Quartix Holdings PLC

Final Results

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Quartix Holdings PLC
25 February 2019

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Quartix Holdings plc

("Quartix" or "the Group")

Final Results

Continued 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 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 5% to £25.7m (2017: £24.5m)
    - Fleet revenue grew by 10% to £18.8m (2017: £17.1m)
    - Insurance revenue declined by 7% to £7.0m (2017: £7.4m)
- Operating profit increased by 21% to £8.0m (2017: £6.6m)
- Adjusted EBITDA [1] increased by 15% to £8.3m (2017: £7.2m)
- Profit before tax increased by 22% to £8.1m (2017: £6.6m)
- Diluted earnings per share increased by 16% to 14.19p (2017: 12.26p)
- Free cash flow [2] decreased by 11% to £5.6m (2017: £6.3m)
- Cash generated from operations [3] fell by 3% at £6.8m (2017: £7.0m)
- Net cash reduced to £6.8m (2017 net cash: £7.3m)
- Final dividend payment of 10.0p per share proposed (2017: 11.1p) including 6.2p for supplementary dividend (2017: 6.8p) giving a total dividend for the year of 12.4p per share

[1] Earnings before interest, tax, depreciation, amortisation and share based payment expense

[2] Cash flow from operations after tax and investing activities

[3] Cash inflow before tax

Operational highlights:

- Strong progress in the main fleet business:
  - 17% increase in subscription base to 123,157 units (2017: 105,314)
  - 20% increase in customer base to 13,176 (2017: 10,961)
  - Unit attrition increased to 11.9% (2017: 10.1%) due to higher attrition in the US, but compares favourably with our estimate of the industry average of around 14-15 per cent
  - 16% growth in new fleet installations
  - Strong growth in France, ending the year with 2,474 customers (2017: 1,776) and 18,803 vehicles under subscription (2017: 13,131), an increase of 39% and 43% respectively
  - During its fourth full year of trading the USA grew its customer base to 2,007 (2017: 1,460), with 13,133 vehicles under subscription (2017: 8,973)
- As anticipated further decline in the lower-margin insurance telematics business:
  - 29% decline in insurance installations to 41,255 (2017: 57,826)

Andy Walters, Chief Executive Officer of Quartix, commented:

"We are delighted with the progress made in 2018. New fleet installations increased by 16% to 31,456 and the client base grew by 20% to 13,176. Further investment has been made in the development of the Group's fleet businesses in the United States and France where the vehicle subscription bases increased by 46% to 13,133 and 43% to 18,803, respectively. In the UK the subscription base increased by 10% to 91,221 vehicles.

We invested in significant enhancements to our web and mobile applications and designed new telematics devices to facilitate installation by our customers. These developments pave the way for the launch of our telematics services in additional European markets and languages, which we are piloting with Poland and Spain this month. We expect to be able to provide better support for our Spanish-speaking customers in the USA in the near future."

"We achieved satisfactory margins in our insurance operations, 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 strong start to the year in each of its markets. The high levels of recurring revenues and opportunities to grow the fleet business in the UK, USA, France and the rest of Europe underpin our confidence for the current financial period and beyond."

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Full Financial Results Report

The Group's Financial Statements for the year ended 31 December 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 "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 fleet telematics services in the UK, USA and France.

Sales in the Company's core fleet operations in the UK and Ireland grew by 5%, reaching £14.8m (2017: £14.0m). This growth partially compensated for the planned decline in UK insurance revenues, which decreased by £0.4m to £7.0m (2017: £7.4m).

The Group made good progress in France, where revenue increased by 27% to €2.8m (2017: €2.2m).

2018 was the Group's fourth full year of operations in the USA, having launched its service and opened an office there during 2014. We are pleased with progress and completed the year with 13,133 vehicles under subscription (2017: 8,973) across 2,007 fleet customers (2017: 1,460). Revenue increased by 34% to $2.0m in 2018 (2017: $1.5m) and the prospects for future business development remain encouraging.

Results

Group revenue for the year increased by 5% to £25.7m (2017: £24.5m).

Operating profit for the year increased by 21% to £8.0m (2017: £6.6m) and profit before tax was £8.1m (2017: £6.6m).

Cash conversion was reduced, resulting in free cash flow, cash flow from operations after tax and investing activities, of £5.6m (2017: £6.3m). Net cash reduced by £0.5m to £6.8m at 31 December 2018, following the payment of £6.4m in dividends.

Earnings per share

Basic earnings per share increased by 17% to 14.38p (2017: 12.32p). Diluted earnings per share increased to 14.19p (2017: 12.26p).

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 2018, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.15m and was paid on 14 September 2018 to shareholders on the register as at 17 August 2018.

The Board is recommending a final ordinary dividend of 3.8p per share, together with a supplementary dividend of 6.2p per share, giving a final pay out of 10.0p per share and a total dividend for the year of 12.4p per share.

The final and supplementary dividend amounts to approximately £4.8m in aggregate. Subject to the approval at the forthcoming AGM, this dividend will be paid on 3 May 2019 to shareholders on the register as at 5 April 2019.

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 26 March 2019 at the Group's registered office at 9 Dukes Court, 44~62 Newmarket Rd, Cambridge CB5 8DZ.

Paul Boughton
Chairman

Strategic Report: Operational Review

Principal activities

Quartix is 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 fleet sector in France and the USA. Given the success of this internationalisation, the Group will explore the potential for further expansion in Europe during 2019.

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. This strategy is based on 5 key elements:

1. *Market development*: focusing on the fleet markets of the UK, France and USA, and exploring further fleet opportunities throughout Europe.

2. *Cost leadership*: developing market-leading processes and efficiencies in all business areas from customer acquisition through to service delivery and support.

3. *Continuous enhancement of the Group's core software and telematics services*: offering a market-leading platform which addresses the most common needs of SME customers in the service sector of each of our target markets

4. *Outstanding service*: providing excellent support for customers and, increasingly, delivering that service through automation and self-service

features

5. *Standardisation and centralisation*: achieving economies of scale as we grow, and ensuring that we maintain a common approach to all of our target markets, and tightly controlling the level of back-office and other overhead costs.

Our 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.

We also provide our telematics technology and services to insurers, who 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. The level of attrition, in this industry for young driver policies, 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.

Given the degree of price competition in the insurance market, and the Group's strategic focus on its fleet operations, it is expected that both the proportion and absolute level of the Group's revenues achieved in the insurance sector will continue to decline.

People

We take pride in the level of service we provide, and it is gratifying to see that fleet customers consistently provide us with excellent reviews - both in person and on third-party sites such as TrustPilot, where we have a five-star rating.

We were, once again, included in the London Stock Exchange's list of "1000 Companies to Inspire Britain" and were delighted also to be awarded a Queen's Award for Innovation during the year. The Queen's Award was for the development of our SafeSpeed Database, which provides both insurers and fleet managers with feedback on driving safety which has already been shown to save lives and reduce accidents.

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 2018 another great year for Quartix.

We are pleased 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 sixth year in a row. Under this scheme each UK employee (barring directors) receives shares in the company at zero cost and which are exercisable approximately 18 months from grant. Employees with 5 years' service at the first grant in 2013 would now hold 3,925 shares in the company, less any disposals.

Operational performance

All of our business operations continued to perform at a high level in 2018. Gross margin increased to 67% (2017: 61%), mainly due to a reduction in new insurance contracts and the associated initial contract costs. Overheads increased by 11% and the return on sales before tax increased by 4 percentage points to 31% (2017: 27%). Cash conversion was good with cash flow from operations after tax and investing activities (free cash flow) representing 81% of profit for the year (2017: 108%). The reduction is due to the £1.3m reduction in contract liabilities in 2018. We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Our accounts and operations teams continued to manage working capital well: trade debtors at the year-end were 31 days of sales, and inventory levels remained comparable despite the sales growth. The reduction in contract liabilities was due to the release of deferred contract revenue in the year arising from the reduction in the number of new insurance installations.

Fleet

Our core fleet business, which accounted for 73% of Group revenue (2017: 70%), delivered good progress in a further year of investment. Continued subscription base 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 fourth full year of trading saw us reach an installed base of more than 13,000 vehicles under subscription.

During the course of the year we won 3,532 new fleet customers (2017: 2,779). Sales leads continued to be generated through a broad range of media and channels. The efficiency improvements resulted largely from investments made in marketing, technology, processes and training, adding automation wherever possible. This investment will continue in 2019, and the knowledge and experience gained will be used across both existing and new target markets.

Fleet UK (including Ireland)

Demand for vehicle telematics services in the UK continues to grow. We increased our vehicle subscription base by 10% to 91,221 during the year, and our fleet customer base by 8,695. Despite these improvements, however, we were disappointed in the number of new installations made in the first half, which were 14% behind the equivalent period in 2017. Following the process and management changes made during H2, I am pleased to report that we saw significant improvements towards the end of the year, with the deficit compared to 2017 reduced to 6% (2018: 18,583, 2017: 19,714). The improved run-rate has continued into 2019. In total we won 1,654 new customers (2017: 1,700) and we increased the number of fleet clients with 50 vehicles or more. UK fleet revenue was £14.8m (2017: £14.0m). 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 76% higher than the previous year (6,725 versus 3,819), and there was a 43% increase in the unit base, ending the year with 18,803 vehicles (2017: 13,131) under subscription across 2,474 fleet customers (2017: 1,776). French fleet revenue increased by 27% to €2.8m (2017: €2.2m), making a profitable contribution to the Group. We saw continued growth in new customer acquisition throughout the year, and this was broadly spread across each of our channels. We will make additional investments in this market in 2019, as we now benefit from growing awareness of our brand and product.

Fleet USA

Our fourth full year of trading in the USA showed good progress: we concluded 2018 with 2,007 fleet customers (2017: 1,460) having a total of 13,133 vehicles under subscription (2017: 8,973). USA fleet revenue increased by 34% to $2.0m (2017: $1.5m). Losses incurred in the USA increased by £0.3m to £0.6m (2017: £0.3m) due to the investment in marketing and unit installation costs.

We see significant potential for growth in the USA in the next five years, and have already recruited additional sales staff in 2019, split between our Chicago and Newtown offices. The largest part of this growth came from our direct telephone sales channel. This channel has significant potential for future growth but we also intend to invest more in our price comparison team in Newtown, for which we have recruited additional staff, and our distribution channel based in Chicago, for which we have now appointed a dedicated sales executive.

Fleet revenues in France and the USA combined were £4.0m, representing 21% of total fleet revenue.

Fleet - Poland and Spain

In preparation for an initial launch of our telematics services to a broader European market we recruited 2 people for our Polish sales team in November 2018 and 2 more for a Spanish sales team in January 2019. Both of these teams are based in Newtown, Powys. We do not anticipate the need for further recruitment for these markets in the short term, and all back-office, accounting and systems support for these initiatives will be provided by the same departments in Newtown dealing with our existing markets.

Our approach to these new markets will be based largely on user-install service options and we are delighted to report that our Polish website, application and payment systems, went live at the start of February 2019 and that the Spanish site is expected to follow shortly. The new sites may be viewed at www.quartix.com/pl and www.quartix.es.

Fleet - further market development

Beyond the two new markets described above our first priority is to be able to provide better support for our Spanish-speaking clients in the USA and to offer our services in other European countries and languages.

Insurance

We installed 41,255 new insurance tracking systems in 2018, a decrease of 29% on the prior period. This trend was in keeping with the decision announced in July 2016 to focus on the core fleet market and on only those insurance opportunities which offer satisfactory margins and which are closely aligned to the 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 2018 this proposition had been adopted and used by four 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 and which is also of particular appeal to medium and large commercial vehicle fleets. As mentioned earlier, we were delighted to receive a Queen's Award for Enterprise for this innovation.

Research and development

The Group is committed to the continuous enhancement of its core software and telematics services, and we aim to offer a market-leading platform which addresses the most common needs of SME customers in the service sector of each of our target markets. We achieved some notable successes in 2018:

1. In October we released a significant update of our complete software application. This brought the user interface into line with the branding and styling of our new website and promotional materials. The new release was extremely well-received by customers and prospects alike, as it not only provides a more modern-looking interface but also makes much better use of the screen and available resources.

2. As part of the development described in (1) above we laid the groundwork for accommodating new markets, languages and character sets, with the ultimate aim of providing the flexibility for users in any location to be configured for use of the application in a broader range of languages than the three previously supported.

3. Alongside these developments we embarked on a programme of creating options within our application, website and mobile applications to simplify the introduction of our service in additional languages and countries. The first two of these (Poland and Spain) went live in February 2019. Developments in our commercial billing systems to support these additional markets will continue during 2019.

4. Further development of our telematics hardware and firmware platforms was carried out during the year, with new user-install options released for both the American and European markets. By the end of the year these were accounting for more than 20% of new installations, and we expect this trend to continue, particularly as a result of the new market initiatives described earlier.

All of our investment in research was fully expensed in the year. The total cost amounted to £1.1m, which represents an increase of 3% compared to the prior year (2017: £1.1m).

Strategic priorities

We believe that the Company has significant opportunity for growth in its fleet business. We ended the year with good growth in new installations and customer acquisition in all existing markets and have taken the decision to make additional investments in business development and market expansion in 2019.

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")

Year ended 31 December	2018	2017	% change
Fleet installations (units)	31,456	27,227	15.5
Fleet subscription base (units)	123,157	105,314	16.9
Fleet customer base	13,176	10,961	20.2
Fleet attrition (annualised) [1] (%)	11.9	10.1	-
Fleet invoiced recurring revenue[2] (£'000)	17,246	15,605	10.5
Fleet revenues (£'000)	18,751	17,079	9.8
Insurance installations (units)	41,255	57,826	(28.7)
Insurance revenues (£'000)	6,955	7,438	(6.5)

1 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

2 Invoiced rental and communications charges before provision for deferred revenue

2018 was a year of good progress in our primary strategic objective of building our fleet subscription base.

We achieved over 31,000 fleet installations, an increase of 15.5% compared to 2017, and our fleet installed base grew by 16.9% to 123,157 units, with growth in all three of our geographical markets.

Attrition during the period increased to 11.9%, partly due to higher attrition levels in the US.

Group invoiced recurring revenue (before adjusting for deferred revenue) grew by 10.5% to £17.3m (2017: £15.6m).

The growth in fleet revenue at 9.8% was in line with the growth of our recurring revenue as our primary focus is on growing subscription revenue.

Insurance unit installations were down 28.7% at 41,255, 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

£'000 (except where stated)	2018	2017	% change
Revenues			
Fleet	18,751	17,079	9.8
Insurance	6,955	7,438	(6.5)
Total	25,706	24,517	4.8
Gross profit	17,163	14,871	15.4
Gross margin	67%	61%	
Operating profit	8,041	6,622	21.4
Operating margin	31%	27%	
Adjusted EBITDA	8,334	7,228	15.3
Profit for the year	6,860	5,846	17.3
Earnings per share	14.38	12.32	16.7
Cash generated from operations	6,825	7,014	(2.7)
Operating profit to operating cash conversion	85%	106%	
Free cash flow	5,583	6,285	(11.2)

Revenue

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. The net assets at 1 January 2017 were also restated as disclosed in the Consolidated Statement of Changes in Equity. Details of the restatement are included in note 9.

Revenue increased by 4.8% to £25.7m (2017: £24.5m). Fleet revenue, benefitting from past investment, was 9.8% up at £18.8m (2017: £17.1m). Sales to insurance customers decreased by 6.5% to £7.0m (2017: £7.4m). This is in-keeping the Group's stated strategy of focussing on those areas of the market which adequately reward the technology and service which it provides.

Gross margin

Gross margin increased to 67% in the year (2017: 61%), primarily as a result of the deferral of £1.2m of insurance gross margin from the prior year under IFRS 15. This, together with fewer insurance units and installation costs, as well as a higher proportion of fleet sales in the year, combined to increase the gross margin rate. The deferral of £1.2m of insurance gross margin from the prior year has acted to reduce the conversion of operating profit to operating cash flow, since cash is received in advance for insurance contracts rather than on a subscription basis.

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 10.6%. The investment was offset by growth in gross margin and operating profit grew at 21.4% to £8.0m. Adding back depreciation and share-based payment expense gives £8.3m of adjusted EBITDA (2017: £7.2m).

Part of the aforementioned investment was in the USA where our customer base increased by 38% and revenue, as disclosed in note 3, increased to £1.5m ($2.0m) (2017: £1.2m). Losses in the USA were around £0.6m ($0.8m) (2017: losses of £0.3m).

Profit for the year

Our effective tax rate benefits from the Group's investment in research and patents in the UK business. The effective rate increased from 11.9% in 2017 to 15.0% in 2018, reflecting higher losses in the US and slightly lower qualifying R&D expenditure and patent box income.

Profit for the year grew by 17.3% to £6.9m (2017 £5.8m).

Earnings per share

Earnings per share increased to 14.38p (2017: 12.32p) and diluted earnings per share increased to 14.19p (2017: 12.26p).

Statement of financial position

Property, plant and equipment, at £0.4m (2017: £0.2m), increased by £0.2m due to the replacement of some of the Group's servers in the year.

Contract liabilities represent customer payments received in advance of satisfying performance obligations, which are expected to be recognised as revenue in 2019 (both fleet and insurance). These unwound to £4.7m in 2018 (2017: £6.0m) and are described further in note 17. Deferred tax assets reduced to nil (2017: £0.8m) as a result of the reduction in contract liabilities relating to 2017.

Trade and other receivables reduced to £2.9m in the year (2017: £3.0m), whilst trade and other payables reduced to £2.8m (2017: £2.9m). Inventories increased to £0.8m (2017: £0.7m). Cash at the year-end was £6.8m (2017: £7.3m).

Cash flow

Cash generated from operations before tax at £6.8m (2017: 7.0m) was 85% of operating profit. As previously stated, the conversion of operating profit to operating cash flow was lower than in 2017 (106%) due to deferred insurance revenue in the year under IFRS 15 'Revenue from Contracts with Customers' for which cash was received in advance.

Tax paid in 2018 was £0.9m (2017: £0.7m), so cash flow from operating activities after taxation but before capital expenditure was £5.9m (2017: £6.3m).

Free cash flow, after £0.3m of capital expenditure and interest received, was £5.6m, a reduction of 11.2% (2017: £6.3m).

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. The Group has a range of tailored incentive schemes to help recruit, motivate and retain top quality staff, 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 the risk of 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 and Business Interruption Insurance to cover certain events in order to help mitigate these risks.

The potential damage to the Group's business as a result of the UK leaving the EU without a negotiated agreement is uncertain but could be considerable. The Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. Depending on the resulting trading and data adequacy arrangements, it is possible that the Group would need to relocate some of its operations to within the EU. In addition, any impact on the wider economic landscape would impact the Group's trading indirectly through the demand for its services.

Dependence on a key customer

During 2018 insurance revenue of £5.5m (2017: £7.0m) was derived via 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, including dealing direct with some specialist insurers.

Cyber security

The Group needs to make sure its data is kept safe and that there is security of supply of date services to customers. 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 and their applications 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.

We believe we have the right strategy and service in place to deliver strong growth in sales over the medium to long term and to deliver sustainable shareholder value.

Daniel Mendis
Chief Financial Officer

Consolidated Statement of Comprehensive Income

Year ended 31 December		2018	Restated2017
	Notes	£'000	£'000
Revenue	2, 3	**25,706**	24,517
Cost of sales		**(8,543)**	(9,646)
Gross profit		**17,163**	14,871
Administrative expenses		**(9,122)**	(8,249)
Adjusted EBITDA	4	8,334	7,228
Depreciation and share based payments		(293)	(606)
Operating profit		**8,041**	6,622
Finance income receivable		**29**	17
Profit for the year before taxation		**8,070**	6,639
Tax expense		**(1,210)**	(793)
Profit for the year		**6,860**	5,846
Other Comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(158)**	201
Tax benefit (expense)		**-**	-
Other comprehensive (expense)/income for the year, net of tax		**(158)**	201
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		**6,702**	6,047
Earnings per ordinary share (pence)	5		
Basic		**14.38**	12.32
Diluted		**14.19**	12.26

Consolidated Statement of Financial Position

	Notes	**31 Dec 2018**	31 Dec 2017 Restated	1 Jan 2017 Restatedd
		£'000	£'000	£'000
Assets				
Non-current assets				
Goodwill		**14,029**	14,029	14,029
Property, plant and equipment		**433**	234	360
Deferred tax assets		**9**	768	765
Total non-current assets		**14,471**	15,031	15,154
Current assets				
Inventories		**771**	703	680
Trade and other receivables		**2,937**	3,009	2,591
Cash and cash equivalents		**6,779**	7,312	6,249
Total current assets		**10,4874**	11,024	9,520
Total assets		**24,958**	26,055	24,674
Current liabilities				
Trade and other payables		**2,814**	2,853	2,892
Contract liabilities		**4,655**	5,972	5,884
Current tax liabilities		**99**	423	238
		7,568	9,248	9,014
Total liabilities		**7,568**	9,248	9,014
Net assets		**17,390**	16,807	15,660
Equity				
Called up share capital	7	**478**	476	474
Share premium account	7	**5,196**	4,869	4,702
Equity reserve		**390**	529	281
Capital redemption reserve		**4,663**	4,663	4,663
Translation reserve		**(261)**	(103)	(304)
Retained earnings		**6,924**	6,373	5,844
Total equity attributable to equity shareholders of Quartix Holdings plc		**17,390**	16,807	15,660

Consolidated Statement of Changes in Equity

	Share	Share	Capital	Equity	Translation	Retained	Total

	capital	premium account	redemption reserve	reserve	reserve	earnings	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 9)	-	-	-	-	-	(2,669)	(2,669)
Balance at 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	-	-	-	420	-	-	**420**
Adjustment for exercised options	-	-	-	(104)	-	104	**-**
Deferred tax on share Options	-	-	-	(68)	-	-	**(68)**
Dividend paid	-	-	-	-	-	(5,421)	**(5,421)**
Transactions with owners	**2**	**167**	**-**	**248**	**-**	**(5,317)**	**(4,900)**
Foreign currency translation differences	-	-	-	-	201	-	**201**
Profit for the year	-	-	-	-	-	5,846	**5,846**
Total comprehensive income	**-**	**-**	**-**	**-**	**201**	**5,846**	**6,047**
Balance at 31 December 2017	**476**	**4,869**	**4,663**	**529**	**(103)**	**6,373**	**16,807**
Shares issued	2	327	-	-	-	-	**329**
Increase in equity reserve in relation to options issued	-	-	-	108	-	-	**108**
Adjustment for exercised options	-	-	-	(133)	-	133	**-**
Deferred tax on share Options	-	-	-	(114)	-	-	**114**
Dividend paid	-	-	-	-	-	(6,442)	**(6,442)**
Transactions with owners	**2**	**327**	**-**	**(139)**	**-**	**(6,309)**	**(6,119)**
Foreign currency translation differences	-	-	-	-	(158)	-	**(158)**
Profit for the year	-	-	-	-	-	6,860	**6,860**
Total comprehensive income	**-**	**-**	**-**	**-**	**(158)**	**6,860**	**6,702**
Balance at 31 December 2018	**478**	**5,196**	**4,663**	**390**	**(261)**	**6,924**	**17,390**

Consolidated Statement of Cash Flows

	Note	2018 £'000	Restated 2017 £'000
Cash generated from operations	6	**6,825**	7,014
Taxes paid		**(889)**	(679)
Cash flow from operating activities		**5,936**	6,335
Investing activities			
Additions to property, plant and equipment		**(382)**	(67)
Interest received		**29**	17
Cash flow utilised in investing activities		**(353)**	(50)
Cash flow from operating activities after investing activities			
(free cash flow)		**5,583**	6,285
Financing activities			
Proceeds from share issues		**329**	169
Dividend paid		**(6,442)**	(5,421)
Cash flow from financing activities		**(6,113)**	(5,252)
Net changes in cash and cash equivalents		**(530)**	1,033
Cash and cash equivalents, beginning of year		**7,312**	6,249
Exchange differences on cash and cash equivalents		**(3)**	30
Cash and cash equivalents, end of year		**6,779**	7,312

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 Group has adopted IFRS 15: Revenue from Contracts with Customers, and Clarifications to IFRS 15 - Revenue from contracts with customers (hereinafter referred to as 'IFRS 15') and IFRS 9: Financial Instruments.

The adoption of IFRS 15, as at 1 January 2018, has had a significant impact on the Group's financial position and cash flow. Consequently, it has been adopted retrospectively so that the comparative figures for the year ended 31 December 2017 have been restated on a consistent basis (see note 9).

The Group has adopted IFRS 9 and applied it as at 1 January 2018. It has not, as permitted by IFRS 9, restated prior period and has not made a prior year adjustment in respect of the carry value of financial assets at 1 January 2018 since the impact of the implementation of IFRS 9 was not significant (see note 10).

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 2018 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 Revenue

The Group's revenue disaggregated by customer base is as follows:

	2018	2017
	£'000	£'000
Fleet	**18,751**	17,079
Insurance	**6,955**	7,438
	25,706	24,517

During 2018 revenue of £5.5m (2017: £7.0m) was derived from one insurance customer.

The Group's revenue disaggregated by primary geographical markets is as follows:

	2018	2017
	£'000	£'000
United Kingdom	**21,709**	21,427
France	**2,471**	1,917
Republic of Ireland	**13**	10
United States of America	**1,513**	1,163
	25,706	24,517

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

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2018	2017
	£'000	£'000
Recurring revenue	**24,630**	23,499
One off revenue	**1,076**	1,018
	25,706	24,517

Goods and services transferred over time represent 96% of total revenue (2017: 96%).

For 2018, revenue includes £5,871,000 (2017: £5,713,000) included in the contract liability balance at the beginning of the period. Changes to the Group's contract liabilities (i.e. deferred revenue) are attributable solely to the satisfaction of performance obligations.

The aggregated amounts of transaction prices relating to performance obligations from existing contacts that are unsatisfied or partially unsatisfied as at 31 December 2018 are all expected to be recognised in 2019.

3 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.

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

	2018	2017
	£'000	£'000
Operating profit	**8,041**	6,622
Depreciation	**185**	186
EBITDA	**8,226**	6,808
Share-based payment expense	**108**	420
Adjusted EBITDA	**8,334**	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 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**
Earnings per ordinary share					
Year ended 31 December 2018	**6,860**	**47,713,566**	**14.38**	**48,354,756**	**14.19**
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 that year.

6 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	2018	2017

	£'000	£'000
Profit before tax	**8,070**	6,639
Foreign exchange	**(153)**	151
Depreciation	**185**	186
Interest income	**(29)**	(17)
Share based payment expense	**108**	420
Operating cash flow before movement in working capital	**8,181**	7,379
Decrease/(increase) in trade and other receivables	**83**	(424)
(Increase) in inventories	**(67)**	(24)
(Decrease) in trade and other payables	**(42)**	(19)
(Decrease)/increase in contract liabilities	**(1,330)**	102
Cash generated from operations	**6,825**	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 2018	47,568,354	476	4,869
Shares issued	278,206	2	327
At 31 December 2018	**47,846,560**	**478**	**5,196**

All the shares issued in the year to 31 December 2018 related to the exercise of share options.

8 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:

		2018		**2017**
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**269.3**	**1,607,651**	170.2	916,812
Granted	**287.6**	**1,270,534**	308.6	1,024,251

Cancelled	**355.6**	**(620,000)**	-	-
Lapsed	**292.2**	**(614,425)**	199.5	(112,012)
Exercised	**118.4**	**(278,206)**	76.4	(221,400)
Outstanding at 31 December	**267.6**	**1,365,554**	269.3	1,607,651
Exercisable at 31 December	**178.9**	**148,000**	167.1	244,355

The weighted average fair value of options issued during the year ended 31 December 2018 was 38.25p (2017: 71.70p). Included in the options granted in 2018 were 1,062,776 (2017: 10,355) granted to staff with performance conditions relating to the Group for each of the three years ended 31 December 2021 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 2018 was 338.16p (2017: 375.16p).

Further details of share-based payments are given in the Group's audited accounts, which are available at www.quartix.net/investors/

9 Explanation of transition to IFRS 15 Revenue from Contracts with Customers

As highlighted in note 1, basis of preparation, the Group has adopted fully retrospective application of IFRS 15. The Group has not applied any of the practical expedients available for companies selecting fully retrospective application. Consequently, the comparative figures for the year ended 31 December 2017 in these financial statements have been restated.

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:

Consolidated Statement of Financial Position

1 January 2017	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Deferred tax assets	141	624	765
Other	23,909	-	23,909
Total assets	24,050	624	24,674

Contract liabilities	(2,591)	(3,293)	(5,884)
Other	(3,130)	-	(3,130)
Total liabilities	(5,721)	(3,293)	(9,014)
Retained earnings	8,513	(2,669)	5,844
Other	9,816	-	9,816
Total Equity	18,329	(2,669)	15,660

31 December 2017	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Deferred tax assets	149	619	768
Other	25,287	-	25,287
Total assets	25,436	619	26,055
Contract liabilities	(2,708)	(3,264)	(5,972)
Other	(3,276)	-	(3,276)
Total liabilities	(5,984)	(3,264)	(9,248)
Retained earnings	9,018	(2,645)	6,373
Other	10,434	-	10,434
Total Equity	19,452	(2,645)	16,807

Consolidated Statement of Comprehensive Income

For the year ended 1 December 2017	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Revenue	24,488	29	24,517
Other	(17,878)	-	(17,878)
Income tax expense	(788)	(5)	(793)
Net profit	5,822	24	5,846
Total Comprehensive income	6,023	24	6,047
Earnings per ordinary share (pence)	12.27	0.05	12.32
Diluted earnings per ordinary share (pence)	12.21	0.05	12.26

Consolidated Statement of Cash Flows

For the year ended 1 December 2017	As previously reported	Adjustments	As Restated
	£'000	£000	£'000

Profit	5,822	24	5,846
Adjusted for:			
- Tax expense	788	5	793
Profit before tax	6,610	29	6,639
Changes in contract liabilities	131	(29)	102
Other	273	-	273
Cash generated from operations	7,014	-	7,014

10 Explanation of transition to IFRS 9 Financial Instruments

As highlighted in note 1, basis of preparation, the Group has adopted IFRS 9 and applied it as at 1 January 2018. It has not, as permitted by IFRS 9, restated prior periods and has not made a prior year adjustment in respect of the carrying value of financial assets at 1 January 2018 since the impact was not significant.

The Group has reviewed its business model for its financial assets, which comprise only basic loans and receivables, and concluded that they are held for collecting contractual associated cash flows. Therefore, under the new guidance, loans and receivables, are initially recognised at fair value and will subsequently be measured at amortised cost.

It's financial assets are trade receivables which do not have a significant financing component, therefore it will adopt the simplified approach of measuring lifetime expected credit losses. The Group will also adopt the practical expedient for the calculation of expected credit losses for trade receivables using a provision matrix.

At each reporting date, the Group will measure the loss allowance at an amount equal to the lifetime expected credit losses.

The Group will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9

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