* With our new cost base, modest increases in revenue will improve profitability. And that gives us confidence of getting closer to reaching our mid-term objective of 10-15% EBITDA on a monthly run-rate during the current financial year.

But then. Will 2021 bring an alien invasion or solar flare or isn't there supposed to be an asteroid due about now or something?

See you for the presentation after the AGM*

Peter Gunning
Chief Executive

**providing Godzilla doesn't go rogue again*

Financial Review

Revenue
Group revenue this year finished at **£9.75m**, down from £15.60m in 2020, a 38% fall year-on-year. This reflects the significant impact caused by various degrees of lockdown put in place since March 2020. Sales of products have been most severely impacted, with exhibitions and events cancelled and demand for traditional print reduced with customers unable to open or operating at reduced capacity themselves.

As highlighted in our segmental disclosure (note 2) the sales of physical products have reduced across all channels. Our Company Stores saw a fall in revenue to **£1.83m***(2020: £2.81m)* despite the addition of Eggshell Solutions Limited during the year, which contributed £0.11m since it was acquired in September 2020. Sales of print and other products through our Brand Partner Network fell to **£1.92m***(2020: £3.41m)*, Online and Trade sales fell to **£1.12m***(2020: £2.68m)* and Works Signs Businesses fell to **£2.80m***(2020: £4.62m)*. Despite the overall fall, Licence Fee revenue has remained consistent year-on-year at **£2.08m***(2020: £2.08m)* with further demand for our subscription services compensating for reduced licence fee income from our Partners, as they too felt the full impact of the pandemic. At **94%***(2020: 95%)*, the majority of our business remains in the UK & Ireland.

Gross profit
Gross Profit, defined as revenue less direct materials (including the cost of distribution when made direct to customers) fell to **£5.58m***(2020: £7.98m*).

The improved gross margin percentage of **57.2%***(2020: 51.1%)* reflects a shift in the proportion of our revenue to higher margin Licence and Subscription income. Margins continue to be pressed in traditional print and signage, with the pandemic and other global supply chain issues causing scarcity of materials and increased costs of shipping.

Other operating costs
Staff costs reduced by 35% to **£3.70m***(2020: £5.69m)*. This has been achieved through a combination of permanent redundancies enacted in the prior year, £0.79m claimed during the year from the Coronavirus Job Retention Scheme and further permanent redundancy measures taken in September 2020. The average number of persons employed fell to **159***(2020: 203)*, a reduction that would have been greater if not for the government support received.

Other operating charges have been reduced to **£2.04m***(2020: £3.58m)* with non-essential spending curtailed and travel not possible. This includes restructuring costs totalling £0.10m *(2020: £0.20m)*.

Our bad debt charge has reduced to £0.20m in the year *(2020: £0.60m)* with improvements in internal credit control processes and a significant impairment in the prior year, when the impact of the pandemic on our customers first became apparent. We continue to work with our customers and Partners to come through the current difficulties together, however we have to accept that some of those debts may never be paid.

Profitability
As a combination of the factors discussed above, our pre-tax loss has reduced to **£2.33m***(2020: £3.63m)* leading to a reduced loss per share of **1.83p***(2020: 3.27p)*. Our earnings before interest, tax, depreciation and amortisation (EBITDA) loss reduced to **£0.16m***(2020: £1.29m)*. The parent company result for the year was a loss of **£0.33m***(2020: £3.11m)*. The prior year included an impairment charge of £2.95m on subsidiary investments which has not repeated.

Operating Cash Flow
This has led to the Group generating **£0.21m** of cash through operating activities *(2020: utilised £1.09m)*, reflecting the EBITDA in the respective years.

Investment activity
The current year has seen reduced investment in plant and equipment of **£0.18m***(2020: £0.43m)*, following the completion of our factory merger in the prior year. We have also continued our investment in the Group's software platforms, totalling **£0.68m***(2020: £0.67m)*, with continued enhancements and new features to the Groups SaaS platforms.

In September 2020, the Group acquired Eggshell Solutions Limited, net of cash received, for £0.08m and merged its operations with our Birmingham Store. This was followed with the purchase of the trade and assets of Sign Right, a small sign business in Dublin for £0.03m in November 2020.

Financing activity
On 15 July 2020 we announced the creation of a £50.00m perpetual bond facility and the issue of £3.00m of the bearer bonds, at nominal value, to investors, raising approximately **£2.01m** before expenses.

We also secured an additional term loan for **£1.00m** through the Coronavirus Business Interruption Loan Scheme (CBILS) and refinanced our primary hire purchase facility through CBILS, reducing our cash repayments for 12 months.

KPIs
Management monitors a number of KPIs, which underpin the performance of the business. The number of Nettl Network Partners has been broadly flat, as discussed by Peter earlier. The average product revenue per partner reduced, reflecting the impact of the pandemic. Website deployments and hosting fees per month have continued to increase, along with the number and value of SEO subscriptions.

Outlook
The future developments of the business are included in the Chairman's statement and Chief Executive's statement. The future trading environment remains uncertain. We can only guess the pace at which the economy at large, and by extension the printing and promotional world, will recover from the COVID-19 pandemic. We have factored the potential return of restrictions over the next winter period into our forecasting, however, with the restructuring activity undertaken in this financial year and existing cash reserves, we believe the financial future of the business is secure and we have the resources to execute our expansion plans. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Principal Risks and Uncertainties
The following are the principal risks relating to the Group's operations:

- uncertainty in the general economic environment 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;
- 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 and fund future acquisitions. 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 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.

Iain Brown
Group Finance Director

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2021	*Note*	**2021 £000**	2020 £000
Revenue	2	**9,748**	15,604
Raw materials and consumables used		**(4,173)**	(7,627)
Gross profit		**5,575**	7,977
Staff costs		**(3,700)**	(5,686)
Other operating charges		**(2,035)**	(3,580)
Earnings before interest, tax, depreciation and amortisation		**(160)**	(1,289)
Depreciation and amortisation	5 & 6	**(1,705)**	(2,025)
Operating loss		**(1,865)**	(3,314)
Financial income		**16**	25
Financial expenses		**(477)**	(342)
Net financing expense		**(461)**	(317)
Loss before tax		**(2,326)**	(3,631)
Tax income	3	**241**	258
Loss for the year		**(2,085)**	(3,373)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(2,085)**	(3,373)
Loss per share attributable to the ordinary equity shareholders of Grafenia plc			
Basic and diluted, pence per share	4	**(1.83)p**	(3.27)p

Consolidated statement of financial position

AT 31 MARCH 2021	Note	**2021 £000**	2020 £000
Non-current assets			
Property, plant and equipment	5	**5,065**	5,483
Intangible assets	6	**3,510**	3,858
Total non-current assets		**8,575**	9,341
Current assets			
Inventories		**444**	346
Trade and other receivables	7	**1,545**	2,150
Prepayments		**278**	447
Cash and cash equivalents		**2,740**	1,104
Total current assets		**5,007**	4,047
Total assets		**13,582**	13,388
Current liabilities			
Other interest-bearing loans and borrowings	9	**931**	753
Deferred consideration	9	**-**	147
Trade and other payables	8	**1,799**	2,160
Deferred income	8	**60**	143
Total current liabilities		**2,790**	3,203
Non-current liabilities			
Other interest-bearing loans and borrowings	9	**6,149**	3,483
Deferred tax liabilities		**389**	448
Total non-current liabilities		**6,538**	3,931
Total liabilities		**9,328**	7,134
Net assets		**4,254**	6,254
Equity attributable to equity holders of the parent			
Share capital	11	**1,145**	1,135

Merger reserve	**838**	838
Share premium	**7,866**	7,801
Share based payment reserve	**84**	74
Retained earnings	**(5,679)**	(3,594)
Total equity	**4,254**	6,254

Consolidated statement of changes in shareholders' equity

YEAR ENDED 31 MARCH 2020	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2019	847	838	4,125	47	(221)	5,636
Loss and total comprehensive income for the year	-	-	-	-	(3,373)	(3,373)
Shares issued in the period	288	-	3,738	-	-	4,026
Costs associated with share issue	-	-	(62)	-	-	(62)
Share option reserve	-	-	-	27	-	27
Total movement in equity	288	-	3,676	27	(3,373)	618
Balance at 31 March 2020	1,135	838	7,801	74	(3,594)	6,254
YEAR ENDED 31 MARCH 2021						
Loss and total comprehensive income for the year	-	-	-	-	(2,085)	(2,085)
Shares issued in the period	10	-	65	-	-	75
Share option reserve	-	-	-	10	-	10
Total movement in equity	10	-	65	10	(2,085)	(2,000)
Balance at 31 March 2021	1,145	838	7,866	84	(5,679)	4,254

Consolidated statement of cash flows

FOR YEAR ENDED 31 MARCH 2021	Note	2021 £000	2020 £000
Cash flows from operating activities			
Loss for the year		**(2,085)**	(3,373)
Adjustments for:			
Depreciation, amortisation and impairment		**1,705**	2,025
Loss / (profit) on sale of plant and equipment		**5**	(99)
Reduction in deferred consideration		**-**	(220)
Release of deferred profit on sale of plant and equipment		**(14)**	(12)
Share based payments		**10**	27
Net finance expense		**461**	317
Bad debt expense		**169**	588
Tax income		**(241)**	(258)
Operating cash flow before changes in working capital and provisions		**10**	(1,005)
Change in trade and other receivables		**465**	444
Change in inventories		**(96)**	109
Change in trade and other payables		**(338)**	(708)
Cash generated from / (utilised by) operations		**41**	(1,160)
Interest paid		**(9)**	-
Interest received		**7**	-
R&D tax income received		**172**	67
Net cash inflow / (outflow) from operating activities		**211**	(1,093)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**10**	265
Acquisition of plant and equipment		**(90)**	(383)
Capitalised development expenditure	6	**(419)**	(373)
Acquisition of other intangible assets	6	**(259)**	(305)
Acquisition of Subsidiary net of cash (group)		**(84)**	-
Net cash used in investing activities		**(842)**	(796)
Cash flows from financing activities			
Proceeds / (repayment) of funding from invoice finance		**81**	(947)
Proceeds from loans	9	**3,010**	-
Repayment of loans		**(81)**	(211)
Capital payment of lease liabilities		**(411)**	(622)
Interest payment of lease liabilities		**(260)**	(317)
Payment of deferred consideration		**(147)**	(228)
Issue of shares (net of costs)		**75**	3,964
Net cash generated from financing activities		**2,267**	1,639
Net increase / (decrease) in cash and cash equivalents		**1,636**	(250)
Cash and cash equivalents at start of year		**1,104**	1,354
Cash and cash equivalents at 31 March 2020		**2,740**	1,104

Notes to the financial statements

1. **BASIS OF PREPARATION**

GENERAL INFORMATION
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 2020.

The comparative figures for the year ended 31 March 2020 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 July 2021.

GOING CONCERN
As part of the consideration of the appropriateness of adopting the going concern basis of accounting, the Directors have prepared a forecast and applied reasonable sensitivities, covering the cash flow impact associated with a further year of COVID-19 disruption. The primary cash flow impact identified in the sensitivity analysis is a significant reduction in cash collections driven by lower customer demand. The Directors also considered the potential levers at their discretion to improve the cash position, including a number of further reductions in operating expenditure across the group, primarily related to workforce cost reductions. Having considered these scenarios, the Group continues to have sufficient cash headroom.

Based on the above the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and is well placed to manage its business risks successfully despite the continued uncertain economic outlook caused by Covid-19.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

INTANGIBLES - CAPITALISATION AND VALUATION OF SOFTWARE AND DEVELOPMENT COSTS AND ACQUIRED INTANGIBLES
The Board consider that the Group's key differentiators stem from its proprietary software, operationally w3p, developed to support Brand Partners Nettl and printing.com, Marqetspace and online initiatives. It is essential to continue investing in these assets. Projects are agreed with user forums to improve functionality for Partners. Separate projects are defined for international expansion and for new initiatives as they are identified. Development costs are capitalised where a project has been defined, tested and expected to realise future economic benefits. Programming is carried out by third parties working to a detailed specification and schedule. The Board exercises judgement in determining the costs to be capitalised and determine the useful economic life to be applied typically 3 years or whilst the asset in question remains in use. Acquired intangibles have been identified as the customer base and brand, the valuation is based upon future discounted cash flows and expectations for the business. Further, the Board will use estimates of future incremental cash flows to periodically assess the carrying value of intangible assets.

IMPAIRMENT OF INTANGIBLE ASSETS AND INVESTMENT IN SUBSIDIARIES.
In assessing impairment, Management estimates the recoverable amount of cash generating units based on expected future cash flows and uses the weighted average cost of capital to discount them. At the end of each reporting period the Management reviews a four year forward looking financial projection including a terminal value for the Group. The Management has further evaluated the terminal growth expectations and the applied discount rate applicable to derive a Net Present Valuation (NPV) of the Group. If the NPV of the Group shows a lower valuation than the net assets or the company cost of investment in subsidiaries plus intercompany balances due, an impairment will be made. Based on this evaluation, including management estimates and assumptions, no impairment was made during the reporting period. Estimation uncertainty relates to assumptions about future operating results in particular sales volumes and the determination of a suitable discount rate.

ESTIMATION OF THE EXPECTED CREDIT LOSSES ON TRADE RECEIVABLES
In assessing the expected credit losses, in respect of the trade receivables under IFRS 9, the Group considers the past performance of the receivable book along with future factors that may affect the credit worthiness of the entire trade receivables. Estimations have therefore been made within these assumptions which could affect the carrying value of the trade receivables.

BEARER BONDS
The bearer bonds issued by the Company have no fixed maturity. In order to establish an effective interest rate, management is required to determine the expected life of the bonds and has estimated this to be 20 years from the date of issue. In assessing the fair value of the embedded derivative relating to the exclusive one way call option, judgement is required in order to assess the likelihood of the business exercising this option.

2. 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 £000	Europe £000	Other £000	Total £000
Year ended 31 March 2021	**9,117**	**242**	**389**	**9,748**
Year ended 31 March 2020	14,791	384	429	15,604

Revenue generated outside the UK is attributable to partners in Australia, Belgium, France, 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:

	Nettl Systems				**Works Manchester**			**Total**
	Licence Fees	**Company Stores**	**Brand Partner Print**	**Total Nettl Systems**	**Works Sign Businesses**	**Online & Trade**	**Total Works Manchester**	
	£000	**£000**	**£000**	**£'000**	**£000**	**£000**	**£'000**	**£000**
Year ended 31 March 2021	**2,077**	**1,832**	**1,916**	**5,825**	**2,804**	**1,119**	**3,923**	**9,748**
Year ended 31 March 2020	2,083	2,806	3,414	8,303	4,624	2,677	7,301	15,604

Of the Group's non-current assets (excluding deferred tax) of £8,575,000, £8,545,000 are located in the UK. Non-current assets located outside the UK are in France £5,000 *(2020: £6,000)* and Ireland £25,000 *(2020: nil)*.

3. TAXATION

Recognised in the income statement	**2021 £000**	2020 £000
Current tax expense		
Current year	**(166)**	(146)
Adjustments for prior years	**(1)**	6
	(167)	(140)
Deferred tax expense		
Origination and reversal of temporary differences	**(74)**	(128)
Adjustment in respect of prior year	**-**	10
Total tax in income statement	**(241)**	(258)

RECONCILIATION OF EFFECTIVE TAX RATE
Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2020: lower)* than the standard rate of corporation tax in the UK of 19% *(2020: 19%)*.

The differences are explained below:

	2021 £000	2020 £000
Loss before tax	**(2,326)**	(3,631)
Tax using the UK corporation tax rate of 19% (2020:19%)	**(442)**	(690)
Effects of:		
Other tax adjustments, reliefs and transfers	**(99)**	(40)
Adjustments in respect of prior periods - current tax	**(1)**	6
Adjustments in respect of prior periods - deferred tax	**-**	10
Deferred tax not recognised	**248**	403
Research and Development losses surrendered	**223**	227
Research and Development super deduction	**(170)**	(174)
Total tax credit	**(241)**	(258)

The Group tax debtor amounts to £163,000 *(2020 Debtor: £354,000)*. The deferred tax liabilities as at 31 March 2021 have been calculated using the tax rate of 19% which was substantively enacted at the balance sheet date.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

4. EARNINGS PER SHARE

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

	2021 £000	2020 £000
Loss after taxation for the financial year from continuing operations	**(2,085)**	(3,373)

	Weighted average number of Shares	Weighted average number of Shares
For basic earnings per ordinary share	**113,831,139**	102,993,216
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**113,831,139**	102,993,216
Basic and diluted loss per share	**(1.83)p**	(3.27)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.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Plant and equipment £000	Assets held for resale £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost						
Balance at 31 March 2019	576	5,383	265	83	1,324	7,631
Right-of-use assets recognised on IFRS 16 adoption	1,999	37	-	56	-	2,092
Additions	-	173	-	-	259	432
Disposals	-	(2)	(265)	-	-	(267)
Balance at 31 March 2020	2,575	5,591	-	139	1,583	9,888
Additions	-	168	-	8	4	180
Acquisition of subsidiary	-	1	-	-	-	1
Disposals	-	(523)	-	(28)	-	(551)
Balance at 31 March 2021	**2,575**	**5,237**	**-**	**119**	**1,587**	**9,518**
Depreciation and impairment						
Balance at 31 March 2019	576	2,116	-	69	810	3,571
Depreciation charge for the year	260	378	-	32	164	834
Balance at 31 March 2020	836	2,494	-	101	974	4,405
Depreciation charge for the year	260	140	-	27	157	584
Disposals	-	(508)	-	(28)	-	(536)
Balance at 31 March 2021	**1,096**	**2,126**	**-**	**100**	**1,131**	**4,453**
Net book value						
At 31 March 2019	-	3,267	265	14	514	4,060
At 31 March 2020	1,739	3,097	-	38	609	5,483
At 31 March 2021	**1,479**	**3,111**	**-**	**19**	**456**	**5,065**

Depreciation is charged in the statement of comprehensive income to other operating charges.

Right-of-use assets are included within the same asset categories as they would have been if they were owned. As of 31 March 2021 the Group has right-of-use assets with a carrying value of £3,806,000 *(2020: £4,116,000)*. A table showing the net book value of right-of-use assets within property, plant and equipment at 31 March 2021 and 31 March 2020, split by category, is disclosed in note 10.

6. INTANGIBLE ASSETS

	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Cost							
Balance at 31 March 2019	912	3,965	3,686	3,165	141	157	12,026
Additions - internally developed	-	-	373	-	-	-	373
Additions - purchased	-	300	-	-	-	5	305
Balance at 31 March 2020	912	4,265	4,059	3,165	141	162	12,704
Additions - internally developed	-	-	419	-	-	-	419
Additions - purchased	-	259	-	-	-	-	259
Acquisition of subsidiary	-	-	-	80	15	-	95
Balance at 31 March 2021	**912**	**4,524**	**4,478**	**3,245**	**156**	**162**	**13,477**
Amortisation and impairment							
Balance at 31 March 2019	366	3,493	2,872	804	12	108	7,655
Amortisation for the year	46	312	426	401	-	6	1,191
Balance at 31 March 2020	412	3,805	3,298	1,205	12	114	8,846
Amortisation for the year	30	297	389	399	-	6	1,121
Balance at 31 March 2021	**442**	**4,102**	**3,687**	**1,604**	**12**	**120**	**9,967**
Net book value							
At 31 March 2019	546	472	814	2,361	129	49	4,371
At 31 March 2020	500	460	761	1,960	129	48	3,858
At 31 March 2021	**470**	**422**	**791**	**1,641**	**144**	**42**	**3,510**

IMPAIRMENT TESTING

The recoverable amount of goodwill and intangible assets is determined from value in use calculations.

The Group prepares cash flow forecasts derived from budgets and five-year business plans. For the purposes of impairment testing inflationary growth of 0% 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 7.4% *(2020: 6.8%)* was applied.

Other intangible assets have also been considered for impairment due to indicators of impairment being present in the form of losses and wider economic conditions. These assets are not considered to be impaired.

Increasing the pre-tax discount factor to 8.0% would result in an impairment charge against intangible assets of £169,000.

Amortisation and impairment charge

The amortisation charge of £1,121,000 *(2020: £1,191,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2020: £nil)* was recognised during the year.

7. TRADE AND OTHER RECEIVABLES

At 31 March 2021 trade receivables are shown net of an impairment allowance of £1,090,000 *(2020: £1,000,000)*.

Trade and other receivables denominated in currencies other than sterling comprise £136,000 *(2020: £112,000)* of trade receivables.

	2021 £000	2020 £000
Trade receivables	**2,408**	2,743
Less provision for trade receivables	**(1,090)**	(1,000)
Trade receivables net	**1,318**	1,743
Total financial assets other than cash and cash equivalents classified at amortised cost	**1,318**	1,743
Corporation tax	**163**	354
Other receivables	**64**	53
Total Other receivables	**227**	407
Total trade and other receivables	**1,545**	2,150

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

	Under 6 months £000	Over 6 months £000	Total £000
Gross carrying amount	966	1,442	2,408
Loss provision	(90)	(1,000)	(1,090)
Net carrying amount	876	442	1,318

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 marketplace 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 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. There are no trade receivables outside of credit terms without an impairment provision.

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

Impairment

	As at 31 March 2021 £000	As at 31 March 2020 £000
Balance at 1 April	**1,000**	412
Receivable written off during the year as uncollectible	**(70)**	-
Increase in impairment allowance	**160**	588
Balance at 31 March	**1,090**	1,000

Of the total impairment provision £79,000 *(2020: £72,000)* 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 £209,000 *(2020: £128,000)* 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 are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

8. TRADE AND OTHER PAYABLES

Current Liabilities

	2021 £000	2020 £000
Trade payables	**689**	1,326
Accruals	**358**	472
Other liabilities	**752**	362
Total financial liabilities, excluding 'non-current' loans and borrows classified as financial liabilities measured at amortised cost	**1,799**	2,160
Deferred income	**60**	143
Total trade and other payables	**1,859**	2,303

Trade payables denominated in currencies other than Sterling comprise £43,000 *(2020: £28,000)* denominated in Euro.

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.

9. BORROWINGS

Current Liabilities	**2021 £000**	2020 £000
Invoice Financing	**209**	128
Lease liabilities	**602**	625
Loans	**120**	-
	931	753
Deferred consideration	**-**	147
Non-Current Liabilities		
Lease liabilities	**3,185**	3,483
Loans	**854**	-
Bearer Bonds	**2,110**	-
	6,149	3,483

In July 2020 the Company issued bonds with a nominal value of £3,000,000, raising a net £2,010,000. The bonds are interest-free for three years and thereafter pay 6% of the nominal value, annually in arrears, until the company exercises its call option. The bond has initially been measured at fair value, which is considered to be the transaction price. Subsequently the liability is measured at amortised cost based on the expected cash flows over the expected life of the instrument.

In August 2020 an additional term loan for £1,000,000, repayable over six years, was secured through the Coronavirus Business Interruption Loan Scheme at an effective annual interest rate of 8.6%. At 31 March 2021 the liability was £974,000.

10. LEASES

All leases where the Group is a lessee are accounted for by recognising a right of use asset and a lease liability except for:
- Leases of low value assets
- Leases with a term of 12 months or less.

IFRS 16 'Leases' was adopted on 1 April 2019 without restatement of comparative figures.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RIGHT OF USE ASSETS	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 2019	1,999	2,503	56	4,558
Additions to right of use assets	-	49	-	49
Depreciation	(260)	(204)	(27)	(491)
Balance at 31 March 2020	1,739	2,348	29	4,116
Additions to right of use assets	-	95	-	95
Depreciation	(260)	(122)	(23)	(405)
Balance at 31 March 2021	**1,479**	**2,321**	**6**	**3,806**

LEASE LIABILITIES	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 2019	1,999	2,621	61	4,681
Additions to lease liabilities	-	49	-	49
Interest expense	120	193	4	317
Lease payments	(317)	(589)	(33)	(939)
Balance at 31 March 2020	1,802	2,274	32	4,108
additions to lease liabilities	-	90	-	90
Interest expense	107	152	1	260
Lease payments	(340)	(304)	(27)	(671)
Balance at 31 March 2021	**1,569**	**2,212**	**6**	**3,787**

AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	2021				2020			
	Land and buildings £000	**Plant and equipment £000**	**Motor Vehicles £000**	**Total £000**	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Depreciation charge on right of use assets	**260**	**122**	**23**	**405**	260	204	27	491
Interest on lease liabilities	**107**	**152**	**1**	**260**	120	193	4	317
Expenses related to low value and short-term leases	**20**	**3**	**-**	**23**	45	5	-	50
	387	**277**	**24**	**688**	425	402	31	858

LEASE LIABILITIES - MATURITY ANALYSIS OF CONTRACTUAL UNDISCOUNTED CASH FLOWS

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
31 March 2021	**3,787**	**4,643**	**390**	**441**	**865**	**2,216**	**731**
31 March 2020	4,108	5,532	441	447	865	2,410	1,369

11. SHARE CAPITAL

In thousands of shares	**Ordinary shares 2021**	Ordinary shares 2020
In issue at 1 April	**113,525**	84,685
Issued by the Company	**966**	28,840
Shares on the market at 31 March - fully paid	**114,491**	113,525

Allotted, called up and fully paid	**£000**	£000
114,490,828 (2020: 113,525,346) ordinary shares of £0.01 each	**1,145**	1,135
63 deferred shares of £0.10 each	**-**	-
	1,145	1,135

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.

On 14 December 2020 the company announced that employees who had elected to forgo a proportion of their remuneration in favour of the equivalent value in shares, based on a purchase price of £0.0775 each, were issued 919,032 ordinary shares of £0.01.

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 *(2020: £nil)*.

12. RELATED PARTIES

The Company provides cross company guarantees in respect of the invoice discounting for £0.21m. In the year ended 31 March 2021 no dividends were received *(2020: nil)*.

Transactions with key management personnel
At the year end the Directors of the Company controlled 3.10 per cent of the voting shares of the Group.

On 28 April 2020 the Company announced the launch of the Share Stake Scheme (the "Scheme") which allowed team members to elect to forgo a proportion of their remuneration receivable from the Company, in return for the receipt of new ordinary shares of one penny each in the Company ("New Ordinary Shares") to be issued at a price of 7.75p.

All of the Executive Directors elected to receive between 20% and 30% of their monthly net remuneration in New Ordinary Shares from 1 April 2020 for a period of seven months. Non Executive Directors elected to receive 100% of their fees in New Ordinary Shares for the same period. On 14 December 2020 the Company issued the following number of New Ordinary Shares to the Directors pursuant to the Scheme:

		New Ordinary Shares issued	Resulting shareholding	% holding upon Admission
Conrad Bona	Non-Executive Director	83,580	1,170,007	1.02%
Simon Barrell	Non-Executive Director	85,356	85,356	0.07%
Peter Gunning	Chief Executive Officer	231,352	1,965,352	1.71%
Iain Brown	Group Finance Director	84,208	84,208	0.07%
Gavin Cockerill	Chief Operating Officer	87,644	92,518	0.08%

Richard Lightfoot	Director & Company Secretary	77,156	152,156	0.13%

On 15 July 2020 the Company put in place a facility (the "Perpetual Bond Facility") to issue up to £50 million of perpetual bonds (the "Bearer bonds") and issued £3.0 million of the Bearer bonds, at nominal value, to investors, raising approximately £2.01 million before expenses. TGV Truffle Fund, an investment fund managed by Investmentaktiengesellschaft für langfristige Investoren TGV ("Langfrist"), subscribed for Bearer bonds to the value of £2.8 million at nominal value (the "Related Party Transaction"). The TGV Truffle Fund is a related party of the Company for the purposes of the AIM Rules as Langfrist holds more than 10 per cent. of the ordinary shares of the Company.

The compensation of the Directors, who are the key management personnel, is disclosed in the full Annual Report, see note 13.

13. ANNUAL REPORT

The Annual Report and Notice of AGM will be sent to shareholders on or around 18 August 2021 and will be available on the Company's website www.grafenia.com from that date.