

FINAL RESULTS

QUARTIX TECHNOLOGIES PLC

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Quartix Technologies plc
("Quartix", "the Group" or "the Company")

Final Results

Strong annualised recurring revenue growth in all regions with planned continuation for the future

Quartix Technologies plc (AIM:QTX), a leading supplier of subscription-based vehicle tracking systems, analytical software and services, is pleased to announce its audited results for the year ended 31 December 2022.

Restatement of comparatives

All comparative monetary amounts for 2021 have been restated in line with a change in policy in the recognition of equipment, installation and carriage costs associated with contracts with customers under IFRS 15: 'Revenue from Contracts with Customers' (See note 1: Summary of significant accounting policies).

Financial highlights:

- Group revenue increased by 7.9% to £27.5m (2021: £25.5m)
 - Fleet revenue¹ grew by 12.3% to £26.7m (2021: £23.8m)
 - Fleet revenue represented 97.0% of total revenue (2021: 93.1%)
 - Insurance revenue² decreased by 52.5% to £0.8m (2021: £1.8m)
- Adjusted EBITDA³ increased by 3.6% to £6.1m (2021: £5.8m)
- Operating profit increased by 2.4% to £5.6m (2021: £5.4m)
- Profit before tax increased by 2.4% to £5.5m (2021: £5.4m)
- Adjusted diluted earnings per share⁴ grew by 1.52p to 10.88p (2021: 9.36p), and diluted earnings per share also increased to 10.38p (2021: 10.25p)
- Free cash flow⁵ increased by 16.0% to £3.8m (2021: £3.3m).
- Final proposed dividend payment of 6.30p per share (2021: 7.00p) including 3.85p for supplementary dividend (2021: 5.10p) giving a total dividend for the year of 7.80p per share

¹ Fleet revenue (see Strategic Report: Financial Review, Financial Overview)

² Insurance revenue (see Strategic Report: Financial Review, Financial Overview)

³ Earnings before interest, tax, depreciation, amortisation, share based payments and adjustments (see note 3)

⁴ Diluted earnings per share before adjustments (see Strategic Report: Financial Review, Financial Overview)

⁵ Cash flow from operations after tax and investing activities

These audited results are consistent with the Trading Statement released on 11 January 2023.

Outlook

Quartix has seen a strong start to 2023, with new unit installations in January ahead of the same period in 2022; however the Company notes that this may not extrapolate to Q1 year on year performance due to an exceptionally higher March 2022 performance.

Principal activities and performance measures

The Group's main strategic objective is to profitably 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 the most significant forward-looking key performance measure and it is pleasing that it grew by £2.6m to £27.3m at 31 December 2022.

The Key Performance Indicators 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	2022	2021	% change
Fleet subscriptions ¹ (new units)	60,809	50,765	19.8
Fleet subscription base ² (units)	235,510	202,734	16.2
Fleet customer base ³	25,342	22,668	11.8
Fleet gross attrition ⁴ (%)	12.8	11.6	
Annualised recurring revenue ⁵ (£'000)	27,282	24,644	10.7
Fleet invoiced recurring revenue ⁶ (£'000)	25,446	22,506	13.1
Fleet revenue ⁷ (£'000)	26,680	23,752	12.3
Price erosion ⁸ (%)	4.7	6.2	

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

² The number of vehicle tracking 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

For many years the Group has applied a very conservative accounting policy of immediately expensing hardware and associated installation and carriage costs. The Group has implemented a new policy in 2022 which recognises these incremental costs over their expected initial contract term (typically 2 years), on a systematic basis that more accurately reflects the revenue stream generated by them. The capitalisation and subsequent amortisation of the incremental costs will be more aligned to the core principles in IFRS 15 and make the reported EBITDA more comparable with that reported by companies with a similar business model.

The impact of this change in 2022 is to increase adjusted EBITDA for the year ended 31 December 2022, compared with previous reporting methodology, by £0.4m (see Strategic Report: Financial Review Financial Overview and note 33 of the Annual Report and Financial Statements).

This approach will simplify the presentation of the Group's results. Previously, the Group included an additional voluntary disclosure, separating customer acquisition cost, being the investment for new customer contracts, and Fleet telematics services, for recurring revenue and repeat contracts with existing customers, in order to highlight the different costs structures within the business. Following the change in accounting policy this analysis is no longer considered necessary. However, overheads on the face of the Consolidated Statement of Comprehensive Income have been split between Sales & Marketing expenses and Administration expenses, with Sales & Marketing expenses including the costs of customer acquisition being the investment in marketing expenditure and payroll costs for the sales teams.

Richard Lilwall, Chief Executive Officer of Quartix, commented:

"I am pleased to report another year of strong growth in 2022. Our fleet subscription base grew by 16% and now exceeds 235,000 units which led to an increase in ARR (annualised recurring revenue) of £2.6m, at a constant currency rate, to £27.3m at 31 December 2022.

Our marketing investments drove a record performance in new subscription numbers, increasing by 20% to break a further milestone of 60,000 new units.

Fleet gross attrition remains low for our sector at 12.8%, normalising from the prior year low of 11.6%.

We cemented our position as a UK leader with a regional base of 136,514 showing growth of 9%. Growth in our international markets continued, with particularly strong results in France expanding 30% to 52,604 vehicles. USA increased by 10% to 30,800 units and Other European Territories grew 63% from 9,563 to 15,592 units.

In 2023 Quartix will focus on its key strategic positioning of excellent customer service and competitive pricing helping us win new customers looking to control their business energy and payroll costs, and win customers from competitors that seek our sector leading price and quality ratio. We have confidence for the current financial period and beyond. Quartix will make additional investments in sales channels during 2023 which will target strong, profitable annualised recurring revenue in 2024 and onwards."

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Full Financial Results Report

The Group's Financial Statements and results presentations for the year ended 31 December 2022 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 that is designed to improve productivity and lower costs by capturing, analysing and reporting vehicle and driver data.

Quartix is based in the UK and is listed on the AIM market of the London Stock Exchange (AIM:QTX).

Chairman's statement

Introduction

The Company made further incremental investments in its sales and marketing channels during 2022 to drive further growth in ARR and the subscription base, following the successful investment made in 2021. As noted in the Principal activities and performance measures section above, the annualised recurring revenue increased by £2.6m, at a constant currency rate, to £27.3m at 31 December 2022. Revenue grew by 7.9% during the year, in line with the growth in the Annualised Recurring Revenue of the subscription base. While fleet revenue grew by 12.3%, this was partially offset by the continual decline in the remaining insurance revenue, which was mainly deferred insurance revenue with very high profit margin that will not re-occur in 2023.

Group gross attrition marginally increased to 12.8% (2021: 11.6%) but is still considered low by industry standards. Price erosion reduced to 4.7% (2021: 6.2% in constant currency). Our installed base grew by 16.2% to exceed 235,000 units, and the customer base exceeded 25,000 customers at year end.

Each geographical market registered increases in both new subscriptions and in the subscription base for the year. In the UK, our most mature market, we were pleased to see double-digit growth in new subscriptions of 12.0% (2021: 5.9%).

New unit installations growth was very impressive in France, driven by the continuing expansion of the direct field sales team. French revenue increased by 22.6% to €6.3m (2021: €5.1m), ending the year with 52,604 vehicles under subscription (2021: 40,343) across 6,935 fleet customers (2021: 5,479).

US new vehicle subscriptions continued to grow, albeit at a slower rate, with staff changes in H1 impacting growth as the Company focussed on performance improvement, along with re-evaluating the US expansion plan. The Company completed the year with 30,800 vehicles under subscription (2021: 27,912) across 4,038 fleet customers (2021: 3,860), and revenue increased by 12.0% to \$4.0m in 2022 (2021: \$3.6m).

The Group continued to make progress in its other European territories, achieving excellent results, albeit from a lower base, ending the period with a subscription base of 15,592 vehicles (2021: 9,563) across 2,943 fleet customers (2021: 2,026).

Results

Group revenue for the year increased by 7.9% to £27.5m (2021: £25.5m). Total fleet revenue increased by £2.9m and represented 97.0% of total revenue (2021: 93.1%).

Both operating profit and profit before tax for the year increased to £5.6m (2021: £5.4m) and £5.5m (2021: £5.4m) respectively. However, the underlying increase was £0.8m (16.0%) when excluding the impact of the re-estimate of the provision for the swap out of 3G units in the USA (see below) and the two cost-of-living payments which the Board chose to pay, the first being in October 2022 and the second in January 2023 (see note 3).

There was a £0.5m increase in Sales & Marketing expenses to £6.4m in 2022, due to the investment in customer acquisition to accelerate growth in the business.

Cash conversion strengthened slightly with a £0.3m reduction in corporation tax payments, resulting in free cash flow, cash flow from operations after tax and investing activities, of £3.8m (2021: £3.3m). Net cash decreased to £5.1m at 31 December 2022 (2021: £5.4m), following the payment of an interim dividend in 2022 and a final and supplementary dividend for 2021 paid in 2022, totalling £4.1m.

A provision of £1.6m was recognised in 2020 for the replacement of a large proportion of the US installed base of tracking systems. This was as a result of the sunsetting of the 3G mobile network in the US, being replaced by 4G networks. By the end of 2022, Quartix had completed approximately 69% of the total units to be replaced, with the last replacements now focusing on Quartix's smallest customers. The spend in 2022 was approximately £0.6m, and the Group expects the remaining swap outs to be completed in early 2023, with a forecast cash requirement of £0.5m.

Earnings per share

Basic earnings per share increased by 1.0% to 10.42p (2021: 10.32p). Diluted earnings per share increased to 10.38p (2021: 10.25p). The adjusted diluted earnings per share, which is calculated by adding back the cost of the replacement of 3G units and the cost of living payments incurred in 2022, was 10.88p (2021: 9.36p).

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 2022, the Board decided to pay an interim dividend of 1.50p per ordinary share. This totalled £0.7m and was paid on 9 September 2022 to shareholders on the register as at 12 August 2022.

The Board is recommending a final ordinary dividend of 2.45p per share, together with a supplementary dividend of 3.85p per share, giving a final payment of 6.30p per share and a total dividend for the year of 7.80p per share, in line with the Company's dividend policy.

The final and supplementary dividend amounts to approximately £3.0m in aggregate. Subject to the approval at the forthcoming AGM, this aggregate dividend of 7.00p per share will be paid on 28 April 2023 to shareholders on the register as at 31 March 2023. The ex-dividend date is therefore 30 March 2023.

Outlook

The Group has made a strong start to the year, with new installations in January ahead of the same period in 2022; however the Company notes that this may not extrapolate to Q1 year on year performance due to an exceptionally higher March 2022 performance.

Adjustments to future projected results from 2023 onwards will be required as a result of the change in accounting policy for 2023 onwards.

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 gross profits on sales and marketing to further develop the profitable subscription platform it has created by accelerating growth in its fleet subscription base.

In 2022, Quartix finalised two value-adding features to its existing analytical software offerings, the first, EVolve, uses fleet analytics to assess migration opportunities to all-electric vehicle fleets. The second, Quartix Check, is a "walk-around" vehicle condition monitoring tool. Adoption of EVolve, following its launch, has been very encouraging, from both existing and new

customers. Quartix Check was completed towards the end of 2022, and has been recently launched and has shown strong initial interest. The focus in 2023 will be on upselling these products for both new customers and into the existing customer base.

In the US, Quartix has recruited 2 field sales executives based in Texas who will focus on new unit subscription growth in Texas. In addition, the Group is seeking to increase the direct sales team and comparison sales team who service the US market to further increase new unit subscriptions. At the same time, we have implemented new processes to improve sales efficiency in the US.

AGM

As previously announced on 20 December 2022, Andrew Walters announced his intention to step down as a Non-Executive Director and has therefore informed Quartix that he does not intend to stand for re-election at the forthcoming AGM.

The Group's AGM will be held at 11.00 a.m. on 24 March 2023 at The Trinity Centre in the Science Park on Milton Road, Cambridge, CB4 0FN.

Paul Boughton
Chairman

Strategic Report: Operational Review

Strategy and business model

The Group's main strategic objective is to grow its fleet subscription platform profitably 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*: Quartix will continue to focus on fleet markets, exploring further opportunities within both new and existing markets, while also introducing added value developments.
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. The Group has benefitted from improvements to internal processes following scalability reviews.
3. *Continuous enhancement of the Group's core software and telematics services*: Quartix has an ongoing extensive modernisation program of its core software and telematics code, both from a technology and user experience perspective. These enhancements help improve the customer experience as well as increase the efficiency of its support operation. 2022 also saw the finalisation of Quartix Check that will be an upsell option to all customers in 2023 and beyond.
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 gross attrition at a steady level and contributed to a Gold in the 2022 Investors in Customers survey, which recognises truly excellent service.
5. *Standardisation centralisation*: the expansion into European markets has been achieved by staff based in the Group's principal operational office in Newtown, and from local sales staff in France recruited directly to support European growth (see Capacity for future growth section below). US support and service functions continued to be performed from the UK.

Our fleet customers typically use the Group's vehicle telematics services for many years following an initial contract, resulting in low rates of gross attrition. Accordingly, the Group focuses its business model on the development of subscription revenue, 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 Principal activities and performance measures section, the annualised recurring revenue increased by £2.6m, at a constant currency rate, to £27.3m at 31 December 2022.

The Group has focused over the past six years on growth in its fleet operations resulting in an increasing proportion of total revenues:

	2022	2021	2020	2019	2018	2017
Fleet revenue %	97.0	93.1	85.4	81.2	73.2	69.4

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 Group's gross attrition increased to 12.8%, which Quartix believes is still below the industry average.

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. Following the 2022 Investors in Customers survey, Quartix received a Gold award, which is testimony to our excellent customer service. Our financial performance derives from the customer service we deliver, backed by the technology we develop. The Board would like to register its personal thanks to every one of our employees who made 2022 another great year for Quartix.

Operational performance

All of our business operations continued to perform at a high level in 2022. Gross margin decreased to 71.6% (2021: 73.5%), however excluding the profit and loss impact of the 3G swap provisions in both years the gross margin has remained constant at 72%. Additional spend on sales teams led to an increase of £0.5m Sales & Marketing expenses.

Cash conversion strengthened marginally, due to a reduction in corporation tax payments. Cash flow from operations represents 75.1% of profit for the year (2021: 73.0%).

Working capital management is more challenging due to inflationary pressure on global economies. Trade debtors at the year-end were equivalent to 38 days of sales (2021: 34). Inventory levels increased significantly by 49.5% compared to prior year levels, as a result of management's decision to increase stock holding to address component shortage and due to the increasing number of 4G compatible units in anticipation of the transition to 4G in both the US and Europe. A key focus of 2023 is to start to reduce component stock held in the business as the component shortage starts to improve in the wider market.

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, such that the installed base now exceeds 235,000 units.

During the course of the year, we won 6,527 new fleet customers (2021: 5,868). Sales leads continued to be generated and converted through a broad range of media and channels and investments have been made in marketing, technology,

processes and training, adding automation wherever possible.

Sales & Marketing expenses, being essentially the total investment in fleet customer acquisition, increased by £0.5m to £6.4m in 2022 (2021: £5.9m). This investment will continue in 2023 as we develop our business across each of our markets, thereby increasing recurring revenues.

	Subscription Base	New subscriptions	Customers	New Customers
United Kingdom				
2022	136,514	26,363	11,426	1,523
2021	124,916	23,535	11,303	1,702
Change	11,598	2,828	123	(179)
France				
2022	52,604	17,094	6,935	2,304
2021	40,343	12,054	5,479	1,661
Change	12,261	5,040	1,456	643
Other European Territories				
2022	15,592	8,264	2,943	1,487
2021	9,563	6,185	2,026	1,256
Change	6,029	2,079	917	231
USA				
2022	30,800	9,088	4,038	1,213
2021	27,912	8,991	3,860	1,249
Change	2,288	97	178	(36)

UK

UK fleet revenue was £16.9m (2021: £16.2m). 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.

The Group increased UK field sales capacity which has contributed to the increase in UK revenue in 2022.

France

French fleet revenue increased by 22.6% to €6.3m (2021: €5.1m), making a valuable contribution to the Group. We saw significant growth in new installations as a result of the continuing expansion of the direct sales team, including the French field sales team which targets customers who have larger fleets, with 50 or more vehicles.

New European territories

Spain, Germany and Italy achieved excellent results, albeit from a much lower base, and the Company will increase investment in these territories in 2023.

USA

Trading in the USA progressed albeit at a slower rate, with a 12.0% increase in fleet revenue to \$4.0m (2021: \$3.6m) as a result of staff changes in H1 impacting growth as the Company focussed on performance improvement, along with re-evaluating the US expansion plan.

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 transition from 3G has taken longer than expected and by the end of 2022, it had completed approximately 69% of the total units to be replaced, with the last replacements now focussing on Quartix's smallest customers. The spend in 2022 was approximately £0.6m, and the Group expects the remaining swap outs to be completed in early 2023, with a forecasted cash requirement of £0.4m.

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. As stated in the Outlook section of the Chairmans Report, in 2022 Quartix finalised two value-adding features; namely EVolve and Quartix Check.

Other key developments included:

1. The finalisation for production of the new 4G (LTE) models across the product range of tracker units for the UK and European markets, although the European 2G network sunsets are now anticipated between 2025 and 2030. These products are also the basis for ongoing development to support electric vehicles.
2. An ongoing extensive modernisation program of our core software and telematics code, both from a technology and user experience perspective. These 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.

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.

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 was granted the London Stock Exchange's "Green Economy Mark", which champions pioneering London-listed companies driving growth in the global green economy. To qualify, companies must generate at least 50% of their total annual revenue from products and services that significantly contribute towards the transition to a low carbon 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.

Following the appointment of Russell Jones as a Non-Executive Director in December 2022, he will take over from Andrew Walters as Chair of the ESG Committee. Russell will be continuing our sustainability review started 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, and in 2022 the ESG Committee have opted to voluntarily report on Scope 1 and Scope 2 emissions.

Capacity for future growth

We believe that the Group has significant opportunity for profitable growth in its fleet business. Quartix intends to make further additional investments in sales channels during 2023 and beyond. The Group has identified a large part of its existing core markets still unpenetrated which it intends to pursue, alongside winning potential customers from our competitors in more established markets.

In the UK, the Group will continue to implement data-driven optimisation across the sales and marketing funnel and execute automation and simplification across business processes in order to drive growth. A focus in 2023 will be on upselling the two new value-adding features to both new customers and into the existing customer base.

Quartix also plans further sales resource increases in the Other European Territories in 2023, where unit sales have been growing rapidly.

In the US, Quartix has recruited 2 field sales executives based in Texas who will focus on new unit subscription growth in Texas. In addition, the Group is seeking to increase the direct sales team and comparison sales team who service the US market to further increase new unit subscriptions. At the same time, we have implemented new processes to improve sales efficiency in the US.

The Company anticipates that these investments will enable both new fleet units installed and the associated value of the annualised subscription base to increase significantly in 2023. The Group has made a strong start to the year, with new installations in January ahead of the same period in 2022; however the Company notes that this may not extrapolate to Q1 year on year performance due to an exceptionally higher March 2022 performance.

Richard Lilwall
Chief Executive Officer

Emily Rees
Chief Financial Officer

Strategic Report: Financial Review

Financial Overview

Year ended 31 December £'000 (except where stated)	2022	Restated 2021	% change
Revenue			
Fleet	26,680	23,752	12.3
Insurance	837	1,761	(52.5)
Total	27,517	25,513	7.9
Gross profit before 3G swap out provision	19,793	18,323	8.0
Gross margin before 3G swap out provision	71.9%	71.8%	
Gross profit	19,702	18,753	5.1
Gross margin	71.6%	73.5%	
Operating profit	5,553	5,425	2.4
Operating margin	20.2%	21.3%	
Adjusted EBITDA (note 3)	6,051	5,841	3.6
Profit for the year	5,041	4,985	1.1
Earnings per share	10.42	10.32	1.0
Adjusted diluted earnings per share	10.88	9.36	16.2
Cash generated from operations	4,170	3,963	5.2
Operating profit to operating cash flow conversion	75.1%	73.0%	
Free cash flow	3,790	3,266	16.0

Revenue

Revenue increased by 7.9% to £27.5m (2021: £25.5m); the Group continues to replace insurance with higher quality fleet revenue that has lower gross attrition and a higher lifetime value.

Gross margin

Gross margin decreased to 71.6% in the year (2021: 73.5%). The prior year gross margin benefitted from a £0.4m release 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.

Adjusted EBITDA

Adjusted EBITDA, increased to £6.1m (2021: £5.8m). As stated in the Principal Activities & Performance Measures section, the Company has implemented a new policy for 2022 which recognises equipment costs, carriage costs and installation costs as incremental costs over their expected contract term in an attempt to report results more comparable with that reported by companies with a similar business model. The growth of the business in 2022 is better demonstrated with the £0.3m increase in adjusted EBITDA under the new reporting methodology.

Overheads

We continued to invest in our product offering, in our sales structure and in marketing, which led to an increase of 8.5% in Sales & Marketing expenses. The annualisation of the Executive Board salaries was the main driver for the 4.3% increase in

administrative expenses.

Taxation

Our effective tax rate benefits from the Group's investment in research and development, UK patents and loss relief for the US business. The effective rate has increased marginally from 7.7% in 2021 to 8.8% in 2022, as a result of lower patent relief available.

Statement of financial position

Property, plant and equipment, at £0.8m (2021: £1.0m), decreased largely due to the disposal of servers following the migration to Azure during 2022 and the decommissioning of a physical host site in the UK.

Contract cost assets at £4.3m (2021: £3.7m) in line with IFRS 15 'Revenue from Contracts with Customers' relate to equipment, installation and carriage costs of £3.0m (2021: £2.5m) under the adoption of the new accounting policy, and the commissions of £1.3m (2021: £1.2m), incurred in winning customer contracts already capitalised in the prior year accounting policy. All these costs are capitalised and are amortised through the profit and loss, over the contract term. Further details are included in note 14 and note 33 to the Financial Statements.

Inventories increased to £2.0m (2021: £1.3m) due to maintained buffer component stock lines and the increase in the variation of models with the transition to 4G. Cash at the year-end was £5.1m (2021: £5.4m), after the final and supplementary dividends for 2021, totalling £3.4m, and the interim dividend of £0.7m were paid during the year. Trade receivables increased to £3.7m (2021: £3.1m), due to both volume and increase in proportion of customers paying late with a trade receivables collection period increasing from 34 days to 38 days. Trade and other payables increased to £3.6m (2021: £3.2m), and provisions decreased from £1.0m to £0.5m due to utilisation (£0.6m) and re-estimate (offset of £0.1m) 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. These increased to £3.5m in 2022 (2021: £3.2m).

Cash flow

Cash generated from operations before tax at £4.2m was 75.1% of operating profit (2021: £4.0m, 73.0% of operating profit). Tax paid in 2022 was lower at £0.3m (2021: £0.6m), as a result cash flow from operating activities after taxation but before capital expenditure was £3.8m (2021: £3.3m).

Free cash flow, after capital expenditure and interest received, was £3.8m, an increase of 16.0% (2021: £3.3m). The translation of cash flow into dividends is covered in the Chairman's Statement.

Risk Management policies

The principal risks and uncertainties of the Group are as follows:

Attracting and retaining the right number of good quality staff

The Group believes that in order to safeguard the future of the business it needs to recruit, develop and retain the next generation of 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 sunset 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. All new units installed from 2023 onwards are 4G compatible products.

As described in the 2020 Financial Statements, Management anticipated the sunset 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. By the end of 2022, Quartix had completed approximately 69% of the total units to be replaced, with the last replacements now focussing on Quartix's smallest customers.

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 Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. The BREXIT 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.

The war in Ukraine, with its impact on energy prices and other inflationary pressures, have impacted the growth of the global economy and therefore present a risk that this may impact the Group's subscription base and its ability to collect cash from its customers. The Group is reviewing its collection process and local representation to mitigate this risk.

As with other industries, there is a continuing risk of some short-term disruption to component supplies caused by global shortages. 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.

The Strategic Report, comprising the Operational Review and Financial Review, was approved by the Board of Directors and signed on behalf of the Board on 24 February 2023.

Richard Lilwall

Chief Executive Officer

Consolidated Statement of Comprehensive Income

Year ended 31 December		2022	2022	2022	Restated 2021	2021	Restated 2021
	Notes	Before Adjustments £'000	Adjustments £'000	After Adjustments £'000	Before Adjustments £'000	Adjustments £'000	After Adjustments £'000
Revenue	2	27,517	-	27,517	25,513	-	25,513
Cost of sales		(7,724)	(91)	(7,815)	(7,190)	430	(6,760)
Gross profit		19,793	(91)	19,702	18,323	430	18,753
Sales & Marketing expenses		(6,358)	(71)	(6,429)	(5,926)	-	(5,926)
Administrative expenses		(7,640)	(80)	(7,720)	(7,402)	-	(7,402)
Operating profit		5,795	(242)	5,553	4,995	430	5,425
Finance income receivable		8	-	8	-	-	-
Finance costs payable		(31)	-	(31)	(23)	-	(23)
Profit for the year before taxation		5,772	(242)	5,530	4,972	430	5,402
Tax expense		(489)	-	(489)	(418)	-	(418)
Profit for the year		5,283	(242)	5,041	4,554	430	4,984
Exchange difference on translating foreign operations		(169)	-	(169)	(100)	-	(100)
Other comprehensive income for the year, net of tax		(169)	-	(169)	(100)	-	(100)
Total comprehensive income attributable to the equity shareholders of Quartix Technologies plc		5,114	(242)	4,872	4,454	430	4,884
Adjusted EBITDA	3			6,051			5,840
Earnings per ordinary share (pence)	4						
Basic				10.42			10.32
Diluted				10.38			10.25

Consolidated Statement of Financial Position

		31 Dec 2022	Restated 31 Dec 2021	Restated 1 Jan 2021
	Notes	£'000	£'000	£'000
Non-current assets				
Goodwill		14,029	14,029	14,029
Property, plant and equipment		845	956	1,278
Deferred tax assets		197	-	-
Contract cost assets		752	575	513
Total non-current assets		15,823	15,560	15,820
Current assets				
Inventories		1,989	1,330	694
Contract cost assets		3,536	3,160	3,113
Trade and other receivables		3,692	3,094	2,915
Cash and cash equivalents		5,063	5,414	10,570
Total current assets		14,280	12,998	17,292
Total assets		30,103	28,558	33,112
Current liabilities				
Trade and other payables		3,650	3,216	2,823
Provisions		543	953	1,785

Contract liabilities		3,499	3,160	3,650
Current tax liabilities		896	77	301
		8,588	7,406	8,559
Non-current liabilities				
Deferred tax liabilities		-	457	425
Lease liabilities		617	650	822
		617	1,107	1,247
Total liabilities		9,205	8,513	9,806
Net assets		20,898	20,045	23,306
Equity				
Share capital	6	484	484	479
Share premium account	6	6,332	6,332	5,252
Equity reserve		342	380	792
Capital redemption reserve		4,663	4,663	4,663
Translation reserve		(338)	(169)	(69)
Retained earnings		9,415	8,355	12,189
Total equity attributable to equity shareholders of Quartix Technologies plc		20,898	20,045	23,306

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 2020	479	5,252	4,663	792	(69)	10,316	21,433
Prior year restatement	-	-	-	-	-	1,873	1,873
Restated balance at 31 December 2020	479	5,252	4,663	792	(69)	12,189	23,306
Shares issued	5	1,080	-	-	-	-	1,085
Increase in equity reserve in relation to options issued	-	-	-	170	-	-	170
Adjustment for exercised 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	-	-	-	-	(100)	-	(100)
Profit for the year	-	-	-	-	-	4,984	4,984
Total comprehensive income	-	-	-	-	(100)	4,984	4,884
Restated Balance at 31 December 2021	484	6,332	4,663	380	(169)	8,355	20,045
Shares issued	-	-	-	-	-	-	-
Increase in equity reserve in relation to options issued	-	-	-	93	-	-	93
Adjustment on settlement of options	-	-	-	(85)	-	85	-
Recycle of equity reserve to P&L reserve	-	-	-	(46)	-	46	-
Dividend paid	-	-	-	-	-	(4,112)	(4,112)
Transactions with owners	-	-	-	(38)	-	(3,981)	(4,019)
Foreign currency translation differences	-	-	-	-	(169)	-	(169)

Profit for the year	-	-	-	-	-	5,041	5,041
Total comprehensive income	-	-	-	-	(169)	5,041	4,872
Balance at 31 December 2022	484	6,332	4,663	342	(338)	9,415	20,898

Consolidated Statement of Cash Flows

	Note	2022 £'000	Restated 2021 £'000
Cash generated from operations	5	4,170	3,963
Taxes paid		(320)	(636)
Cash flow from operating activities		3,850	3,327
Investing activities			
Additions to property, plant and equipment		(68)	(61)
Interest received		8	-
Cash flow utilised in investing activities		(60)	(61)
Cash flow from operating activities after investing activities (Free cash flow)		3,790	3,266
Financing activities			
Repayment of lease liabilities		(151)	(166)
Proceeds from share issues		-	1,085
Dividend paid		(4,112)	(9,274)
Cash flow used in financing activities		(4,263)	(8,355)
 Net changes in cash and cash equivalents		 (473)	 (5,089)
Cash and cash equivalents, beginning of year		5,414	10,570
Exchange differences on cash and cash equivalents		122	(67)
Cash and cash equivalents, end of year		5,063	5,414

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 2022. 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 International accounting standards in conformity with the requirements of the Companies Act 2006 (UK-adopted IAS), IFRIC interpretations and Companies Act 2006 that applies to companies reporting under UK-adopted IAS, this announcement does not of itself contain sufficient information to comply with UK-adopted IAS. The Group will publish full financial statements that comply with UK-adopted IAS. The audited financial statements incorporate an unqualified audit report.

IFRS 15 Incremental costs of obtaining a contract

As stated above the Group has implemented a new policy for 2022 which recognises equipment costs, installation costs and carriage costs associated with new unit subscriptions as incremental costs over their expected contract term, on a systematic basis that more accurately reflects the revenue stream generated by them. The capitalisation and subsequent amortisation of the incremental costs will be more aligned to the core principles in IFRS 15 and make the reported EBITDA more comparable with that reported by companies with a similar business model. As a consequence of this policy change, the financial statements have been restated to 1 January 2021. Further information on the impact of the change in policy is disclosed in note 9.

Statutory accounts for the year ended 31 December 2021, 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. With the exception of the change in accounting policy for contract costs, outlined above, the accounting policies applied are consistent with those described in the Annual Report & Accounts for the year ended 31 December 2022.

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:

	2022 £'000	2021 £'000
United Kingdom	17,760	17,953
France	5,410	4,425
New European Territories	1,060	507
United States of America	3,287	2,628

27,517	25,513
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During 2022 UK revenue of £0.7m (2021: £1.5m) was derived from one insurance customer, as a proportion of total revenue this one customer makes up 2.6% of the Group's revenue (2021: 6.1%).

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

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

	2022	2021
	£'000	£'000
Goods and services transferred over time	26,505	24,556
Revenue recognised at a point in time	1,012	957
	27,517	25,513

Goods and services transferred over time represent 96.3% of total revenue (2021: 96.2%).

For 2022, revenue includes £3.1m (2021: £3.6m) 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 Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)

		Restated
	2022	2021
	£'000	£'000
Operating profit	5,553	5,425
Depreciation on property, plant and equipment, owned	124	180
Depreciation on property, plant and equipment, right of use	133	151
EBITDA	5,810	5,756
Share-based payment expense (incl. cash-settled)	(1)	515
Cost of living payments	151	-
Provision for replacement of 3G units	91	(430)
Adjusted EBITDA	6,051	5,841

4 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 2022	5,041	48,387,354	10.42	48,599,519	10.38
Restated year ended 31 Dec 2021	4,984	48,269,166	10.32	48,661,104	10.25
Adjusted earnings per share					
Year ended 31 Dec 2022	5,283	48,387,354	10.92	48,599,519	10.88
Restated year ended 31 Dec 2021	4,554	48,269,166	9.43	48,661,104	9.36

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 2022 excludes both the £0.1m re-estimate of the 3G replacement unit provision and the £0.2m cost of living payments considered to be a one off.

5 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	Restated
2022	2021

	£'000	£'000
Profit before tax	5,530	5,402
Foreign exchange	(256)	39
Depreciation	257	331
Loss on disposal of fixed asset	29	-
Interest income	(8)	-
Lease interest expense	31	23
Share based payment expense	92	72
Operating cash flow before movement in working capital	5,675	5,867
Decrease/(increase) in trade and other receivables	(516)	(240)
(Increase)/decrease in contract cost assets	(524)	(107)
(Increase) in inventories	(659)	(636)
(Decrease) in trade and other payables	(99)	(427)
(Decrease)/increase in contract liabilities	293	(494)
Cash generated from operations	4,170	3,963

6 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2022	48,380,034	484	6,332
Shares issued	12,144	-	-
At 31 December 2022	48,392,178	484	6,332

All the shares issued in the year to 31 December 2022 related to the exercise of share options.

7 Share based payments

The Company has share option schemes for certain employees. Share options are exercisable at prices determined at the date of grant. The vesting periods for the share options range between 12 and 63 months. Options are forfeited if the employee leaves the Company before the options vest.

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

	2022		2021	
	Weighted average exercise price per share in pence	Options number	Weighted average exercise price per share in pence	Options number
Outstanding at 1 January	306.8	737,930	279.3	1,232,068
Granted	1.0	212,000	453.0	110,369
Settled	451.3	(110,783)	360.0	(112,443)
Lapsed	247.3	(21,940)	251.2	(74,546)
Exercised	1.0	(12,144)	259.9	(417,518)
Outstanding at 31 December	212.6	805,063	306.8	737,930
Exercisable at 31 December	282.4	529,982	281.8	173,204

The weighted average fair value of equity-settled options issued during the year ended 31 December 2022 was 275.3p (2021: 74.91p). All equity-settled options granted in 2022 (2021: 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 2022 was 335.00p (2021: 467.22p).

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

2022

2021

	Weighted average exercise price per share in pence	Options number	Weighted average exercise price per share in pence	Options number
Outstanding at 1 January	322.0	78,000	321.4	238,000
Re-estimated	-	-	322.0	40,000
Cancelled	322.0	(39,250)	320.0	(44,000)
Exercised	-	-	321.7	(156,000)
Lapsed	-	(38,750)	-	-
Outstanding at 31 December	-	-	322.0	78,000
Exercisable at 31 December	n/a	n/a	n/a	n/a

At 31 December 2022 Quartix Technologies plc had no outstanding cash-settled options and exercise prices, at 31 December 2021 there were 78,000 cash options outstanding at an average exercise price of 322p with a remaining contractual life of 27 months.

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, the Group has decided to change its accounting policy in relation to costs in obtaining customer contracts. For many years the Company has applied a very conservative accounting policy of immediately expensing hardware and associated installation and carriage costs. The new policy recognises these incremental costs over their expected contract term, on a systematic basis that more accurately reflects the revenue stream generated by them. The capitalisation and subsequent amortisation of the incremental costs will be more aligned to the core principles in IFRS 15 and make the reported EBITDA more comparable with that reported by companies with a similar business model. As a consequence of this policy change, the financial statements have been restated to 1 January 2021.

As at 1 January 2021, the restatement of the Group's net assets was an increase of £1,873,000 to £23,306,000 from the inclusion of a contract cost assets of £2,433,000 under IFRS 15, being previously recognised as equipment, installation and carriage costs incurred at the inception of the customer contract and now being recognised over the contractual period, net of a deferred tax liability of £560,000.

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

Consolidated Statement of Financial Position

	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
1 January 2021			
Deferred tax assets	135	(135)	-
Contract cost assets	1,193	2,433	3,626
Other	29,486	-	29,486
Total assets	30,814	2,298	33,112
Deferred tax liabilities	-	(425)	(425)
Other liabilities	(9,381)	-	(9,381)
Total liabilities	(9,381)	(425)	(9,806)
Retained earnings	10,316	1,873	12,189
Other	11,117	-	11,117
Total Equity	21,433	1,873	23,306
	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
31 December 2021			
Deferred tax assets	131	(131)	-
Contract cost assets	1,185	2,549	3,734
Other assets	24,823	-	24,823
Total assets	26,139	2,418	28,557
Deferred tax liabilities	-	(457)	(457)
Other liabilities	(8,056)	-	(8,056)
Total liabilities	(8,056)	(457)	(8,513)

Retained earnings	6,394	1,961	8,355
Other	11,689	1	11,690
Total Equity	18,083	1,962	20,045

Consolidated Statement of Comprehensive Income

For the year ended 1 December 2021	As previously		
	reported	Adjustments	As Restated
	£'000	£000	£'000
Revenue	25,513	-	25,513
Cost of sales	(6,876)	116	(6,760)
Other expenses	(13,351)	-	(13,351)
Tax expense	(390)	(28)	(418)
Net profit	4,896	88	4,984
Other Comprehensive income	(101)	1	(100)
Total Comprehensive income	4,795	89	4,884
Earnings per ordinary share (pence)	10.14	0.18	10.32
Diluted earnings per ordinary share (pence)	10.07	0.18	10.25

Consolidated Statement of Cash Flows

For the year ended 31 December 2021	As previously		
	reported	Adjustments	As Restated
	£'000	£000	£'000
Profit	4,896	88	4,984
Adjusted for:			
- Tax expense	390	28	418
Profit before tax	5,286	116	5,402
Changes in in contract cost assets	9	(116)	(107)
Other	(1,332)	-	(1,332)
Cash generated from operations	3,963	-	3,963

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