

## Quartix Holdings PLC

# Final Results

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Quartix Holdings PLC  
26 February 2018

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**Quartix Holdings plc**  
**("Quartix" or "the Group")**

**Final Results**

***Strong growth in fleet customer base***

Quartix Holdings plc (AIM:QTX), a leading supplier of vehicle telematics services to the fleet and insurance sectors, is pleased to announce its audited results for the year ended 31 December 2017.

**Financial highlights:**

- Group revenue increased by 5% to £24.5m (2016: £23.3m)
  - o Fleet revenue grew by 14% to £17.0m (2016: £14.9m)
  - o Insurance revenue declined by 12% to £7.5m (2016: £8.4m)
- Operating profit increased by 1% to £6.6m (2016: £6.5m)
- Earnings before interest, tax, depreciation, amortisation and share based payment expense (Adjusted EBITDA) increased by 6% to £7.2m (2016: £6.8m)
- Profit before tax increased by 1% to £6.6m (2016: £6.5m)
- Diluted earnings per share fell by 4% to 12.21p (2016: 12.78p)
- Free cash flow increased by 5% to £6.3m (2016: £6.0m)
- Cash inflow before tax increased by 3% at £7.0m (2016: £6.8m)
- Net cash increased to £7.3m (2016 net cash: £6.2m)
- Final dividend payment of 11.1p per share proposed (2016: 9.0p) including 6.8p for supplementary dividend (2016: 4.7p) giving a total dividend for the year of 13.5p per share

**Operational highlights:**

- Strong progress in the main fleet business:
  - o 20% increase in subscription base to 105,314 units (2016: 87,889)

- o 20% increase in customer base to 10,961 (2016: 9,105)
- o Unit attrition was consistent at 10.1% (2016: 10.0%) and compares favourably with our estimate of the industry average of around 14-15 per cent
- o 23% growth in new fleet installations
- o Strong growth in France, ending the year with 1,776 customers (2016: 1,428) and 13,131 vehicles under subscription (2016: 9,986), an increase of 24% and 32% respectively
- o During its third full year of trading the USA grew its customer base to 1,460 (2016: 1,075), with 8,973 vehicles under subscription (2016: 6,191)
- Anticipated decline in the lower-margin insurance telematics business:
  - o 17% decline in insurance installations to 57,826 (2016: 69,300)

**Andy Walters, Chief Executive Officer of Quartix**, commented:

"We are delighted with the progress made in 2017. New fleet installations increased by 23% to 27,250 and the client base grew by 20% to just under 11,000. As announced a year ago, investment has been made in the development of the Group's fleet business in the United States. To date this has included further local recruitment, product development and a new sales and marketing automation platform. The Group is now able to build on these foundations. We achieved satisfactory margins in our insurance business, in keeping with the Group's stated strategy of focusing on only those insurance opportunities which are closely aligned to the Group's fleet business."

"The Group has made a good start to the year, in line with our expectations. The high levels of recurring revenues and opportunities to grow our fleet business in the UK, France and the USA combined with continued progress in our insurance business underpin our confidence for the rest of the current financial period and beyond."

**For further information, please contact:**

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Marc Milmo

Catherine Leftly

**Full Financial Results Report**

The Group's Financial Statements for the year ended 31 December 2017 will be sent to shareholders shortly and are available in the "Investors" section of our website at: [www.quartix.net/investors.php](http://www.quartix.net/investors.php)

**About Quartix**

Founded in 2001, Quartix is a leading supplier of subscription-based vehicle tracking systems, software and services. The Group provides an integrated tracking and

telematics data analysis solution for fleets of commercial vehicles and "pay as you drive" motor insurance providers that is designed to improve productivity and lower costs by capturing, analysing and reporting vehicle and driver data.

Quartix is based in the UK and is listed on the AIM market of the London Stock Exchange (AIM:QTX).

## **Chairman's statement**

### **Introduction**

The past year has shown encouraging demand for the Group's vehicle telematics services in both the fleet and insurance sectors.

Sales in the Company's core fleet operations in the UK and Ireland grew by 9%, reaching £14.0m (2016: £12.8m). This growth more than compensated for the planned decline in UK insurance revenues, which decreased by approximately £1m to £7.5m (2016: £8.4m).

The Group made good progress in France, where revenue increased by 24% to €2.2m (2016: €1.8m).

2017 was our third full year of operations in the USA, having launched our service and opened an office there in 2014. We are pleased with progress and completed the year with 8,973 vehicles under subscription (2016: 6,191) across 1,460 fleet customers (2016: 1,075). Revenue increased by 66% to \$1.5m in 2017 (2016: \$0.9m) and the prospects for future business development remain encouraging.

### **Results**

Group revenue for the year increased by 5% to £24.5m (2016: £23.3m).

Operating profit for the year increased by 1% to £6.6m (2016: £6.5m) and profit before tax was also £6.6m (2016: £6.5m).

Cash conversion was strong, resulting in free cash flow from operations after tax and investing activities of £6.3m (2016: £6.0m), enabling the Group to increase its net cash by £1.1m to £7.3m at 31 December 2017, following the payment of £5.4m in dividends.

### **Earnings per share**

Basic earnings per share fell by 5% to 12.27p (2016: 12.87p), largely due to a higher tax charge than in 2016, which benefitted from prior year patent box claim refunds. Diluted earnings per share fell to 12.21p (2016: 12.78p) as a consequence.

### **Dividend policy**

Our ordinary dividend policy is to pay a dividend set at approximately 50% of cash flow from operating activities, which is calculated after taxation paid but before capital expenditure.

In addition to this the Board will distribute the excess of gross cash balances over £2m on an annual basis by way of supplementary dividends, subject to a 2p per share de minimis level.

The surplus cash is calculated using the year end gross cash balance and after deduction of the proposed ordinary dividend, and is intended to be paid at the same time as the final dividend. The policy will be subject to periodic review.

### **Dividend**

In the year ended 31 December 2017, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.14m and was paid on 14 September 2017 to shareholders on the register as at 18 August 2017.

The Board is recommending a final ordinary dividend of 4.3p per share, together with a supplementary dividend of 6.8p per share, giving a final pay out of 11.1p per share

and a total dividend for the year of 13.5p per share.

The final and supplementary dividend amounts to approximately £5.3m in aggregate. Subject to the approval at the forthcoming AGM, this dividend will be paid on 4 May 2018 to shareholders on the register as at 6 April 2018.

### **Governance and the Board**

The Board is comprised of two Non-Executive Directors, myself included, and three Executive Directors, Andrew Walters, Edward Ralph and Daniel Mendis. Andrew Walters was a co-founder of the main trading entity, Quartix Limited, and has been one of its directors since 5 July 2001; Edward Ralph joined the Company as Chief Operating Officer in January 2017 and was appointed to the Board in July; and Daniel Mendis was appointed as Chief Financial Officer on 1st January 2018 having joined the Company in December 2017. David Bridge retired from his position of Finance Director for the Company at the end of 2017, and stepped down from the Board in January. David indicated his intention to do so last year, and I would like to take the opportunity to thank him for the 10 years of outstanding service he has given to the Company, and for his cooperation and assistance to Daniel in both the transition and the preparation of these accounts.

I have over 30 years of experience in identifying, negotiating and completing acquisitions in the USA and Europe. Currently, I am Business Development Director of Aventics GmbH, the German industrial pneumatics manufacturer. I spent 13 years as Business Development Director for Spectris plc, and subsequently held similar positions at IMI plc, Consort Medical plc and Brammer plc. I am a Chartered Accountant (FCA).

Jim Warwick was Chief Operating Officer at Abcam plc until 31 December 2016, having originally joined as Technical Director in 2001. Abcam is a global leader in the supply of innovative protein research tools. Prior to that, he worked on IT, software and web development initiatives for the telecommunications consultancy group Analysys Limited.

For further details regarding Corporate Governance and the Board, please see the "Investors" section of our website ([www.quartix.net/investors.php](http://www.quartix.net/investors.php)).

### **Outlook**

The Group has made a good start to the year, in line with our expectations. The high levels of recurring revenue, a focus on growth in the core fleet markets in UK, France and the USA and targeting only those insurance opportunities which offer satisfactory margins, underpin our confidence for the rest of the year and beyond.

### **AGM**

The Group's AGM will be held at 11.00 a.m. on 27 March 2018 at the Group's registered office at Wellington House, East Road, Cambridge CB1 1BH.

### **Paul Boughton**

Chairman

## **Strategic Report: Operational Review**

### **Principal activities**

Since 2001 Quartix has become one of Europe's leading suppliers of vehicle telematics services. Whilst the origins of the Group's business are in the tracking of commercial vehicles in the UK, it has developed a significant market presence in the insurance telematics market. It set up a French branch in 2011 and in 2014 expanded its operations into the USA. The operations in both the USA and France are focused entirely on the fleet sector.

### **Strategy and business model**

The Group's main strategic objective is to grow its fleet business and develop the associated recurring revenue by increasing the number of vehicles under

subscription. The related insurance business helps to provide economies of scale in areas related to the provision of data services, including development, supply chain, production and installation.

Whilst the same technology is used for both commercial fleet tracking and insurance telematics, these markets exhibit different characteristics and the Group has established proven business models for each of them.

*Fleet customers* typically use the Group's vehicle telematics services for many years, resulting in low rates of attrition. Accordingly, the Group focuses its business model on the development of subscription revenue based on minimal initial commitment from the customer, providing the best return to the Group over the long term.

*The value of recurring subscription revenue is the key measure of our performance in the fleet sector*

*Insurance telematics customers* use the Group's technology to monitor the driving style and habits of higher-risk drivers, normally for a policy with a term of just 12 months. Quartix therefore treats this as an equipment sale, with the tracking system being sold, at policy inception, together with 12 months' service and data usage included. This is standard practice in the industry, as the level of attrition is relatively high.

*Whilst the value of revenue has been the key measurement of our performance in the insurance sector, we restrict our operations to those opportunities which provide an adequate return.*

## People

Our business performance was recognised by several independent organisations in 2017: Recognised for the work we do to improve road and driver safety, we were finalists in two industry awards with What Van Magazine, firstly the 'Risk Management' Award and secondly, 'Safety' Award. Quartix was also included in the LSE Group '1000 Companies to Inspire' Britain 2017. We won Megabyte's Accounting and Enterprise Software Award 2017, and finally we were awarded the Investor In Customer Silver Award status for providing an excellent customer experience.

Each of these awards and nominations is a reflection of the commitment, teamwork, creativity and dedication of our people. Our financial performance derives from the customer service we deliver, backed by the technology we develop. I would like to register my personal thanks to every one of our employees who made 2017 another great year for Quartix.

We are delighted to have been able to provide our employees with the ability to participate in the equity of the Company under our EMI share option scheme for the fifth year in a row. The newly appointed Directors of Quartix Holdings plc have received share option grants in 2017, as disclosed in the remuneration report within the Group's Financial Statements for the year ended 31 December 2017 which can be found on the Company's website at [www.quartix.net/investors.php](http://www.quartix.net/investors.php).

## Operational performance

All of our business operations continued to perform at a high level in 2017. Gross margin increased slightly to 60.6% (2016: 60.3%), despite increases in average unit costs following the devaluation of Sterling in 2016 and the funding of strong growth in new fleet installations in 2017. A slight increase in overheads led to return on sales decreasing by 1 percentage point to 27% (2016: 28%). Cash conversion was very strong with cash flow from operating activities after investing activities and tax (free cash flow) representing 95% of operating profit (2016: 92%). We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Following the capital investments made in the USA and France in 2016, there was little further need for capex in 2017 as new sales and marketing automation systems implemented during the year have been sourced externally on a subscription licence basis.

Our accounts and operations teams continued to manage working capital well: trade debtors at the year-end were 33 days of sales, and inventory levels remained comparable despite the sales growth.

## **Fleet**

Our core fleet business, which accounted for 70% of Group revenue (2016: 64%), delivered considerable progress in a further year of investment. Continued growth in the UK was combined with excellent progress in France, where our business again made a positive contribution to the Group's results, and in the USA, where our third full year of trading saw us reach an installed base of 8,973 (2016: 6,191) vehicles under subscription.

During the course of the year we won 2,779 new fleet customers (2016: 2,336). Sales leads continued to be generated through a broad range of media and channels. The efficiency improvements resulted largely from investments made in technology, processes and training, adding automation wherever possible and providing our sales and marketing teams with better information on the performance of each campaign. This investment will continue in 2018, and the knowledge and experience gained will be used across each of our three target markets.

### *Fleet UK (including Ireland)*

Demand for vehicle telematics services in the UK continues to grow. We are well-placed to expand our business, given the strengths of our data services and support capabilities. The economies of scale derived from the size of our combined fleet and insurance business also give us a considerable competitive advantage.

Vehicles under subscription increased by 16% to 83,210 during the year, and our fleet customer base reached 7,725. We won 1,700 new customers in 2017 (2016: 1,345), and the gains in customer and vehicle base were broadly spread between the channels we use. UK fleet revenue was £14.0m (2016: £12.8m). We added a number of new key accounts during the year and increased the number of fleet clients with 50 vehicles or more. The strength of our brand, service capability and reputation in the UK is leading to higher levels of enquiries from larger fleet prospects.

Our UK website continued to perform well in terms of search engine placement and enquiries, and we continued to add new content to it.

We will continue to focus on telephone based sales capacity to support our fleet marketing initiatives, and will look to find additional channels and partners to help us develop the market.

### *Fleet France*

The number of new installations in the French market was 30% higher than the previous year (3,819 versus 2,933), and there was a 32% increase in the unit base, ending the year with 13,131 vehicles (2016: 9,986) under subscription across 1,776 fleet customers (2016: 1,428). French fleet revenue increased by 24% to €2.2m (2016: €1.8m), making a profitable contribution to the Group. We saw strong growth in new customer acquisition towards the end of the year, and this was broadly spread across each of our channels. We will continue to invest in this market in 2018, as we now benefit from growing awareness of our brand and product.

### *Fleet USA*

Our third full year of trading in the USA showed good progress: we concluded 2017 with 1,460 fleet customers (2016: 1,075) having a total of 8,973 vehicles under subscription (2016: 6,191). As in the UK and France, our fleet revenue derives from subscription income, which builds over time. Nonetheless USA fleet revenue increased by 66% to \$1.5m (2016: \$0.9m), and our subscription base value continues to increase each month. Losses incurred in the USA reduced by £0.5m to £0.3m (2016: £0.8m).

We see significant potential for growth in the USA in the next five years, and during 2017 we invested in further local recruitment, product development and a new sales and marketing automation platform. We are now able to build on these foundations

with an enhanced level of marketing expenditure in 2018. At the end of the 2017 we had a total of 7 employees in our Chicago office.

Fleet revenues in France and the USA combined were £3.1m, representing 18% of total fleet revenue.

### **Insurance**

We installed 57,826 new insurance tracking systems in 2017, a decrease of 17%. This trend was in keeping with the decision announced at the time of the Company's interim results in July 2016 to focus on its core fleet market and on only those insurance opportunities which offer satisfactory margins and which are closely aligned to its fleet business.

In line with this strategy, the Group developed and launched an insurance platform in 2016 which appeals to specialist insurance brokers. By the end of 2017 this proposition had been adopted and used by three insurance broker clients. These projects are relatively small in volume, but the development of this platform has offered an opportunity for Quartix to demonstrate the breadth of its capabilities in terms of technology, data analysis and management services. A key part of this is the SafeSpeed Database, which is the result of a 6-year development programme.

The SafeSpeed Database is a contextual speed scoring system which provides young drivers, insurers and fleet managers with risk assessment information and feedback based on a driver's speed in the context of the road being driven, rather than relying simply on the statutory speed limit as a risk indicator. More than 30 million vehicle data points are processed each day and mapped against over 2 million road segments. The database already holds more than 1 million speed distributions which are used in assessing driving behaviour and accident risk. A more detailed explanation of these capabilities is provided at [www.quartix.net/insurance](http://www.quartix.net/insurance).

In addition to the business won so far with brokers, the new insurance platform appears to have significant appeal to some larger fleet customers in the UK, many of which underwrite their own vehicles for accident damage. We have seen an increased level of interest in the use of telematics as part of health, safety, and risk management policy. This also has a positive impact on the management of brand image for our customers, given that examples of poor driving behaviour are often posted on social media.

We feel that this insurance platform therefore offers us a further competitive advantage in our core fleet business in the UK.

### **Research and development**

The Group is committed to continued investment in research to ensure that the functionality of its vehicle telematics services remain competitive across each of its three fleet markets as well as in the insurance sector. The principal areas of development focus in 2017 included:

1. Further development of the TCSV12 tracking system, which is believed to be one of the most compact on the market, allowing ease of user installation in approximately 90% of European vehicles. The product is being trialled by several key fleet prospects.
2. Electronic logging of driver hours for the US market. This application, which involves a direct connection to the vehicle's own bus and the use of an Android tablet device by the driver, was delivered in beta version to customers at the end of 2016. It was released in Q3 2017 and is now being enhanced to meet the full requirements of the US ELD specification. Further investment on this is expected in the first half of 2018.
3. Further development of the "powered by Quartix" insurance platform. This software platform includes software tools for both insurers and brokers and allows driver scoring based on a range of factors, but most significantly it makes use of our "SafeSpeed Database". The platform has been fully integrated with our fleet product offering and is now being promoted to larger fleet

clients who are taking a much keener interest in the use of telematics in risk management.

All of our investment in research was fully expensed in the year. The total cost amounted to £1.1m, which represents a decrease of 24% compared to the prior year (2016: £1.4m).

### Sales and marketing automation

The cost-effective acquisition and retention of fleet customers have always been of key strategic importance to the Company; it is these capabilities that set it apart from many of its peers and which drive the Company's financial success. During the second half of 2017 we enhanced this by implementing industry-leading proprietary sales and marketing automation platforms for our US operations. These are integrated directly with our existing, SQL-based, in-house systems and will enable the Company to continue to develop its competitive strength in these areas.

In December, we relaunched our US website ([www.quartix.com](http://www.quartix.com)) and integrated it fully with the marketing platform, thereby improving the effectiveness of our sales and marketing resources. We continue to receive significant numbers of new enquiries for our service in the USA, and the new platforms allow us to identify quickly the prospects which need immediate attention from our sales people, whilst at the same time providing a very effective automated response to all other enquiries. The marketing system tailors the approach taken depending on the nature of the prospect's fleet, in terms of size and sector, and over time it develops the customer's level of interest in Quartix to the point where the enquiry needs to be directed to a sales person. Although most new business is concluded with personal contact, a small but growing percentage of new orders are received directly via our website.

These systems have had a positive impact on customer acquisition at the start of 2018. Further enhancement of the platform will be carried out throughout the year as we seek to maximise the benefit.

### Strategic priorities

We believe that the Company has significant opportunity for growth in its fleet business, particularly in the USA. We ended the year with good growth in new customer acquisition and have taken the decision to make additional investments in marketing automation and business development in 2018.

Within the insurance sector, following the strategic decision to move away from low margin insurance sales, we will seek to target those opportunities which allow us to demonstrate and deliver the levels of service quality and value for which we have become known

### Andrew Walters

Chief Executive Officer

## **Strategic Report: Financial Review**

### Key performance indicators ("KPIs")

<i>Year ended 31 December</i>	2017	2016	% change
Fleet installations (units)	27,227	22,224	22.5
Fleet subscription base (units)	105,314	87,889	19.8
Fleet customer base	10,961	9,105	20.4
Fleet attrition (annualised) <sup>1</sup> (%)	10.1	10.0	-
Fleet invoiced recurring revenue <sup>2</sup> (£'000)	15,605	13,646	14.4
Fleet revenues (£'000)	17,030	14,909	14.2



Insurance installations (units)	57,826	69,300	(16.6)
Insurance revenues (£'000)	7,458	8,430	(11.5)

<sup>1</sup> Attrition in the year is the number of units installed (excluding upgrades), less the increase in subscription base, expressed as a percentage of the mean subscription base

<sup>2</sup> Invoiced rental and communications charges before provision for deferred revenue

2017 was a year of good progress in our primary strategic objective of building our fleet subscription base.

We achieved over 27,000 fleet installations, an increase of 22.5% compared to 2016, with growth in all three of our geographical markets.

Our fleet installed base grew by 19.8% to 105,314 units.

Attrition during the period was consistent at 10.1%.

Group invoiced recurring revenue (before adjusting for deferred revenue) grew at 14.4% to £15.6m (2016: £13.6m).

The growth in fleet revenue at 14.2% was in line with the growth of our recurring revenue as our primary focus is on growing subscription revenue.

Insurance unit installations were down 16.6% at 57,826, in keeping with the decision announced in July 2016 to focus on only those insurance opportunities which offer satisfactory margins and which are aligned to our core fleet business.

## Financial Overview

*Year ended 31 December*

<i>£'000 (except where stated)</i>	2017	2016	% change
Revenues			
Fleet	17,030	14,909	14.2
Insurance	7,458	8,430	(11.5)
Total	24,488	23,339	4.9
Gross profit	14,842	14,063	5.5
Gross margin	61%	60%	
Operating profit	6,593	6,543	0.8
Operating margin	27%	28%	
Adjusted EBITDA	7,199	6,808	5.7
Profit for the year	5,822	6,087	(4.4)
Earnings per share	12.27	12.87	(4.7)
Cash generated from operations	7,014	6,812	3.0
Operating profit to operating cash conversion	106%	104%	
Free cash flow	6,285	6,005	4.7

### *Revenue*

Revenue increased by 4.9% to £24.5m (2016: £23.3m). Fleet revenue, benefitting from past investment, was 14.2% up at £17.0m (2016: £14.9m). Sales to insurance customers decreased by 11.5% to £7.5m (2016: £8.4m).

### *Gross margin*

Gross margin increased slightly to 60.6% (2016: 60.3%), despite increases in average unit costs following the devaluation of Sterling in 2016 and the funding of strong growth in new fleet installations in 2017.

### *Operating profit and Adjusted EBITDA*

We continued to invest in our product offering, in our sales structure and in marketing which led to an increase in overheads of 9.7%. As a result, operating profit grew at 0.8% to £6.6m, a lower growth rate than gross profit. Adding back depreciation and share-based payment expense gives £7.2m of adjusted EBITDA (2016: £6.8m).

Part of this investment was in the USA where our customer base increased by 36% and revenue, as disclosed in note 2, increased to £1.2m (\$1.5m) (2016: £0.7m). Losses in the USA were around £0.3m (\$0.4m) (2016: losses of £0.8m).

### *Profit for the year*

Our effective tax rate reflects the Group's investment in research. It increased from 6.9% in 2016 to 11.9% in 2017, the former benefitting from a corporation tax refund of £0.3m for patent box claims in respect of prior periods.

As a result, profit for the year fell by 4.4% to £5.8m (2016 £6.1m).

### *Earnings per share*

Earnings per share also fell as a result of the comparatively low tax charge in 2016. Earnings per share in 2017 were 12.27p (2016: 12.87p). Diluted earnings per share fell to 12.21p (2016: 12.78p).

### *Statement of financial position*

Cash at the year-end was £7.3m (2016: £6.2m).

### *Cash flow*

Cash generated from operations before tax at £7.0m (2016: 6.8m) was 106% of operating profit.

Tax paid in 2017 was £0.7m (2016: £0.6m), so cash flow from operating activity after taxation but before capital expenditure was £6.3m (2016: £6.2m including £0.3m refund for patent box claims in respect of prior periods).

Free cash flow, after £0.1m of capital expenditure, was £6.3m, a 4.7% increase (2016: £6.0m including patent box refunds).

The translation of cash flow into dividends is covered in the Chairman's Statement.

### **Risk management policies**

The principal risks and uncertainties of the Group are as follows:

#### *Attracting and retaining the right number of good quality staff*

The Group believes that in order to safeguard the future of the business it needs to recruit, develop and retain the next generation of management. The impact of not mitigating this risk is that the Group ceases to be innovative and provide customers with the vehicle telematics services they require. Considerable focus has been given to recruitment, development and retention.

Particular attention has been given to the composition of the Operations Board over the last two years and in early 2017, Ed Ralph was appointed as Chief Operating Officer of Quartix Limited and Lynne Austin was appointed as a Director of Quartix Limited with responsibility for the company's UK fleet operations. In December, I joined as Chief Financial Officer.

The Group has a range of tailored incentive schemes which include the use of share options

#### *Reliance on M2M network*

The Group's service delivery is dependent on a functioning M2M network covering both the internet and mobile data. The impact of not mitigating this risk is that the Group is exposed to an M2M outage. Quartix has dual site redundancy to cover a localised internet problem and we are constantly working on improving the reliability of our systems architecture.

#### *Business disruption*

Like any business the Group is subject to business disruption. This includes communications, physical disruption to our sites and problems with our key suppliers. The impact of not mitigating this risk is that the Group may not be able to service its customers. Quartix has a Business Continuity plan which is frequently updated and reviewed.

#### *Dependence on a key customer*

As disclosed in note 2, during 2017 revenue of £7.0m was derived from one insurance customer, a specialist reseller for the insurance industry. Losing this key contract could have a significant negative impact on cash flow in the short term as the Group has a high level of fixed overheads. The Group has taken the strategic decision to move away from low margin insurance sales and widen its insurance customer base.

#### *Cyber security*

The Group needs to make sure its data is kept safe and that there is security of supply. The reputational and commercial impact of a security breach would be significant. To combat this, the Group has a security policy and prepares a monthly security report which is reviewed by the Operations Board. This process includes the use of outside consultants for penetration testing and security review.

#### *Technology*

Technology risks are perceived to arise from possible substitutes for the current Quartix product. Risks cited include everything from smart mobile phones to driverless cars.

The Group strategy is to review all new technical developments with the aim of adopting any which will provide a better channel for the information services which Quartix provides.

#### **Daniel Mendis**

Chief Financial Officer

### **Consolidated Statement of Comprehensive Income**

<b>Year ended 31 December</b>		<b>2017</b>	2016
	Notes	<b>£'000</b>	£'000
<b>Revenue</b>	2	<b>24,488</b>	23,339
Cost of sales		<b>(9,646)</b>	(9,276)

<b>Gross profit</b>		<b>14,842</b>	14,063
Administrative expenses		<b>(8,249)</b>	(7,520)
<b>Operating profit</b>		<b>6,593</b>	6,543
Finance income receivable		<b>17</b>	21
Finance costs payable		-	(24)
<b>Profit for the year before taxation</b>		<b>6,610</b>	6,540
Tax expense		<b>(788)</b>	(453)
<b>Profit for the year</b>		<b>5,822</b>	6,087
<b>Other Comprehensive income:</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		<b>201</b>	(255)
Tax benefit (expense)		-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>201</b>	(255)
<b>Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc</b>		<b>6,023</b>	5,832
<b>Earnings per ordinary share (pence)</b>			
	5		
Basic		<b>12.27</b>	12.87
Diluted		<b>12.21</b>	12.78

**Consolidated Statement of Financial Position**

		<b>2017</b>	2016
	Notes	<b>£'000</b>	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill		<b>14,029</b>	14,029
Property, plant and equipment		<b>234</b>	360
Deferred tax assets		<b>149</b>	141
<b>Total non-current assets</b>		<b>14,412</b>	14,530
<b>Current assets</b>			
Inventories		<b>703</b>	680
Trade and other receivables		<b>3,009</b>	2,591
Cash and cash equivalents		<b>7,312</b>	6,249
<b>Total current assets</b>		<b>11,024</b>	9,520

<b>Total assets</b>		<b>25,436</b>	24,050
<b>Current liabilities</b>			
Trade and other payables		<b>2,853</b>	2,892
Deferred revenue		<b>2,708</b>	2,591
Current tax liabilities		<b>423</b>	238
		<b>5,984</b>	5,721
<b>Total liabilities</b>		<b>5,984</b>	5,721
<b>Net assets</b>		<b>19,452</b>	18,329
<b>Equity</b>			
Called up share capital	3	<b>476</b>	474
Share premium account	3	<b>4,869</b>	4,702
Equity reserve		<b>529</b>	281
Capital redemption reserve		<b>4,663</b>	4,663
Translation reserve		<b>(103)</b>	(304)
Retained earnings		<b>9,018</b>	8,513
<b>Total equity attributable to equity shareholders of Quartix Holdings plc</b>		<b>19,452</b>	18,329

### Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Capital redemption reserve	Equity reserve	Translation reserve	Retained earnings	Total equity
	£'000	£,000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 December 2015</b>	<b>472</b>	<b>4,631</b>	<b>4,663</b>	<b>177</b>	<b>(49)</b>	<b>5,303</b>	<b>15,197</b>
Shares issued	2	71	-	-	-	-	73
Increase in equity reserve in relation to options issued	-	-	-	113	-	-	113
Adjustment for exercised options	-	-	-	(56)	-	56	-
Deferred tax on share Options	-	-	-	47	-	-	47
Dividend paid	-	-	-	-	-	(2,933)	(2,933)
<b>Transactions with owners</b>	<b>2</b>	<b>71</b>	<b>-</b>	<b>104</b>	<b>-</b>	<b>(2,877)</b>	<b>(2,700)</b>
Foreign currency translation differences	-	-	-	-	(255)	-	(255)
Profit for the year	-	-	-	-	-	6,087	6,087
<b>Total</b>							

comprehensive income	-	-	-	-	(255)	6,087	5,832
<b>Balance at 31 December 2016</b>	<b>474</b>	<b>4,702</b>	<b>4,663</b>	<b>281</b>	<b>(304)</b>	<b>8,513</b>	<b>18,329</b>
Shares issued	2	167	-	-	-	-	169
Increase in equity reserve in relation to options issued	-	-	-	420	-	-	420
Adjustment for exercised options	-	-	-	(104)	-	104	-
Deferred tax on share Options	-	-	-	(68)	-	-	68
Dividend paid	-	-	-	-	-	(5,421)	(5,421)
<b>Transactions with owners</b>	<b>2</b>	<b>167</b>	<b>-</b>	<b>248</b>	<b>-</b>	<b>(5,317)</b>	<b>(4,900)</b>
Foreign currency translation differences	-	-	-	-	201	-	201
Profit for the year	-	-	-	-	-	5,822	5,822
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201</b>	<b>5,822</b>	<b>6,023</b>
<b>Balance at 31 December 2017</b>	<b>476</b>	<b>4,869</b>	<b>4,663</b>	<b>529</b>	<b>(103)</b>	<b>9,018</b>	<b>19,452</b>

### Consolidated Statement of Cash Flows

	2017	2016
	£'000	£'000
<b>Cash generated from operations</b>	<b>7,014</b>	6,812
Taxes paid	(679)	(639)
Cash flow from operating activities	<b>6,335</b>	6,173
<b>Investing activities</b>		
Additions to property, plant and equipment	(67)	(189)
Interest received	17	21
Cash flow from investing activities	<b>(50)</b>	(168)
Cash flow from operating activities after investing activities (free cash flow)	<b>6,285</b>	6,005
<b>Financing activities</b>		
Repayment of long term borrowings	-	(1,000)

Interest paid	-	(29)
Proceeds from share issues	169	73
Dividend paid	(5,421)	(2,933)
Cash flow from financing activities	(5,252)	(3,889)
Net changes in cash and cash equivalents	1,033	2,116
Cash and cash equivalents, beginning of year	6,249	4,040
Exchange differences on cash and cash equivalents	30	93
Cash and cash equivalents, end of year	7,312	6,249

## Notes to the Accounts

### 1. Basis of preparation

The basis of preparation and summary of significant accounting policies applicable to the consolidated financial statements of Quartix Holdings plc can be found in note 1 of the Annual Report and Financial Statements, available from the Group's website. The consolidated financial statements of Quartix Holdings plc have been prepared in accordance with IFRS as adopted by the European Union (EU) ('IFRS') and in accordance with those parts of the Companies Act 2006 that are relevant to companies which report under IFRS.

The information in this news release does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 441 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under Section 498(2) or (3) of the Act.

### 2. Segmental analysis

The Group has concluded that it operates only one operating segment as defined by IFRS 8, being the design, development, marketing and provision of vehicle telematics 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 revenue, 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:

	2017	2016
By customer base	£'000	£'000
Fleet	17,030	14,909
Insurance	7,458	8,430
	24,488	23,339
	2017	2016
Geographical analysis by destination	£'000	£'000

United Kingdom	<b>21,403</b>	21,249
France	<b>1,917</b>	1,408
Republic of Ireland	<b>10</b>	5
United States of America	<b>1,158</b>	677
	<b>24,488</b>	23,339

During 2017 revenue of £7.0m (2016: £8.4m) was derived from one insurance customer.

There are no material non-current assets based outside the UK.

### 3. Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
<b>Allotted, called up and fully paid</b>			
At 1 January 2017	47,345,954	474	4,702
Shares issued	222,400	2	167
<b>At 31 December 2017</b>	<b>47,568,354</b>	<b>476</b>	<b>4,869</b>

With the exception of 1,000 shares issued to US employees on 15 March 2018, all the shares issued in the year to 31 December 2017 related to the exercise of share options.

### 4. Share based payments

The Company has share option schemes for certain employees. Share options are exercisable at prices determined at the date of grant. The vesting periods for the share options range between 12 and 63 months. Options are forfeited if the employee leaves the Company before the options vest.

Movements in the number of share options and warrants outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price per share in pence	Options number	Weighted average exercise price per share in pence	Options number
Outstanding at 1 January	170.2	916,812	76.5	757,900
Granted	308.6	1,024,251	316.6	332,612
Lapsed	199.5	(112,012)	1.0	(3,450)
Exercised	76.4	(221,400)	42.7	(170,250)
Outstanding at 31 December	269.3	1,607,651	170.2	916,812
Exercisable at 31 December	167.1	244,355	110.6	207,000

The weighted average fair value of options issued during the year ended 31 December 2017 was 71.70p (2016: 78.73p). Included in the options granted in 2017 were 10,355 (2016: 3,662) granted to senior managers with performance conditions



relating to the Group for the year ended 31 December 2017 and subsequent service conditions. The remaining options granted during the year have only service conditions.

The weighted average share price at the date of exercise of options during the year ended 31 December 2017 was 375.16p (2016: 371.84p).

Further details of share-based payments are given in the Group's audited accounts, which are available at [www.quartix.net/investors.php](http://www.quartix.net/investors.php).

## 5. 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 year. All earnings per share calculations relate 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	Diluted profit per share amount in pence
<b>Earnings per ordinary share</b>					
Year ended 31 December 2017	5,822	47,459,712	12.27	47,667,194	12.21
Year ended 31 December 2016	6,087	47,292,755	12.87	47,929,813	12.78

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 that year.

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