

Quartix Holdings PLC

Interim Results

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 Quartix Holdings PLC
 24 July 2019

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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 2019.

Financial highlights:

- Group revenue decreased by 3% to £12.5m (2018: £12.9m)
 - Fleet revenue grew by 11% to £10.1m (2018: £9.1m)
 - Insurance revenue declined by 35% to £2.5m (2018: £3.8m)
- Operating profit of £3.2m (2018: £3.8m)
- Adjusted EBITDA¹ of £3.5m (2018: £4.1m)
- Profit before tax of £3.2m (2018: £3.9m)
- Diluted earnings per share of 5.67p (2018: 6.86p)
- Free cash flow² increased by 12% to £3.2m (2018: £2.8m)
- Cash generated from operations increased by 5% to £3.5m (2018: £3.3m)
- Net cash increased to £5.1m (2018: £4.9m)
- Operating cash conversion³ of 109% (2018: 86%)
- Interim dividend of 2.4p per share proposed

¹ Earnings before interest, tax, depreciation, amortisation and share based payment expense (see note 3)

² Cash flow from operations after tax and investing activities

³ Cash generated from operations of £3.5m divided by operating profit of £3.2m

Operational highlights

Fleet

Excellent progress in the main fleet business

- Subscription base grew by 12% to 138,081 vehicles (31st December 2018: 123,157)
- Annual value of subscription base increased by £1.2m to £20.0m on a constant-currency basis (6 months 30 June 2018: £0.7m to £17.7m)
- Fleet installations grew by 48% to 22,505 (6ms 30 June 2018: 15,220)
- Customer base increased by 13% to 14,851 (31st December 2018: 13,176)
- Fleet invoiced recurring revenue increased by 12% to £9.4m (6ms 30 June 2018: £8.4m)
- Attrition¹ on a rolling 12-month basis was 10.5% (12 months 30 June 2018: 12.0%)
 - Significant increase in marketing, sales resource, distribution, tracking systems and installation spend to drive subscription growth.

¹ Attrition is calculated as the difference between the number of new unit installations and the increase in active subscriptions between 1 July 2018 and 30 June 2019, expressed as a percentage of the mean subscription base between those two points in time: $(38,740-25,551)/125,305 = 10.5\%$

UK

- New fleet installations increased by 49% to 13,360 units (6 months June 2018: 8,990)
- 99,055 active vehicle subscriptions, up 9% (31 December 2018: 91,137)
- 9,431 customers, up 9% (31 December 2018: 8,675)

France

- New fleet installations increased by 58% to 4,465 (6 months June 2018: 2,820)
- 22,440 active vehicle subscriptions, up 19% (31 December 2018: 18,803)
- 2,967 customers, up 20% (31 December 2018: 2,474)

Other European (Ireland, Poland, Spain)

- 482 active vehicle subscriptions
- 121 customers

USA

- New fleet installations increased by 28% to 4,365 units (6 months June 2018: 3,400)
- 16,104 active vehicle subscriptions, up 23% (31 December 2018: 13,133)
- 2,332 customers, up 16% (31 December 2018: 2,007)

Insurance

- Insurance installations declined by 29% at 17,069 (6 months June 2018: 23,969).
- Insurance revenue declined by £1.3m (35%) to £2.5m (6 months June 2018: £3.8m).

Andy Walters, Chief Executive Officer of Quartix, commented:

"We are delighted with the expansion of our fleet subscription base in the First Half, which resulted from an increased level of investment in customer acquisition. New

fleet installations grew by 48% compared with the same period last year. We also invested in R&D, business systems and new market development, having successfully launched our telematics services in Poland and Spain.

We are well positioned for future growth in our fleet business and continue to review the opportunities to invest in this further. We remain confident of at least meeting expectations for revenue, profit and cashflow for the year."

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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 2019 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

Increased investment in our fleet tracking business has driven strong growth in the subscription base

It is pleasing to report very strong growth in new fleet installations, which increased by 48% to 22,505 units in the first half year (6 months 30 June 2018: 15,220 units). We ended the period with a committed subscription base of 138,081 vehicles having

an annualised value of £20.0m (30 June 2018: 112,530, with value of £17.7m on a constant currency basis), and we added 1,675 customers to the client base, reaching 14,851 in total.

In the 5 years since 30 June 2014 (the Company's year of admission to AIM), Quartix has maintained a CAGR of 21.0% in its subscription base (from 53,197 to 138,081 vehicles), of which the annualised value has almost doubled from £10.2m to its current level of £20.0m.

We significantly increased investment in marketing, sales resource, distribution, tracking systems and installation costs for our fleet operations. In line with the Company's accounting policies these costs were all expensed as incurred, amounting to an increase of £1.0m compared to the same period in 2018. This investment will generate strong recurring revenues for the future and it is pleasing to be able to report a strong set of financial results even with this investment in the future. A more detailed breakdown of investments in customer acquisition is shown in the segmental analysis (note 2). This analysis demonstrates the increased profitability attributable to our fleet customer base and the growth in investment made to accelerate our customer acquisition activities, as detailed above.

The following paragraphs provide a summary of activity and results in each market

UK

Total sales in the UK were £10.1m (2018: £11.1m). Sales to fleet customers in this market increased by 5% to £7.7m (2018: £7.3m) and the subscription base grew to 99,055 vehicles, representing an increase of 15% over the past 12 months (30 June 2018: 86,217). This rate of growth compared to last year resulted from new installations which were 49% higher, at 13,360 vehicles, than in the prior year (2018: 8,990). This success was driven by improvements in the management of each of our channels: field sales, direct telesales, price comparison sites and distribution. We have identified further opportunities for improvement and will continue to invest in each channel.

France

The Group made excellent progress in France, where the subscription base rose by 46% over the past year to 22,440 vehicles (30 June 2018: 15,390). Development of each channel to market is ongoing and revenue in France in the first half increased by 33% in local currency to €1.7m (2018: €1.3m). Our distribution network provided the strongest contribution to growth, but we also achieved impressive sales performance through our direct telesales and price comparison channels. All three channels will receive further investment in the second half.

USA

The Group continued to develop its operations successfully in the USA, taking its subscription base to 16,104 vehicles. This is 49% higher than it was 12 months ago (30 June 2018: 10,840). Revenue increased by 30% to \$1.2m (2018: \$0.9m). Growth was equally split between our direct telesales and price comparison channels. We significantly increased the size of the sales team for the latter during the period and, now that training has been completed, we intend to increase our marketing budgets for both channels. A significant amount of resource and time was dedicated to creating a distribution support team for the USA, and initial results were being seen by the end of the period. We believe that this offers an additional growth opportunity.

Poland, Spain, Ireland and Hispanic market of the USA

Initial results from the Company's marketing initiatives in Poland and Spain have been encouraging, with approximately 50 new clients won in each market so far. A Spanish-language version of the US website went live in May, as the Company believes that SME businesses in the Hispanic community represent a significant market opportunity. A dedicated website for Ireland was also launched.

Italy and further regional developments

The Company launched a marketing website for the Italian market earlier this month (www.quartix.it) and this is expected to be followed by an equivalent for Germany together with full application support in Italian and German. In each case these developments will be backed by sales recruitment in the UK and initial marketing investments.

R&D and systems developments

The Company's "new-look" browser-based and mobile applications, which were launched in October 2018, have been well received by clients and prospects alike. They have also formed the basis of each of the launches in new territories listed above. New telematics system designs, particularly those offering easy self-installation options, have also contributed strongly to the Company's growth in the period. Quartix received carrier-level and PTCRB certification of its new 4G telematics system for the USA, and the core of this design (hardware and firmware) will eventually provide the basis for both its European and American product offerings.

A dedicated team of systems and software developers is focused exclusively on the enhancement of the Company's internal processes, and a significant number of improvements in process efficiency were achieved in the first half, and more are planned for the rest of the year.

Insurance

The Company's strategy of focusing on fleet operations, and of reducing its commitment to the insurance telematics market has started to show strong results, as highlighted above. Technology and services developed for the insurance sector have been a contributory factor in many of the new fleet contracts won in the first half.

It has become clear that some telematics companies which have focused on the insurance sector are showing some signs of weakness in terms of service levels or financial performance. Quartix will therefore continue to consider insurance business which is cash generative and which properly values the technology and service quality it provides. Revenue in this sector declined by 35% to £2.5m, which now represents 20% of turnover. New installations for our insurance clients decreased by 29% to 17,069.

Further information on the contribution from this business can be seen in the segmental analysis (note 2).

Results

Group revenue for the half year was £12.5m (2018: £12.9m). Fleet revenue grew by 11% to £10.1m (2018: £9.1m) and insurance revenue declined to £2.5m (2018: £3.8m). Sales to the insurance sector as a percentage of overall revenue reduced to 20% (2018: 29%). Increased focus on our core fleet business led to the recurring element of subscriptions growing to represent 75% of Group turnover (2018: 65%) and the fleet business representing 83% of segmental profit before central costs (see note 2) (2018: 74%). Although the higher level of this subscription revenue helps to improve the margin mix, we also funded growth of 48% in new fleet installations for

the period (2019: 22,505 units installed; 2018: 15,220 units installed). The cost of all new fleet tracking systems and installations is absorbed in cost of sales. Consequently, gross profit decreased by 6% to £8.0m and gross margin to 63% (2018: 65%). With the impact of investment in marketing activities, operating profit for the half year decreased by 17% to £3.2m (2018: £3.8m). Profit before tax for the half year also therefore decreased by 17% to £3.2m (2018: £3.9m).

Operating cash conversion was 109% (2018: 86%), resulting in pre-tax cash generated from operations of £3.5m (2018: £3.3m). Free cash flow conversion, being free cash flow as a proportion of profit for the period, was 117%, resulting in free cash flow from operations after tax and investing activities of £3.2m (2018: £2.8m). The Group had net cash of £5.1m as at 30 June 2019 (£4.9m at 30 June 2018), having paid a dividend of £4.8m in May.

Earnings per share

Basic earnings per share were 5.67p (2018: 6.89p). On a diluted basis earnings per share were 5.67p (2018: 6.86p).

Dividend

The Board has recommended an interim dividend of 2.4p (2018: 2.4p) per share, amounting to £1,150,520 in aggregate. This was approved by the Board on 23 July 2019. The interim dividend will be paid on 13 September 2019 to shareholders on the register as at 16 August 2019.

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 two Executive Directors: Andrew Walters and Daniel Mendis.

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, USA, France, the rest of Europe 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 2019	30 June 2018	31 December 2018
Half year ended 30 June 2019		Unaudited	Unaudited	Unaudited
	Notes	£'000	£'000	£'000
Revenue	2	12,552	12,913	25,706
Cost of sales		(4,596)	(4,457)	(8,543)
Gross profit		7,956	8,456	17,163
Administrative expenses		(4,773)	(4,612)	(9,122)
Operating profit		3,183	3,844	8,041
Finance income receivable		19	14	29
Finance costs payable		(11)	-	-
Profit for the period before taxation		3,191	3,858	8,070
Tax expense		(473)	(576)	(1,210)
Profit for the period		2,718	3,282	6,860
Other Comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations		(20)	(66)	(158)
Other comprehensive income for the year, net of tax		(20)	(66)	(158)
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		2,698	3,216	6,702
Adjusted EBITDA	3	3,508	4,061	8,334
Earnings per ordinary share (pence)	4			
Basic		5.67	6.89	14.38
Diluted		5.67	6.86	14.19

Consolidated Statement of Financial Position

Company registration number: 06395159

		30 June 2019	30 June 2018	31 December 2018
		Unaudited	Unaudited	Unaudited
Assets	Notes	£'000	£'000	£'000
Non-current assets				
Goodwill		14,029	14,029	14,029
Property, plant and equipment		360	221	433
Right-of-use asset		407	-	-
Deferred tax assets		-	577	9
Total non-current assets		14,796	14,827	14,471
Current assets				
Inventories		923	813	771
Trade and other receivables		2,970	3,009	2,937
Cash and cash equivalents		5,077	4,886	6,779
Total current assets		8,970	8,708	10,487
Total assets		23,766	23,535	24,958
Current liabilities				
Trade and other payables		2,917	2,771	2,814
Finance lease liabilities	7	169	-	--
Contract liabilities		4,662	5,460	4,655
Current tax liabilities		285	429	99
		8,033	8,660	7,568
Non-current liabilities				
Finance lease liabilities	7	282	-	-
Deferred tax liabilities		42	-	-
		324	-	-
Total liabilities		8,357	8,660	7,568

Net assets		15,409	14,875	17,390
Equity				
Called up share capital	6	480	477	478
Share premium account	6	5,230	4,925	5,196
Equity reserve		410	555	390
Capital redemption reserve		4,663	4,663	4,663
Translation reserve		(281)	(169)	(261)
Retained earnings		4,907	4,424	6,924
Total equity attributable to equity shareholders of Quartix Holdings plc		15,409	14,875	17,390

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 2017	476	4,869	4,663	529	(103)	9,018	19,452
IFRS 15 adjustment	-	-	-	-	-	(2,645)	(2,645)
Restated 31 December 2016	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				(50)			(50)

share options								
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 restated	-	-	-	-	-	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	
Shares issued	1	271	-	-	-	-	272	
Increase in equity reserve in relation to options issued	-	-	-	(32)	-	-	(32)	
Adjustment for exercised options	-	-	-	(69)	-	69	-	
Deferred tax on share options	-	-	-	(64)	-	-	(64)	
Dividend paid						(1,147)	(1,147)	
Transactions with owners	1	271	-	(165)	-	(1,078)	(971)	
Foreign currency translation differences	-	-	-	-	(92)	-	(92)	
Profit for the period restated	-	-	-	-	-	3,578	3,578	
Total comprehensive income	-	-	-	-	(92)	3,578	3,486	
Balance at 31 December 2018	478	5,196	4,663	390	(261)	6,924	17,390	
Shares issued	2	34	-	-	-	-	36	
Increase in equity reserve in relation to options issued	-	-	-	134	-	-	134	
Adjustment for exercised options	-	-	-	(59)	-	59	-	
Deferred tax on	-	-	-	(55)	-	-	(55)	

share options							
Dividend paid	-	-	-	-	-	(4,794)	(4,794)
Transactions with owners	2	34	-	20	-	(4,735)	(4,679)
Foreign currency translation differences	-	-	-	-	(20)	-	(20)
Profit for the period	-	-	-	-	-	2,718	2,718
Total comprehensive income	-	-	-	-	(20)	2,718	2,698
Balance at 30 June 2019	480	5,230	4,663	410	(281)	4,907	15,409

Consolidated Statement of Cash Flows

	Notes	30 June 2019 Unaudited £'000	30 June 2018 Unaudited £'000	31 December 2018 Unaudited £'000
Cash generated from operations	5	3,482	3,318	6,825
Taxes paid		(291)	(430)	(889)
Cash flow from operating activities		3,191	2,888	5,936
Investing activities				
Additions to property, plant and equipment		(21)	(63)	(382)
Interest received		19	14	29
Cash flow from investing activities		(2)	(49)	(353)

Cash flow from operating activities after investing activities (free cash flow)		3,189	2,839	5,583
Financing activities				
Interest paid		(10)	-	-
Repayment of lease liabilities		(124)	-	-
Proceeds from share issues	6	36	57	329
Dividend paid		(4,794)	(5,295)	(6,442)
Cash flow from financing activities		(4,892)	(5,238)	(6,113)
Net changes in cash and cash equivalents		(1,703)	(2,399)	(530)
Cash and cash equivalents, beginning of period		6,779	7,312	7,312
Exchange differences on cash & cash equivalents		1	(27)	(3)
Cash and cash equivalents, end of period		5,077	4,886	6,779

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 2019 as endorsed by the European Union ("EU"). With the exception of IFRS 16: Leases (see Leases policy below), the accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2018, 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 2019 and 30 June 2018 have not been audited. The figures for the year ended 31 December 2018 have been extracted

from, but do not constitute, the consolidated financial statements of Quartix Holdings plc for that year. The original financial statements for the year ended 31 December 2018 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.

Segmental reporting

The Group has adopted segmental reporting for the first time in these interim accounts. Historically, the information used by the Group's chief operating decision maker was presented on a consolidated Group basis. All revenue, costs, assets and liabilities related to a single activity, being the design, development and marketing of vehicle tracking devices and the provision of related data services, and it concluded that it operated only one operating segment as defined by IFRS 8.

Whilst information is still largely presented on a consolidated basis, and the telematic services are very similar, the Group's chief operating decision maker has been provided with additional information to make decisions about the allocation of resources and assessing performance. The main drivers for this have been the impact assessment of the Group's strategy to reduce its involvement in lower-margin insurance tracking operations in order to focus on growth in its fleet telematics business and the Group's commitment to providing investors with clear and timely information regarding its performance against both financial and strategic objectives.

The Group will therefore include segmental financial information for its insurance and fleet operations in future. These two segments have been identified as they are managed separately, with different marketing approaches for the discrete market sectors and for which the Group has different strategies. Their reported revenue each meet the quantitative thresholds of IFRS 8.

The Group has aggregated fleet operations for all geographical markets with fleet operations. However, to increase transparency, the Group has decided to include an additional voluntary disclosure analysing the fleet segment by two sub-categories in order to highlight the different costs structures within the business:

- Customer acquisition, for new customer contracts; and
- Fleet telematics services for repeat contracts with existing customers.

There are no inter segment transfers between the insurance and fleet segments. The Group uses the same measurement policies as those used in its financial statements, except for certain items not included in determining the segmental profit of the operating segments, since these relate to both the fleet and insurance segments. These include Central overhead costs such as Director salaries, development, audit

and legal fees, property costs and infrastructure costs. Detailed segmental information, including a reconciliation to the financial statements, are included in note 2.

The Group's chief operating decision maker has been provided with only consolidated information on the Group's financial position as it is not possible to provide segmentation of total assets or total liabilities. With the exception of insurance trade receivables and contract obligations, where the customer base is clearly identifiable, it is not possible to segregate the other assets or liabilities. For example, tangible assets for IT servers and cash can't be allocated since they are shared between the segments.

Incremental costs of obtaining a contract

The large majority of contracts which the Group enters into with customers are 12 months in length and the Group therefore chooses to use the practical expedient under IFRS15 to expense these commissions as incurred. As highlighted in the 2018 Financial Statements, this policy is being kept under review; to this end, the Group is continuing to assess the structure and materiality of the commissions it pays.

Leases

The Group has adopted IFRS 16 'Leases' (hereinafter referred to as 'IFRS 16') with effect from 1 January 2019 under which leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Further information on the impact of the new policy is disclosed in note 7.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset, or restore a property, at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or

rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

In the statement of financial position, for these interim accounts, the right-of-use assets and lease liabilities have been included separately in the statement.

2 Segmental analysis

As highlighted in note 1, Significant accounting policies (Segmental reporting), the Group has adopted segmental analysis for the first time. The Group has identified two operating segments (see below) which are now monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results. The main sources of revenue for all segments is from the provision of vehicle telematics services.

The information used by the Group's chief operating decision maker with regard to the Group's assets and liabilities is presented on a consolidated Group basis and accordingly no segmental analysis is presented for these.

The Group has two reportable segments: Total Fleet and Insurance. The Total Fleet segment has been sub-divided into two further categories. This has been done to give clarity as to the level of upfront investment the Group is making in acquiring new customers, as well as the associated impact on recurring revenue. The two categories are:

- **Customer Acquisition:** This is the sales and marketing cost of acquiring new fleet customers and the cost associated with units installed for those customers. Recurring subscription revenue is not recognised in this segment, although upfront receipts are recognised (for example where the Group makes a sale of a unit to a new customer for an upfront fee).
- **Fleet Telematics Services:** This is the recurring revenue associated with the Group's active subscription base and the cost of servicing that subscription base. The costs in this category include the cost of installing additional units for existing customers, as well as the associated marketing costs.

These two elements, together with central fleet costs, make up the Total Fleet segment.

Estimated allocations of cost have been made between the segments and within the Total Fleet segment, particularly in relation to equipment and installations. These allocations have been performed by reviewing the products sold to each segment, their associated cost of manufacture or installation and whether those products were installed by the customer. These costs are then applied to each segment as appropriate.

Segmental analysis 6ms to 30 June 2019	Customer Acquisition	Fleet Telematics Services	Total Fleet	Insurance	Total Business
Unaudited	£'000	£'000	£'000	£'000	£'000
Recurring revenue	-	9,389	9,389	-	9,389
Other sales	175	527	702	2,461	3,163
Total revenue	175	9,916	10,091	2,461	12,552
Sales & marketing	(2,084)	(385)	(2,469)	-	(2,469)
Equipment, installations, carriage	(1,029)	(613)	(1,642)	(1,343)	(2,985)
Costs of Service	-	(995)	(995)	(201)	(1,196)
Profit before central fleet costs	(2,938)	7,923	4,985	917	5,902
Central fleet costs			(359)	-	(359)
Segmental profit			4,626	917	5,543
Central costs					(2,035)
Adjusted EBITDA					3,508
Share based payments					(134)
Depreciation					(191)
Operating profit					3,183
Finance income receivable					19
Finance costs payable					(11)
Profit before taxation					3,191

Segmental analysis 6ms to 30 June 2018	Customer Acquisition	Fleet Telematics Services	Total Fleet	Insurance	Total Business
Unaudited	£'000	£'000	£'000	£'000	£'000
Recurring revenue	-	8,407	8,407	-	8,407
Other sales	171	553	724	3,782	4,506
Total revenue	171	8,960	9,131	3,782	12,913
Sales & marketing	(1,578)	(356)	(1,934)	-	(1,934)
Equipment, installations, carriage	(643)	(515)	(1,158)	(1,790)	(2,948)
Costs of Service	-	(1,073)	(1,073)	(356)	(1,429)
Profit before central fleet costs	(2,050)	7,016	4,966	1,636	6,602
Central fleet costs			(276)	-	(276)
Segmental profit			4,690	1,636	6,326
Central costs					(2,265)
Adjusted EBITDA					4,061
Share based payments					(140)
Depreciation					(77)
Operating profit					3,844
Finance income receivable					14
Finance costs payable					-
Profit before taxation					3,858

Segmental analysis	Fleet		Total Fleet	Insurance	Total Business
	Customer Acquisition	Telematics Services			
12ms to 31 December 2018	£'000	£'000	£'000	£'000	£'000
Unaudited					
Recurring revenue	-	17,246	17,246	-	17,246
Other sales	335	1,170	1,505	6,955	8,460
Total revenue	335	18,416	18,751	6,955	25,706
Sales & marketing	(3,396)	(712)	(4,108)	-	(4,108)
Equipment, installations, carriage	(1,374)	(1,093)	(2,467)	(3,153)	(5,620)
Costs of Service	-	(1,983)	(1,983)	(568)	(2,551)
Profit before central fleet costs	(4,435)	14,628	10,193	3,234	13,427
Central fleet costs			(575)	-	(575)
Segmental profit			9,618	3,234	12,852
Central costs					(4,518)
Adjusted EBITDA					8,334
Share based payments					(108)
Depreciation					(185)
Operating profit					8,041
Finance income receivable					29
Finance costs payable					-
Profit before taxation					8,070

During the 6 month period to 30 June 2019, £2,008,000 or 16% (2018: £2,839,000 or 22%) of the Group's revenues depended on a single customer in the insurance segment.

Revenues from external customers in the Group's major markets have been identified on the basis of the customer's geographical location and are disclosed below.

Geographical analysis by destination	30 June	30 June	31
	2019	2018	December
	Unaudited	Unaudited	Unaudited
	£'000	£'000	£'000
United Kingdom	10,117	11,092	21,709
France	1,494	1,137	2,471
Rest of Europe	8	7	13
United States of America	933	677	1,513
	12,552	12,913	25,706

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

30 June	30 June	31
2019	2018	December

	Unaudited £'000	Unaudited £'000	2018 Audited £'000
Operating profit	3,183	3,844	8,041
Depreciation	191	77	185
EBITDA	3,374	3,921	8,226
Share-based payment expense	134	140	108
Adjusted EBITDA	3,508	4,061	8,334

4 Earnings per share

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

	Profits attributable to shareholders £'000	Weighted average number of shares	Basic profit per share amount in pence	Fully diluted weighted average number of shares	Fully diluted profit per share amount in pence
Earnings per ordinary share					
Period ended 30 June 2019	2,718	47,894,961	5.67	47,904,443	5.67
Period ended 30 June 2018	3,282	47,641,307	6.89	47,856,077	6.86
Year ended 31 December 2018	6,860	47,713,566	14.38	48,354,756	14.19

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

5 Note to the cash flow statement

Cash flow adjustments and changes in working capital:

	30 June 2019 Unaudited £'000	30 June 2018 Unaudited £'000	31 December 2018 Unaudited £'000
Profit before tax	3,191	3,858	8,070
Foreign exchange	(17)	(39)	(153)
Depreciation	191	77	185
Interest income	(19)	(14)	(29)
Interest expense	11	-	-
Share based payment expense	134	140	108
Operating cash flow before movement in working capital	3,491	4,022	8,181

(Increase)/decrease in trade and other receivables	(35)	(1)	83
Decrease/(increase) in inventories	(151)	(109)	(67)
(Decrease)/increase in trade and other payables	77	(594)	(42)
(Decrease)/increase in contract liabilities	100	(517)	(1,330)
Cash generated from operations	3,482	3,318	6,825

6 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2018	47,568,354	476	4,869
Shares issued	141,250	1	56
At 30 June 2018	47,709,604	477	4,925
Shares issued	136,956	1	271
At 31 December 2018	47,846,560	478	5,196
Shares issued	91,760	2	34
At 30 June 2019	47,709,604	480	5,230

All shares issued in the period to 30 June 2019 relate to the exercise of share options.

7 Explanation of transition to IFRS 16: Leases

As highlighted in note 1, Significant accounting policies under "Leases", the Group has adopted IFRS 16 with effect from 1 January 2019 under which leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. As permitted, it has applied IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application and has not, therefore, restated comparative information. Instead, the Group has recognised the cumulative effect as an adjustment to the opening net assets at 1 January 2019.

The Group has historically purchased plant and equipment, the exception being a small number of leased vehicles for the UK field sales team. However, it has lease contracts for office accommodation in the UK and USA. The financial impact of the adoption of IFRS 16, will result in a reduction in the Group's annual operating expenses of £0.2m and additional depreciation costs of £0.2m and finance costs payable of £0.02m. Details of lease obligations and right of use assets are provided below.

On adoption of IFRS 16, the Group recognised a lease liability at the date of initial application, for leases previously classified as an operating lease under IAS17, at the present value of the remaining lease payments, discounted using the Group's estimated incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.3%.

As permitted under the Standard, the Group has adopted the practical expedients of applying a single discount rate to its property leases and elected not to apply the requirements of IFRS 16 to leases for which the lease term ends within 12 months. The Group will recognise the lease payments associated with those leases as an expense on a straight-line basis.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£'000	£'000
Total operating lease commitments disclosed at 31 December 2018		518
Recognition exemptions:		
Leases with remaining lease term of less than 12 months	(29)	
Variance lease payments not recognised	93	
Other minor adjustments relating to commitment disclosures	39	
	<u> </u>	103
Operating lease liabilities before discounting		621
Discounting using incremental borrowing rate		(48)
Total lease liabilities recognised under IFRS 16 at 1 January 2019		<u>573</u>

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right of use asset, for leases previously classified as an operating lease under IAS17, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019	1 January 2019
	£'000	£'000
Properties	401	490
Motor vehicles	6	12
Total right-of-use assets	<u>407</u>	<u>502</u>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	£'000
Right-of use assets - increase	502
Prepayments - decrease	(23)
Accruals - decrease	94
Lease liability - increase	(573)

There was no impact on retained earnings on 1 January 2019.

Minimum lease payments due:

	Within one year	One to five years	After five years	Total
	£'000	£'000	£'000	£'000
Lease payments	185	302	-	487

Finance charge	(16)	(20)	-	(36)
Net present value	169	282	-	451

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less). Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of a lease liability for the 6 months to 30 June 2019 was £35,000.

In June 2019 the Group entered into a number of agreements concerning properties in Powys, with the intention of entering into a new ten-year lease for new premises, subject to completion of a refurbishment project, and to surrender and assign two existing leases. The anticipated date for completion is June 2020. At that date there would be a reduction in the existing lease liabilities and corresponding reduction in the right of use asset of around £90,000 and additional lease liabilities and right-of use asset of around £800,000.

In addition, a new lease to replace the existing Chicago office lease, which expires in November 2019, was also signed in June 2019 for commencement on 31 August 2019. At that date, there will be additional lease liabilities and right-of use asset of around £70,000.

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