



2020 Half-year Report

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Alfa Financial Software Hldgs PLC
29 September 2020

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Alfa Financial Software Holdings PLC

2020 Half Year Report

Challenging conditions highlighting our qualities

Alfa Financial Software Holdings PLC ("Alfa" or the "Company"), a leading developer of software for the asset finance industry, today publishes its unaudited results for the six months ended 30 June 2020.

Financial highlights:

Results £m, unless otherwise stated	H1 2020 Unaudited	H1 2019 Unaudited	Movement %
Revenue	38.2	30.9	24%
Operating profit	10.4	5.4	92%
Profit before tax	10.1	5.1	95%
Earnings per share - basic (pence)	2.68	1.40	91%
Earnings per share - diluted (pence)	2.62	1.35	94%

£m, unless otherwise stated	H1 2020 Unaudited	31 Dec 2019 Audited	Movement %
Cash	68.6	58.8	17%

Key measures ⁽¹⁾ £m, unless otherwise stated	H1 2020 Unaudited	H1 2019 Unaudited	Movement %
Revenue - constant currency	38.2	31.2	22%
Operating profit - constant currency	10.4	5.6	86%
Operating free cash flow conversion (%)	108%	211%	(49)%
Total Contract Value (TCV)	96.4	70.1	38%

(1) See definitions section for further information regarding calculation of measures not defined by IFRS.

Overview/Summary:

- Revenue and profit significantly ahead of original expectations and last year
- Covid-19 disruption minimised at this stage; high performance delivery, with our people and product providing strong support for our customers
- Culture strong; engagement scores improved
- Continuing to invest in people and product for future growth
- Tech leadership through Alfa iQ launch
- Robust balance sheet position with £69m of cash and no debt
- Special dividend of 15 pence per share (£44m) declared
- Strong progress in late stage pipeline, but limited contract commitments for early stage projects
- Underlying markets are resilient but not immune to current macro impacts
- We expect 2020 to be 5% ahead of current revenue expectations with the vast majority of this improvement also falling through to EBIT, but remain cautious on 2021

Andrew Denton, Chief Executive Officer

"The qualities of our people and our product have been highlighted in tackling the challenges that the Covid-19 pandemic has posed.

We moved to remote working quickly and smoothly and without interruption to our engineering or client project deliveries. The first half of the year has seen four customers move into live operation as well as an unprecedented level of product advances which have made a major contribution to the recently released Alfa Systems 5.6. We have also benefited in the first half from reduced holidays taken by our people, which we expect to reverse in the second half.

Our technology infrastructure has successfully supported our customers' needs while working from home, and we have flexed to ensure that we react to their changing priorities. Alfa Systems has enabled customers quickly and efficiently to deal with the issues created by Covid-19 such as payment holidays, forbearance and government support such as automation for CBILS (Coronavirus Business Interruption Loan Scheme) in the UK.

We have also launched our artificial intelligence joint venture, Alfa iQ, which we expect to greatly enhance Alfa's ability to develop artificial intelligence solutions for the asset finance and auto finance industries. We are excited about the opportunities and possibilities this will bring.

It is great to see that the dedication, skills and the effort of our people in difficult circumstances has been reflected in a strong first half financial performance."

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Investor and analyst webcast

The Company will host a conference call today at 09:30 a.m. To obtain details for the conference call, please email alfa@tulchangroup.com.

Please dial in at least 10 minutes prior to the start time.

An archived webcast of the call will be available on the Investors page of the Company's website, <https://investors.alfasystems.com/>.

Notes to Editors

Alfa has been delivering software systems and consultancy services to the global asset and automotive finance industry since 1990. Our best practice methodologies and specialised knowledge of asset finance facilitates delivery of large software implementations and highly complex business change projects. With an excellent delivery track record spanning three decades, Alfa's experience and performance is unrivalled in the industry.

Alfa Systems, our class-leading technology platform, is at the heart of some of the world's largest asset finance companies. Key to the business case for each implementation is Alfa Systems' ability to replace multiple customer systems with our single platform. Alfa Systems supports both retail and corporate business for auto, equipment, wholesale and dealer finance on a multijurisdictional basis, including leases/loans, originations and servicing. An end-to-end solution with integrated workflow and automated processing using business rules, Alfa Systems provides compelling solutions to asset finance companies.

Alfa Systems is currently used by customers or has live implementations in 26 countries and Alfa has offices in Europe, Australasia and North America. For more information, visit www.alfasystems.com.

Forward-looking statements

This Half Year Report (HYR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The HYR should not be relied on by any other party or for any other purpose. This report contains certain forward-looking statements. These include statements regarding Alfa's intentions, beliefs or current expectations, and those

of our officers, directors and employees, concerning (without limitation), with respect to the financial condition, results of operations, liquidity, prospects, growth, strategies and businesses of Alfa. These statements and forecasts involve known and unknown risks, uncertainty and assumptions because they relate to events and depend upon circumstances that will or may occur in the future and should therefore be treated with caution. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Alfa has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

BUSINESS REVIEW

Strong financial performance despite Covid-19 challenges

2020 started with some encouraging signs from new contract announcements, but was then overshadowed by the impact of the Covid-19 pandemic. As part of our strong risk management processes we implemented working from home for all employees in early March in advance of government-imposed lockdowns. The switch to remote working was accomplished smoothly and without disruption, across all of our offices, reflecting the investments we had made in our infrastructure, and the flexibility and dedication of our people and systems.

We engaged with our customers throughout the period to understand how the pandemic was impacting their ongoing business and where relevant, their plans for implementing and developing Alfa Systems. In the early stages of the crisis there was inevitably a lot of uncertainty around these plans, including a cancellation of a newly won US Auto customer, and whilst we were cautious about the short term outlook for the business, we remained confident in our medium to long term outlook and so continued with our plans to grow the business, recruit more engineers and to keep progressing our technology.

For the first six months of the year, we have managed the challenges and uncertainties extremely successfully. We have flexed our plans and reallocated our people to respond to changing customer demands through active dialogue with our customers and very active communication with our own people. Internally we have held frequent planning meetings, identifying spare resources and options for their deployment. In common with many companies, our people have taken fewer holidays during lockdown and it is therefore pleasing that we have still managed, largely, to allocate most of them to chargeable work, and this has boosted our first half revenues which we expect to reverse in the second half.

We had strong licence fee income after making good progress on the implementation of some key projects during the period, in contrast to the licence fee write-backs we saw in H1 2019. As a consequence, we have seen a strong financial performance with revenues up 24% on prior year at £38.2m (2019: £30.9m). We were also pleased that we continued to reduce our dependency on key customers, with the Top 5 customers accounting for 55% of revenues in the period, down from 64% in H1 2019. We had ten customers contributing revenues of more than £1m in the period, up from seven last year. Average headcount for the period was 322 (2019: 310) which along with the pay increases awarded last year drove higher salary costs but this was partially offset by reduced costs of travel, conferences, and marketing resulting in an overall increase in Operating profit up to £5.0m to £10.4m (2019: £5.4m).

Growing partnerships

A key component of our growth strategy is to develop strategic alliances with selected partners. The partners increase our operational capacity with flexible resource, and also enhance our capacity to target new customers in both existing markets and markets where we are not currently present.

In February 2020 we announced a global partnership agreement with Accenture which took our total number of implementation partners to five. The agreement establishes a basis for us to work with Accenture's global Specialty Finance practice to collaborate together on software implementation projects worldwide. This will help us to accelerate our efforts to deliver Alfa to customers who want the operational and financial advantages that Alfa Systems can bring.

We continue to explore how we might further expand our partner network, but we have slowed down the on-boarding of newly trained partners during the Covid-19 pandemic uncertainty, focusing on ensuring we had deployed all of our own resources.

During the first half of 2020 partners worked with us across four different projects with customers in four different countries.

Improving our technology platform

We have continued to invest in Alfa Systems, with a number of key product development projects making good progress in the first half, despite the uncertain economic climate.

Alfa Systems' new "Mercury" user interface enables users to complete their daily tasks with ease in an environment that is even more fresh, clean and uncluttered. The new interface draws on end-user experience and Design Thinking to give users a positive experience.

We have improved Alfa POSkit, our component-based toolbox for building Point of Sale applications with maximum agility.

We have also continued to work on new functionality;

- Usage-based billing, a pay-per mile solution that allows customers to be billed only for the distance travelled by using real-time data through telematics devices installed in each vehicle
- Cash accounts, a new product for wholesale funders that pays interest on account balances, or uses the interest on account balances to pay off the interest on a loan
- New reference interest rates such as SONIA and SOFR to support the move away from existing money market-based rates like LIBOR.

We continue to invest in further modularisation for our software. This initiative simplifies our code-base, which reduces the cost of maintenance whilst also increasing speed of development for new functionality and features. We are also investing in our software development lifecycle by improving the tooling and processes for making changes to the system, giving quicker developer feedback from our extensive automated testing, and ensuring that our development is more efficient.

Accelerating growth with Alfa Start

Alfa Start is our entry level version of the full Alfa Systems platform. It uses a predefined, leading practice configuration and process catalogue which allows any finance company to take full advantage of the proven Alfa Systems platform, which until now has been within reach only of larger, more established operators. The optimised approach accelerates systems change, maximises value and minimises risk, and enables lean businesses to automate and innovate. Alfa Start customers can be in live production with their new system in less than 20 weeks, quickly leveraging Alfa's functionality and performance.

In the first half of 2020 we successfully went live with an Alfa Start implementation for Hampshire Trust Bank in the UK, delivering the implementation within 19 weeks.

Paul Bartley, managing director of the asset finance division at Hampshire Trust Bank, said: "We are thrilled to be live with Alfa Systems, following the Alfa Start methodology and exceptional Alfa support enabling us to deliver in the shortest time possible."

We have continued to refine the Alfa Start package, and in August 2020, Alfa Start was formally launched for the US Auto Finance industry, where we are building on our long-established experience of working with the top companies in the field.

Cloud Hosting growing

We expect that Cloud Hosting will become an increasingly important part of our business.

During the period we announced two new contract wins for our Cloud Hosting solution. One was with a major South African bank to support a multi-phase implementation and the second with a leading UK provider of auto finance solutions. We now host a total of eight customers. Two of these are for temporary testing and support environments to accelerate customers' implementations, four are in implementation projects, and two are in live production.

Exploring opportunities in AI through Alfa iQ

In May we formed Alfa iQ, a 51:49 joint venture between Alfa and Bitfount, a company founded by Blaise Thomson. The joint venture structure allows Alfa iQ to address the widest possible market.

Blaise was a founder and CEO at VocalIQ, which was sold to Apple in 2015. He then led the Apple Engineering office in Cambridge, UK until he left in 2019 to start Bitfount. The joint venture has been created to greatly enhance Alfa's ability to develop artificial intelligence solutions for the asset finance and auto finance industries. We believe that this has the potential to be transformational for our customers and Alfa iQ's first customer engagement has already started.

During 2021, Alfa iQ plans to build a decision support architecture that is tightly integrated with business process automation tooling and includes real-time, intelligent proactive and reactive decision making as well as informed strategic decision making.

This joint venture is at an early stage and is aiming to generate meaningful revenue impact in 2022. All profits and losses made through the joint venture will be equity method accounted for in line with IFRS 11.

In September Alfa also published its second position paper on artificial intelligence titled "Using Machine Learning in the Wild". This paper describes two machine learning related projects that Alfa engineers had pursued as part of Alfa's innovation framework. It has interesting insights into the trade-offs between adopting off-the-shelf approaches and building up models internally, as well as showing how much can be done with a relatively small investment.

Strengthened governance structure in place

In the first half two new Non-Executive Directors, Adrian Chamberlain, and Charlotte de Metz, were appointed to the Board and Duncan Magrath was appointed Chief Financial Officer. Below Board level, the addition of Vicky Edwards as Chief People Officer completed the Company Leadership Team which now comprises eight people and blends deep Alfa experience with new external expertise.

On 22 July 2020 we announced that as a result of a competitive tender process we had appointed RSM UK Audit LLP ("RSM") as our new auditor. To ensure that we can work with the widest range of partners possible, Deloitte, our previous auditor, which is one of the leading service providers to the global asset and automotive finance market, was not considered as part of the tender process for our audit. The appointment of RSM as auditor for the 2021 financial year will be subject to approval by shareholders at the next Annual General Meeting of the Company to be held in 2021.

Strong engagement with our people

In response to Covid-19, we did not furlough any staff and provided funds to support home working. We proactively moved to remote working in advance of government-imposed lockdowns, and our offices remained closed through the remainder of the first half. Where safe to

do so, we had reopened offices for those who wish to return to an office environment, but we keep this position under constant review in line with local government advice. We currently do not expect full scale office working to return before the start of next year.

Along with the Board and Company Leadership Team changes noted above we have continued to invest in our people, both by continuing to recruit but also committing time and effort to ensure we maintain engagement despite the difficulties of remote working. We held our annual global conference remotely, and we have continued to encourage feedback through regular company meetings, and engagement surveys. We recently held a live video meeting where the whole Company was able to ask questions of the Board, including NEDs, on any topic they considered important.

We continue to monitor the engagement of our people through our bi-monthly Pulse Surveys. Through active communication to ensure that our people understand our strategy, objectives and performance and keeping them up to date with developments, our engagement rating has consistently been above 70% since March 2020.

We recognise that Covid-19 pandemic has imposed many difficulties on our people, but they have tackled them with great commitment and we would like to thank them for all their efforts this year so far and we are confident that they will continue to do so as the situation develops.

Return of Capital recognising continuing strong cash generative business

We remain a strongly cash generative business and clearly have excess capital for our present and predicted needs. We believe we can continue to grow our business largely through organic means.

Having carefully considered both our short and medium term requirements including a number of downside scenarios, the Board has decided to declare a Special Dividend of 15 pence per share payable on 6 November 2020 to shareholders on the register as at 16 October 2020 with the shares going ex-dividend on 15 October 2020. This will amount to a total return of capital to shareholders of £44m. Following payment of the Special Dividend we will remain in a strong net cash position and will continue to manage the business to ensure that we maintain a robust balance sheet.

Resilience of underlying asset finance market

The underlying asset finance market tends to be relatively resilient in economic downturns, because it is a more secure form of lending, meaning its share of the overall finance market tends to increase. New business volumes in the US asset finance market are down 1% year to date to July 2020, although in the UK they are down 31% July year to date and in Europe 16% year to date to June 2020. The medium-term resilience means that big systems projects that are underway tend not to get stopped, although projects can look to save money in the short term which can change plans. The biggest impact is that projects that have not yet started may be put on hold which impacts our early stage pipeline.

Some signs of recovery in early stage pipeline but we remain cautious

We define our early stage pipeline as prospects where there is active engagement with a potential customer through either a demo or responding to an RFI (Request for Information). At 30 June 2020 the number of prospects at this stage in the pipeline has halved compared with a year ago. This is partly as a result of good progress of opportunities into the later stage of the pipeline but also an absence of lead activity which we believe is a result of the impact of Covid-19 on customers' desire to think about initiating large new systems projects. Due to this reduced lead activity we remain cautious about the impact this may have on our future revenues if this activity does not return.

Late stage pipeline has developed well

The late stage pipeline from the beginning of the year developed well with two opportunities progressing to signed contracts and one operating under a Letter of Engagement (LoE). This was offset by one small project being cancelled, and one large project which did not progress beyond the pre-implementation work. In addition nine opportunities were added to the pipeline of which three have been awarded subject to signing contractual terms, with the rest continuing to progress.

Outlook

Following a strong performance in the first half, we have been encouraged by our performance in August and September. Both our work with existing clients and our late stage pipeline continues to develop and we are confident in the outlook for full year 2020, with revenues expected to be about 5% ahead of expectations, flowing through to an increase in EBIT.

Looking forward to the longer term, the Board is positive about the prospects of the group. Alfa is a market leader with an established blue chip client list, a world class product portfolio and structural growth drivers in its end markets. The cash generative nature of the business model, and the very strong balance sheet, means Alfa has more than sufficient resources to continue to invest in growth. The Board believes it is therefore appropriate to declare a special dividend. Post payment of the dividend, Alfa will remain strongly net cash positive with all the necessary resources to take the business forward.

While positive about the long term prospects, the shorter term macro-economic uncertainty is well publicised and the Board believe it is prudent to take a more cautious view for 2021. We continue to believe in our strategy of attracting the best people and investing in our product to support our long term ambitions.

FINANCIAL REVIEW

Financial Results

£'000s	H1 2020 Unaudited	H1 2019 Unaudited	Movement %
Revenue	38,174	30,853	24%
Operating expenses - net	(27,787)	(25,445)	9%
Share of results of associates and joint ventures	(1)	-	(100%)
Operating profit	10,386	5,408	92%
Finance income	75	57	32%
Finance expense	(408)	(317)	29%
Profit before tax	10,053	5,148	95%
Taxation	(2,222)	(1,112)	100%
Profit for the period	7,831	4,036	94%

Revenues increased by £7.3m to £38.2m in the six months ended 30 June 2020 (H1 2019: £30.9m) with increases across all revenue streams, but with particularly strong growth in ongoing development and services (ODS) revenues as a result of two pre-implementation customers, along with some increases in post-go live support for some of our key customers. Revenues in both our software implementation and ODS segments were boosted by an increase in chargeable days as a result of less holidays being taken across the Group due to the impacts of Covid-19 which we expect to reverse in the second half. The overall growth in revenue was somewhat flattered by write back adjustments to licence revenue in the prior half year period.

Operating profit increased by £5.0m to £10.4m (H1 2019: £5.4m), due to the £7.3m increase in revenues, partially offset by £2.3m increase in expenses, of which £1.5m was as a result of an increase in research and product development expenses, £0.9m was as a result of an increase in SG&A expenses, and (£0.1m) was as a result of a decrease in implementation and support expenses.

Net finance expense of £0.3m (H1 2019: £0.3m) resulted in profit before tax of £10.1m (H1 2019: £5.1m) and with an effective tax rate of 22.1% (H1 2019: 21.6%) the resulting profit for the period was £7.8m (H1 2019: £4.0m).

Revenue

Revenue - by type £'000s	H1 2020 Unaudited	H1 2019 Unaudited	Movement %
Software implementation	16,194	14,439	12%
ODS	13,757	9,167	50%
Maintenance	8,223	7,247	13%
Total revenue	38,174	30,853	24%

Software implementation revenues increased by £1.8m, or by 12%, to £16.2m in H1 2020 (H1 2019: £14.4m), reflecting the six ongoing implementation projects from the end of 2019 and two additional projects that were commenced in H1 2020. One of our continuing projects was our first Alfa Start implementation which was completed and moved to the ODS revenue segment during the period. Of the two additional projects that commenced in H1 2020, one was a customer who signed a contract but then cancelled before significant activity was underway as a result of the pandemic, and the other related to a customer who had previously put their implementation project on hold during 2018. As such, the Group has six ongoing implementation projects as at 30 June 2020. The above compares with five implementation customers during H1 2019.

Of the six ongoing implementation projects at 30 June 2020, one of these projects was new when compared to H1 2019 resulting from the completion of the pre implementation phase in October 2019. This customer contributed £3.6m in H1 2020 (H1 2019: nil).

Revenue from the remaining five ongoing implementation projects at 30 June 2020 contributed £11.7m in H1 2020, a decrease of £2.6m compared with £14.3m in H1 2019. This decrease is primarily due to the fact that during 2019 the largest of these ongoing implementation projects was running two phases concurrently, however the larger of the two phases went live in January 2020, and as a result moved to the ODS segment at this time. This decrease was then partially offset by the following factors that impacted the comparative H1 2019 revenues generated from these five ongoing implementation projects:

- H1 2019 saw the deferral of go-live dates on certain of these projects which resulted in write-backs to our licence revenue; and
- The write back of certain amounts of its licence revenue in order to establish a material right to use liability. This liability reflects discounts in respect of the rights to use renewal payments that customers will be required to pay in future years. The value of the revenue written back in H1 2019 was £2.8m, of which £1.9m related to those project classified as ongoing during H1 2020.

Revenue from the implementation projects that were completed or cancelled in the period contributed £0.9million.

ODS revenues increased by 50% or £4.6m to £13.8m in H1 2020 (H1 2019: £9.2m). This significant increase was the result of:

- An increase in revenue from customers who are currently in the pre-implementation phase of £1.9m. During H1 2020 the Group had three customers who were undertaking pre-definition work. One of these moved to implementation during the period but as previously noted was subsequently cancelled due to the current economic uncertainty. The remaining two have continued to advance through the six month period but after the period end we mutually agreed with one customer to bring the project to an end due to differing views on contractual terms.
- An increase of £3.3m due to new ODS customers. This includes revenue from those customers who on completing their implementation project, or one phase of their implementation project, transition to the ODS segment during the period. This also

includes revenue from one existing implementation customer who procured additional services that were incremental to the services associated with their main implementation project.

- A slight decrease of £0.7m of revenue from ongoing ODS customers resulting from the current mix of ODS project in H1 2020 compared to the prior half year.

Maintenance revenues increased by £1m, or by 13% from £7.2m in H1 2020 to £8.2m in current six-month period. This increase was partly due to inflationary annual maintenance price rises along with an increased number of customer utilising the Group's relatively new Cloud Hosting offering, all of which is currently included within the maintenance revenue segment.

Total Contracted Value (TCV)

TCV - by type (unaudited) £'m	2020 H1	2019 FY	2019 H1
Software implementation	32.5	27.4	21.0
ODS	6.4	8.0	6.4
Maintenance	57.5	45.1	42.7
Total TCV	96.4	80.5	70.1

Total contracted value (TCV) - as defined in the definition section of this HYR - at 30 June 2020, is £96.4m (31 December 2019: £80.5m, 30 June 2020: £70.1m). Implementation TCV has increased due to the pipeline development during the period. ODS TCV has reduced somewhat as we have seen a trend for shorter contracted Statements of Work. There has however been a significant increase in the Maintenance TCV principally due as a result of two of our existing ODS customers moving to a Cloud Hosted solution, along with another of our current implementation customers (we have included three years' worth of planned hosting revenues within the Maintenance TCV, consistent with the treatment of maintenance revenues). Of the £96.4m total TCV at 30 June 2020, £43.4m is anticipated to convert into revenue within the next 12 months, assuming contracts continue as expected and are not cancelled or delayed. This includes £18.1m of software implementation revenues, £6.4m of ODS revenues and £18.9m of maintenance revenues.

Operating profit

The Group's operating profit increased by £5.0m, or 92%, to £10.4m in H1 2020 (H1 2019: £5.4m) primarily reflecting the £7.3m increase in revenues, partially offset by an increase in the Group's cost base as we continued to invest in the business, through increased headcount and partner costs, offset by reductions in travel, conference and marketing costs, as a consequence of the pandemic lockdown. The Group's operating profit on a constant currency basis increased by 86%.

Expenses - net £'000s	H1 2020 Unaudited	H1 2019 Unaudited	Movement %
Implementation and support expenses*	8,655	8,709	(1)%
Research and product development expenses*	9,028	7,498	20%
Sales, general and administrative expenses*	10,369	9,460	10%
Other income	(265)	(222)	19%
Total expenses - net	27,787	25,445	9%

*To better reflect the nature and function of certain expenses, management has made changes to the classification and allocation of expense line items. The comparative disclosures for the June 2019 reporting period have also been amended to reflect a fair base for comparability. The main expense items affected by this reclassification were salary costs and computer costs. In the Consolidated Statement of Profit or Loss, where expenses are disclosed by function, the main impact on the previous June 2019 disclosed figures are: an increase of £0.275m in Implementation and support expenses; a decrease of £0.413m in Research and product development expenses; and an increase of £0.138m in Sales, general and administrative expenses. These changes have had no impact on the total expenses or the profit before tax that were disclosed at the end of June 2019.

Headcount numbers at 30 June 2020 were 340 (H1 2019: 304), and our staff retention rate has been 85% over the 12 months to that date.

Implementation and support (I&S) expenses have remained relatively stable, decreasing by 1%, to £8.7m (H1 2019: £8.7m). I&S expenses predominantly comprise personnel costs, travel and partner costs, with the total of these contributing 88% of the total I&S expenses. In the six months ended 30 June 2020, average software implementation headcount decreased by 13, to 98 employees (H1 2019: 111 employees). In addition, as referred to above the Group's travel costs also significantly decreased as our project teams were not travelling due to the global pandemic, which also resulted in some reduced customer billings. The corresponding reduction in personnel related and travel costs were almost fully offset by the increase in partner costs £1.4m during H1 2020, reflecting the Group's focus on delivering on its strategic objectives of utilising partners. In the six months ended 30 June 2020 we deployed partners on four of our customer projects.

Research and product development (R&PD) expenses increased by £1.5m, or 20%, to £9.0m (H1 2019: £7.5m). 86% of R&PD expenses are personnel costs and the average number of developers increased in the six months ended 30 June 2020 by 17 to 147 employees (H1 2019: 130 employees). In addition to the increase in the average headcount, the personnel related costs have also increased due to the above inflationary pay rises that were awarded in November 2019 as part of the Group's overall strategy to invest in its people.

As in prior periods, our development efforts centred primarily on customer project development. In addition to this customer development, for which the amounts are expensed in the profit and loss, during H1 2020 a total of £0.4m (H1 2019: £0.4m) of development costs were capitalised. The key amounts capitalised related to £0.2m in relation to enhancements of the Alfa user interface and £0.1m in relation to the changes required to prepare Alfa for the new interest rates such as SONIA and SOFR.

Sales, general and administrative (SG&A) expenses increased by £0.9m to £10.4m in the six month period to 30 June 2020 (H1 2019: £9.5m).

This included increased salary costs through strengthening some of the support functions; increases in the share-based payment charges in H1 2020 to £0.5m (H1 2019: £0.4m) in relation to LTIPs granted in May 2018, October 2019 and more recently in June 2020; and increased amortisation costs of £0.4m (H1 2019: £0.2m) reflecting the higher amounts of intangible assets capitalised over the past two years. These increases have been partially offset by the decrease in foreign currency differences of £0.4m, which moved from a loss of £0.1m in H1 2019 to a gain of £0.4m in H1 2020.

Finance costs

Net finance costs of £0.3m (H1 2019: £0.3m) remained relatively unchanged, with a small increase in finance costs due to higher IFRS 16 interest costs in respect of the Group's lease liabilities. Income on cash balances remained low given the current low interest rate environment.

Profit for the period

Profit after taxation increased by £3.8m, or 95%, to £7.8m in H1 2020 (H1 2019: £4.0m). The effective tax rate increased to 22.1% in H1 2020 against the effective tax rate for the 2019 year end (FY 2019 21.7%, H1 2019: 21.6%) due to the increasing proportion of the Group's profits being generated overseas, principally in the US.

Earnings per share

Basic earnings per share increased by 91% to 2.68 pence in H1 2020 (H1 2019: 1.40 pence). Diluted earnings per share increased by 94% to 2.62 pence (H1 2019: 1.35 pence).

Cash flow

Net cash (including the effect of exchange rate changes) increased by £9.8m to £68.6m at 30 June 2020, from £58.8m at 31 December 2019. This increase has been driven by cash generated from operations as a result of annual maintenance payments received in the period and the collection of £3.6m of contractual non-recurring revenue items recognised during FY 19 and continued focus on cash management by the Group. This was partially offset by delays in invoicing certain new overseas customers. These outstanding amounts have all been subsequently collected post 30 June 2020. Taken together, this resulted in Group's Operating Free Cash Flow Conversion (FCF) of 108% (H1 2019: 211%).

In addition to a decrease in cash generated from operations of £0.5m, the Group incurred £0.6m on capital expenditure (H1 2019: £0.9m), provided funding of £0.4m to its newly set up joint venture, Alfa iQ, and made tax payments of £1.4m (H1 2019: £2.8m) during the period. The Group has no external bank borrowings.

In the six months ended 30 June 2020, net cash outflows of £0.8m (H1 2019: £0.9m) from financing activities related to the principal element of lease payments. No ordinary dividends have been paid in the six months ended 30 June 2020. The Board have declared a 15 pence per share Special Dividend, amounting to £44m, payable on 6 November 2020 with a record date of 16 October 2020 and an ex-dividend date of 15 October 2020.

Balance sheet

The significant movements in the Group's balance sheet, aside from the cash balance which is described above, from 31 December 2019 and 30 June 2020 are detailed below.

The trade and other receivables balance increased by £6.1 to £20.0m at 30 June 2020 (31 December 2019: £13.9m) as a result of higher billings due to the overall increased revenue during H1 2020, certain annual maintenance invoices still outstanding at 30 June 2020 and delays in invoicing certain overseas customers. This was partially offset by decreases in the accrued income balance as a result of the collection of the £3.6m of the FY 2019 non-recurring revenue items that had been accrued for at 31 December 2019.

The trade and other payables balance increased by £2.8m to £8.7m at 30 June 2020 (31 December 2019: £5.9m) principally due to an increase of the sales tax payable, including VAT and the overseas equivalents, of £2.7m (largely as a result of the annual maintenance billing and delayed overseas invoicing during the current sales tax periods), and an increase in the holiday pay accrual of £0.8m reflecting the impact of fewer holidays being taken during the six month period as a result of the pandemic.

Contract liabilities increased by £3.4m to £12.1m at 30 June 2020 (31 December 2019: £8.6m) reflecting the fact that the majority of annual maintenance contracts run on a 1 May - 30 April period and as such a larger proportion of the annual amount is deferred at 30 June compared with 31 December. This increase in the deferred maintenance contract liabilities is partially offset by a decrease in the deferred licence contract liabilities as the implementation projects, to which this relates, move further towards being completed.

Subsequent events

In the period since 30 June 2020, there have been no material subsequent events.

Related parties

Details about related parties transactions are disclosed in note 17.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties which could have a material impact on the long-term performance of Alfa Financial Software Holdings PLC and its subsidiaries were set out in the Alfa Financial Software Holdings PLC Annual Report for the year ended 31 December 2019, dated 23 April 2020, and remain valid at the date of this report, except as noted below.

Those risks and uncertainties where at the date of this report the impact continues to be assessed as "Critical" or where the impact was

"Major" where the probability of the event is assessed as at least "Possible" were:

- IT security and cyber risks - a targeted attack could adversely affect our customers' or potential customers' perception of Alfa Systems and could impact our ability to operate our business;
- High customer concentration - we have significant customer concentration risk due to the size and duration of our software implementation projects;
- Brexit and the uncertainty surrounding trading conditions after the transition period - beyond economic uncertainties, we might find it difficult to recruit and retain staff from EU countries, and there might be implications for our ability to service customers;
- Pandemic outbreak in Alfa and/or customer geographies - may impact the health of our people, may continue to cause economic disruption, and hinder the movement of our people to our offices or those of the customer.

In addition to the disclosure in the 2019 Annual Report, and particularly in the light of the Covid-19 pandemic, the following additional risks are highlighted:

- Increased risk from weakened early stage sales pipeline due to Covid-19 - this may impact our ability to secure new business from our existing or new customers thereby potentially adversely impacting revenues during H2 2021 and FY 2022.

In the 2019 Annual Report this risk was assessed with an "Unlikely" probability; this has since been reassessed to a "Likely" probability:

- Socio-economic and geo-political risk - potential impact from Covid-19 on the macro-economic environment leading to global and local recessions as well as the potential impacts of changes to US economic and immigration policy.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020

£'000s	Note	H1 2020 Unaudited	H1 2019 Unaudited
Revenue	3	38,174	30,853
Implementation and support expenses *		(8,655)	(8,709)
Research and product development expenses *		(9,028)	(7,498)
Sales, general and administrative expenses *		(10,369)	(9,460)
Other operating income		265	222
Share of results of associates and joint ventures		(1)	-
Operating profit	4	10,386	5,408
Finance income		75	57
Finance costs		(408)	(317)
Profit before tax		10,053	5,148
Taxation	6	(2,222)	(1,112)
Profit for the period attributable to owners of the parent		7,831	4,036
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation of a foreign operation		810	88
Total comprehensive income, net of tax		810	88
Total comprehensive income for the period attributable to owners of the parent		8,641	4,124
Earnings per share (in pence)			
Basic	7	2.68	1.40
Diluted		2.62	1.35

*To better reflect the nature and function of certain expenses, management has made changes to the classification and allocation of expense line items. The comparative disclosures for the June 2019 reporting period have also been amended to reflect a fair base for comparability. The main expense items affected by this reclassification were salary costs and computer costs. In the Consolidated Statement of Profit or Loss, where expenses are disclosed by function, the main impact on the previous June 2019 disclosed figures are: an increase of £0.275m in Implementation and support expenses; a decrease of £0.413m in Research and product development expenses; and an increase of £0.138m in Sales, general and administrative expenses. These changes have had no impact on the total expenses or the profit before tax that were disclosed at the end of June 2019.

The consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

£'000s	Note	30 June 2020	31 Dec 2019
		Unaudited	Audited

Assets			
Non-current assets			
Goodwill	8	24,737	24,737
Other intangible assets	9	2,271	2,255
Deferred tax assets		725	596
Right-of-use assets	10	15,607	16,402
Property, plant and equipment	11	1,059	1,166
Interests in joint ventures		399	-
Total non-current assets		44,798	45,156
Current assets			
Trade and other receivables	12	19,993	13,897
Cash and cash equivalents		68,634	58,839
Total current assets		88,627	72,736
Total assets		133,425	117,892
Liabilities and equity			
Current liabilities			
Trade and other payables	13	8,681	5,884
Corporation tax	13	2,166	1,355
Lease liabilities	13	1,709	1,672
Contract liabilities	3d	12,058	8,641
Total current liabilities		24,614	17,552
Non-current liabilities			
Provisions for other liabilities		758	667
Lease liabilities	14	16,530	17,330
Total non-current liabilities		17,288	17,997
Total liabilities		41,902	35,549
Capital and reserves			
Share capital		300	300
Translation reserve		836	26
Retained earnings		90,387	82,017
Total equity		91,523	82,343
Total liabilities and equity		133,425	117,892

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2020

£'000s	Notes	Share capital	Translation reserve	Retained earnings	Equity attributable to owners of the parent
Balance as at 1 January 2019		300	376	71,050	71,726
Profit for the financial period		-	-	4,036	4,036
Other comprehensive income		-	88	-	88
Total comprehensive income for the period		-	88	4,036	4,124
Employee share schemes- value of employee services	16	-	-	417	417
Balance as at 30 June 2019		300	464	75,503	76,267
Balance as at 1 January 2020		300	26	82,017	82,343
Profit for the financial period		-	-	7,831	7,831
Other comprehensive income		-	810	-	810
Total comprehensive income for the period		-	810	7,831	8,641
Employee share schemes- value of employee services	16	-	-	539	539
Balance as at 30 June 2020		300	836	90,387	91,523

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2020

£'000s	Note	H1 2020 Unaudited	H1 2019 Unaudited
Operating profit		10,386	5,408
Adjustments:			
Depreciation		1,153	1,230

Amortisation		384	203
Share based payment charge		539	475
Movement in provisions		(309)	(412)
Movement in contract liabilities		3,505	6,114
Movement in working capital:			
Movement in trade and other receivables		(6,219)	(355)
Movement in trade and other payables (excluding contract liabilities)		3,233	544
Cash generated from operations		12,672	13,207
Interest paid		(6)	-
Interest element on lease payments		(402)	(317)
Income taxes paid		(1,431)	(2,752)
Net cash generated from operating activities		10,833	10,138
Cash flows from investing activities			
Purchases of property, plant and equipment	11	(173)	(112)
Purchase of computer software	9	(29)	(397)
Payments for internally developed software	9	(399)	(382)
Loss of disposal of computer software and property, plant and equipment	11	38	-
Interest received		75	57
Investment in joint venture		(401)	-
Net cash (used in) investing activities		(889)	(834)
Cash flows from financing activities			
Principal element of lease payments	14	(846)	(907)
Net cash (used in) financing activities		(846)	(907)
Net increase in cash and cash equivalents		9,098	8,397
Cash and cash equivalents at the beginning of the period		58,839	44,922
Effect of foreign exchange rate changes on cash and cash equivalents		697	(64)
Cash and cash equivalents at the end of the period		68,634	53,255

The consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. General information

Alfa Financial Software Holdings PLC ("Alfa" or the "Company") is a public company limited by shares and is incorporated and domiciled in England. Its registered office is at Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. Alfa's registration number is 10713517.

The principal activity of the Company and its subsidiaries (the "Group") is to provide software solutions and consultancy services to the asset finance industry in the United Kingdom, United States of America, Europe and Asia Pacific.

These unaudited Half Year Financial Statements have been approved for issue by the Board of Directors on 28 September 2020. These Half Year Financial Statements have been reviewed but not audited.

2. Accounting policies

2(a) Basis of preparation

The Half Year Financial Statements have been prepared in accordance with IAS 34 "Half Year Financial Reporting" as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority.

These Half Year Financial Statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Half Year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report should be read in conjunction with the annual report for the year ended 31 December 2019 (the "Annual Financial Statements"), which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), and any public announcements made by Alfa during the Half Year reporting period. The Annual Financial Statements constitute statutory accounts as defined in section 434 of the Companies Act 2006 and a copy these statutory accounts has been delivered to the Registrar of Companies. The auditor's report on the Annual Financial Statements was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The accounting policies adopted in the preparation of the Half Year Financial Statements are consistent with those used to prepare Alfa's consolidated financial statements for the year ended 31 December 2019 and the corresponding Half Year reporting period.

The preparation of the Half Year Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Half Year Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated Annual Financial Statements described above.

The Half Year Financial Statements have been prepared on a going concern basis, under the historical cost convention.

2(b) Going concern

The financial statements are prepared on the going concern basis. The Group continues to be cash-generative and the Directors believe that the Group has a resilient business model. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance including the possible impacts of Covid-19, show that the Group has sufficient cash reserves to operate for a period of not less than 12 months.

The going concern assessment performed also includes downside stress testing in line with FRC guidance which demonstrates that even in the most extreme downside conditions considered reasonably possible, given the existing level of cash held and the Special Dividend of 15 pence per share declared by the Board, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is a great deal of uncertainty surrounding the future impacts of Covid-19, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the interim financial statements.

2(c) Changes in accounting policies

The Group has not adopted any new accounting standards in the period. Other changes to accounting standards in the year had no material impact.

2(d) Seasonality

The Group is not normally significantly influenced by seasonality or cyclical fluctuation because the Group's revenues from maintenance fees, implementation and ODS fees are relatively consistent throughout the year. In 2020 however, the impact of the Covid-19 pandemic has meant that many fewer days holiday have been taken by our people in the first six months of the year, which we expect them to take in the second half of the year. As a result this led to an increased number of chargeable days being delivered in the first half of 2020 compared to those expected in the second half of the year, weighting revenues more to the first half in 2020. The Group's revenue is also influenced by the number and maturity of software implementations during the period. Separately, the Group's cash flows are subject to seasonal fluctuations because (i) the Group invoices a large proportion of its customers for maintenance annually in advance in the first six months of each year, resulting in a higher inflow of cash receipts in the first half of the Group's financial year in respect of maintenance revenues and (ii) cash flows are impacted by the invoicing of up-front licence fees at the commencement of an implementation.

2(e) Foreign currency

The following exchange rates were used in the financial statements:

	USD	Euro
Average rate 6 months to:		
30 June 2020	1.2610	1.1446
30 June 2019	1.2940	1.1454
Closing rate:		
30 June 2020	1.2327	1.0978
31 Dec 2019	1.3493	1.1263

3. Segment information and revenue from contracts with customers

Operating and reporting segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM") and the 31 December 2019 annual report. The CODM considers the business from a product perspective and, therefore, recognises one operating and reporting segment, being the sale of software and related services. The Group therefore presents revenue segmentation by type of project and consolidated earnings, as presented to the CODM, along with the required entity wide disclosure.

3(a) Revenue by type

The Group assesses revenue by type of project, being software implementations, ongoing development and services (ODS) and maintenance, as summarised below:

£'000s	H1 2020 Unaudited	H1 2019 Unaudited
Software implementation	16,194	14,439

ODS	13,757	9,167
Maintenance	8,223	7,247
Total revenue	38,174	30,853

3(b) Revenue geographical information

Revenue attributable to each geographical market based on where the customer mainly utilises its instance of Alfa, or where the service is rendered, is as follows:

£'000s	H1 2020 Unaudited	H1 2019 Unaudited
UK	8,658	7,982
US	15,763	14,068
Rest of EMEA (excl UK)	12,637	7,872
Rest of the World	1,116	931
Total revenue	38,174	30,853

Following an evaluation of the Group's geographical markets, and to reflect the way in which these are managed internally, the Rest of Europe (excluding UK) segment has been updated to Rest of EMEA (excluding UK). As such, £0.8m of revenues generated from South Africa have been reallocated from Rest of World to Rest of EMEA (excluding UK) for H1 2019.

3(c) Revenue by currency

Revenue by contractual currency is as follows:

£'000s	H1 2020 Unaudited	H1 2019 Unaudited
GBP	12,607	8,981
USD	16,364	14,155
EUR	8,086	5,642
Other	1,117	2,075
Total revenue	38,174	30,853

3(d) Liabilities from contracts with customers

£'000s	H1 2020 Unaudited	FY 2019 Unaudited
Contract liabilities - deferred licence	3,115	4,581
Contract liabilities - deferred maintenance	8,943	4,060
Total contract liabilities	12,058	8,641

3(e) Timing of revenue

Timing of revenue - the Group derives revenue from the transfer of goods and services as follows over time and at a point in time in the following revenue segments:

H1 2020 - £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time - time and materials	-	11,627	-	11,627
At a point in time - fixed price	328	-	-	328
Over time - time and materials	15,732	-	-	15,732
Over time - fixed price	134	2,130	8,223	10,487
Total revenue	16,194	13,757	8,223	38,174

H1 2019 - £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time - time and materials	-	9,167	-	9,167
At a point in time - fixed price	-	-	-	-
Over time - time and materials	14,439	-	-	14,439
Over time - fixed price	-	-	7,247	7,247

Total revenue	14,439	9,167	7,247	30,853
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4. Operating profit

The following items have been included in arriving at operating profit and are split by nature in the tables below:

£'000s	H1 2020 Unaudited	H1 2019 Unaudited
Personnel costs	5,626	6,378
Partner costs	1,463	62
Training and recruitment	133	141
Other personnel related expenses	243	384
Travel costs	550	1,237
IT expenses	421	223
Overhead allocation including office rental costs	219	284
Implementation and support expenses	8,655	8,709

£'000s	H1 2020 Unaudited	H1 2019 Unaudited
Personnel costs	7,790	6,290
Training and recruitment	200	166
Other personnel related expenses	365	450
IT expenses	345	261
Overhead allocation including office rental costs	328	331
Research and product development expenses	9,028	7,498

£'000s	H1 2020 Unaudited	H1 2019 Unaudited
Personnel costs	5,686	4,614
Training and recruitment	104	88
Other personnel related expenses	190	238
Advertising, sponsorship and marketing expenses	266	233
Professional advisor costs	1,586	1,604
Insurance	141	105
Depreciation	1,153	1,230
Amortisation	384	203
Foreign currency differences	(391)	46
Employee share schemes	539	417
Other office costs	234	300
IT expenses	279	198
Overhead allocation including office rental costs	198	184
Sales, general and administrative expense	10,369	9,460

5. Employees and Directors

	H1 2020 Unaudited	H1 2019 Unaudited
Average monthly number of people employed (including Directors)		
UK	239	233
US	63	60
Rest of the World	20	17
Total average monthly number of people employed	322	310

	H1 2020 Unaudited	H1 2019 Unaudited
Average monthly number of people employed (including Directors)		
Software implementation	98	111
Research and product development	147	130
Sales, general and administrative	77	69
Total average monthly number of people employed	322	310

At 30 June 2020 the Group had 340 employees (30 June 2019: 304).

6. Income tax expense

Income tax expense is calculated on management's best estimate of the full financial year expected tax rate, which is then adjusted for discrete items occurring in the reporting period. The income tax expense for the six month period ended 30 June 2020 was £2.2m (H1 2019: £1.1m), representing an effective tax rate of 22.1% (H1 2019: 21.6%, FY 2019: 21.7%).

7. Earnings per share

	H1 2020	H1 2019
	Unaudited	Unaudited
Profit attributable to equity holders of Alfa (£'000s)	7,831	4,036
Weighted average number of shares outstanding during the period	292,713,984	288,773,893
Basic earnings per share (pence per share)	2.68	1.40
Weighted average number of shares outstanding including potentially dilutive shares	299,114,686	300,000,000
Diluted earnings per share (pence per share)	2.62	1.35

On 3 June 2020, the third tranche of the 2014 and 2015 employee share options vested, with a total number of shares of 2,592,918 vesting and being released to the employees at this time. The weighted average number of shares for the six months ended 30 June 2020 was 292,713,984.

Diluted EPS - For the periods presented, the ordinary shares which are held in an employee trust on behalf of employees are treated as having a potentially dilutive effect as these shares have service conditions attaching to them. Should the service conditions not be met, the shares will be forfeited. In addition, a number of share options that were granted on 4 June 2020 have also been treated as having a potentially dilutive effect as these are conditional on performance conditions including EPS and TSR performance. Management believe these performance conditions would have been met at 30 June 2020 based on the thresholds set out in conditions attached to these share options. The shares have no right to voting or to dividends while held in trust or prior to vesting.

8. Goodwill

Goodwill arose on the acquisition of subsidiaries in 2012 as part of a group reorganisation and represents the excess of the consideration transferred and the amount of any non-controlling interest in the investment over the fair value of the identifiable assets acquired and the liabilities and contingent liabilities assumed.

We have assessed whether there are any indicators of possible impairment of goodwill. Considering, in particular the fact that we have experienced strong trading performance during the six month period along with the carrying value of the assets for the Company remaining significantly below the market capitalisation of the Company, we found no indicators of possible impairment of goodwill. As a consequence no formal goodwill impairment test has been carried out.

9. Other intangible assets

£'000s	Computer software	Internally generated software	Total
Cost			
At 1 January 2019	1,049	407	1,456
Additions	345	1,135	1,480
At 31 Dec 2019	1,394	1,542	2,936
Depreciation			
At 1 January 2019	253	-	253
Charge for the year	275	153	428
At 31 Dec 2019	528	153	681
Net book value			
At 31 Dec 2019	866	1,389	2,255
Cost			
At 1 January 2020	1,394	1,542	2,936
Additions	29	399	428
Disposals	(57)	-	(57)
At 30 June 2020	1,366	1,941	3,307
Depreciation			
At 1 January 2020	528	153	681
Charge for the period	173	211	384
Elimination on disposals	(29)	-	(29)
At 30 June 2020	672	364	1,036
Net book value			
At 30 June 2020	694	1,577	2,271

10. Right-of-use lease assets

The following table sets out the reconciliation of the right-of-use assets from the 1 January 2019 to the amount disclosed at 30 June 2020.

£'000s	Motor Vehicles	Property	Total
Cost			
At 1 January 2019	92	17,898	17,990
Additions	128	4	132
Foreign exchange	(8)	3	(5)
At 31 December 2019	212	17,905	18,117

Depreciation			
At 1 December 2019	-	-	-
Charge for the year	(67)	(1,648)	(1,715)
At 31 December 2019	(67)	(1,648)	(1,715)
Net book value			
At 31 Dec 2019	145	16,257	16,402
Cost			
At 1 January 2020	212	17,905	18,117
Additions	78	-	78
Foreign exchange	10	5	15
At 30 June 2020	300	17,910	18,210
Depreciation			
At 1 January 2020	(67)	(1,648)	(1,715)
Charge for the year	(51)	(826)	(877)
Foreign exchange	(5)	(6)	(11)
At 30 June 2020	(123)	(2,480)	(2,603)
Net book value			
At 30 June 2020	177	15,430	15,607

11. Property, plant and equipment

£'000s	Fixtures and fittings	IT equipment	Motor vehicles	Total
Cost				
At 1 January 2019	1,147	2,859	40	4,046
Additions	4	372	-	376
Foreign exchange	67	(54)	-	13
At 31 Dec 2019	1,218	3,177	40	4,435
Depreciation				
At 1 January 2019	522	2,030	39	2,591
Charge for the year	107	565	1	673
Foreign exchange	25	(20)	-	5
At 31 Dec 2019	654	2,575	40	3,269
Net book value				
At 31 Dec 2019	564	602	-	1,166
Cost				
At 1 January 2020	1,218	3,177	40	4,435
Additions	37	136	-	173
Disposals	(1)	(40)	(40)	(81)
Foreign exchange	10	37	-	47
At 30 June 2020	1,264	3,310	-	4,574
Depreciation				
At 1 January 2020	654	2,575	40	3,269
Charge for the period	55	221	-	276
Eliminated on disposal	-	(31)	(40)	(71)
Foreign exchange	10	31	-	41
At 30 June 2020	719	2,796	-	3,515
Net book value				
At 30 June 2020	545	514	-	1,059

12. Trade and other receivables

The Group holds the following trade and other receivables:

£'000s	H1 2020 Unaudited	FY 2019 Audited
Trade receivables	12,356	4,050
Other receivables	7,637	9,847
Total trade and other receivables	19,993	13,897

Trade receivables

£'000s	H1 2020 Unaudited	FY 2019 Audited
Trade receivables	12,356	4,050
Provision for expected credit losses	-	-
Trade receivables - net	12,356	4,050

12 (a) Trade receivables ageing

Ageing of net trade receivables £'000s	H1 2020 Unaudited	FY 2019 Audited
Less than 30 days	9,756	3,641
Past due 31-90 days	279	152
Past due 91+ days	2,321	257
Trade receivables - net	12,356	4,050

The Group believes that the unimpaired amounts that are past due are fully recoverable as there are no indicators of future delinquency or potential litigation. At 31 August 2020, of the £2.3m trade receivables past due 91+days at 30 June 2020, £2.3m had been collected.

12 (b) Other receivables

£'000s	H1 2020 Unaudited	FY 2019 Audited
Accrued income	5,023	7,214
Prepayments	1,507	1,613
Other receivables	1,107	1,020
Total other receivables	7,637	9,847

Accrued income represents fees earned, but not invoiced, at the reporting date, which have no right of offset with contract liabilities - deferred licence amounts. Accrued income decreased by £2.2m since last year-end due to the collection of certain amounts relating to FY 19 contractual non-recurring revenue items that had been accrued for at 31 December 2019. This decrease was partially offset by the overall increase in revenue over the corresponding six-month period.

The current year balance represents unbilled work in progress in relation to our ODS customers. As at 31 August 2020, 94% of the accrued income balance has been invoiced and 88% has been received.

13. Current liabilities

£'000s	H1 2020 Unaudited	FY 2019 Audited
Trade and other payables	8,681	5,884
Corporation tax	2,166	1,355
Lease liabilities	1,709	1,672
Contract liabilities - software implementation	3,115	4,581
Contract liabilities - deferred maintenance	8,943	4,060
Provisions for other liabilities	758	667
Total trade and other payables	25,372	18,219
Less: non-current portion	(758)	(667)
Total current liabilities	24,614	17,552

During the six months ended 30 June 2020, £0.1m licence fees (H1 2019: nil) and £11.6m of annual maintenance fees were invoiced (H1 2019: £12.5m). The annual maintenance invoicing during H1 2020 resulted in an increase of £4.9m of the deferred maintenance contracts liabilities compared to 31 December 2019.

14. Lease liability

The following table sets out the reconciliation of the lease liabilities from the 1 January 2020 to the amount disclosed at 30 June 2020:

£'000s	Motor Vehicles	Property	Total
Lease liabilities recognised at 1 January 2019	89	20,391	20,480
Additions	128	4	132
Interest charge	2	850	852
Payments made on lease liabilities	(76)	(2,386)	(2,462)

At 31 December 2019	143	18,859	19,002
Additions	78	-	78
Interest charge	2	400	402
Payments made on lease liabilities	(58)	(1,190)	(1,248)
Foreign exchange	1	4	5
At 30 June 2020	166	18,073	18,239
£'000s		2020	2019
Non-current liability		16,530	17,330
Current liability		1,709	1,672
At 30 June 2020		18,239	19,002
Maturity analysis:		2020	2019
Not later than 1 year		1,709	1,671
Later than 1 year and not later than 5 years		6,937	8,682
Later than 5 years		9,593	8,649
At 30 June 2020		18,239	19,002

15. Financial and liquidity risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Half Year Financial Statements do not include all financial risk management information and disclosures required in the Annual Financial Statements; they should be read in conjunction with the Annual Financial Statements. The responsibility for risk management has remained with the Board and there has been no changes to risk management policies since year-end.

16. Share-based compensation

The fair value of the awards issued under the 2018 and 2019 LTIP plans have been calculated using the grant date share price as a proxy for fair value of the option adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the option scheme and as such, no performance conditions are included in the fair value calculations.

The total number of the awards granted under the 2020 LTIP plans on 4 June 2020 was 2.3m share options and the share based compensation charge for the period from the issue date to 30 June 2020 is £0.3m (H1 2019: £nil). The awards are conditional on performance conditions, 50% based on EPS performance (non-market condition) and 50% on TSR (market condition).

17. Controlling party and related party transactions

The immediate and ultimate parent undertaking is CHP Software and Consulting Limited, which is the parent undertaking of the smallest and largest group in relation to these Half Year consolidated financial statements. The ultimate controlling party is Andrew Page. There was no trading between the Group and the Parent.

In the six months ended 30 June 2020 there were no transactions (H1 2019: £nil) and at 30 June 2020 there were no balances outstanding from, or to, the parent (30 June 2019: nil).

Additionally, in the prior year an arms-length transaction with Classic Technology Limited, a company in which the Chairman holds an interest, was undertaken for the rental of property. This arrangement ceased at the end of 2019 and as such there were no transactions that occurred during the six month period to 30 June 2020 (H1 2019: £0.02 million) with no outstanding receivable balances at the end of each reporting period.

18. Subsequent events

In the period since 30 June 2020 there have been no material subsequent events.

19. Dividends

A Special Dividend of 15 pence per share has been declared payable on 6 November 2020 amounting to £44m.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that these condensed consolidated Half Year financial statements (the 'Half Year Financial Statements') have been prepared in accordance with International Accounting Standard 34, 'Half Year Financial Reporting', as adopted by the European Union and that the Half Year management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed Half Year Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The current directors of Alfa Financial Software Holdings PLC are:

Andrew Page

Andrew Denton

Duncan Magrath (appointed 24 April 2020)

Matthew White

Steve Breach

Adrian Chamberlain (appointed 24 April 2020)

Charlotte de Metz (appointed 24 April 2020)

Chris Sullivan

By order of the Board

Duncan Magrath

Chief Financial Officer

28 September 2020

INDEPENDENT REVIEW REPORT TO ALFA FINANCIAL SOFTWARE HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the consolidated statement of profit or loss and comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing and presenting the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union, and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board and for the purpose of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

RSM UK Audit LLP

Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

28 September 2020

DEFINITIONS

Constant currency - When the Company believes it would be helpful for understanding trends in its business, the Company provides percentage increases or decreases in its revenues or operating profit to eliminate the effect of changes in currency values. When trend information is expressed herein "in constant currencies", the comparative results are derived by re-calculating comparative non-GBP denominated revenues and/or expenses using the average exchange rates of the comparable months in the current reporting period, excluding gains or losses on derivative financial instruments. The material applicable rates are as follows:

Average exchange rates for the period	H1 2020	H1 2019
USD	1.2610	1.2940
Euro	1.1446	1.1454

Ongoing development and services (ODS) - being one of the Alfa revenue segments.

Operating free cash flow (FCF) conversion - Operating FCF conversion is calculated as cash from operations, less capital expenditures and the principal element of lease payments, as a percentage of operating profit. Operating FCF is calculated as follows:

	H1 2020	H1 2019
Unaudited	£'000s	£'000s
Cash generated from operations	12,672	13,207
Capital expenditure	(601)	(891)
Principal element of lease payments	(846)	(907)
Operating FCF generated	11,225	11,409
Operating FCF Conversion	108%	211%

Total contracted value (TCV) - is calculated by analysing future contracted revenue based on the following three components:

- 1) an assumption of three years of maintenance and Cloud Hosting payments assuming these services continued as planned (actual maintenance and Cloud Hosting contract length varies by customer);
- 2) the estimated remaining time to complete any software implementations and recognise deferred licence amounts (which may not all be under a signed statement of work). Where licence is paid on a monthly subscription it has been assumed to continue for three years assuming these services continued as planned; and
- 3) ODS work which is contracted under a statement of work.

Adjusted Earnings, Adjusted EBIT and Adjusted EPS and Adjusted diluted EPS - In the past, when applicable, the Company has used these

measures to adjust the profit for the period from continuing operations attributable to equity holders of the Group, and the profit from continuing operations before income taxes and finance income / expenses, for IPO related expenses and pre-IPO share based payments. These measures were used in order to allow management to monitor the underlying performance of the business by excluding items not considered by management to be reflective of the underlying trading operations of the Group or adding items which are reflective of the overall trading operations. During the year ended 31 December 2019, and during the six months ended 30 June 2020, there were no IPO related expenses, pre-IPO share based payments or other adjusting items incurred, although a revised Adjusted Earnings and EBIT and EPS measure was defined which adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets. The Board has reviewed the usefulness of these adjusted measures, and concluded that they do not aid understanding of the accounts and have therefore decided to stop using them for 2020. As such Adjusted Earnings, Adjusted EBIT and Adjusted EPS, and Adjusted diluted EPS have not been used in these Half Year financial statements.

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