NS Final Results

FINAL RESULTS

QUARTIX TECHNOLOGIES PLC

Released 07:00:06 28 February 2022

RNS Number : 9332C
Quartix Technologies PLC
28 February 2022

Quartix Technologies plc

("Quartix" or "the Group")

Final Results

Strong fleet subscription base growth in all regions and planned acceleration of growth

Quartix Technologies plc (AIM:QTX), one of Europe's leading suppliers of vehicle telematics services and driver analytics, is pleased to announce its audited results for the year ended 31 December 2021.

Financial highlights:

- Group revenue decreased by 1.2% to £25.5m (2020: £25.8m)
  - Fleet revenue[1] grew by 7.7% to £23.8m (2020: £22.0m)
  - Fleet revenue represented 93.1% of total revenue (2020: 85.4%)
  - Insurance revenue[2] decreased by 53.4% to £1.8m (2020: £3.8m)
- Adjusted EBITDA[3] decreased by 27.3% to £5.7m driven by planned investment for growth (2020: £7.9m)
  - Fleet telematics services profits[4] increased by 1.0% to £19.8m (2020: £19.6m)
  - Fleet customer acquisition investment[5] increased by 21.6% to £8.4m (2020: £6.9m)
- Operating profit decreased by 6.5% to £5.3m (2020: £5.7m)
- Profit before tax decreased by 6.6% to £5.3m (2020: £5.7m)
- Adjusted diluted earnings per share[6] of 9.18p (2020: 13.16p), diluted earnings per share of 10.07p (2020: 9.82p)
- Free cash flow[7] decreased by 41.0% to £3.3m (2020: £5.5m), partly due to increased inventory holding as Quartix manages component levels due to global microchip supply issues.
- Final dividend payment of 7.00p per share proposed (2020: 17.70p) including 5.10p for supplementary dividend (2020: 15.30p) giving a total dividend for the year of 8.50p per share

Outlook

- Strong start to 2022, with fleet new unit subscriptions growth of 25% for the first two months, leading to a £0.4m increase in annualised recurring revenue.
- Acceleration of growth planned, targeting annualised recurring revenue of at least £30.0m by the end of 2023.

[1] *Total Fleet segmental revenue (see Strategic Report: Financial Review, Financial Overview)*

[2] *Insurance segmental revenue (see Strategic Report: Financial Review, Financial Overview)*

[3] *Earnings before interest, tax, depreciation, amortisation, share based payments and the 3G swap out provision (see note 4)*

[4] *Profit for the Fleet segment before customer acquisition costs and central costs (see note 3)*

[5] *Revenue, marketing, net equipment, net installation and carriage cost for new fleet customers (see note 3)*

[6] *Diluted earnings per share before the 3G replacement provision (see Strategic Report: Financial Review)*

[7] *Cash flow from operations after tax and investing activities*

Principal activities and performance measures

The Group's main strategic objective is to grow its fleet subscription base and develop the associated annualised recurring revenue.

Annualised recurring revenue (see definition in KPI table below), when measured in constant currency year on year, is a forward-looking key performance measure and it is pleasing that it grew by £2.0m to £23.9m at 31 December 2021.

The Key Performance Indicators and the Segmental Analysis used by the Board to assess the performance of the business are listed below and discussed in the Chairman's Statement and Strategic Report.

Key Performance Indicators ("KPIs")

Year ended 31 December	2021	2020	% change
Fleet subscriptions[1] (new units)	**50,765**	42,898	18.3
Fleet subscription base[2] (units)	**202,734**	173,793	16.7
Fleet customer base[3]	**22,668**	19,039	19.1
Fleet attrition (annualised) [4] (%)	**11.6**	12.2	
Annualised recurring revenue[5] (£'000)	**23,942**	21,943	9.1
Fleet invoiced recurring revenue[6] (£'000)	**22,506**	20,801	8.2
Fleet revenue[7] (£'000)	**23,752**	22,059	7.7
Price erosion[8] (%)	**6.0**	6.7	

1 *New vehicle tracking unit subscriptions added to the subscription base before any attrition*

2 *The number of vehicle tracing units subscribed to the Group's fleet tracking services, including units waiting to be installed for which subscription payments have started or are committed.*

3 *The number of customers associated with the fleet subscription base*

4 *The number of new vehicle tracking unit subscriptions, less the increase in subscription base, expressed as a percentage of the mean subscription base*

5 *Annualised data services revenue for the subscription base at the year end, before deferred revenue, including revenue for units waiting to be installed for which subscription payments have started or are committed, all measured in constant currency.*

6 *Invoiced subscription charges before provision for deferred revenue*

7 *Total fleet revenue (see Strategic Report: Financial Review, Financial Overview)*

8 *The annual decrease in average subscription price of the base expressed as a percentage of the average subscription price at the start of the year, all measured in constant currency*

Since 2018, the financial statements have included segmental financial information for the Group's insurance and fleet operations. Following the managed reduction in the insurance sector revenue and contribution to adjusted EBITDA, the Group will not provide this segmental analysis in future. Instead, insurance will be included in the Fleet telematics services sub-category (see below).

However, to increase transparency, the Group will continue to include an additional voluntary disclosure, separating the fleet segment into two sub-categories, see note 3, in order to highlight the different costs structures within the business:

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

Segmental analysis 2021	Customer Acquisition	Fleet Telematics Services	**Total Business**
	£'000	£'000	**£'000**
Revenue	280	25,233	**25,513**
Segmental costs	(8,692)	(5,437)	**(14,129)**
Sub-categories profit	**(8,412)**	**19,796**	**11,384**
Central costs			**(5,659)**
Adjusted EBITDA			**5,725**

Segmental analysis 2020	Customer Acquisition	Fleet Telematics Services	**Total Business**
	£'000	£'000	**£'000**
Revenue	223	25,612	**25,835**
Segmental costs	(7,138)	(6,007)	**(13,145)**
Sub-categories profit	**(6,915)**	**19,605**	**12,690**
Central costs			**(4,819)**
Adjusted EBITDA			**7,871**

The profit before central costs decreased by £1.3m compared to the prior year, at £11.4m (2020: £12.7m), following targeted investment in growing the subscription base. The profitability of the Group's fleet telematics services, grew by £0.2m to £19.8m (2020: £19.6m), which comprised an increase of £1.2m for the core part of the business associated with recurring revenues offset by a £1.0m decline for insurance. The growth in the core fleet element was then invested into organic growth by spending an additional £1.6m on Customer Acquisition costs such as marketing and sales staff to acquire additional fleet customers for the future.

Richard Lilwall, Chief Executive Officer of Quartix, commented:

"I am pleased to report another year of strong growth in our Fleet division in 2021, despite the challenges presented by COVID-19 globally. Our fleet subscription base grew by 17% and for the first time broke the 200,000 units milestone. This led to an associated increase in annualised recurring revenue of £2.0m, at a constant currency rate, to £23.9m at 31 December 2021. Our increased marketing investments drove an increase in new subscription numbers of 18% to break a further milestone of 50,000 new units. Fleet attrition was also very encouraging, showing a reduction from 12.2% to 11.6% as our service focused proposition and competitive price point continues to drive customer loyalty.

We cemented our position as a UK leader with a regional base of 125,085 showing growth of 9%. Growth in our international markets continued with particularly strong results in France expanding 29% to 40,343 vehicles. USA increased by 19% to 27,912 units and other Europe territories grew 141% from 3,904 units to 9,394.

We have made a strong start to the year during the first two months, with growth of 25% in new fleet unit subscriptions and an increase of £0.4m in annualised recurring revenue, which supports our expectation that the annualised subscription base will increase at a significantly faster rate than was achieved in 2021. This gives us confidence for the coming financial period and beyond, targeting annualised recurring revenue of at least £30.0m by the end of 2023.

I am excited to work with the business to produce scalability and technology improvements across the Group. Investment in the US market will be a focus area over the short to medium term, therefore building a solid foundation for future growth which we expect to accelerate in the coming years."

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Full Financial Results Report

The Group's Financial Statements and results presentations for the year ended 31 December 2021 are available in the "Investors" section of our website at: www.quartix.com/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

Our key focus for the past year was investing in the growth of our core Fleet operations, both in the UK and overseas to drive an increase in recurring revenues. As noted in the Highlights section, the annualised recurring revenue increased by £2.0m, at a constant currency rate, to £23.9m at 31 December 2021. This was achieved, with the Group experiencing strong growth in its Fleet tracking subscription platform. Performance in the first half of the year was particularly encouraging; new subscriptions were 31.0% ahead of the prior year (which was adversely impacted globally by covid restrictions) but also 8.7% above the 2nd half of 2020. Fleet revenue grew by 7.7% during the year; in line with the growth in the value of the subscription base.

This performance brought new subscriptions for the year 15.8% ahead of those for 2019, which was previously our strongest year for installations. It was also pleasing to see that, despite the pandemic, Group attrition marginally improved to 11.6% (2020: 12.2%) and price erosion reduced to 6.0% (2020: 6.7%). For the first time ever our installed base now exceeds 200,000 units, and the customer base exceeded 20,000 customers.

Each geographical market registered increases in both new subscriptions and in the subscription base for the year. In the UK, and the US, new unit installations grew at a slower rate than in the newer regions, partly due to recruitment challenges during the second half. The UK achieved new unit installation growth of 5.7%. Sales in the UK fleet operations grew by 3.6%, reaching £16.2m (2020: £15.6m) whilst UK insurance revenues decreased to £1.8m (2020: £3.8m), due to availability of driving tests and the Company's decision to terminate the supply of new installations for its main insurance client (see Results section below for further information).

New unit installations growth was very impressive in France, driven by the continuing expansion of the direct sales force. French revenue increased by 19.3% to €5.1m (2020: €4.3m), ending the year with 40,343 vehicles under subscription (2020: 31,345) across 5,479 fleet customers (2020: 4,299).

2021 was the Group's seventh full year of operations in the USA, where growth continued. It completed the year with 27,912 vehicles under subscription (2020: 23,479) across 3,860 fleet customers (2020: 3,247), and revenue increased by 16.8% to $3.6m in 2021 (2020: $3.1m). The prospects for future business development remain encouraging with management creating a new expansion strategy which will be a key focus for the Group for 2022.

The Group continued to make progress in its other European territories, with Spain and Italy achieving excellent results, albeit from a much lower base, ending the period with a subscription base of 9,394 vehicles (2020: 3,904) across 1,997 fleet customers (2020: 920).

Results

Group revenue for the year decreased marginally to £25.5m (2020: £25.8m); the Group continues to replace insurance revenue with higher quality fleet revenue. Total fleet revenue increased by £1.7m and now represents 93.1% of total revenue (2020: 85.4%). Insurance revenue decreased by £2.0m.

Both operating profit and profit before tax for the year decreased to £5.3m (2020: £5.7m). However, the underlying decrease was £2.4m (33.1%) due to a release of £0.4m and a charge of £1.6m, in 2021 and 2020 respectively, for the swap out of 3G units in the USA (see below).

As illustrated in the segmental analysis under the Financial Highlights, there was a £1.6m increase in customer acquisition segmental cost to £8.7m in 2021 (2020: £7.1m), due to the significant customer acquisition investment and the impact of higher equipment cost (see below). The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £0.2m to £19.8m (2020: £19.6m). This is the net improvement, comprising an improvement of £1.2m for the core fleet operations and a £1.0m decline for insurance, driven by the £2.0m reduction in insurance revenue. The combined impact on total profit before central costs, was a reduction of £1.3m to £11.4m (2020: £12.7m).

In 2021 Quartix was impacted by the global supply shortage in component parts increasing the equipment costs. Given this shortage, the Company took the decision to terminate the supply of new installations for its main insurance client in order to prioritise its fleet operations. Under a new agreement Quartix will only continue to provide tracking systems for the customer's existing policy holders and will provide data and warranty services for a contractually agreed monthly service fee until September 2022. It is anticipated that the profits of the insurance segment will continue to decline.

Cash conversion weakened due to higher equipment costs and stock holding levels due to the component parts shortages, resulting in free cash flow, cash flow from operations after tax and investing activities, of £3.3m (2020: £5.5m). Net cash decreased to £5.4m at 31 December 2021 (2020: £10.6m), following the payment of an interim dividend in 2021 and a final and supplementary dividend for 2020 in 2021, totalling £9.3m. The 31 December 2020 cash balance benefitted from the cancellation of the final and supplementary divided for 2019 as a result of the coronavirus pandemic.

A provision of £1.6m was recognised in the prior year in respect of the swap out of 3G fleet units in the US, of which £0.3m has been utilised in the year for replaced units and £0.4m has been released on re-estimate of the provision at the current year end (see Strategic Report: Financial Review).

Earnings per share

Basic earnings per share increased by 2.9% to 10.14p (2020: 9.86p). Diluted earnings per share increased to 10.07p (2020: 9.82p). The adjusted diluted earnings per share, which is calculated by adding back the cost of the replacement of 3G units was 9.18p (2020: 13.16p).

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 2021, the Board decided to pay an interim dividend of 1.50p per ordinary share. This totalled £0.7m and was paid on 10 September 2021 to shareholders on the register as at 13 August 2021.

The Board is recommending a final ordinary dividend of 1.90p per share, together with a supplementary dividend of 5.10p per share, giving a final pay out of 7.00p per share and a total dividend for the year of 8.50p per share.

The final and supplementary dividend amounts to approximately £3.4m in aggregate. Subject to the approval at the forthcoming AGM, this aggregate dividend of 7.00p per share will be paid on 29 April 2022 to shareholders on the register as at 1 April 2022.

Outlook

The Group has made a strong start to the year, with fleet new unit subscriptions growth of 25% for the first two months, in line with our expectations. Given the success that Quartix has achieved in its core fleet markets, and considering the broader market opportunity available to it, the Group intends to continue to invest a proportion of its profits on sales and marketing to capitalise further on the profitable subscription platform it has created by accelerating growth in its fleet subscription base. The majority of this investment is already underway with the recruitment of additional comparison sales staff and substantial increases in UK and French field sales capacity.

Quartix also plans further sales resource increases in France, as well as in the other European countries where initial sales results have shown the most promise for the future. For 2022 this will be focused on Spain, Italy and Germany, where unit sales have been growing rapidly, albeit from a low base. To further drive European growth, the Company is planning to establish a small, serviced regional sales office in Southern France by the midpoint of 2022. This will both support the locally based French sales force and provide back-office services for direct sales staff to be recruited in adjacent countries.

Quartix will also be launching several incremental added value features that it can upsell to the existing substantial customer base including fleet migration to electric vehicle and vehicle condition monitoring.

These investments will enable Quartix to accelerate the growth of the installed Fleet base and annual recurring revenue in this financial year and beyond, targeting annualised recurring revenue of at least £30.0m by the end of 2023, compared to £23.9m as at 31 December 2021.

AGM

The Group's AGM will be held at 12.30 p.m. on 23 March 2022 at the Group's registered office at Sheraton House, Castle Park, Cambridge, England, CB3 0AX.

Paul Boughton
Chairman

Strategic Report: Operational Review

Strategy and business model

The Group's main strategic objective is to grow its fleet subscription platform and develop the associated recurring revenue. This strategy is based on 5 key elements, which were first highlighted in the 2018 annual report. We are pleased to be able to report significant progress in each area, as summarised below:

1. *Market development*: new fleet subscriptions increasing by 18.3%, with particularly strong growth in France and the new European territories, notably Spain and Italy. The subscription base increased by 16.7%.
2. *Cost leadership*: We continue to seek improvements in the efficiency of the sales cycle and to review product and overhead costs in order to identify further operational efficiencies.
3. *Continuous enhancement of the Group's core software and telematics services*: further improvements have been made to the Group's software platform, which have increased its functionality and ease of use, as well as allowing the integration of camera systems. A new self-install fleet unit has been launched for the UK and Europe.

4. *Outstanding service*: Quartix maintained its excellent reputation with its fleet customers throughout the year, consistently being rated as "excellent" by TrustPilot users. Changes to the support and service processes during the year have realised benefits that have kept attrition at a steady level in the midst of the global coronavirus pandemic.
5. *Standardisation and centralisation*: the expansion into European markets has thus far been achieved entirely from the Group's principal operational office in Newtown. However, with recruitment constraints following Brexit, this structure is being reviewed (see Capacity for future growth section below). The office in Chicago is now exclusively a sales office, with US support and service functions being performed from the UK.

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 number of vehicles connected to our subscription platform and the value of recurring subscription revenue derived from it are the key measures of our performance in the fleet sector. As noted in the Highlights section, the annualised recurring revenue increased by £2.0m, at a constant currency rate, to £23.9m at 31 December 2021.

Quartix also provides 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. As noted above, the Company has terminated its contract with its main insurance client. Consequently, in terms of installed units, revenues and profits, the insurance business is now insignificant for the Group and this expected to be the case in the longer term and will no longer be reported as a separate segment.

The Group has focused over the past five years on growth in its fleet operations evidenced in the year on year trend in the increasing proportion of total revenues that is within the fleet segment:

	2021	2020	2019	2018	2017	2016
Fleet revenue %	**93.1**	85.4	81.2	73.2	69.4	63.9

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. The changes in support and service processes which we have made during 2021 led to a marginal improvement in attrition levels during the year and we are delighted to have been able to support our customers throughout the coronavirus pandemic.

These service achievements are a reflection of the teamwork, creativity and dedication of our people and a testament to how seriously we take our commitment to providing the best experience for our customers. Our financial performance derives from the customer service we deliver, backed by the technology we develop. We would like to register our personal thanks to every one of our employees who made 2021 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. With the growth of the number of employees and staff turnover, the Board will no longer routinely offer shares to all members of staff annually but intends to adopt a more targeted approach to grant options to both attract new and retain valued members of staff. During the year the two new plc Directors were granted share options in the Company, refer to the Directors Remuneration Report in the Annual Report for more detail.

Operational performance

All of our business operations continued to perform at a high level in 2021. Gross margin increased to 73.0% (2020: 66.0%), mainly due to the deferred revenue release in insurance coupled with the reduction in new insurance units. Additional spend on customer acquisition of £1.6m and volume related recruitment in other areas, including senior management, where the main drivers for the 17.3% increase in administrative expenses.

Cash conversion weakened, due to higher equipment costs and the stock building for component shortage, with cash flow from operations representing 74.6% of profit for the year (2020: 117.9%). We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Working capital management has been more challenging under covid: trade debtors at the year-end were equivalent to 34 days of sales (2020: 31). Inventory levels increased significantly by 91.6% compared to prior year levels, due to buffer stock holding to address component shortage and due to the increasing number of models with the transition to 4G in both the US and Europe.

Fleet

Our core fleet business delivered excellent progress in a further year of investment. There was particularly strong growth in the subscription base for France and the new European territories, so that for the first time ever our installed base now exceeds 200,000 units.

During the course of the year, we won 5,868 new fleet customers (2020: 4,484). Sales leads continued to be generated through a broad range of media and channels and investments have been made in marketing, technology, processes and training, adding automation wherever possible.

Total investment in fleet customer acquisition, net of revenue, increased by £1.5m to £8.4m in 2021 (2020: £6.9m). This investment will continue in 2022 as we continue to develop our business across each of our markets, thereby increasing recurring revenues.

	Subscription Base	New subscriptions	Customers	New Customers
United Kingdom (inc. Ireland)				
2021	125,085	23,557	11,332	1,706
2020	115,065	22,294	10,573	1,801
Change	10,020	1,263	759	(95)
France				
2021	40,343	12,054	5,479	1,661
2020	31,345	9,135	4,299	1,294
Change	8,998	2,919	1,180	367

Other European Territories				
2021	9,394	6,163	1,997	1,252
2020	3,904	2,922	920	599
Change	5,490	3,241	1,077	653
USA				
2021	27,912	8,991	3,860	1,249
2020	23,479	8,547	3,247	1,150
Change	4,433	444	613	99

Fleet UK

UK fleet revenue was £16.2m (2020: £15.6m). 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 enquiries, and we continued to add new content to it.

We will continue to focus on telephone sales staff and we have increased UK field sales capacity, to support our fleet marketing initiatives; we will look to find additional channels and partners to help us develop the market.

Fleet France

French fleet revenue increased by 19.3% to €5.1m (2020: €4.3m), making a profitable contribution to the Group. We saw significant growth in new installations driven by the continuing expansion of the direct sales force, including the new French field sales to help facilitate growth with customers who have larger fleets, with 50 or more vehicles.

New European territories

Spain and Italy achieved excellent results, albeit from a much lower base, and the Company will increase investment in these.

Fleet USA

Trading in the USA showed further progress demonstrated by a 16.8% increase in fleet revenue to $3.6m (2020: $3.1m). The USA reported a trading profit of $2.0m (2020: loss $0.7m) but both results were impacted by movements in the provision for the cost of replacing 3G units in the USA. The underlying trading profit was $1.4m compared to $1.5m in 2020. We continue to see potential for growth in the USA.

US 3G swap out

In 2020, the Group made a provision of £1.6m for the replacement cost of a large proportion of the US installed base of tracking systems as a consequence of the sunsetting of the 3G mobile network in the US, being replaced by 4G networks. The Board made the decision to provide this service free of charge to customers to minimise the chances of incremental attrition and to further enhance the Company's reputation in the US market. The transition from 3G has taken longer than expected and by the end of 2021, it had completed the replacement of approximately one third of the 15,000 total units involved. The spend in 2021 was approximately £0.3m, and the Group expects the swap out to be completed in 2022, predominately in the first half, and the cash required to finalise the transition will be approximately £0.9m.

Insurance

Reductions in the availability of driving tests and termination of a main insurance client's contract (see above), resulted in the 69.5% decrease in insurance installations to 5,204 units. The profitability of this segment decreased by £1.0m, driven by a £2.0m reduction in revenue which was only partially compensated by reductions in equipment and installation costs from the declining volume.

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 2021:

1. In 2020, we developed a new family of 4G (LTE) models for the US market which went into production in Q3 2021, following a longer than expected lead time due to availability of some key components. We have developed new 4G (LTE) models across the product range of tracker units for the UK and European markets and anticipate that these will be available during Q2 2022. These 4G models address the US 3G network sunset scheduled for 2022 and also the European 2G network sunsets anticipated from 2025. These products are also the basis for ongoing development to support electric vehicles.
2. We are undergoing an extensive modernisation program of our core software and telematics code, both from a technology and user experience perspective. In 2022, these combined elements will result in the launch of a new user interface, introducing new functionality and including new self-serve features- to provide our customers with more flexibility to configure their trackers and associated reports. These enhancements help improve the customer experience as well as increasing the efficiency of our support operation.
3. To address product upselling opportunities, Quartix has embarked on a number of incremental added value features to its existing analytical software offerings, including ones concerning fleet migration to electric vehicles analysis and vehicle condition monitoring, which we anticipate will be launched during the first half of 2022

All of our investment in research and development was fully expensed in the year. The total cost of £0.8m was similar to the prior year (2020: £0.8m).

Sustainability and Environmental, Social, and Governance ("ESG") matters

The Board is aware that investors are increasingly applying non-financial factors, such as ESG matters, as part of their analysis process to identify material risks and growth opportunities. Being part of an ethical, purpose driven business increasingly matters more to our people, our shareholders and our business partners.

Software companies such as Quartix have a central role in the transition to a low carbon economy and a more sustainable future. We are essentially a non-emitting and limited-consuming business and the Board believes our limited use of carbon energy is largely offset by the savings that we achieve for our customers in reduced fuel consumption and other efficiencies in vehicle fleet management.

Quartix has been awarded the "Green Economy Mark", of the London Stock Exchange, which recognises London-listed companies and funds that derive more than 50% of their revenues from products and services that are contributing the environmental objectives such as climate change mitigation and adaptation, waste and pollution reduction, and the circular economy. The Mark was received due to analytics from an external consultancy firm and evidence from our customers, that fleet vehicle tracking and analytics changes driver behaviour and results in a reduction of between 10~25% in fuel consumption and reduced Co2 emissions.

Following the appointment of Andrew Walters as a Non-Executive Director in October 2021, the Board have appointed him as Chair of our newly formed ESG Committee. The other members will be David Warwick, also a Non-Executive Director, and Richard Lilwall, CEO. Andrew Walters will be leading our first sustainability review in 2022, in order to better understand our environmental impact and to prioritise areas for action. In addition, the ESG Committee will be assessing our performance in Social and Governance matters, where we believe that Quartix already conforms to current best practice in most areas.

Capacity for future growth

We believe that the Company has significant opportunity for growth in its fleet business in both new and existing markets. We achieved excellent growth in our subscription platform in 2021, despite the ongoing challenges with COVID-19, and established encouraging positions in a range of new markets.

The Group has made a strong start to the year, with fleet new unit subscriptions growth of 25% for the first two months, in line with our expectations. Given the success that Quartix has achieved in its core fleet markets, and considering the broader market opportunity available to it, the Group intends to continue to invest a proportion of its profits on sales and marketing to capitalise further on the profitable subscription platform it has created.

Quartix intends to make further additional investments in sales channels during 2022 and beyond. The Company has identified a large part of its core markets still unpenetrated which it intends to pursue, alongside winning potential customers from its competitors. In the UK, the Company plans to implement data-driven optimisation across the sales and marketing funnel and execute automation and simplification across business processes in order to drive growth. This will be paired with new technology features for up-sell opportunities, as described above. In the US, the Company intends to increase marketing spend to grow its funnel of opportunities, look to sell its products via e-commerce to better serve small customers and continue to provide product developments.

Quartix also plans further sales resource increases in France, as well as in the other European countries where initial sales results have shown the most promise for the future. For 2022 this will be focused on Spain, Italy and Germany, where unit sales have been growing rapidly, albeit from a low base. To further drive European growth, the Company is planning to establish a small, serviced regional sales office in Southern France by the midpoint of 2022. This will both support the locally based French sales force and provide back-office services for direct sales staff to be recruited in adjacent countries.

To address product upselling opportunities, Quartix will be launching several incremental added value features to its existing analytical software offerings, including ones concerning fleet migration to electric vehicles analysis and vehicle condition monitoring.

The Company anticipates that these investments will enable both new fleet units installed and the associated value of the annualised subscription base to increase at a significantly faster rate than was achieved in 2021.

Richard Lilwall	**Emily Rees**
Chief Executive Officer	Chief Financial Officer

Strategic Report: Financial Review

Financial Overview

Year ended 31 December **£'000 (except where stated)**	**2021**	2020	% change
Revenue			
Fleet	**23,752**	22,059	7.7
Insurance	**1,761**	3,776	(53.4)
Total	**25,513**	25,835	(1.2)
Gross profit before 3G swap out provision	**18,207**	18,657	(2.4)
Gross margin before 3G swap out provision	**71.4%**	72.2%	
Gross profit	**18,637**	17,047	9.3
Gross margin	**73.0%**	66.0%	
Operating profit	**5,309**	5,680	(6.5)
Operating margin	**20.8%**	22.0%	
Adjusted EBITDA (note 4)	**5,725**	7,871	(27.3)
Profit for the year	**4,896**	4,728	3.6
Earnings per share	**10.14**	9.86	2.9
Adjusted diluted earnings per share	**9.18**	13.16	(30.2)
Cash generated from operations	**3,963**	6,698	(40.8)
Operating profit to operating cash flow conversion	**74.6%**	117.9%	
Free cash flow	**3,266**	5,534	(41.0)
Adjusted Free cash flow	**3,696**	5,534	(33.2)

Revenue

Revenue decreased by 1.2% to £25.5m (2020: £25.8m); the Group continues to replace insurance with higher quality fleet revenue. Fleet revenue, benefitting from past investment and expansion into new European territories, increased by £1.7m to £23.8m (2020: £22.1m). Sales to insurance customers decreased by £2.0m to £1.8m (2020: £3.8m). Insurance revenue fell to 6.9% (2020: 14.6%) of total revenue and is expected to fall further to between 3 and 4% in 2022.

Gross margin

Gross margin increased to 73.0% in the year (2020: 66.0%). The primary cost saving was achieved through the reduction in equipment, installation and carriage costs, partly due to the large reduction in insurance installations and partly due to a higher proportion of self-install fleet units. The gross margin also benefitted from a £0.4m release (2020: charge £1.6m) in the provision, relating to the swap out of 3G units in the US, due to the reduction in the number of replacement units forecast at 31 December 2021. Management expect the sunsetting of the 3G mobile network in the US to be finalised in 2022 and this necessitates the replacement of a large proportion of the US installed base of tracking systems. In 2020, the Board decided to provide replacement units free of charge to customers, to minimise any incremental attrition, and originally anticipated that most units would be replaced in 2021. However, the replacement programme was delayed, following a longer than expected lead times and limited availability of some key components due to covid disruption, and will now be completed in 2022.

Adjusted EBITDA

Adjusted EBITDA, which excludes the £0.4m provision release for the replacement of the 3G units, decreased to £5.7m (2020: £7.9m), driven by the increase in equipment costs, as a result of the global shortage in the supply of component parts used in the manufacture of our product, and the reduction in insurance revenue.

A summary of the Group's segmental analysis for the financial year ended 31 December 2021 is included under the Financial Highlights (also see note 3).

Overheads

We continued to invest in our product offering, in our sales structure and in marketing, which led to an increase in overheads of 17.3%.

Taxation

Our effective tax rate benefits from the Group's investment in research and patents in the UK business and loss relief for the US business. The effective rate decreased from 16.4% in 2020 to 7.4% in 2021, due to loss relief for US operations and EMI option relief, following the exercise of a substantial number of options during 2021, compared to the prior year.

Statement of financial position

Property, plant and equipment, at £1.0m (2020: £1.3m), decreased by £0.3m largely due to derecognition of the right of use leasehold property in Cambridge, for which the lease was terminated. The latter property was replaced by a 24-month lease agreement in a managed office building in Cambridge, which has an insignificant impact on the financial statements.

Inventories increased to £1.3m (2020: £0.7m) due to buffer component stock lines and the increase in the variation of models with the transition to 4G. Cash at the year-end was £5.4m (2020: £10.6m), since the final and supplementary dividends for 2020, totalling £8.5m, was paid during the year, where the 2020 cash balance benefitted from the cancellation of the final and supplementary dividends for 2019. Trade and other receivables increased slightly to £4.0m in the year (2020: £3.8m). Trade and other payables increased to £3.2m (2020: £2.8m), and provisions decreased from £1.8m to £1.0m due to utilisation and partial release on re-estimate of the US 3G swap out provision.

Contract liabilities represent customer payments received in advance of satisfying performance obligations, which are expected to be recognised as revenue in future years (both fleet and insurance). These unwound to £3.2m in 2021 (2020: £3.7m).

Cash flow

Cash generated from operations before tax at £4.0m was 74.6% of operating profit (2020: £6.7m, 117.9% of operating profit). Tax paid in 2021 was £0.6m (2020: £1.1m), so cash flow from operating activities after taxation but before capital expenditure was £3.3m (2020: £5.6m).

Free cash flow, after capital expenditure and interest received, was £3.3m, a decrease of 41.0% (2020: £5.5m). 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 staff. 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 Mobile To Mobile ("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.

Management believes that, at some point between 2025 and 2030, most UK and European network operators will finalise the sunsetting of their 2G networks. Depending on the actual timetable and the commercial climate, there may be a cost at that time associated with the upgrading of customers' technology, which the Group is seeking to minimise through various technological and commercial means.

As described in the 2020 Financial Statements, Management expect the sunsetting of the 3G mobile network in the US to be finalised in 2022. This necessitated the replacement of a large proportion of the US installed base of tracking systems planned for 2021, however because of the global shortage of some of the components required in the manufacture of hardware, new unit sales were prioritised. The carrier approvals and certifications have come through on a new model to be rolled out to replace the 3G units in the US, and there should be accelerated shipments of these new products over the coming months to replace the remaining 3G units in the installed base in 2022. The Company provided £1.6m in its 2020 accounts. In 2021, it has utilised £0.3m for 3G units replaced and released £0.4m, because of attrition in the base.

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 to help mitigate these risks.

The full extent of the impact to the Group's business as a result of the UK leaving the EU remains uncertain. The Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. The resulting trading and data adequacy arrangements has not made it necessary for a relocation of some of its operations to within the EU. However, the existing French branch is instrumental in the logistics of moving the goods between the France and the customers in the EU territories and the Group is planning to establish a small, serviced regional sales office in Southern France by the midpoint of 2022.

There remains a risk that the coronavirus pandemic will further impact the growth of the global economy and therefore the Group's subscription base and its ability to collect cash from its customers. The rollout of the vaccination programme appears to have mitigated this risk.

As with other industries, there is also a risk of some short-term disruption to component supply as the global economy recovers and suppliers increase production to meet demand. The Group is actively working with suppliers to manage this and has increased its buffer stock holding.

Cyber security

The Group needs to make sure its data is kept safe and that there is security of supply of data 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 security report which is reviewed by members of 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.

Emily Rees
Chief Financial Officer

Consolidated Statement of Comprehensive Income

Year ended 31 December		**2021**	**2021**	**2021**	2020	2020	2020
	Notes	**Before Provision £'000**	**Provision £'000**	**Total £'000**	Before Provision £'000	Provision £'000	Total £'000
Revenue	2,3	**25,513**	**-**	**25,513**	25,835	-	25,835
Cost of sales		**(7,306)**	**430**	**(6,876)**	(7,178)	(1,610)	(8,788)
Gross profit		**18,207**	**430**	**18,637**	18,657	(1,610)	17,047
Administrative expenses		**(13,328)**	**-**	**(13,328)**	(11,367)	-	(11,367)
Operating profit		**4,879**	**430**	**5,309**	7,290	(1,610)	5,680
Finance income receivable		**0**	**-**	**0**	19	-	19
Finance costs payable		**(23)**	**-**	**(23)**	(40)	-	(40)
Profit for the year before taxation		**4,856**	**430**	**5,286**	7,269	(1,610)	5,659
Tax expense		**(390)**	**-**	**(390)**	(931)	-	(931)
Profit for the year		**4,466**	**430**	**4,896**	6,338	(1,610)	4,728
Exchange difference on translating foreign operations		**(101)**	**-**	**(101)**	99	-	99
Other comprehensive income for the year, net of tax		**(101)**	**-**	**(101)**	99	-	99
Total comprehensive income attributable to the equity shareholders of Quartix Technologies plc		**4,365**	**430**	**4,795**	6,437	(1,610)	4,827
Adjusted EBITDA	4			5,725			7,871
Earnings per ordinary share (pence)	5						
Basic				**10.14**			**9.86**
Diluted				**10.07**			**9.82**

Consolidated Statement of Financial Position

	Notes	**31 Dec 2021**	31 Dec 2020
		£'000	£'000
Assets			
Non-current assets			
Goodwill		**14,029**	14,029
Property, plant and equipment		**956**	1,278
Deferred tax assets		**131**	135
Contract cost assets		**293**	297
Total non-current assets		**15,409**	15,739
Current assets			
Inventories		**1,330**	694
Trade and other receivables		**3,986**	3,811
Cash and cash equivalents		**5,414**	10,570
Total current assets		**10,730**	15,075
Total assets		**26,139**	30,814
Current liabilities			
Trade and other payables		**3,216**	2,823
Provisions		**953**	1,785
Contract liabilities		**3,160**	3,650
Current tax liabilities		**77**	301
		7,406	8,559
Non-current liabilities			
Lease liabilities		**650**	822
		650	822
Total liabilities		**8,056**	9,381
Net assets		**18,083**	21,433
Equity			
Share capital	7	**484**	479
Share premium account	7	**6,332**	5,252
Equity reserve		**380**	792
Capital redemption reserve		**4,663**	4,663
Translation reserve		**(170)**	(69)
Retained earnings		**6,394**	10,316
Total equity attributable to equity shareholders of Quartix Technologies plc		**18,083**	21,433

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 2019	**479**	**5,230**	**4,663**	**616**	**(168)**	**7,161**	**17,981**
Shares issued	-	22	-	-	-	-	**22**
Increase in equity reserve in relation to options issued	-	-	-	189	-	-	**189**
Adjustment for exercised options	-	-	-	(43)	-	43	**-**

Deferred tax on share Options	-	-	-	30	-	-	**30**
Dividend paid	-	-	-	-	-	(1,616)	**(1,616)**
Transactions with owners	**-**	**22**	**-**	**176**	**-**	**(1,573)**	**(1,375)**
Foreign currency translation differences	-	-	-	-	99	-	**99**
Profit for the year	-	-	-	-	-	4,728	**4,728**
Total comprehensive income	**-**	**-**	**-**	**-**	**99**	**4,728**	**4,827**
Balance at 31 December 2020	**479**	**5,252**	**4,663**	**792**	**(69)**	**10,316**	**21,433**
Shares issued	5	1,080	-	-	-	-	**1,085**
Increase in equity reserve in relation to options issued	-	-	-	170	-	-	**170**
Adjustment on settlement of options	-	-	-	(98)	-	-	**(98)**
Recycle of equity reserve to P&L reserve	-	-	-	(456)	-	456	**-**
Deferred tax on share Options	-	-	-	(28)	-	-	**(28)**
Dividend paid	-	-	-	-	-	(9,274)	**(9,274)**
Transactions with owners	**5**	**1,080**	**-**	**(412)**	**-**	**(8,818)**	**(8,145)**
Foreign currency translation differences	-	-	-	-	(101)	-	**(101)**
Profit for the year	-	-	-	-	-	4,896	**4,896**
Total comprehensive income	**-**	**-**	**-**	**-**	**(101)**	**4,896**	**4,795**
Balance at 31 December 2021	**484**	**6,332**	**4,663**	**380**	**(170)**	**6,394**	**18,083**

Consolidated Statement of Cash Flows

	Note	**2021 £'000**	2020 £'000
Cash generated from operations	6	**3,963**	6,698
Taxes paid		**(636)**	(1,106)
Cash flow from operating activities		**3,327**	5,592
Investing activities			
Additions to property, plant and equipment		**(61)**	(72)
Interest received		**-**	14
Cash flow utilised in investing activities		**(61)**	(58)
Cash flow from operating activities after investing activities (Free cash flow)		**3,266**	5,534
Financing activities			
Repayment of lease liabilities		**(166)**	(185)
Proceeds from share issues		**1,085**	22
Dividend paid		**(9,274)**	(1,616)
Cash flow used in financing activities		**(8,355)**	(1,779)
Net changes in cash and cash equivalents		**(5,089)**	3,755
Cash and cash equivalents, beginning of year		**10,570**	6,789
Exchange differences on cash and cash equivalents		**(67)**	26
Cash and cash equivalents, end of year		**5,414**	10,570

Notes to the Accounts

1 Basis of preparation

The results have been extracted from the audited financial statements of the Group for the year ended 31 December 2021. The results do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with the principles of international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS (UK)'), IFRIC interpretations and Companies Act 2006 that applies to companies reporting under IFRS (UK), this announcement does not of itself contain sufficient information to comply with IFRS (UK). The Group will publish full financial statements that comply with IFRS (UK). The audited financial statements incorporate an unqualified audit report.

Statutory accounts for the year ended 31 December 2020, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies. The Auditor's report on these accounts did not draw attention to any matters by way of emphasis and did not contain statements under S498(2) or (3) Companies Act 2006. The accounting policies applied are consistent with those described in the Annual Report & Accounts for the year ended 31 December 2020.

The basis of preparation and summary of significant accounting policies applicable to the consolidated financial statements of Quartix Technologies plc can be found in note 1 of the Annual Report and Financial Statements, available from the Group's website.

2 Revenue

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

	2021	2020
	£'000	£'000
United Kingdom	**17,953**	19,409
France	**4,425**	3,826
New European Territories	**507**	202
United States of America	**2,628**	2,398
	25,513	25,835

During 2021 UK revenue of £1.5m (2020: £3.4m) was derived from one insurance customer, as a proportion of total revenue this one customer makes up 6.1% of the Group's revenue (2020: 13.3%).

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

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

	2021	2020
	£'000	£'000
Goods and services transferred over time	**24,556**	24,955
Revenue recognised at a point in time	**957**	880
	25,513	25,835

Goods and services transferred over time represent 96.2% of total revenue (2020: 96.6%).

For 2021, revenue includes £3.6m (2020: £4.8m) 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.

3 Segmental analysis

Since 2018, the financial statements have included segmental financial information for the Group's insurance and fleet operations. Following the managed reduction in the insurance sector revenue and contribution to adjusted EBITDA, the Group will not provide this segmental analysis in future. Instead, insurance will be included in the Fleet telematics services sub-category (see below).

However, to increase transparency, the Group will continue to include an additional voluntary disclosure, separating the fleet segment into two sub-categories in order to highlight the different costs structures within the business, in particular 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 sub-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 sub-category, only equipment and installation income attributed to new fleet customers.
- 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 sub-category include the cost of installing additional units for existing customers, as well as the associated marketing costs.

Estimated allocations of cost have been made between the sub-sections.

Segmental analysis 2021	Customer Acquisition	Fleet Telematics Services	**Total Business**
	£'000	£'000	**£'000**
Recurring revenue	-	22,506	**22,506**
Other sales	280	2,727	**3,007**
Revenue	280	25,233	**25,513**
Sales and marketing costs	(6,538)	(1,075)	**(7,613)**

Equipment, installation, carriage	(2,154)	**(1,896)	**(4,050)**
Cost of service	-	(2,466)	**(2,466)**
Total Sub-category cost	(8,692)	(5,437)	**(14,129)**
(Loss)/Profit before central costs	**(8,412)**	**19,796**	**11,384**
Central costs			**(5,659)**
Adjusted EBITDA (see note 4)			**5,725**

** The figures above do not include the £0.4m provision release for replacing the 3G units in the US market. As the replacement units relate to existing customers, the total cost would be allocated to the Fleet Telematics Services sub-segment costs.

Reconciliation of the total Segmental costs to the cost of sales on the income statement is as below:

	2021 £'000	2020 £'000
Total Segmental costs	**14,129**	13,145
Less elements included in administrative expenses:		
Cost of service: employees	**(714)**	(657)
Selling and marketing costs (excluding direct commissions)	**(5,991)**	(4,967)
Bad Debts	**(118)**	(343)
3G replacement provision not included in Segmental costs	**(430)**	1,610
Cost of sales	**6,876**	8,788

Segmental analysis 2020	Customer Acquisition £'000	Fleet Telematics Services £'000	**Total Business £'000**
Recurring revenue	-	20,801	**20,801**
Other sales	223	4,811	**5,034**
Revenue	223	25,612	**25,835**
Sales and marketing costs	(5,546)	(941)	**(6,487)**
Equipment, installation, carriage	(1,592)	***(2,523)	**(4,115)**
Cost of service	-	(2,543)	**(2,543)**
Total Sub-category cost	(7,138)	(6,007)	**(13,145)**
(Loss)/Profit before central costs	**(6,915)**	**19,605**	**12,690**
Central costs			**(4,819)**
Adjusted EBITDA (see note 4)			**7,871**

*** The figures above do not include the £1.6m provision for replacing the 3G units in the US market. As the replacement units relate to existing customers, the total cost would be allocated to the Fleet Telematics Services sub-segment costs.

Revenue note 2 discloses the geographical analysis by destination and revenue generated from our major customer.

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

	2021	2020
	£'000	£'000
Operating profit	**5,309**	5,680
Depreciation on property, plant and equipment, owned	**180**	175
Depreciation on property, plant and equipment, right of use	**151**	182
EBITDA	**5,640**	6,037
Share-based payment expense (incl. cash-settled)	**515**	224
Provision for replacement of 3G units	**(430)**	1,610
Adjusted EBITDA	**5,725**	7,871

5 Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Quartix Technologies 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.

Earnings per ordinary share	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
Year ended 31 Dec 2021	**4,896**	**48,269,166**	**10.14**	**48,661,104**	**10.07**
Year ended 31 Dec 2020	4,728	47,953,023	9.86	48,170,860	9.82
Adjusted earnings per share					
Year ended 31 Dec 2021	**4,466**	**48,269,166**	**9.26**	**48,661,104**	**9.18**
Year ended 31 Dec 2020	6,338	47,953,023	13.22	48,170,860	13.16

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.

To illustrate the underlying earnings for the year, the table above includes adjusted earnings per ordinary share, which for 2021 excludes the £0.4m release of the exceptional 3G replacement unit provision and for 2020 excluding the charge for the original provision of £1.6m.

6 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	2021	2020
	£'000	£'000
Profit before tax	**5,286**	5,659
Foreign exchange	**39**	183
Depreciation	**331**	357
Loss on disposal of fixed asset	**-**	3
Interest income	**-**	(19)
Lease interest expense	**23**	40
Share based payment expense	**72**	224
Operating cash flow before movement in working capital	**5,751**	6,447
Decrease/(increase) in trade and other receivables	**(231)**	69
(Increase) in inventories	**(636)**	181
(Decrease) in trade and other payables	**(427)**	1,189
(Decrease)/increase in contract liabilities	**(494)**	(1,188)
Cash generated from operations	**3,963**	6,698

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 2021	47,962,516	479	5,252
Shares issued	417,518	5	1,080
At 31 December 2021	**47,380,034**	**484**	**6,332**

All the shares issued in the year to 31 December 2021 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.

During 2021, there were cash-settled options schemes for two directors, incentive programmes linked to the share price, to facilitate the exercise of existing equity-settled share options. These cash-settled share options are linked to both service and market performance conditions. During 2021, both directors exercised options under the schemes and

Laura Seffino's remaining options were subsequently terminated. At 31 December 2021, the remaining cash-settled options were revalued using a binomial option pricing model.at that date.

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

	2021		2020	
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**279.3**	**1,232,068**	276.9	1,193,469
Granted	**453.0**	**110,369**	255.2	167,700
Settled	**360.0**	**(112,443)**	-	-
Lapsed	**251.2**	**(74,546)**	257.4	(104,905)
Exercised	**259.9**	**(417,518)**	89.0	(24,196)
Outstanding at 31 December	**306.8**	**737,930**	279.3	1,232,068
Exercisable at 31 December	**281.8**	**173,204**	290.5	356,974

The weighted average fair value of equity-settled options issued during the year ended 31 December 2021 was 74.91p (2020: 118.37p). Included in the equity-settled options granted in 2021 none (2020: none) were granted to staff with performance conditions.

The weighted average share price at the date of exercise of options during the year ended 31 December 2021 was 467.22p (2020: 265.75p).

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

	2021		2020	
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**321.4**	**238,000**	322.0	170,000
Granted	**-**	**-**	320.0	68,000
Re-estimated	**322.0**	**40,000**	-	-
Cancelled	**320.0**	**(44,000)**	-	-
Exercised	**321.7**	**(156,000)**		
Outstanding at 31 December	**322.0**	**78,000**	321.4	238,000
Exercisable at 31 December	**n/a**	**n/a**	n/a	n/a

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

END

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