

Quartix Holdings PLC

Interim Results

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Quartix Holdings PLC
25 July 2018

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("Quartix", "the Group" or "the Company")
Interim Results

Quartix Holdings plc (AIM:QTX), a leading supplier of vehicle tracking systems and services to the fleet and insurance sectors, is pleased to announce its unaudited results for the half year ended 30 June 2018.

Restatement of comparatives:

All comparative monetary amounts for 2017 have been restated in line with the Group's adoption of the recognition and measurement principles of IFRS 15: 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (See note 1).

Financial highlights:

- Group revenue increased by 7% to £12.9m (2017: £12.1m)
- Fleet revenue grew by 10% to £9.1m (2017: £8.3m)
- Insurance revenue comparable at £3.8m (2017: £3.8m)
- Adjusted EBITDA* of £4.1m (2017: £4.0m)
- Operating profit of £3.8m (2017: £3.8m)
- Profit before tax of £3.9m (2017: £3.8m)
- Diluted earnings per share of 6.86p (2017: 6.83p)
- Cash generated from operations of £3.3m (2017: £2.9m)
- Free cash flow ** of £2.8m (2017: £2.6m)
- Operating cash conversion*** of 86% (2017: 76%)
- Interim dividend of 2.4p per share proposed

* EBITDA adjusted for share based payment expense of £0.1m (see note 4)

** Cash generated from operating activities after investing activities

*** Cash generated from operations of £3.3m divided by operating profit of £3.8m

Operational highlights

Fleet

Good progress in the main fleet business

- Subscription base grew by 7% to 112,530 vehicles (31st December 2017: 105,314)
- Fleet installations grew by 6% to 15,220 (6ms 30 June 2017: 14,324)
- Customer base increased by 10% to 12,035 (31st December 2017: 10,961)
- Fleet invoiced recurring revenue increased by 11% to £8.4m (6ms 30 June 2017: £7.6m)
- Attrition* on a rolling 12-month basis was 12.0%, below the estimated 14% industry average

* Attrition is calculated as the difference between the number of new unit installations and the increase in active subscriptions between 1 July 2017 and 30 June 2018, expressed as a percentage of the mean subscription base between those two points in time: $(28,124-15,559)/104,750 = 12.0\%$

UK & Ireland

- 86,300 active vehicle subscriptions, up 4% (31 December 2017: 83,210)
- 8,228 customers, up 7% (31 December 2017: 7,725)

France

- 15,390 active vehicle subscriptions, up 17% (31 December 2017: 13,131)
- 2,101 customers, up 18% (31 December 2017: 1,776)

USA

- 10,840 active vehicle subscriptions, up 21% (31 December 2017: 8,973)
- 1,706 customers, up 17% (31 December 2017: 1,460)

Insurance

Continue to refocus insurance business away from lower margin indirect business, growing our direct offering.

- Insurance installations comparable at 23,969 (2017: 23,947).
- Volumes in the period were lower than in the second half of 2017, although some stabilisation seen towards the end of the second quarter.
- This stabilisation was, in large part, due to growth achieved in the Company's 'Powered by Quartix' direct offering to insurance brokers, offering improved margins for this area of the business.

Andy Walters, Managing Director of Quartix, commented:

"We have made good progress in the first half. We have continued to focus on our key fleet business, resulting in strong growth in international markets. As indicated two years ago we have restricted our insurance business to those applications which appropriately value the Group's service and technology, and as a consequence our revenue in that sector was comparable with that of last year. So it is pleasing to see that good growth in the fleet sector enabled us to report total revenue of £12.9m, representing an increase of 7% overall."

"We achieved substantial progress in our subscription bases in France and the USA, as these markets registered increases of 35% and 42% respectively over the past 12 months. The UK subscription base grew by 11% over the same period. This rate of growth in the UK is lower than in previous years and we have therefore undertaken appropriate management actions and changes to reverse this trend."

"I am pleased to report that we are on track to meet market expectations for the year as a whole".

For further information, please contact:

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The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

Interim Financial Results Report

The Group's Interim Financial Statements for the 6 months ended 30 June 2018 are available in the "Investors" section of our website at: www.quartix.net/investors

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 motor insurance providers which improves productivity and safety and which lowers 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

Summary

The past half year has shown continued strong demand for the Group's vehicle tracking systems, software and services. New fleet subscriptions increased by 6% to 15,220 (2017: 14,324), revenue in this sector grew by 10% to £9.1m (2017: £8.3m) and recurring revenue increased by 11% to £8.4m (2017: £7.6m). Following the

decision taken two years ago to focus on only those insurance applications which appropriately value the Group's service and technology, the Group has been developing sales in its own direct insurance offering. Despite this change in the mix, UK insurance sales were comparable at £3.8m (2017: £3.8m) and the growth in fleet revenue ensured that overall Group revenue at £12.9m grew by 7% (2017: £12.1m).

Total sales in the UK were £11.1m (2017: £10.6m). Sales to fleet customers in this market increased by 7% to £7.3m (2017: £6.8m) and the subscription base grew to 86,300 vehicles, representing an increase of 11% over the past 12 months (30 June 2017: 77,953). This reduced rate of growth compared to last year resulted from lower new installations in the period of 9,000 vehicles. Management actions and changes have been taken to reverse this trend.

The Group made very good progress in France, where the subscription base rose by 35% over the past year to 15,390 vehicles (30 June 2017: 11,405). Development of each channel to market is ongoing and revenue in France in the first half increased by 24% in local currency to €1.3m (2017: €1.0m).

The Group continued to develop its operations successfully in the USA, taking its subscription base to 10,840 vehicles. This is 42% higher than it was 12 months ago (30 June 2017: 7,613). Revenue increased by 35% to \$0.9m (2017: \$0.7m). Following a review of the growth opportunities in the USA, the Board has decided not to further pursue any R&D on its ELD logging application. Whilst a potentially attractive market, this logging system is targeted at larger interstate trucking operations and is subject to a complex set of technical requirements and vehicle interfaces needed to support it. Our conclusion has been that focusing on developing our core market offering to smaller fleet vehicles offers a much clearer path to sustained growth. All costs incurred in the ELD programme were written off as they were incurred. The project team working on this development has been refocused on product developments which are relevant to our core fleet business in all markets.

The Company's "Powered by Quartix" initiative for the insurance sector, which it launched in 2016, offers insurance brokers an off-the-shelf telematics product allowing them to compete effectively in the young driver market. It is now in use by four brokers and supported by one underwriter. Discussions are underway with a further underwriter and other brokers. This initiative has proven to be of great importance to the Company in promoting the Company's SafeSpeed contextual speed scoring system for the assessment of accident risk. The SafeSpeed database is unique in comparing the behaviour of young drivers on particularly dangerous roads (such as single-carriageway rural roads) with that of more experienced drivers on exactly the same road, helping to identify and coach those who are at risk of accident. We were delighted that this innovation was recognised by a Queen's Award for Enterprise, and that it has played such a strong role in helping to reduce young-driver accidents and fatalities.

Results

Group revenue for the half year was £12.9m (2017: £12.1m). Fleet revenue grew by 10% to £9.1m (2017: £8.3m) and insurance revenue comparable at £3.8m (2017: £3.8m). Sales to the insurance sector as a percentage of overall revenue reduced to 29% (2017: 30%).

Increased focus on our core fleet business led to the recurring element of subscriptions growing to represent 65% of Group turnover (2017: 63%). Although the higher level of this subscription revenue helps to improve the margin mix, we also funded growth of 6% in new fleet installations for the period (2018: 15,220 units installed; 2017: 14,324 units installed). The cost of all new fleet tracking systems and installations is absorbed in cost of sales. It is pleasing, therefore, that gross profit increased by 11% to £8.5m and gross margin to 65% (2017: 63%), reflecting the

improvement in margin mix. Operating profit for the half year increased by 2% to £3.8m (2017: £3.8m). Profit before tax for the half year also increased by 2% to £3.9m (2017: £3.8m). This is in line with achievement of market expectations for the year.

Operating cash conversion was 86%, resulting in pre-tax cash generated from operations of £3.3m (2017: £2.9m). Free cash flow conversion was 74%, resulting in free cash flow from operations after tax and investing activities of £2.8m (2017: £2.6m). The Group had net cash of £4.9m as at 30 June 2018 (£4.8m at 30 June 2017), having paid a dividend of £5.3m in May.

Earnings per share

Basic earnings per share were 6.89p (2017: 6.87p). On a diluted basis earnings per share were 6.86p (2017: 6.83p).

Dividend

The Board has recommended an interim dividend of 2.4p (2017: 2.4p) per share, amounting to £1,145,030 in aggregate. This was approved by the Board on 24 July 2018. The interim dividend will be paid on 14 September 2018 to shareholders on the register as at 17 August 2018.

Dividend Policy

The Board will consider 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 consider distributing the excess of cash balances over £2m by way of supplementary dividends. The surplus cash would 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 three Executive Directors: Andrew Walters, Daniel Mendis and Ed Ralph.

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

Outlook

The Group has made a good start to the second half, in line with management's expectations. The high levels of recurring revenue and opportunities to grow in the UK, France and the USA in fleet underpin our confidence for the rest of the year and beyond. We will continue to use the financial strength of the business to invest in our core fleet operations.

Paul Boughton

Chairman

Consolidated Statement of Comprehensive Income

	30 June 2018	30 June 2017	31 December 2017
Half year ended 30	Unaudited	Unaudited	Unaudited

June 2018

			restated	restated
	Notes	£'000	£'000	£'000
Revenue	3	12,913	12,068	24,517
Cost of sales		(4,457)	(4,440)	(9,646)
Gross profit		8,456	7,628	14,871
Administrative expenses		(4,612)	(3,860)	(8,249)
Operating profit		3,844	3,768	6,622
Finance income receivable		14	9	17
Profit for the period before taxation		3,858	3,777	6,639
Tax expense		(576)	(519)	(793)
Profit for the period		3,282	3,258	5,846
Other Comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations		(66)	110	201
Other comprehensive income for the year, net of tax		(66)	110	201
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		3,216	3,368	6,047
Adjusted EBITDA	4	4,061	4,017	7,228
Earnings per ordinary share (pence)	5			
Basic		6.89	6.87	12.32
Diluted		6.86	6.83	12.26

Consolidated Statement of Financial Position

Company registration number: 06395159

		30 June 2018	30 June 2017	31 December 2017
		Unaudited	Unaudited	Unaudited
			restated	restated
Assets	Notes	£'000	£'000	£'000
Non-current assets				
Goodwill		14,029	14,029	14,029
Property, plant and equipment		221	298	234
Deferred tax assets		577	626	768
Total non-current assets		14,827	14,953	15,031
Current assets				
Inventories		813	633	703
Trade and other receivables		3,009	3,102	3,009
Cash and cash equivalents		4,886	4,775	7,312
Total current assets		8,708	8,510	11,024
Total assets		23,535	23,463	26,055
Current liabilities				
Trade and other payables		2,771	2,681	2,853
Contract liabilities		5,460	5,324	5,972
Current tax liabilities		429	422	423
		8,660	8,427	9,248
Total liabilities		8,660	8,427	9,248
Net assets		14,875	15,036	16,807
Equity				
Called up share capital	7	477	476	476

Share premium account	7	4,925	4,869	4,869
Equity reserve		555	295	529
Capital redemption reserve		4,663	4,663	4,663
Translation reserve		(169)	(194)	(103)
Retained earnings		4,424	4,927	6,373
Total equity attributable to equity shareholders of Quartix Holdings plc		14,875	15,036	16,807

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
Balance at 31 December 2016	474	4,702	4,663	281	(304)	8,513	18,329
IFRS 15 adjustment (note 8)	-	-	-	-	-	(2,669)	(2,669)
Restated 31 December 2016	474	4,702	4,663	281	(304)	5,844	15,660
Shares issued	2	167	-	-	-	-	169
Increase in equity reserve in relation to options issued	-	-	-	158	-	-	158
Adjustment for exercised options	-	-	-	(104)	-	104	-
Deferred tax on share options	-	-	-	(40)	-	-	(40)
Dividend paid	-	-	-	-	-	(4,279)	(4,279)
Transactions with owners	2	167	-	14	-	(4,175)	(3,992)
Foreign currency	-	-	-	-	110	-	110

translation differences								
Profit for the period restated	-	-	-	-	-	3,258	3,258	
Total comprehensive income	-	-	-	-	110	3,258	3,368	
Balance at 30 June 2017	476	4,869	4,663	295	(194)	4,927	15,036	
Increase in equity reserve in relation to options issued	-	-	-	262	-	-	262	
Deferred tax on share options	-	-	-	(28)	-	-	(28)	
Dividend paid						(1,142)	(1,142)	
Transactions with owners	-	-	-	234	-	(1,142)	(908)	
Foreign currency translation differences	-	-	-	-	91	-	91	
Profit for the period restated	-	-	-	-	-	2,588	2,588	
Total comprehensive income	-	-	-	-	91	2,588	2,679	
Balance at 31 December 2017	476	4,869	4,663	529	(103)	6,373	16,807	
Shares issued	1	56	-	-	-	-	57	
Increase in equity reserve in relation to options issued	-	-	-	140	-	-	140	
Adjustment for exercised options	-	-	-	(64)	-	64	-	
Deferred tax on share options	-	-	-	(50)	-	-	(50)	
Dividend paid	-	-	-	-	-	(5,295)	(5,295)	
Transactions with owners	1	56	-	26	-	(5,231)	(5,148)	
Foreign currency translation differences	-	-	-	-	(66)	-	(66)	
Profit for the period	-	-	-	-	-	3,282	3,282	

Total comprehensive income	-	-	-	-	(66)	3,282	3,216
Balance at 30 June 2018	477	4,925	4,663	555	(169)	4,424	14,875

Consolidated Statement of Cash Flows

		30 June 2018 Unaudited	30 June 2017 Unaudited restated	31 December 2017 Unaudited restated
	Notes	£'000	£'000	£'000
Cash generated from operations	6	3,318	2,881	7,014
Taxes paid		(430)	(237)	(679)
Cash flow from operating activities		2,888	2,644	6,335
Investing activities				
Additions to property, plant and equipment		(63)	(33)	(67)
Interest received		14	9	17
Cash flow from investing activities		(49)	(24)	(50)
Cash flow from operating activities after investing activities (free cash flow)		2,839	2,620	6,285
Financing activities				
Proceeds from share issues	7	57	169	169
Dividend paid		(5,295)	(4,279)	(5,421)

Cash flow from financing activities	(5,238)	(4,110)	(5,252)
Net changes in cash and cash equivalents	(2,399)	(1,490)	1,033
Cash and cash equivalents, beginning of period	7,312	6,249	6,249
Exchange differences on cash & cash equivalents	(27)	16	30
Cash and cash equivalents, end of period	4,886	4,775	7,312

Notes to the Financial Statements (unaudited)

1 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 2018 as endorsed by the European Union ("EU"). With the exception of IFRS 15: Revenue from Contracts with Customers (see revenue recognition policy below), the accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2017, 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 2018 and 30 June 2017 have not been audited. The figures for the year ended 31 December 2017 have been extracted from, but do not constitute, the consolidated financial statements of Quartix Holdings plc for that year but have been restated for the fully retrospective application of IFRS 15. The original financial statements for the year ended 31 December 2017 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. The Group therefore continues to adopt the going concern basis in preparing the interim results.

Revenue recognition

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') with effect from 1 January 2018 and applied the fully retrospective application, under which IFRS 15 has been applied to the previous financial year with its results being restated.

Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is 'separately' identifiable (i.e. the Group does not provide a significant service integrating, modifying or customising it).

Previously, revenue from hardware sales, including insurance telematics contracts, was recognised upon installation of the unit or despatch of the unit if the customer did their own installation. Revenue from installation was recognised upon installation and revenue from the provision of telematics-based fleet and vehicle management solutions was recognised over the period in which the service was provided.

The Group completed a detailed assessment of its sources of revenue and assessed whether the components of hardware, installation and data services are distinct under the new definitions of IFRS 15. The conclusion was that the Group's activities of supplying telematics units and installing telematics units are activities the Group undertakes to provide its telematics services and are supplied as part of a contract with the customer. This means that the Group considers these goods and services as one single performance obligation. Consequently, the Group will no longer recognise revenue separately for these goods and services; rather, it will recognise this revenue together as the provision of vehicle telematics services.

In relation to costs, the unit costs will be recognised when the Group relinquishes control of the unit. In addition, installation costs and distributor commissions will be expensed as incurred.

Further information on the impact of the new policy is disclosed in note 8.

2 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 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:

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited restated £'000	31 December 2017 Unaudited restated £'000
By customer base			
Fleet	9,132	8,265	17,079
Insurance	3,781	3,803	7,438
	12,913	12,068	24,517

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited restated £'000	31 December 2017 Unaudited restated £'000
Geographical analysis by destination			
United Kingdom	11,092	10,621	21,427
France	1,137	895	1,917
Republic of Ireland	7	4	10
United States of America	677	548	1,163
	12,913	12,068	24,517

4 Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Operating profit	3,844	3,768	6,622
Depreciation	77	91	186
EBITDA	3,921	3,859	6,808
Share-based payment expense	140	158	420
Adjusted EBITDA	4,061	4,017	7,228

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 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 2018	3,282	47,641,307	6.89	47,856,077	6.86
Period ended 30 June 2017	3,258	47,402,743	6.87	47,728,108	6.83
Year ended 31 December 2017	5,846	47,459,712	12.32	47,667,194	12.26

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.

6 Note to the cash flow statement

Cash flow adjustments and changes in working capital

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited restated £'000	31 December 2017 Unaudited restated £'000
Profit before tax	3,858	3,777	6,639
Foreign exchange	(39)	97	151
Depreciation	77	91	186
Interest income	(14)	(9)	(17)
Share based payment expense	140	158	420
Operating cash flow before movement in working capital	4,022	4,114	7,379
(Increase)/decrease in trade and other receivables	(1)	(520)	(424)
Decrease/(increase) in inventories	(109)	45	(24)
(Decrease)/increase in trade and other payables	(594)	(758)	83
Cash generated from operations	3,318	2,881	7,014

7 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2017	47,345,954	474	4,702
Shares issued	222,400	2	167

At 30 June 2017	47,568,354	476	4,869
Shares issued	-	-	-
At 31 December 2017	47,568,354	476	4,869
Shares issued	141,250	1	56
At 30 June 2018	47,709,604	477	4,925

All shares issued in the period to 30 June 2018 relate to the exercise of share options.

8 Explanation of transition to IFRS 15: Revenue from Contracts with Customers

As highlighted in note 1, Significant accounting policies under revenue recognition, the Group has adopted fully retrospective application of IFRS 15. These interim financial statements include the restatement of the previously audited financial statements for the year ended 31 December 2017 and the unaudited interim financial statements for the six months to 30 June 2017. The Group has not applied any of the practical expedients available for companies selecting fully retrospective application

As described in note 1, under IAS 18 the Group recognised revenue from hardware and installation services upon installation of a unit, or despatch if self-installed by the customer. Following the evaluation for IFRS 15, the Group's activities of supplying telematics units and installing telematics units are supplied as part of a contract with the customer for the provision of its telematics services and will be considered as one single performance obligation. Consequently, the Group will no longer recognise revenue separately for these goods and services; rather, it will recognise this revenue together as the provision of vehicle telematics services.

The principal impact of this change relates to the timing of revenue for units purchased by insurance customers, with the total contractual revenue sum being recognised over the contractual period for the provision of data services, which is one year.

As at 1 January 2017, the restatement of the Group's net assets was a reduction of £2,669,000 to £15,660,000 from the inclusion of additional contract liabilities of £3,293,000 under IFRS 15, being previously recognised revenue now being recognised over the contractual period for the provision of data services, net of a deferred tax asset of £624,000.

The impact of adoption of IFRS 15 on the financial statements is summarised below:

	30 June 2018	30 June 2017	31 December 2017
	Unaudited	Unaudited	Unaudited
	£'000	restated	restated
		£'000	£'000
Revenue	543	558	29
Profit before tax	448	452	24
Adjusted EBITDA	543	558	29
Net assets	(2,244)	(2,217)	(2,645)
Earnings per ordinary share (pence)	0.94	0.95	0.05

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