

Interim Financial Statements

Quartix Holdings plc

For the half year ended 30 June 2016

The unaudited interim results to 30 June 2016 for Quartix Holdings plc are set out below:

Statement of Directors' responsibilities

The Directors are responsible for preparing the interim financial report, in accordance with applicable law and regulations.

As permitted, this Interim Report has been prepared in accordance with UK AIM Rules for Companies and not in accordance with IAS 34 "Interim Financial Reporting" and it should be read in conjunction with the annual financial statements for the year ended 31 December 2015. The Directors confirm that to the best of their knowledge the interim financial statements have been prepared in a manner consistent with the accounting policies set out in the statutory accounts for the year ended 31 December 2015.

By order of the Board of Directors on 26 July 2016.

Andrew Walters
Managing Director

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Highlights

Financial highlights

- Group revenues increased by 26% to £11.6m (2015: £9.2m)
 - Fleet revenues grew by 16% to £7.2m (2015: £6.2m)
 - Insurance revenues increased by 47% to £4.4m (2015: £3.0m)
- Operating profit increased by 22% to £3.3m (2015: £2.7m)
- Adjusted EBITDA¹ increased by 22% to £3.4m (2015: £2.8m)
- Profit before tax increased by 23% to £3.3m (2015: £2.7m)
- Diluted earnings per share increased by 25% to 5.82p (2015: 4.67p)
- Cash inflow before tax increased by 20% to £3.6m (2015: £3.0m)
- Free cash flow increased by 29% to £3.1m (2015: £2.4m)
- Net cash of £4.1m (31 December 2015: net cash of £3.0m)
- Operating cash conversion² was 107% (2015: 109%)
- Interim dividend of 2.2p per share proposed

¹ EBITDA adjusted for share based payment expense

² Adjusted cash inflow before tax divided by operating profit

Operational highlights

Fleet

Good progress in the main fleet business

- Fleet subscription base grew by 7% to 79,214 vehicles (31st December 2015: 73,744)
- 9,898 new fleet installations (2015: 10,733)
- Customer base increased by 5% to 8,212 (31st December 2015: 7,849)
- Attrition¹ on a rolling 12 month basis was 11.3%; significantly below the 14% industry average
- Expansion of subscription base in all three fleet market territories, but new fleet sales constrained by management focus required in serving continued increase in insurance installations.

¹ Attrition is calculated as the difference between the number of new unit installations and the increase in active subscriptions between 1 July 2015 and 30 June 2016, expressed as a percentage of the mean subscription base between those two points in time: $[(20,682-12,408)/73,010 = 11.3\%]$

UK & Ireland

- 66,089 active vehicle subscriptions, up 6% (31 December 2015: 62,655)
- 6,128 customers, up 3% (31 December 2015: 5,960)

France

- 9,058 active vehicle subscriptions, up 14.5% (31 December 2015: 7,910)
- 1,294 customers, up 8% (31 December 2015: 1,196)

USA

- 4,067 active vehicle subscriptions, up 28% (31 December 2015: 3,179)
- 790 customers, up 14% (31 December 2015: 693)

Insurance

Insurance installations grew by 46% to 37,060 (2015: 25,438).

Chairman's Statement

Summary

The past half year has shown continued strong demand for the Group's vehicle tracking systems, software and services in both the fleet and insurance sectors. Revenues in the core fleet sector grew by 16% to £7.2m (2015: £6.2m). Sales to UK based insurance customers increased by 47% to £4.4m (2015: £3.0m). Our success across both sectors was reflected in an increase in the installation of new tracking systems and the achievement of £6.5m of recurring revenue in the fleet sector (2015: £5.7m).

Sales in the UK grew by 24%, with growth from both the fleet and insurance sectors, reaching £10.7m (2015: £8.6m). The Group made good progress in France, where revenues increased by 26% in local currency to €0.8m (2015: €0.6m). The French sales team in Newtown was further strengthened, and a senior manager was appointed at the beginning of July with responsibility for French sales.

The Group continued to develop its operations successfully in the USA, taking its subscription base to 4,067 vehicles. This is more than double the level of 12 months ago. Revenues increased to \$0.4m (2015: \$0.1m). Legislation which was introduced at the end of 2015 concerning the monitoring of drivers' hours of service reduced demand for the Group's services until it could make a compliant solution available. This new product is nearing completion and will begin shipments early in the second half. The legislation comes into effect in December 2017 and is expected to increase market demand for the Group's services. The Federal Motor Carrier Safety Administration estimates that 3.1m vehicles are affected by the legislation.

The Chicago based sales and support team relocated to larger office premises in May, and in June the Group reached agreement with a nationwide firm of mobile installation technicians in order to offer an installed solution to American customers. Both of these measures are expected to support the future growth of the business.

The rapid growth in insurance installations, coupled with continued focus by insurers on lead-time reductions, led to an increase in management time committed to ensuring successful delivery of our product in this sector. In the light of the opportunities available to the Group in its core, high-margin fleet operations, the Board has taken steps to allow management to focus more of its time in growing and developing the fleet business. In line with this strategy, the Group will concentrate its business development activities in insurance on those opportunities which make best use of the significant technological and service advantages that the Group has, and which are more closely aligned to its fleet business.

Consequently, the Group has developed and launched an insurance platform which it believes will appeal to a range of specialist insurance brokers. The development for this has run in tandem with the new fleet capabilities on which it is based, namely the TCSV11 telematics system, the SafeSpeed Database and the display dashboards provided for fleet managers. The insurance capabilities of the system can be seen at www.quartix.net/insurance.

Results

Group revenues for the half year increased by 26% to £11.6m (2015: £9.2m), driven by a 16% increase in fleet revenues and a 47% increase in insurance revenues.

Operating profit for the half year increased by 22% to £3.3m (2015: £2.7m). This is particularly pleasing, given that the Group increased R&D expenditure by 47% to £0.8m in order to support its plans for future growth. These costs were fully expensed during the period.

Profit before tax increased by 23% to £3.3m (2015: £2.7m).

Financial statements for the half year ended 30 June 2016

Cash conversion was excellent, resulting in post-tax cash flow from operations of £3.1m (2015: £2.5m). The Group had net cash of £4.1m as at 30 June 2016 (£3.0m at 31st December 2015), having paid a dividend of £1.9m in May.

Earnings per share

Basic earnings per share rose by 24% to 5.89p (2015: 4.74p). On a fully diluted basis earnings per share increased 25% to 5.82p (2015: 4.67p).

Dividend

The Board has recommended an interim dividend of 2.2p (2015 2.0p) per share, amounting to £1,040,445 in aggregate. This was approved by the Board on 26 July 2016. The interim dividend will be paid on 15 September 2016 to shareholders on the register as at 19 August 2016.

Dividend Policy

Following the publication of its final results for 2016, the Board plans to announce a final dividend for the year with the aggregate of the interim and final dividend set at approximately 50% of cash flow from operating activities, which is calculated after taxation paid but before capital expenditure. The Board will also look to distribute the excess of cash balances over £2m by way of supplementary dividends, subject to a 2p per share de minimis level. The surplus cash will be calculated by taking the year end cash balance and deducting the proposed regular dividend.

The policy will be subject to review.

Governance and the Board

The Board is comprised of two Non-Executive Directors: myself and Jim Warwick, and two Executive Directors: Andrew Walters and David Bridge.

For further details regarding Corporate Governance and the Board, please see the “Investors” section of our website (www.quartix.net/investors.php).

Outlook

The Group has made a good start to the second half, in line with management’s expectations. The high levels of recurring revenues and opportunities to grow in the UK, France and the USA in fleet combined with more efficient management of the insurance business underpin our confidence for the rest of the year and beyond.

Paul Boughton

Chairman

Consolidated Statement of Comprehensive Income

		30 June 2016	30 June 2015	31 December 2015
	Notes	Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Revenue	3	11,574	9,190	19,675
Cost of sales		(4,483)	(3,555)	(7,525)
Gross profit		7,091	5,635	12,150
Administrative expenses		(3,769)	(2,912)	(6,105)
Operating profit		3,322	2,723	6,045
Finance income receivable		8	7	13
Finance costs payable		(17)	(39)	(69)
Profit for the period before taxation		3,313	2,691	5,989
Tax expense		(531)	(475)	(975)
Profit for the period		2,782	2,216	5,014
Other Comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations		(125)	13	(49)
Tax benefit/(expense)			-	-
Other comprehensive income for the year, net of tax		(125)	13	(49)
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		2,657	2,229	4,965
Adjusted EBITDA		3,445	2,828	6,248
Earnings per ordinary share (pence)	4			
Basic		5.89	4.74	10.69
Diluted		5.82	4.67	10.53

All of the activities of the Group in the current period are classed as continuing and there is no other comprehensive income.

Consolidated Statement of Financial Position

Company registration number: 06395159

		30 June 2016	30 June 2015	31 December 2015
		Unaudited	Unaudited	Audited
Assets	Notes	£'000	£'000	£'000
Non-current assets				
Goodwill		14,029	14,029	14,029
Property, plant and equipment		376	306	317
Deferred tax assets		68	-	77
Total non-current assets		14,473	14,335	14,423
Current assets				
Inventories		618	268	638
Trade and other receivables		2,727	2,361	2,586
Cash and cash equivalents		4,598	2,311	4,040
Total current assets		7,943	4,940	7,264
Total assets		22,416	19,275	21,687
Current liabilities				
Trade and other payables		2,853	2,033	2,842
Borrowings		498	995	997
Deferred revenue		2,483	2,071	2,244
Current tax liabilities		535	535	407
		6,369	5,634	6,490
Non-current liabilities				
Borrowings		-	497	-
Deferred tax liabilities		-	47	-
		-	544	-
Total liabilities		6,369	6,178	6,490
Net assets		16,047	13,097	15,197
Equity				
Called up share capital	6	473	469	472
Share premium account	6	4,674	4,454	4,631
Equity reserve		175	126	177
Capital redemption reserve		4,663	4,663	4,663
Translation reserve		(174)	13	(49)
Retained earnings		6,236	3,372	5,303
Total equity attributable to equity shareholders of Quartix Holdings plc		16,047	13,097	15,197

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Capital redemption reserve £'000	Equity reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2014	467	4,379	4,664	151	-	2,493	12,154
Shares issued	2	75	(1)	-	-	-	76
Increase in equity reserve in relation to options issued	-	-	-	46	-	-	46
Adjustment for exercised options	-	-	-	(71)	-	71	-
Dividend paid	-	-	-	-	-	(1,408)	(1,408)
Transactions with owners	469	4,454	4,663	126	-	1,156	10,868
Foreign currency translation differences	-	-	-	-	13	-	13
Profit for the period	-	-	-	-	-	2,216	2,216
Total comprehensive income	-	-	-	-	13	2,216	2,229
Balance at 30 June 2015	469	4,454	4,663	126	13	3,372	13,097
Shares issued	3	177	1	-	-	-	181
Increase in equity reserve in relation to options issued	-	-	-	25	-	-	25
Adjustment for exercised options	-	-	(1)	(73)	-	73	(1)
Deferred tax on share options	-	-	-	99	-	-	99
Dividend paid	-	-	-	-	-	(940)	(940)
Transactions with owners	472	4,631	4,663	177	13	2,505	12,461
Foreign currency translation differences	-	-	-	-	(62)	-	(62)
Profit for the period	-	-	-	-	-	2,798	2,798
Total comprehensive income	-	-	-	-	(62)	2,798	2,736
Balance at 31 December 2015	472	4,631	4,663	177	(49)	5,303	15,197
Shares issued	1	43	-	-	-	-	44
Increase in equity reserve in relation to options issued	-	-	-	55	-	-	55
Adjustment for exercised options	-	-	-	(43)	-	43	-
Deferred tax on share options	-	-	-	(14)	-	-	(14)
Dividend paid	-	-	-	-	-	(1,892)	(1,892)
Transactions with owners	1	43	-	(2)	-	(1,849)	(1,807)
Foreign currency translation differences	-	-	-	-	(125)	-	(125)
Profit for the period	-	-	-	-	-	2,782	2,782
Total comprehensive income	-	-	-	-	(125)	2,782	2,657
Balance at 30 June 2016	473	4,674	4,663	175	(174)	6,236	16,047

Consolidated Statement of Cash Flows

		30 June 2016	30 June 2015	31 December 2015
	Notes	Unaudited £'000	Unaudited £'000	Audited £'000
Cash generated from operations	5	3,570	2,970	6,781
Taxes paid		(408)	(439)	(1,092)
Cash flow from operating activities		3,162	2,531	5,689
Investing activities				
Additions to property, plant and equipment		(120)	(178)	(262)
Interest received		8	7	13
Cash flow from investing activities		(112)	(171)	(249)
Cash flow from operating activities after investing activities (free cash flow)		3,050	2,360	5,440
Financing activities				
Repayment of long term borrowings		(500)	(500)	(1,000)
Interest paid		(20)	(43)	(75)
Proceeds from share issues	6	44	77	257
Dividend paid		(1,892)	(1,408)	(2,348)
Cash flow from financing activities		(2,368)	(1,874)	(3,166)
Net changes in cash and cash equivalents		682	486	2,274
Cash and cash equivalents, beginning of period		4,040	1,812	1,812
Exchange differences on cash & cash equivalents		(124)	13	(46)
Cash and cash equivalents, end of period		4,598	2,311	4,040

Notes to the Financial Statements (unaudited)

1 General information

Quartix Holdings plc (“the Company”) and its subsidiaries (“the Group”) specialises in the design, development and marketing of vehicle tracking devices and the provision of related data services.

The Company was re-registered as a public company on 31 July 2014 and is incorporated and domiciled in the UK.

2 Significant accounting policies

Basis of preparation

The financial information has been prepared in accordance with recognition and measurement principles of International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that had been published by 30 June 2016 as endorsed by the European Union (“EU”). The accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2015, as described in those financial statements. In preparing these interim financial statements, the Board has not sought to adopt IAS 34 “Interim financial reporting”.

The figures for the six month periods ended 30 June 2016 and 30 June 2015 have not been audited. The figures for the year ended 31 December 2015 have been extracted from, but do not constitute, the consolidated financial statements of Quartix Holdings plc for that year. Those financial statements have been delivered to the Registrar of Companies and included an Auditors’ Report, which was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

Going concern

The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity.

The Group enjoys a strong income stream from its fleet subscription base while current liabilities include a substantial provision for deferred revenue which is a non cash item.

After assessing the forecasts and liquidity of the business to the end of the following calendar year and the longer term strategic plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim results.

3 Segmental analysis

The Group has concluded that it operates only one operating segment as defined by IFRS 8, being the design, development and marketing of vehicle tracking devices and the provision of related data services. The information used by the Group's chief operating decision makers to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. All revenues, costs, assets and liabilities relate to the single activity; and accordingly no segmental analysis is presented.

An analysis of turnover by type of customer and geography is stated below:

	30 June 2016 Unaudited £'000	30 June 2015 Unaudited £'000	31 December 2015 Audited £'000
By customer base			
Fleet	7,196	6,208	12,957
Insurance	4,378	2,982	6,718
	11,574	9,190	19,675

	30 June 2016 Unaudited £'000	30 June 2015 Unaudited £'000	31 December 2015 Audited £'000
Geographical analysis by destination			
United Kingdom	10,678	8,634	18,390
France	619	481	1,025
Republic of Ireland	2	2	4
United States of America	275	73	256
	11,574	9,190	19,675

4 Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Quartix Holdings plc divided by the weighted average number of shares in issue during the period. The earnings per share calculation relates to continuing operations of the Group.

	Profits attributable to shareholders £'000	Weighted average number of shares	Basic profit per share amount in pence	Fully diluted weighted average number of shares	Fully diluted profit per share amount in pence
Earnings per ordinary share					
Period ended 30 June 2016	2,782	47,251,723	5.89	47,761,493	5.82
Period ended 30 June 2015	2,216	46,798,011	4.74	47,635,491	4.67
Year ended 31 December 2015	5,014	46,912,132	10.69	47,595,383	10.53

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume the conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are those share options where the exercise price is less than the average market price of the Company's ordinary shares during the period.

5 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	30 June 2016	30 June 2015	31 December 2015
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Profit before tax	3,313	2,691	5,989
Depreciation	68	59	132
Interest income	(8)	(7)	(13)
Interest expense	17	39	69
Share based payment expense	55	46	71
Operating cash flow before movement in working capital (Adjusted EBITDA)	3,445	2,828	6,248
(Increase)/decrease in trade and other receivables	(135)	(428)	(650)
Decrease/(increase) in inventories	21	168	(201)
Increase in trade and other payables	239	402	1,384
Cash generated from operations	3,570	2,970	6,781

6 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2015	46,692,000	467	4,379
Shares issued	246,000	2	75
At 30 June 2015	46,938,000	469	4,454
Shares issued	237,704	3	177
At 31 December 2015	47,175,704	472	4,631
Shares issued	117,250	1	43
At 30 June 2016	47,292,954	473	4,674

All shares issued in the period to 30 June 2016 relate to the exercise of share options.

Company Information

Company registration number:	06395159
Registered office:	Wellington House East Road Cambridge Cambridgeshire CB1 1BH
Directors:	Paul Boughton Andrew Walters David Bridge Jim Warwick
Company secretary:	David Bridge
Bankers:	Barclays Bank PLC 28 Chesterton Road Cambridge CB4 3AZ
Solicitors:	Hewitsons LLP Shakespeare House 42 Newmarket Road Cambridge CB5 8EP
Auditors:	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY
Nominated advisor and broker:	finnCap 60 New Broad Street London EC2M 1 JJ