PARITY GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2023

29 September 2023

Parity Group plc ("Parity" or the "Group"), the data and technology focused professional services business, announces its half year results for the six months ended 30 June 2023 (“H1 2023”).

Headlines

- In spite of challenging market conditions, revenue for the first half of 2023 was just 10% lower than the second half of 2022.
- Close to break even on an Adjusted EBITDA basis for H1 2023.
- Net debt significantly reduced.

Mark Braund, Executive Chairman of Parity Group plc, said:

“The team has completed the task of rebuilding the core recruitment business after years of underinvestment, to position Parity as a recruiter of strength in the UK’s public sector, at a time when there are increasing headwinds affecting the broader recruitment market.

Whilst our business in the public sector has been resilient, we too have been affected by these headwinds in areas where we sought to grow such as the UK’s commercial private sector.

The changes made to the business have enabled Parity to act quickly, tuning itself far more rapidly than before to operate at a fit-for-purpose scale and cost base.

As we reflect on Parity’s position in the market, we continually review the Company’s businesses to determine the best medium and long-term direction for Parity for the benefit of its shareholders.”

Contacts

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Overview

After years of underinvestment and neglect, the team has completed the task of rebuilding the core recruitment business to position Parity as a recruiter of strength in the UK's public sector.

In the year prior we had removed the substantial overhead associated with the previous management team's failure to build a profitable consulting business and reinvested a small portion into re-establishing Parity's heritage as a well-recognised recruitment brand.

In line with many others within the recruitment sector, Parity has seen market conditions become more challenging with economic uncertainty resulting in clients and new business opportunities deferring hiring decisions. As a result, first half revenues were 10% lower than that achieved in the second half of 2022.

During H1 2023, Parity successfully won a place on the coveted public sector RM6277 framework, which has an estimated spend of circa £2bn over the next four years, though it is not possible at this stage to quantify what level of revenue might accrue to Parity. This framework, which went live on 25 July 2023, represents a significant opportunity for Parity to expand further into the public sector at a time when there are increasing headwinds affecting the broader recruitment market.

In spite of the lower H1 performance, the business has improved its working capital management and reduced net debt to £0.7m as at the 30 June 2023 (compared with £2.3m net debt as at 31 December 2022).

With market conditions not expected to improve in the near term and a key commercial client in the private sector signaling a shift towards a more global supply chain, Parity is prioritising resources to exploit its strengths and opportunity within the public sector, and in particular the new RM6277 framework. As a consequence, the new business initiatives targeting the private sector, which included permanent recruitment services, were scaled back, with a resultant reduction in headcount.

Historically, Parity's core business, servicing contract recruitment within the public sector, has been one of the most resilient areas when recruitment markets turn down. The Company sees this as a core strength of the business and will be looking at how the Company can leverage this.

As we consider the scale of the business, its strength and value in public sector, we continually review the Company's businesses to determine the best medium and long-term direction for Parity for the benefit of its shareholders.

Financial Summary

Revenue and net fee income

Group revenues in H1 2023 of £17.6m were 10% lower than those in the second half of 2022 and 16% lower than H1 2022.

Net fee income in H1 2023 of £1.3m was 18% lower than the second half of 2022 with a shift in the mix of clients resulting in average margin reducing from 7.4% to 7.0%. Against H1 2022, net fee income was 35% lower. However, H1 2022 included £0.3m from a legacy managed service contract that ended in Q1 2022. Excluding this discontinued business line, net fee income for H1 2023 was 21% lower than the same period in 2022, with lower permanent recruitment accounting for 3% and lower contract recruitment 18%.

Operating costs

At the beginning of the 2023, the Group took the decision to invest in existing and new business areas to facilitate growth. A consequence of this was that the business carried a higher cost base through the first half and incurred an overall adjusted EBITDA loss for the period of £0.3m. With the additional costs associated with servicing the working capital facility, pension deficit contributions and IFRS16 amortisation, the overall loss before tax for H1 2023 was £0.6m.

Following a review of the business at the end of the half year, the Group has rationalised the cost base to facilitate a return in the future to a positive adjusted EBITDA. This cost rationalisation is expected to deliver a net reduction in monthly expenditure by £75k.

Cash and net debt

Net debt as at 30 June 2023, excluding adjustments for IFRS 16 lease liabilities, was £0.7m (30 June 2022: net debt of £4.5m, 31 December 2022: net debt of £2.3m).

The significant fall in net debt since the end of 2022 is primarily due to the improved debtor performance and payment by a key client of outstanding and overdue invoices following the resolution of their internal processes.

The Group continues to rely upon its asset-based lending (ABL) debt facility from Leumi. The current facility is in place until October 2025 and is secured against billed and unbilled receivables to manage both intra month and inter month movements in working capital.

Consolidated condensed income statement
For the six months ended 30 June 2023

	Notes	**Six months to 30.06.23 (Unaudited) £'000**	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Revenue	3	**17,634**	21,054	40,648
Contractor costs		**(16,378)**	(19,137)	(37,184)
Net fee income		**1,256**	1,917	3,464
Other operating income		**-**	-	950
Operating costs		**(1,702)**	(1,839)	(5,443)
Operating (loss)/profit		**(446)**	78	(1,029)
Analysed as:				
Underlying operating (loss)/profit before non-underlying items		**(446)**	101	(4)
Non-underlying costs	4	**-**	(23)	(1,975)
Non-underlying income	4	**-**	-	950
Operating (loss)/profit		**(446)**	78	(1,029)
Finance costs	5	**(203)**	(160)	(310)
Loss before tax		**(649)**	(82)	(1,339)
Analysed as:				
Adjusted loss before tax[1]		**(649)**	(59)	(314)
Non-underlying costs	4	**-**	(23)	(1,975)
Non-underlying income	4	**-**	-	950
Loss before tax		**(649)**	(82)	(1,339)
Tax charge	6	**(459)**	(213)	(376)
Loss for the period attributable to owners of the parent		**(1,108)**	(295)	(1,715)
Loss per share				
Basic	7	**(1.07p)**	(0.29p)	(1.66p)
Diluted	7	**(1.07p)**	(0.29p)	(1.66p)

All activities comprise continuing operations.

[1] Adjusted loss before tax is a non-IFRS alternative performance measure, defined in Note 1 of the notes to the interim results.

Consolidated condensed statement of comprehensive income
For the six months ended 30 June 2023

	Six months to 30.06.23 (Unaudited) £'000	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Loss for the period	**(1,108)**	(295)	(1,715)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit pension scheme	**(569)**	(783)	(841)
Deferred taxation on remeasurement of defined benefit pension scheme	**199**	274	290
Other comprehensive income for the period after tax	**(370)**	(509)	(551)
Total comprehensive income for the period attributable to owners of the parent	**(1,478)**	(804)	(2,266)

Consolidated condensed statement of changes in equity

For the six months ended 30 June 2023

Six months to 30.06.23 (Unaudited)

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2023	**2,062**	**33,270**	**14,319**	**34,560**	**(79,400)**	**4,811**
Share options – value of employee services	**-**	**-**	**-**	**-**	**21**	**21**
Transactions with owners	**-**	**-**	**-**	**-**	**21**	**21**
Loss for the period	**-**	**-**	**-**	**-**	**(1,108)**	**(1,108)**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**(370)**	**(370)**
At 30 June 2023	**2,062**	**33,270**	**14,319**	**34,560**	**(80,857)**	**3,354**

Six months to 30.06.22 (Unaudited)

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2022	2,062	33,270	14,319	34,560	(77,184)	7,027
Share options – value of employee services	-	-	-	-	20	20
Transactions with owners	-	-	-	-	20	20
Loss for the period	-	-	-	-	(295)	(295)
Other comprehensive income for the period	-	-	-	-	(509)	(509)
At 30 June 2022	2,062	33,270	14,319	34,560	(77,968)	6,243

Year to 31.12.22 (Audited)

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2022	2,062	33,270	14,319	34,560	(77,184)	7,027
Share options – value of employee services					50	50
Transactions with owners	-	-	-	-	50	50
Loss for the year	-	-	-	-	(1,715)	(1,715)
Other comprehensive income for the year	-	-	-	-	(551)	(551)
At 31 December 2022	2,062	33,270	14,319	34,560	(79,400)	4,811

Consolidated condensed statement of financial position

As at 30 June 2023

	Notes	**As at 30.06.23 (Unaudited) £’000**	As at 30.06.22 (Unaudited) £’000	As at 31.12.22 (Audited) £’000
Assets				
Non-current assets				
Goodwill		**2,642**	4,594	2,642
Other intangible assets		**157**	136	188
Property, plant and equipment		**7**	13	10
Right-of-use assets		**88**	97	174
Deferred tax assets		**260**	557	521
Retirement benefit asset	8	**769**	1,243	1,269
Total non-current assets		**3,923**	6,640	4,804
Current assets				
Trade and other receivables		**3,750**	7,803	5,909
Cash and cash equivalents		**512**	150	2,053
Total current assets		**4,262**	7,953	7,962
Total assets		**8,185**	14,593	12,766
Liabilities				
Current liabilities				
Loans and borrowings		**(1,169)**	(4,657)	(4,356)
Lease liabilities		**(96)**	(173)	(203)
Trade and other payables		**(3,555)**	(3,478)	(3,340)
Total current liabilities		**(4,820)**	(8,308)	(7,899)
Non-current liabilities				
Lease liabilities		**-**	-	(14)
Provisions		**(11)**	(42)	(42)
Total non-current liabilities		**(11)**	(42)	(56)
Total liabilities		**(4,831)**	(8,350)	(7,955)
Net assets		**3,354**	6,243	4,811
Shareholders’ equity				
Called up share capital		**2,062**	2,062	2,062
Share premium account		**33,270**	33,270	33,270
Capital redemption reserve		**14,319**	14,319	14,319
Other reserves		**34,560**	34,560	34,560
Retained earnings		**(80,857)**	(77,968)	(79,400)
Total shareholders’ equity		**3,354**	6,243	4,811

Consolidated condensed statement of cash flows
For the six months ended 30 June 2023

	Notes	**Six months to 30.06.23 (Unaudited) £'000**	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Operating activities				
Loss for the period		**(1,108)**	(295)	(1,715)
Adjustments for:				
Net finance expense	5	**203**	160	310
Share-based payment expense		**21**	20	50
Income tax charge	6	**459**	213	376
Amortisation of intangible assets		**31**	-	3
Depreciation of property, plant and equipment		**3**	7	10
Depreciation and impairment of right-to-use assets		**86**	177	346
Impairment of goodwill		**-**	-	1,952
		(305)	282	1,332
Working capital movements				
Decrease/(increase) in trade and other receivables		**2,159**	(3,036)	(1,112)
Increase/(decrease) in trade and other payables		**215**	(130)	(343)
Decrease in provisions		**(31)**	-	-
Payments to retirement benefit plan	8	**(176)**	(166)	(331)
Net cash flow from/(used in) operating activities		**1,862**	(3,050)	(454)
Investing activities				
Purchase of property, plant and equipment		**-**	(4)	(5)
Development of intangible assets		**-**	(54)	(109)
Net cash flow used in investing activities		**-**	(58)	(114)
Financing activities				
Drawdown/(repayment) of finance facility		**(3,187)**	2,377	2,077
Principal repayment of lease liabilities		**(121)**	(190)	(433)
Interest paid	5	**(95)**	(50)	(144)
Net cash (used in)/from financing activities		**(3,403)**	2,137	1,500
Net (decrease)/increase in cash and cash equivalents		**(1,541)**	(971)	932
Cash and cash equivalents at the beginning of the period		**2,053**	1,121	1,121
Cash and cash equivalents at the end of the period		**512**	150	2,053

Notes to the interim results

1 Accounting policies

Basis of preparation
The condensed interim financial statements comprise the unaudited results for the six months to 30 June 2023 and 30 June 2022 and the audited results for the year ended 31 December 2022. The financial information for the year ended 31 December 2022 herein does not constitute the full statutory accounts for that period. The 2022 Annual Report and Accounts have been filed with the Registrar of Companies. The Independent Auditor's Report on the Annual Report and Financial Statements for 2022 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The condensed financial statements have been prepared using the recognition and measurement requirements of UK adopted international accounting standards (IFRS) in a manner consistent with the accounting policies set out in the Group financial statements for the year ended 31 December 2022.

The condensed financial statements for the period ended 30 June 2023 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The information in these condensed financial statements does not include all the information and disclosures made in the annual financial statements.

Going concern
The interim financial statements have been prepared on a going concern basis. The Directors have reviewed the Group's cash flow forecasts for the period to 30 September 2024 and have considered possible changes in trading performance including a further reduction in contractor numbers.

The Group continues to rely upon its asset-based lending (ABL) debt facility from Leumi to manage its short-term cash requirements. This facility is in place until October 2025 and requires the Group to meet two covenant tests on a monthly basis; a positive three-month rolling EBITDA; and a positive headroom of at least £400,000.

The twelve-month cashflow forecast to 30 September 2024 indicates that the Group can continue to meet the three-month rolling EBITDA covenant but will need to raise additional funds to meet the headroom covenant from January 2024. The Directors are actively discussing a number of funding options and based on progress to date, believe that the Group will be able to secure sufficient funds to continue to meet its headroom covenant over the next twelve months.

Whilst acknowledging that there is material uncertainty regarding the Group's funding position, the Directors remain confident of securing the additional funds required and consider it appropriate to prepare the unaudited interim financial information on a going concern basis.

Financial instruments
Unless otherwise indicated, the carrying amounts of the Group's financial assets and liabilities are a reasonable approximation of their fair values.

Alternative performance measures
In the reporting of its financial performance, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles ("GAAP") under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business. These non-GAAP measures are not a substitute, or superior to, any IFRS measures of performance but they have been included as the Directors consider them to be an important means of comparing performance across periods and they include key measures used within the business for assessing performance.

Net fee income
Net fee income represents revenue less cost of sales and consist of the margin earned on the placement of contractors, the fees earned on permanent recruitment and the revenue less the cost of third-party contractors for managed service and consultancy work.

NFI margin is the net fee income expressed as a percentage of revenue.

Both net fee income and NFI margin are metrics commonly used by businesses delivering recruitment services to measure the element of revenue that is attributable to the recruitment-based services that the Group provides to clients.

The Directors consider that net fee income and NFI margin are important measurements used by the Board to evaluate the performance of the Group.

Non-underlying items
The presentation of the alternative performance measures of adjusted EBITDA, adjusted operating (loss)/profit and adjusted loss before tax excludes non-underlying items. The Directors consider that an underlying profit measure better illustrates the underlying performance of the Group and allows a more meaningful comparison of performance across periods. Items are classified as non-underlying by nature of their magnitude, incidence or unpredictable nature and their separate identification results in a calculation of an underlying profit measure that is consistent with that reviewed by the Board in their monitoring of the performance of the Group. Events which may give rise to the classification of items as non-underlying include gains or losses on the disposal of a business, the proceeds from the sale of assets outside of normal trading activities, restructuring of a business, transaction costs, litigation and similar settlements, asset impairments and onerous contracts.

Adjusted EBITDA
Operating profit before non-underlying items and before the deduction of depreciation, amortisation changes and shared based payments. This is considered a useful measure, commonly accepted and widely used when evaluating business performance and used by the Directors to evaluate performance of the Group and its subsidiaries.

Adjusted EBITDA

	Six months to 30.06.23 (Unaudited) £'000	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Operating (loss)/profit	**(446)**	**78**	**(1,029)**
Add back:			
Adjustment for amortisation & depreciation	120	184	360
Adjustment for goodwill impairment	-	-	1,952
EBITDA	(326)	262	1,283
Adjustment for share based payment charge	21	20	50
Add back Non-underlying items:			
Income from trademark sale	-	-	(950)
Non-underlying costs	-	23	23
Adjusted EBITDA	**(305)**	**305**	**406**

Net debt
Net debt is the amount of bank debt less available cash balances and is regarded as a useful measure of the level of external debt utilised by the Group to fund its operations. Net debt is presented on a pre-IFRS 16 basis which excludes lease liabilities.

Accounting policies: new standards, amendments and interpretations

At the date of authorisation of these interim financial statements, several new, but not yet effective, standards, amendments to existing standards and interpretations have been published. None of these have been adopted early by the Group. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group.

2 Segmental information

The basis by which the Group is organised and its operating model is structured, is by customer sectors, being the public sector and the private sector. The reporting of financial information presented to the Chief Operating Decision Maker, being the Group Board of Directors, is consistent with these reporting segments. As these reporting segments are supported by a combined back office, there is no allocation of overheads.

Six months to 30.06.23 (Unaudited)

	Public sector £'000	**Private sector £'000**	**Total £'000**
Revenue	**8,762**	**8,872**	**17,634**
Contractor costs	**(8,140)**	**(8,238)**	**(16,378)**
Net fee income	**622**	**634**	**1,256**

Six months to 30.06.22 (Unaudited)

	Public sector £'000	Private sector £'000	Total £'000
Revenue	12,137	8,917	21,054
Contractor costs	(11,137)	(8,000)	(19,137)
Net fee income	1,000	917	1,917

Year to 31.12.22 (Audited)

	Public sector £'000	Private sector £'000	Total £'000
Revenue	22,616	18,032	40,648
Contractor costs	(20,530)	(16,654)	(37,184)
Net fee income	2,086	1,378	3,464

3 Revenue

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

	Six months to 30.06.23 (Unaudited) £'000	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Services transferred over time	**17,615**	20,985	40,484
Services transferred at a point in time	**19**	69	164
Revenue	**17,634**	21,054	40,648

4 Non-underlying items

	Six months to 30.06.23 (Unaudited)	Six months to 30.06.22 (Unaudited)	Year to 31.12.22 (Audited)

	£'000	£'000	£'000
Restructuring			
- Costs related to employees	**-**	23	23
- Goodwill impairment	**-**	-	1,952
- Income from sale and licence back of Parity trademark	**-**	-	(950)
Total non-underlying items	**-**	23	1,025

Items are classified as non-underlying by nature of their magnitude, incidence or unpredictable nature and their separate identification results in a calculation of an underlying profit measure that is consistent with that reviewed by the Board in their monitoring of the performance of the Group.

5 Finance costs

	Six months to 30.06.23 (Unaudited) £'000	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Interest expense on financial liabilities	**94**	50	143
Interest expense on lease liabilities	**2**	4	9
Interest income on lease assets	**-**	(1)	(2)
Net finance costs in respect of post-retirement benefits	**107**	107	160
	203	160	310

The interest expense on financial liabilities represents interest paid on the Group's asset-based financing facilities.

6 Taxation

	Six months to 30.06.23 (Unaudited) £'000	Six months to 30.06.22 (Unaudited) £'000	Year to 31.12.22 (Audited) £'000
Recognised in the income statement			
Current tax charge	**-**	-	75
Deferred tax charge	**459**	213	301
Total tax charge	**459**	213	376
Recognised in other comprehensive income			
Deferred tax credit	**(199)**	(274)	(290)

7 Earnings per ordinary share

Basic earnings per share is calculated by dividing the basic earnings for the period by the weighted average number of fully paid ordinary shares in issue during the period. Diluted earnings per share is calculated on the same basis as the basic earnings per share with a further adjustment to the weighted average number of fully paid ordinary shares to reflect the effect of all dilutive potential ordinary shares.

	Six months to 30.06.23 (Unaudited)	Six months to 30.06.22 (Unaudited)	Year to 31.12.22 (Audited)

	Loss £'000	Weighted average number of shares 000's	Loss per share Pence	Loss £'000	Weighted average number of shares 000's	Loss per share Pence	Loss £'000	Weighted average number of shares 000's	Loss per share Pence
Basic loss per share	**(1,108)**	**103,076**	**(1.07)**	(295)	103,076	(0.29)	(1,715)	103,076	(1.66)
Effect of dilutive options	**-**	**-**	**-**	-	-	-	-	-	-
Diluted loss per share	**(1,108)**	**103,076**	**(1.07)**	(295)	103,076	(0.29)	(1,715)	103,076	(1.66)

As at 30 June 2023, the number of ordinary shares in issue was 103,075,633 (30 June 2022: 103,075,633 and 31 December 2021: 103,075,633). There were 8,000,000 unexercised share options which did not have any dilutive impact (30 June 2022: 8,010,000 and 31 December 2022: 8,010,000).

8 Pension commitments

The Group operates a small number of pension schemes. With the exception of the Parity Group Retirement Benefits Plan, all of the schemes are defined contribution plans and the assets are held in separately administered funds. The details of the Parity Group Retirement Benefits Plan are disclosed in the 2022 Annual Report and Accounts. At the interim reporting date, the major assumptions used in assessing the defined benefit pension scheme liability have been reviewed and updated based on a roll-forward of the last formal actuarial valuation, which was carried out as at April 2021.

The following principal estimates have been applied in the valuation of the pension scheme assets and liabilities in accordance with the measurement requirements of IAS 19:

	30.06.23	30.06.22	31.12.22
Rate of increase in pensions in payment	**3.7-4.0%**	3.7-4.0%	3.6-3.9%
Discount rate	**5.2%**	3.8%	4.8%
Retail price inflation	**3.3%**	3.4%	3.2%
Consumer price inflation	**2.3%**	2.4%	2.2%

The net pension scheme surplus has reduced by £500,000 since 31 December 2022.

9 Related party transactions

Transactions between the parent company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

In 2021, the Group engaged the marketing services of CRM Squad. The Executive Chairman Mark Braund is an owner and director of CRM Squad. The total value of services received from CRM Squad in the six months to 30 June 2023 was £38,000 (Six months to 30 June 2022: £31,500 and Year to 31 December 2022: £66,530).

10 Events after the reporting period

There are no events after the reporting period not reflected in the interim financial statements.

This announcement contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of Parity Group plc. By their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to (i) adverse changes to the current outlook for the UK IT recruitment and solutions market, (ii) adverse changes in tax laws and regulations, (iii) the risks associated with the introduction of new products and services, (iv) pricing and product initiatives of competitors, (v) changes in technology or consumer demand, (vi) the termination or delay of key contracts and (vii) volatility in financial markets.