Quartix Holdings PLC

Final Results

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Quartix Holdings PLC
24 February 2020

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("Quartix" or "the Group")

Final Results

Continued Strong growth in fleet customer base

Quartix Holdings plc (AIM:QTX), a leading supplier of vehicle telematics services to the fleet and insurance sectors, is pleased to announce its audited results for the year ended 31 December 2019.

Restatement of comparatives:

All comparative monetary amounts for 2018 have been restated in line with a change in policy in the recognition of commission costs associated with contracts with customers under IFRS 15: 'Revenue from Contracts with Customers' (See note 1: Basis of preparation). There has been no restatement related to IFRS 16 'Leases'.

Financial highlights:

- Group revenue decreased by 0.3% to £25.6m (2018: £25.7m)
  - Fleet revenue grew by 11.0% to £20.8m (2018: £18.8m)
  - Fleet revenue represented 81% of total revenue (2018: 73%)
  - Insurance revenue decreased by 30.8% to £4.8m (2018: £7.0m)
- Adjusted EBITDA decreased by 17.1% to £7.1m (2018: £8.5m)
  - Fleet telematics services profits increased by 12.8% to £16.5m (2018: £14.6m) (note 3)
  - Fleet customer acquisition investment increased by 42.5% to £6.1m (2018: £4.3m)
  - Insurance segment profit decreased by 50.5% to £1.6m (2018: £3.2m)
- Operating profit decreased by 21.7% to £6.4m (2018: £8.2m)
- Profit before tax decreased by 21.8% to £6.5m (2018: £8.3m)

- Diluted earnings per share decreased by 22.4% to 11.25p (2018: 14.50p)
- Free cash flow increased by 11.5% to £6.2m (2018: £5.6m)
- Cash generated from operations increased by 6.4% at £7.3m (2018: £6.8m)
- Net cash remained constant at £6.8m (2018: £6.8m)
- Final dividend payment of 10.0p per share proposed (2018: 10.0p) including 5.8p for supplementary dividend (2018: 6.2p) giving a total dividend for the year of 12.4p per share.

Operational highlights:

- Strong progress in the core fleet business:
  - o 22.3% increase in subscription base to 150,640 units (2017: 123,157)
  - o Annualised recurring revenue [1] increased to £20.5m (2018: £18.8m)
  - o Growth in annualised recurring revenue (on a constant currency basis) of £2.0m (2018: £1.7m)
  - o 24.4% increase in customer base to 16,394 (2018: 13,176)
  - o Unit attrition has remained constant at 11.9% (2018: 11.9%)
  - o 39.4% growth in new fleet subscriptions
  - o Strong growth in France, ending the year with 3,528 customers (2018: 2,474) and 25,643 vehicles under subscription (2018: 18,803), an increase of 42.6% and 36.4% respectively.
  - o During its fifth full year of trading the USA grew its customer base to 2,621 (2018: 2,007), with 18,050 vehicles under subscription (2018: 13,133) an increase of 30.6% and 37.4% respectively
  - o The European expansion in 2019 has seen the customer base grow to 337 with 1,316 vehicles under subscription at the year end.
- As anticipated further decline in the lower-margin insurance telematics business:
  - o 11.8% decline in insurance installations to 36,386 (2018: 41,255)

[1] 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

Andy Walters, Chief Executive Officer of Quartix, commented:

"We are delighted with the progress made in 2019. New fleet installations increased by 39% to 43,837 and the client base grew by 24% to 16,394. Further investment has been made in the development of the Group's fleet businesses in the United States and France where the vehicle subscription bases increased by 37% to 18,050 and 36% to 25,643, respectively. In the UK the subscription base increased by 16% to 105,631 vehicles.

We invested in significant enhancements to our web and mobile applications to support the launch of our telematics subscription platform in Poland, Spain, Italy and Germany. By the end of the year we had developed a client base of 337 customers in those countries, with a total of 1,316 vehicles."

"We achieved satisfactory margins in our insurance operations, in keeping with the Group's stated strategy of focusing on only those insurance opportunities which are closely aligned to the Group's fleet business."

"Our manufacturing partner in China has resumed limited operations following the New Year celebrations due to the difficulties caused by the Coronavirus outbreak. At the time of writing, management does not expect any material disruption to supply, but it is monitoring the situation closely."

"The Group has made a strong start to the year in each of its markets. The high levels of recurring revenues and opportunities to grow the fleet business in the UK, USA, France and each of its new territories underpin our confidence for the current financial period and beyond."

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Full Financial Results Report

The Group's Financial Statements for the year ended 31 December 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 "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. This was achieved with the Group experiencing strong growth in its Fleet tracking subscription platform.

Sales in the Group's core fleet operations in the UK grew by 5.0%, reaching £15.5m (2018: £14.8m). This growth partially compensated for the planned decline in UK insurance revenues, which decreased to £4.8m (2018: £7.0m).

The Group made excellent progress in France, where revenue increased by 32.4% to €3.7m (2018: €2.8m), ending the year with 25,643 vehicles under subscription (2018: 18,803) across 3,528 fleet customers (2018: 2,474).

2019 was the Group's fifth full year of operations in the USA, having launched its service and opened an office there during 2014. We are pleased with progress and completed the year with 18,050 vehicles under subscription (2018: 13,133) across 2,621 fleet customers (2018: 2,007). Revenue increased by 27.9% to $2.6m in 2019 (2018: $2.0m) and the prospects for future business development remain encouraging.

The Group made a very good start in a number of new markets in Europe during the course of the year, ending the period with a subscription base of 1,316 vehicles across 337 fleet customers.

Results

Group revenue for the year decreased marginally to £25.6m (2018: £25.7m); however, the Group continues to replace insurance revenue with higher quality fleet revenue. Total fleet revenue increased by £2.0m and now represents 81% of total revenue (2018: 73%). Insurance revenue decreased by £2.1m.

Operating profit for the year decreased by 21.7% to £6.4m (2018: £8.2m) and profit before tax was £6.5m (2018: £8.3m). This reduction was almost entirely due to the £1.6m decrease in profits from the Insurance segment, whose 2019 segmental profit was £1.6m (2018: £3.2m).

Total Fleet Segment profit remained deliberately similar to the prior year, at £9.7m (2018: £9.8m). The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £1.9m to £16.5m (2018: £14.6m). This growth was then entirely reinvested, with an additional £2.0m being invested in acquiring additional fleet customers for the future.

Further details for segmental profit are given in the Financial Review and note 3.

Cash conversion increased, resulting in free cash flow, cash flow from operations after tax and investing activities, of £6.2m (2018: £5.6m). Net cash remained constant at £6.8m at 31 December 2019, following the payment of £5.9m in dividends.

Earnings per share

Basic earnings per share decreased by 23.2% to 11.29p (2018: 14.69p). Diluted earnings per share decreased to 11.25p (2018: 14.50p).

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 2019, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.15m and was paid on 14 September 2019 to shareholders on the register as at 16 August 2019.

The Board is recommending a final ordinary dividend of 4.2p per share, together with a supplementary dividend of 5.8p per share, giving a final pay out of 10.0p per share and a total dividend for the year of 12.4p per share.

The final and supplementary dividend amounts to approximately £4.8m in aggregate. Subject to the approval at the forthcoming AGM, this aggregate dividend of 10.0p per share will be paid on 1 May 2020 to shareholders on the register as at 3 April 2020.

Outlook

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

AGM

The Group's AGM will be held at 11.00 a.m. on 24 March 2020 at the Group's registered office at 9 Dukes Court, 54~62 Newmarket Rd, Cambridge CB5 8DZ.

Paul Boughton
Chairman

Strategic Report: Operational Review

Principal activities

Quartix is one of Europe's leading suppliers of vehicle telematics services. We achieved extremely strong growth in the fleet sector in 2019, which now has a subscription platform connecting more than 150,000 fleet vehicles. Whilst the origins of the Group's business are in the UK, it has developed a significant market presence in the fleet sector in France and the USA. The Company built on this success and experience in establishing new business in Poland, Spain, Italy and Germany during the course of 2019.

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 last year's annual report. We are pleased to be able to report significant progress in each area, as summarised below:

1. *Market development*: new fleet subscriptions increased by 39% and the subscription base by 22%, strong growth was achieved in each of our existing territories as well as a presence in four new European markets.

2. *Cost leadership*: improvements in back office efficiency have been achieved and we have recently introduced improved sales processes, training and measurement. We continue 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*: new versions of the Group's telematics subscription platform were released in Polish, Spanish, Italian and German. Dedicated versions of the application were also released for Eire and the Hispanic market of the USA. New variants of the Group's telematics systems were launched during the year.

4. *Outstanding service*: Quartix maintained its excellent reputation with its fleet customers throughout the year, consistently being rated as "excellent" by TrustPilot users. We were also delighted to achieve Gold Status in our latest "Investors in Customers" audit.

5. *Standardisation and centralisation*: over the past 18 months we have reduced management costs by more than £0.5m on an annualised basis. These savings have been reinvested in additional direct sales resource backed by standardised marketing strategies delivered from a single, centralised team.

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.

We also provide our telematics technology and services to insurers, who use the Group's technology to monitor the driving style and habits of higher-risk drivers, normally for a policy with a term of just 12 months. The level of attrition, in this industry for young driver policies, is relatively high.

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

The Group has focused over the past three years on growth in its fleet operations and on restricting the amount of insurance revenue derived from lower-margin applications. In 2019 81% of Group revenue (£20.8m of £25.6m) derived from fleet applications, which compares with 64% in 2016 (£14.9m of £23.3m).

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. We were also delighted in 2019 to have achieved the Gold Award from Investors in Customers, an independent accreditation body for customer service and satisfaction levels.

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 2019 another great year for Quartix.

We are pleased to have been able to provide our employees with the ability to participate in the equity of the Company under our EMI share option scheme for the seventh year in a row. Under this scheme each UK employee (barring Directors) receives shares in the company at zero cost, which are exercisable approximately 18 months from grant. Employees with 5 years' service at the first grant in 2013 would now hold 4,075 shares in the company, less any disposals. Daniel Mendis, a Director of Quartix Holdings plc, received share option grants in 2019, as disclosed in the remuneration report in the Financial Statements.

Operational performance

All of our business operations continued to perform at a high level in 2019. Gross margin decreased marginally to 65% (2018: 67%), mainly due to the increase in new fleet units (resulting in higher equipment, installation and carriage costs) and a reduction in deferred revenue in insurance as existing policies reduce. With investment in fleet increasing, overheads increased by 12% and the return on sales before tax decreased by 7 percentage points to 25% (2018: 32%). Cash conversion was very strong with cash flow from operations after tax and investing activities (free cash flow) representing 115% of profit for the year (2018: 80%). The increase is due to a lower level of released deferred insurance revenue in the current year (which is not cash generative) and the impact that IFRS 16 'Leases' has on the cashflow in increasing the operating cash flows by £0.3m in 2019 with a corresponding decrease in financing activities. We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Our accounts and operations teams continued to manage working capital well: trade debtors at the year-end were 34 days of sales, and inventory levels increased by 14% compared to prior year levels which is as a result of preparations to accommodate for a no deal Brexit and an increase in the tracker unit model options available.

Fleet

Our core fleet business, which accounted for 81% of Group revenue (2018: 73%), delivered excellent progress in a further year of investment. Strong subscription base growth in each of the UK, France and the USA, coupled with our entry into four new European markets, took the total subscription base to more than 150,000 vehicles.

During the course of the year we won 4,471 new fleet customers (2018: 3,532). 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 increased by £1.8m to £6.1m in 2019 (2018: £4.3m). This investment will increase further in 2020 as we continue to develop our business across each of our markets, thereby increasing recurring revenues.

Fleet UK

Demand for vehicle telematics services in the UK continues to grow. New subscriptions to our fleet tracking services increased by 38% to 25,687. We believe this to be significantly faster than the general growth in the market. We increased our vehicle subscription base by 15.8% to 105,631 as a consequence, and our fleet customer base rose to 9,908. In total we won 2,033 new customers in the UK (2018: 1,654) and we increased the number of fleet clients with 50 vehicles or more. UK fleet revenue was £15.5m (2018: £14.8m). 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 based sales capacity to support our fleet marketing initiatives, and will look to find additional channels and partners to help us develop the market.

Fleet France

The number of new subscriptions in the French market was 35% higher than the previous year (9,054 versus 6,725), and there was a 36% increase in the unit base, ending the year with 25,643 vehicles (2018: 18,803) under subscription across 3,528 fleet customers (2018: 2,474). French fleet revenue increased by 32% to €3.7m (2018: €2.8m), making a profitable contribution to the Group. We saw continued growth in new customer acquisition throughout the year, and this was broadly spread across each of our channels. Towards the end of the year we significantly increased the size of our French telephone sales team; this investment has been offset by reduced management costs, referred to earlier. Initial performance of the expanded team has been encouraging.

New European territories

We are delighted to report that our Polish website, application and payment systems went live at the start of February 2019 and that these were followed by launches in the Spanish, Italian and German markets. A dedicated, Euro-based English-language version of the platform was also released for the Republic of Ireland.

We achieved a total of 1,353 new subscriptions in the new territories in 2019 and ended the year with 1,316 vehicles under subscription. The revenue generated from the new European territories was £0.05m, with the majority of these revenues falling into the second half of the year.

Fleet USA

Our fifth full year of trading in the USA showed good progress: we concluded 2019 with 2,621 fleet customers (2018: 2,007) having a total of 18,050 vehicles under subscription (2018: 13,133). USA fleet revenue increased by 28% to $2.5m (2018: $2.0m). Losses incurred in the USA decreased by £0.2m to £0.4m (2018: £0.6m) due to a reduction in management and administrative costs in our Chicago office.

We see significant potential for growth in the USA in the next five years and recruited additional sales staff in 2019 to accommodate this growth. The largest part of this growth came from our direct telephone sales channel. This channel has significant potential for future growth but we also intend to invest more in our price comparison and distribution teams.

Combined fleet revenues in non-UK territories, were £5.3m, representing 25% of total fleet revenue.

Insurance

We installed 36,386 new insurance tracking systems in 2019, a decrease of 11.8% on the prior period. This trend, which we expect to continue, was in keeping with the decision announced in July 2016 to focus on the core fleet market and on only those insurance opportunities which offer satisfactory margins and which are closely aligned to the fleet business. The profitability of this segment therefore fell from £3.2m in 2018 to £1.6m as a consequence of this trend - see segmental note 3.

In the three years since this decision to focus on our fleet operations they have grown to represent 81% of Group revenues (£20.8m) in 2019 from 64% (£14.9m) in 2016. This trend is expected to continue as the Company invests in the development of each of its fleet markets.

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 2019:

1. In February we launched the first of 4 new language versions of our application platform. This followed on from the significant update of our user application in October the prior year. This first launch, for Poland, was followed by Spain, Italy and Germany. We also launched an optional Spanish-language site for our Hispanic customers in the USA and a Euro-based English-language site for the Republic of Ireland.

2. New software releases for all territories and languages were issued for our customer base regularly throughout the year. These updates provided enhancements to usability and self-service, and were focused on features which we felt would be of benefit to the large majority of our client base.

3. Further development of our telematics hardware and firmware platforms was carried out during the year, with new user-install options released for all markets. A particular success was the introduction of a battery-mounted tracking system which can be installed by the customer directly on top of the vehicle battery. By the end of the year self-install options were accounting for approximately 40% of new subscriptions; we expect this trend to continue, particularly as a result of the new market initiatives described earlier.

All of our investment in research was fully expensed in the year. The total cost amounted to £0.7m, which represents an decrease of 37% compared to the prior year (2018: £1.1m).

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 2019 and established encouraging positions in a range of new markets. Our future growth will be based on our strategy of investing in direct sales and marketing initiatives whilst restricting the need to increase central overheads through improved efficiency in all of our back-office and other operations. This strategy served the Company well in 2019.

Newtown remains the focus of our business operations and we are delighted to have plans in place to occupy larger leased, open-plan single-storey premises in the centre of the town, adjacent to our existing offices, with capacity for expansion of the workforce by a further 30%, with minimal additional cost to the business. All employees will move into the office in early March 2020.

We will make additional investments in the development of our fleet business and in market expansion in 2020.

Andrew Walters
Chief Executive Officer

Strategic Report: Financial Review

Key performance indicators ("KPIs")

Year ended 31 December	2019	2018	% change
Fleet subscriptions (units)	43,837	31,456	39.4
Fleet subscription base (units)[1]	150,640	123,157	22.3
Fleet customer base	16,394	13,176	24.4
Fleet attrition (annualised) [2] (%)	11.9	11.9	-
Annualised recurring revenue (£'000)[3]	20,534	18,795	9.3
Fleet invoiced recurring revenue [4] (£'000)	19,297	17,246	11.9
Fleet revenue (£'000)	20,808	18,751	11.0
Insurance installations (units)	36,386	41,255	(11.8)
Insurance revenue (£'000)	4,813	6,955	(30.8)

[1] Includes units waiting to be installed, for which subscription payments have started or are committed

[2] Attrition in the year is the number of units installed (excluding upgrades), less the increase in subscription base, expressed as a percentage of the mean subscription base

[3] 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

[4] Invoiced subscription charges before provision for deferred revenue

2019 was a year of good progress in our primary strategic objective of building our fleet subscription base.

We achieved over 43,000 new fleet subscriptions, an increase of 39.4% compared to 2018, and our fleet subscription base grew by 22.3% to 150,640 units, with growth in all four of our geographical markets.

Attrition during the period remained at 11.9%.

Annualised recurring revenue increased by 9.3% to £20.5m. Group invoiced recurring revenue (before adjusting for deferred revenue) grew by 11.9% to £19.3m (2018: £17.2m). The growth in fleet revenue at 11.0% was similar to the growth of our recurring revenue as our primary focus is on growing subscription revenue.

Insurance unit installations were down 11.8% at 36,386, in keeping with the decision announced in July 2016 to focus on only those insurance opportunities which offer satisfactory margins and which are aligned to our core fleet business.

Financial Overview

Year ended 31 December		Restated	
£'000 (except where stated)	2019	2018	% change
Revenue			
Fleet	**20,808**	18,751	11.0

Insurance	**4,813**	6,955	(30.8)
Total	**25,621**	25,706	(0.3)
Gross profit	**16,626**	17,312	(4.0)
Gross margin	**65%**	67%	
Operating profit	**6,438**	8,223	(21.7)
Operating margin	**25%**	32%	
Adjusted EBITDA	**7,062**	8,516	(17.1)
Profit for the year	**5,410**	7,010	(22.8)
Earnings per share	**11.29**	14.69	(23.1)
Cash generated from operations	**7,263**	6,825	6.4
Operating profit to operating cash conversion	**113%**	83%	
Free cash flow	**6,223**	5,583	11.5

Revenue

Revenue decreased marginally to £25.6m (2018: £25.7m); however, 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 £2.0m to £20.8m (2018: £18.8m). Sales to insurance customers decreased by £2.1m and now represents less than 20% of Group revenue (2018: 27%). This is in-keeping with the Group's stated strategy of focussing on those areas of the market which adequately reward the technology and service which it provides.

Gross margin

Gross margin decreased marginally to 65% in the year (2018: 67%), primarily as a result of the increase in new fleet units (resulting in higher equipment, installation and carriage costs) and a reduction in releases of insurance deferred revenue as existing policies reduce.

Adjusted EBITDA and Segmental Analysis

Adjusted EBITDA has reduced in the year to £7.1m (2018: £8.5m), entirely due to the reduction in insurance profitability, which has decreased to £1.6m (2018: £3.2m). The £1.4m reduction is net of £0.2m right of use asset depreciation arising from the adoption of IFRS 16 'Leases' (see note 4).

A summary of the Group's segmental analysis is set out below (see note 3 for an explanation of categorisations and assumptions).

Total Fleet Segment profit remained deliberately similar to the prior year, at £9.7m (2018: £9.8m). The profitability of the Group's fleet telematics services, which represents the core part of the business associated with recurring revenues, grew by £1.9m to £16.5m (2018: £14.6m). This growth was then entirely reinvested, with an additional £2.0m being invested in acquiring additional fleet customers for the future.

Segmental analysis 2019	Customer Acquisition	Fleet Telematics Services	**Total Fleet**	Insurance	**Total Business**

	£'000	£'000	**£'000**	£'000	**£,000**
Revenue	338	20,470	**20,808**	4,813	**25,621**
Segmental Costs	(6,398)	(3,973)	**(10,371)**	(3,212)	**(13,583)**
Profit before central fleet costs	**(6,060)**	**16,497**	**10,437**	**1,601**	**12,038**
Central fleet costs			**(747)**	-	**(747)**
Segmental profit			**9,690**	**1,601**	**11,291**
Central Costs					**(4,229)**
Adjusted EBITDA (see note 4)					**7,062**

Segmental analysis 2018	Customer Acquisition	Fleet Telematics Services	Total Fleet	Insurance	Total Business
	£'000	£'000	£'000	£'000	£,000
Revenue	335	18,416	18,751	6,955	25,706
Segmental Costs	(4,587)	(3,786)	(8,373)	(3,722)	(12,095)
Profit before central fleet costs	(4,252)	14,630	10,378	3,233	13,611
Central fleet costs			(575)	-	(575)
Segmental profit			9,803	3,233	13,036
Central Costs					(4,520)
Adjusted EBITDA (see note 4)					8,516

Overheads

We continued to invest in our product offering, in our sales structure and in marketing, which led to an increase in overheads of 12%.

Part of the aforementioned investment was in the USA where our subscription unit base has increased by 37.4% and revenue, as disclosed in note 2, increased to £2.0m ($2.6m) (2018: £1.5m). Losses in the USA were around £0.4m ($0.5m) (2018: losses of £0.6m). Additionally, the expansion into the new European territories contributed £0.05m toward revenue in the year, with a fleet base at the year end of 1,316 units.

Taxation

Our effective tax rate benefits from the Group's investment in research and patents in the UK business. The effective rate increased from 15.1% in 2018 to 16.1% in 2019, as a result of prior year adjustments and lower research and development tax credits.

Earnings per share

Earnings per share decreased to 11.29p (2018: 14.69p) and diluted earnings per share decreased to 11.25p (2018: 14.50p).

Statement of financial position

Property, plant and equipment, at £0.8m (2018: £0.4m), increased by £0.4m due to the adoption of IFRS 16 retrospectively from 1 January 2019, but the Group has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments introducing a 'right of use' asset on the balance sheet is therefore recognised in the opening balance sheet at 1 January 2019 (see note 10). There is a corresponding lease liability equivalent to £0.4m at 31 December 2019, of which £0.2m is falling due within one year.

Inventories increased to £0.9m (2018: £0.8m). Cash at the year-end was £6.8m (2018: £6.8m). Trade and other receivables increased to £3.9m in the year (2018: £3.6m). This includes £0.8m (2018: £0.6m) of commissions incurred in winning contracts with customers, which the Group now capitalises and amortises under IFRS 15 'Revenue from Contracts with Customers', following previously cited reviews of its accounting policy and commission structures (see notes 1 and 9 for further details). The impact on profits in the year was a credit of £0.3m (2018: £0.2m). Trade and other payables increased to £3.3m (2018: £2.8m).

Contract liabilities represent customer payments received in advance of satisfying performance obligations, which are expected to be recognised as revenue in 2020 (both fleet and insurance). These unwound to £4.8m in 2019 (2018: £4.7m).

Cash flow

Cash generated from operations before tax at £7.3m was 113% of operating profit (2018: £6.8m, 83% of operating profit). As previously stated, the year on year improvement in cash conversion is due to a lower level of released insurance revenue in the current year, which is not cash generative, in addition to the impact of IFRS 16 'Leases', which increased the operating cash flows by £0.3m in 2019 with a corresponding decrease in financing activities.

Tax paid in 2019 was £0.9m (2018: £0.9m), so cash flow from operating activities after taxation but before capital expenditure was £6.4m (2018: £5.9m).

Free cash flow, after £0.2m of capital expenditure and interest received, was £6.2m, an increase of 11.5% (2018: £5.6m).

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 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 believe 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. A similar sunsetting process will occur for the 3G network in the US and management believe this will likely be finalised in 2022.

Business disruption

Like any business the Group is subject to the risk of business disruption. This includes communications, physical disruption to our sites and problems with our key suppliers. The impact of not mitigating this risk is that the Group may not be able to service its customers. Quartix has a Business Continuity plan and Business Interruption Insurance to cover certain events in order to help mitigate these risks.

The potential damage to the Group's business as a result of the UK leaving the EU is uncertain. The Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. Depending on the resulting trading and data adequacy arrangements, it is possible that the Group would need to relocate some of its operations to within the EU. In addition, any impact on the wider economic landscape would impact the Group's trading indirectly through the demand for its services.

Our manufacturing partner in China has resumed limited operations following the New Year celebrations due to the difficulties caused by the Coronavirus outbreak. At the time of writing, management does not expect any material disruption to supply, but it is monitoring the situation closely.

Dependence on a key customer

During 2019 insurance revenue of £4.2m (2017: £5.5m) was derived via one insurance customer, a specialist reseller for the insurance industry. Losing this key contract could have a significant negative impact on cash flow in the short term. Total insurance revenue, including that generated from other customers, was £4.8m (2018: 7.0m) and total insurance segment profit was £1.6m (2018: £3.2m).

Cyber security

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

Technology

Technology risks are perceived to arise from possible substitutes for the current Quartix product. Risks cited include everything from smart mobile phones and their applications to driverless cars. The Group strategy is to review all new technical developments with the aim of adopting any which will provide a better channel for the information services which Quartix provides.

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

Daniel Mendis
Chief Operating and Financial Officer

Consolidated Statement of Comprehensive Income

Year ended 31 December		**2019**	Restated2018
	Notes	**£'000**	£'000
Revenue	2, 3	**25,621**	25,706
Cost of sales		**(8,995)**	(8,394)
Gross profit		**16,626**	17,312
Administrative expenses		**(10,188)**	(9,089)

Adjusted EBITDA	4	7,062	8,516
Depreciation and share based payments		(624)	(293)
Operating profit		**6,438**	8,223
Finance income receivable		**34**	29
Finance costs payable		**(21)**	-
Profit for the year before taxation		**6,451**	8,252
Tax expense		**(1,041)**	(1,242)
Profit for the year		**5,410**	7,010
Other Comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**93**	(158)
Other comprehensive (expense)/income for the year, net of tax		**93**	(158)
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		**5,503**	6,852
Earnings per ordinary share (pence)	5		
Basic		**11.29**	14.69
Diluted		**11.25**	14.50

Consolidated Statement of Financial Position

	Notes	**31 Dec 2019**	31 Dec 2018 Restated	1 Jan 2018 Restatedd
		£'000	£'000	£'000
Assets				
Non-current assets				
Goodwill		**14,029**	14,029	14,029
Property, plant and equipment		**845**	433	234
Deferred tax assets		**2**	-	641
Contract cost assets		**304**	228	186
Total non-current assets		**15,180**	14,690	15,090
Current assets				
Inventories		**877**	771	703
Trade and other receivables		**3,907**	3,581	3,513

Cash and cash equivalents		**6,789**	6,779	7,312
Total current assets		**11,573**	11,131	11,528
Total assets		**26,753**	25,821	26,618
Current liabilities				
Trade and other payables		**3,311**	2,814	2,853
Contract liabilities		**4,843**	4,655	5,972
Current tax liabilities		**377**	99	423
		8,531	7,568	9,248
Non-current liabilities				
Lease liabilities		**241**	-	-
Deferred tax liabilities		**-**	150	-
		241	150	-
Total liabilities		**8,772**	7,718	9,248
Net assets		**17,981**	18,103	17,370
Equity				
Called up share capital	7	**479**	478	476
Share premium account	7	**5,230**	5,196	4,869
Equity reserve		**616**	390	529
Capital redemption reserve		**4,663**	4,663	4,663
Translation reserve		**(168)**	(261)	(103)
Retained earnings		**7,161**	7,637	6,936
Total equity attributable to equity shareholders of Quartix Holdings plc		**17,981**	18,103	17,370

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)	6,373	16,807
IFRS 15 adjustment (note 9)	-	-	-	-	-	563	563
Restated balance at 31 December 2017	**476**	**4,869**	**4,663**	**529**	**(103)**	**6,936**	**17,370**
Shares issued	2	327	-	-	-	-	**329**
Increase in equity reserve in relation to options issued	-	-	-	108	-	-	**108**
Adjustment for	-	-	-	(133)	-	133	**-**

exercised options							
Deferred tax on share Options	-	-	-	(114)	-	-	**(114)**
Dividend paid	-	-	-	-	-	(6,442)	**(6,442)**
Transactions with owners	**2**	**327**	**-**	**(139)**	**-**	**(6,309)**	**(6,119)**
Foreign currency translation differences	-	-	-	-	(158)	-	**(158)**
Profit for the year	-	-	-	-	-	7,010	**7,010**
Total comprehensive income	**-**	**-**	**-**	**-**	**(158)**	**7,010**	**6,852**
Restated balance at 31 December 2018	**478**	**5,196**	**4,663**	**390**	**(261)**	**7,637**	**18,103**
Shares issued	1	34	-	-	-	-	**35**
Increase in equity reserve in relation to options issued	-	-	-	249	-	-	**249**
Adjustment for exercised options	-	-	-	(58)	-	58	**-**
Deferred tax on share Options	-	-	-	35	-	-	**35**
Dividend paid	-	-	-	-	-	(5,944)	**(5,944)**
Transactions with owners	**1**	**34**	**-**	**226**	**-**	**(5,886)**	**(5,625)**
Foreign currency translation differences	-	-	-	-	93	-	**93**
Profit for the year	-	-	-	-	-	5,410	**5,410**
Total comprehensive income	**-**	**-**	**-**	**-**	**93**	**5,410**	**5,503**
Balance at 31 December 2019	**479**	**5,230**	**4,663**	**616**	**(168)**	**7,161**	**17,981**

Consolidated Statement of Cash Flows

	Note	**2019 £'000**	Restated 2018 £'000
Cash generated from operations	6	**7,263**	6,825
Taxes paid		**(880)**	(889)
Cash flow from operating activities		**6,383**	5,936
Investing activities			
Additions to property, plant and equipment		**(194)**	(382)
Interest received		**34**	29

Cash flow utilised in investing activities	**(160)**	(353)
Cash flow from operating activities after investing activities (Free cash flow)	**6,223**	5,583
Financing activities		
Lease interest paid	**(21)**	-
Repayment of lease liabilities	**(236)**	-
Proceeds from share issues	**35**	329
Dividend paid	**(5,944)**	(6,442)
Cash flow used in financing activities	**(6,166)**	(6,113)
Net changes in cash and cash equivalents	**57**	(530)
Cash and cash equivalents, beginning of year	**6,779**	7,312
Exchange differences on cash and cash equivalents	**(47)**	(3)
Cash and cash equivalents, end of year	**6,789**	6,779

Notes to the Accounts

1 Basis of preparation

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

IFRS 16 Leases

The Group has adopted IFRS 16 'Leases' (hereinafter referred to as 'IFRS 16') with effect from 1 January 2019, the adoption of this new Standard has resulted in the Group recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a short life of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised as an adjustment to the opening balance of property, plant and equipment and lease liabilities for the current period. Prior periods are not required to be restated. Further information on the impact of the new policy is disclosed in note 10.

IFRS 15 Incremental costs of obtaining a contract

The Group has also decided to change its accounting policy in relation to costs in obtaining customer contracts. Previously under IFRS 15 the Group adopted the practical expedient option to expense incremental costs in obtaining customer contracts for contracts with a duration of 12 months or less. The Group will no longer apply this expedient. As a consequence of this policy change, the financial statements have been restated to 1 January 2018. Further information on the impact of the change in policy is disclosed in note 9.

IFRS 8 Segmental Reporting

Following a change in the way the Group monitors and assesses the business it has adopted, segmental reporting in these financial statements. 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 the Group 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 telematics 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 Group has therefore included segmental financial information for its insurance and fleet operations. These two segments have been identified as they are managed separately, with different marketing approaches for the discrete market sectors, 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. However, to increase transparency, the Group has decided 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:

• Customer acquisition, for new customer contracts; and

• Fleet telematics services for recurring revenue and repeat contracts with existing customers.

The information in this news release does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2019 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 441 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under Section 498(2) or (3) of the Act.

2 Revenue

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

	2019	2018
	£'000	£'000
Fleet	**20,808**	18,751
Insurance	**4,813**	6,955
	25,621	25,706

During 2019 revenue of £4.2m (2018: £5.5m) was derived from one insurance customer.

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

	2019	2018
	£'000	£'000
United Kingdom	**20,317**	21,709
France	**3,236**	2,471
Other European territories	**53**	13
United States of America	**2,015**	1,513
	25,621	25,706

Other European territories revenue for the year ended 31 December 2018 related entirely to Ireland to which the new territories Poland, Spain, Italy and Germany have been added for the year ended 31 December 2019.

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

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

	2019	2018
	£'000	£'000
Goods and services transferred over time	**24,461**	24,630
One off revenue	**1,160**	1,076
	25,621	25,706

Goods and services transferred over time represent 95% of total revenue (2018: 96%).

For 2019, revenue includes £4,578,000 (2018: £5,871,000) included in the contract liability balance at the beginning of the period. Changes to the Group's contract liabilities (i.e. deferred revenue) are attributable solely to the satisfaction of performance obligations.

3 Segmental analysis

As highlighted in note 1, Basis of preparation, the Group has adopted segmental analysis. 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 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.

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 **Year ended 31 December 2019**	Customer Acquisition	Fleet Telematics Services	**Total Fleet**	Insurance	**Total Business**
	£'000	£'000	**£'000**	£'000	**£,000**
Recurring revenue	-	19,297	**19,297**	-	**19,297**
Other sales	338	1,173	**1,511**	4,813	**6,324**
Total Revenue	338	20,470	**20,808**	4,813	**25,621**
Sales and Marketing Costs	(4,429)	(740)	**(5,169)**	-	**(5,169)**
Equipment, Installation, Carriage	(1,969)	(1,194)	**(3,163)**	(2,837)	**(6,000)**
Cost of service	-	(2,039)	**(2,039)**	(375)	**(2,414)**
Profit before central fleet costs	**(6,060)**	**16,497**	**10,437**	**1,601**	**12,038**
Central fleet costs			**(747)**	-	**(747)**
Segmental profit			**9,690**	**1,601**	**11,291**
Central Costs					**(4,229)**
Adjusted EBITDA (see note 4)					**7,062**

Segmental analysis **Year ended 31 December 2018 restated**	Customer Acquisition	Fleet Telematics Services	Total Fleet	Insurance	Total Business
	£'000	£'000	£'000	£'000	£,000
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 and Marketing Costs	(3,214)	(711)	(3,925)	-	(3,925)
Equipment, Installation, Carriage	(1,373)	(1,092)	(2,465)	(3,154)	(5,619)
Cost of service	-	(1,983)	(1,983)	(568)	(2,551)
Profit before central fleet costs	(4,252)	14,630	10,378	3,233	13,611
Central fleet costs			(575)	-	(575)
Segmental profit			9,803	3,233	13,036
Central Costs					(4,520)
Adjusted EBITDA (see note 4)					8,516

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)

		Restated
	2019	2018
	£'000	£'000
Operating profit	**6,438**	8,223
Depreciation on property, plant and equipment, owned	**171**	185
Depreciation on property, plant and equipment, right of use	**199**	-
EBITDA	**6,808**	8,408
Share-based payment expense (incl. cash-settled)	**254**	108
Adjusted EBITDA	**7,062**	8,516

5 Earnings per share

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

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 December 2019	**5,410**	**47,916,951**	**11.29**	**48,095,333**	**11.25**
Year ended 31 December 2018	7,010	47,713,566	14.69	48,354,756	14.50

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

6 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	2019	2018
	£'000	£'000
Profit before tax	**6,451**	8,252
Foreign exchange	**156**	(153)
Depreciation	**370**	185
Interest income	**(34)**	(29)

Lease interest expense	**21**	-
Share based payment expense	**250**	108
Operating cash flow before movement in working capital	**7,214**	8,363
Decrease/(increase) in trade and other receivables	**(453)**	(99)
(Increase) in inventories	**(106)**	(67)
(Decrease) in trade and other payables	**410**	(42)
(Decrease)/increase in contract liabilities	**198**	(1,330)
Cash generated from operations	**7,263**	6,825

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 2019	47,846,560	478	5,196
Shares issued	91,760	1	34
At 31 December 2019	**47,938,320**	**479**	**5,230**

All the shares issued in the year to 31 December 2019 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.

In December 2019 cash-settled options were issued to Daniel Mendis to facilitate the exercise of existing equity-settled share options. These cash-settled share options are linked to both service and market performance conditions. The options have a contractual term commencing on the grant date 10 December 2019 and maturing on 5 April 2024, there are four vesting dates commencing on 1 August 2020, where a number of shares depending on the performance of the share price will be eligible for exercise at the share price less the exercise price of 322 pence.

The fair value at grant date of the cash-settled options has been calculated using a binomial option pricing model. The average share price of 326 pence, exercise price of 322 pence, a risk free rate of 0.49%, a volatility rate of 27% and a time to maturity of 4 years has generated a fair value of 71 pence per share option with the estimated number of shares to ultimately vest being 170,000 cash-settled share options. The volatility of the share price over the previous 12 months from the grant date and the risk-free rate on the market were used to build in probabilities of the share price performance over the contractual term

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

	2019	**2018**

	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**267.6**	**1,365,554**	269.3	1,607,651
Granted	**180.2**	**46,600**	287.6	1,270,534
Cancelled	**-**	**-**	355.6	(620,000)
Lapsed	**313.8**	**(126,925)**	292.2	(614,425)
Exercised	**38.5**	**(91,760)**	118.4	(278,206)
Outstanding at 31 December	**276.9**	**1,193,469**	267.6	1,365,554
Exercisable at 31 December	**360**	**37,482**	178.9	148,000

The weighted average fair value of options issued during the year ended 31 December 2019 was 175.49p (2018: 38.25p). Included in the options granted in 2019 none (2018: 1,062,776) 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 2019 was 265.00p (2018: 338.16p).

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

9 Explanation of change in accounting policy relating to IFRS 15

As highlighted in note 1, Basis of preparation, the Group has chosen to change its accounting policy for the treatment of incremental costs of obtaining a contract with a duration of 12 months or less, by disapplying the practical expedient in IFRS 15 'Revenue from Contracts with Customers'. The Group now capitalises and amortises incremental commission costs of obtaining a contract regardless of length.

The principal impact of this change relates to the timing of commissions incurred being released into the income statement, with the total commissions incurred at the inception of the customer contract being capitalised and only being recognised in the income statement over the contractual period.

As at 1 January 2018, the restatement of the Group's net assets was an increase of £563,000 to £17,370,000 from the inclusion of a contract cost asset of £690,000 under IFRS 15, being previously recognised as commissions incurred at the inception of the customer contract and now being recognised over the contractual period, net of a deferred tax liability of £127,000.

The impact of capitalising incremental costs as per IFRS 15 on the financial statements:

Consolidated Statement of Financial Position

1 January 2018	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Deferred tax assets	768	(127)	641
Contract cost assets	-	690	690
Other	25,287	-	25,287
Total assets	26,055	563	26,618

Total liabilities	(9,248)	-	(9,248)
Retained earnings	6,373	563	6,936
Other	10,434	-	10,434
Total Equity	16,807	563	17,370

31 December 2018	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Deferred tax assets	9	(9)	-
Contract cost assets	-	872	872
Other	24,949	-	24,949
Total assets	24,958	863	25,821
Deferred tax liabilities	-	(150)	(150)
Other	(7,568)	-	(7,568)
Total liabilities	(7,568)	(150))	(7,718)
Retained earnings	6,924	713	7,637
Other	10,466	-	10,466
Total Equity	17,390	713	18,103

Consolidated Statement of Comprehensive Income

For the year ended 1 December 2018	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Revenue	25,706	-	25,706
Cost of sales	(8,543)	149	(8,394)
Administrative expenses	(9,122)	33	(9,089)
Other	29	-	29
Income tax expense	(1,210)	(32)	(1,242)
Net profit	6,860	150	7,010
Total Comprehensive income	6,702	150	6,852
Earnings per ordinary share (pence)	14.38	0.31	14.69
Diluted earnings per ordinary share (pence)	14.19	0.31	14.50

Consolidated Statement of Cash Flows

For the year ended 1 December 2018	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Profit	6,860	150	7,010

Adjusted for:			
- Tax expense	1,210	32	1,242
Profit before tax	8,070	182	8,252
Changes in trade and other receivables	83	(182)	(99)
Other	(1,328)	-	(1,328)
Cash generated from operations	6,825	-	6,825

10 Impact of adopting IFRS 16 "Leases"

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	
		103
Operating lease liabilities before discounting		621
Discounting using incremental borrowing rate		(48)
Total lease liabilities recognised under IFRS 16 at 1 January 2019		573

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:

	1 January 2019 £'000
Properties	490
Motor vehicles	12
Total right-of-use assets	502

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.

END

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