

25 September 2019

AIM: UNG.L

Universe Group plc
("Universe", the "Company" or the "Group")

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

Universe Group plc (AIM: UNG.L), a leading developer and supplier of point of sale, payment and loyalty systems, is pleased to announce its unaudited interim results for the six months to 30 June 2019.

Highlights

- Revenues up 7.3% to £9.92 million (H1 2018: £9.25 million)
- Adjusted EBITDA £1.39 million (H1 2018: £0.98 million)
- Operating profit £0.28 million (H1 2018: £0.17 million)
- Earnings per share 0.07 pence (H1 2018: 0.06 pence)
- Net cash inflow from operations £1.70 million (H1 2018: £1.98 million)
- Acquisition on 3 April 2019 of Celtech is a class-leading developer of cloud-based retail and wholesale management solutions ("RMS") for £4.96 million. Celtech develops and sells its RMS, called "ab-initio", to wholesale and retail customers in the UK and Ireland. The deal was funded out of the Group's existing cash resources and £5.00 million of new banking facilities from HSBC

Andrew Blazye, Non-Executive Chairman of Universe, commented:

"We are encouraged to see that revenues across the Group's activities for the first half show both organic and acquisition driven growth on the same period last year. We have secured further important contracts with two existing major clients and we are pleased with the progress made in integrating Celtech into the wider Group. We are already starting to benefit from the acquisition synergies.

Our payment and loyalty operations continue to perform well and we are positioning the newly acquired ab-initio platform at the forefront of our expanded RMS offering. We continue to be cash generative under-pinned by material recurring revenues.

We are, as previously stated, also a second half weighted business, dependent on a small number of high value projects. However, we are confident that, with the investments we have made into the business, we are well positioned for growth in 2019 and beyond."

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CHAIRMAN'S STATEMENT

Financial Results

We report below the Company's results for the six months ended 30 June 2019.

Introduction

On 3 April 2019 the Company acquired 95% of the issued share capital of Camden Technology Investments Limited and its subsidiaries, each trading as Celtech ("Celtech"), for an initial cash consideration of €4.48 million and the issue of 22,842,785 new shares in Universe representing 8.95% of the issued share capital of the Company as enlarged by the issue of these shares.

The acquisition was funded out of existing cash resources and a new 4-year, £3.50 million term loan and a new 3-year, £1.50 million revolving credit facility with HSBC.

The results for the period include the post-acquisition trading activity of the acquired businesses.

Profit & Loss

Revenues for the first half were up 7.3% to £9.92 million (H1 2018: £9.25 million). This reflected like-for-like growth of 2.5% in the core HTEC business to £9.48 million (2018: £9.25 million) and the 3-month, post-acquisition contribution from the Celtech acquisition.

Whilst revenues are up on the comparative figures for 2018 and profits broadly in line, as in the prior year, results for the full year are again expected to be heavily weighted towards the second half.

The increase in revenue has come mainly from data services, up 28.9% to £2.63 million (H1 2018: £2.04 million) and consultancy and licence maintenance, up 26.1% to £2.48 million (H1 2018: £1.96 million). The data service increase is mainly due to a customer's ongoing, large, managed service security project and the consultancy and licence maintenance increase is largely due to the inclusion of the post-acquisition results of Celtech.

This improved revenue performance resulted in gross profits increasing to £5.55 million (H1 2018: £4.34 million) and an improved gross margin to 56.0% (H1 2018: 46.9%) due to the change in sales mix towards higher margin data services and consultancy and licence maintenance.

Administrative expenses rose 26.2% to £5.27 million (H1 2018: £4.17 million). This reflected a like-for-like increase of 13.5% or £0.57 million in the core HTEC business. Of this, £0.06 million related to the adoption of IFRS 16, £0.14 million was a net increase in depreciation and amortisation and £0.15 million was Celtech acquisition expenses. The underlying increase in the HTEC business was therefore 5.3% which largely relates to an increase in expensed research and development. Expensed research and development for the period was £2.14 million (H1 2018: £1.69 million).

Earnings before interest, taxes, share-based payments, depreciation, amortisation, acquisition costs expensed and excluding depreciation on right-of-use assets ('adjusted EBITDA excluding depreciation on right-of-use assets') was £1.39 million (H1 2018: £0.98 million).

Operating profit was £0.28 million (H1 2018: £0.17 million).

Net finance expense was £0.10 million (H1 2018: £0.04 million) and included 3 months of interest on the £3.50 million HSBC 4-year term loan as well as notional interest on the right-of-use assets (see note 10).

The underlying tax charge for the period was £0.00 million (H1 2018: credit £0.00 million).

Earnings per share for the period were 0.07 pence (H1 2018: 0.06 pence).

Balance sheet and cash flow

The balance sheet at 30 June 2019 remains strong. Like for like net current assets (excluding the impact of IFRS 16, Leases) were £4.21 million (31 December 2018: £4.90 million) and like for like non-current liabilities (excluding the impact of IFRS 16, Leases) were £3.07 million (31 December 2018: £0.94 million). Both net current assets and non-current liabilities now include the assets and liabilities of Celtech and the remainder of the HSBC £3.50 million term loan.

Cash flow from operating activities in the half year was £1.70 million (H1 2018: £1.98 million) with the cash generated largely reinvested into the business as product development, capital expenditure or debt repayment. The net cash outlay (cash paid less cash in the acquired business) for Celtech was £2.88 million. Cash balances at 30 June 2019 were £3.38 million compared to £2.72 million at 31 December 2018.

Investment in the core business continued with capitalised development costs of £0.58 million (H1 2018: £0.82 million) focused on our next generation of retail systems.

Capital expenditure in the period was £0.22 million (H1 2018: £0.23 million).

Net debt (excluding debt associated with right-of-use assets, IFRS 16 and capitalised loan fees) at 30 June 2019 was £0.31 million (31 December 2018: net cash £1.92 million).

Outlook

We are encouraged to see that revenues across the Group's activities for the first half show both organic and acquisition driven growth on the same period last year. We have secured further important contracts with two existing major clients and we are pleased with the progress made in integrating Celtech into the wider Group. We are already starting to benefit from the acquisition synergies.

Our payment and loyalty operations continue to perform well and we are positioning the newly acquired ab-initio platform at the forefront of our expanded RMS offering. We continue to be cash generative under-pinned by material recurring revenues.

We are, as previously stated, also a second half weighted business, dependent on a small number of high value projects. However, we are confident that, with the investments we have made into the business, we are well positioned for growth in 2019 and beyond.

Andrew Blazye
Non-Executive Chairman
25 September 2019

Universe Group plc

Condensed Statement of Total Comprehensive Income (unaudited)
for the 6 months ended 30 June 2019

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Continuing operations			
Revenue	9,922	9,246	19,892
Cost of sales	(4,369)	(4,907)	(10,298)
Gross profit	5,553	4,339	9,594
Administrative expenses	(5,269)	(4,168)	(8,684)
Operating profit	284	171	910
Net finance expense (see note 10)	(103)	(43)	(74)
Profit before taxation	181	128	836
Taxation	-	-	(31)
Profit and total comprehensive income for the period	181	128	805
Total comprehensive income attributable to:			
Owners of the parent	189	128	805
Non-controlling interest	(8)	-	-
Profit and total comprehensive income for the period	181	128	805
Earnings per share (see note 8)	Pence	Pence	Pence
Basic EPS	0.07	0.06	0.35
Diluted EPS	0.07	0.05	0.33

Condensed Consolidated Statement of Changes in Equity

At start of period	23,982	23,161	23,161
Profit and total comprehensive income for the period	181	128	805
Share issue net of expenses	1,120	2	1
Share-based payments	2	9	15
At end of period	25,285	23,300	23,982

Universe Group plc

Condensed Consolidated Balance Sheet (unaudited)
as at 30 June 2019

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Non-current assets			
Goodwill and other intangibles	18,025	13,894	13,877
Development costs	4,039	3,914	4,079
Property, plant and equipment	2,047	2,234	2,067
Right-of-use assets	2,627	-	-
	26,738	20,042	20,023
Current assets			
Inventories	1,326	1,441	1,210
Trade and other receivables	7,343	4,536	6,294
Current tax asset	-	-	159
Cash and cash equivalents	3,376	3,374	2,717
	12,045	9,351	10,380
Total assets	38,783	29,393	30,403
Current liabilities			
Trade and other payables	(6,451)	(4,615)	(4,904)
Borrowings	(1,109)	(631)	(579)
Borrowings – right-of-use assets	(1,033)	-	-
Deferred consideration	(274)	-	-
	(8,867)	(5,246)	(5,483)
Non-current liabilities			
Borrowings	(2,344)	(316)	(217)
Borrowings – right-of-use assets	(1,566)	-	-
Deferred tax	(721)	(531)	(721)
	(4,631)	(847)	(938)
Total liabilities	(13,498)	(6,093)	(6,421)
Net assets	25,285	23,300	23,982
Equity			
Share capital	2,552	2,323	2,323
Capital redemption reserve	4,588	4,588	4,588
Share premium	13,953	13,063	13,062
Merger reserve	2,269	2,269	2,269
Translation reserve	(225)	(225)	(225)
Retained earnings	2,156	1,282	1,965
Total equity attributable to equity shareholders	25,293	23,300	23,982
Non-controlling interest	(8)	-	-
Total equity attributable to equity shareholders	25,285	23,300	23,982

Universe Group plc

Condensed Consolidated Cash Flow Statement (unaudited)
for the six months ended 30 June 2019

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Net cash flows from operating activities			
Profit before taxation	181	128	836
Depreciation and amortisation	956	802	1,728
Right-of-use asset adjustment	(63)	-	-
Share-based payments	2	9	15
Net finance expense	103	43	74
	1,179	982	2,653
(Increase)/decrease in inventories	(116)	(32)	199
(Increase)/decrease in receivables	(128)	1,018	(740)
(Decrease)/increase in payables	731	55	344
Net interest paid	(53)	(43)	(74)
Tax (paid)/received	86	-	-
Net cash inflow from operating activities	1,699	1,980	2,382
Cash flows from investing activities			
Acquisition of subsidiary undertakings	(2,880)	-	-
Purchase of property, plant & equipment	(223)	(226)	(66)
Expenditure on capitalised product development	(575)	(820)	(1,609)
Net cash outflow from investing activities	(3,678)	(1,046)	(1,675)
Cash flow from financing activities			
Proceeds from issue of shares	-	2	1
Repayments of obligations under finance leases	(397)	(367)	(796)
Repayment of loans	(219)	(80)	(80)
Fees associated with new loans	(246)	-	-
New loans raised	3,500	-	-
Net cash outflow from financing activities	2,638	(445)	(875)
Increase/(decrease) in cash and cash equivalents	659	489	(168)
Cash and cash equivalents at beginning of period	2,717	2,885	2,885
Cash and cash equivalents at end of period	3,376	3,374	2,717
Net debt (excluding debt associated with right-of-use assets, IFRS 16 and capitalised loan fees)			
Finance leases	(403)	(947)	(796)
Loans	(3,281)	-	-
Net (debt)/cash	(308)	2,427	1,921

1. The interim financial statements, which are unaudited, have been prepared on the basis of the accounting policies expected to apply for the financial year to 31 December 2019 and in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs) as endorsed by the European Union. With the exception of IFRS 16: Leases, the accounting policies applied in the preparation of these interim financial statements are consistent with those used in the financial statements for the year ended 31 December 2018.

The interim financial statements do not include all of the information required for full annual financial statements and do not comply with all the disclosures in IAS 34 'Interim Financial Reporting'. Accordingly, whilst the interim statements have been prepared in accordance with IFRSs, they cannot be construed as being in full compliance with IFRSs.

Leases

The Group has adopted IFRS 16 'Leases' (hereinafter referred to as 'IFRS 16') with effect from 1 January 2019 under which leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset, or restore a property, at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

In the statement of financial position, for these interim accounts, the right-of-use assets and lease liabilities have been included separately in the statement.

The impact on the consolidated statement of comprehensive income is an increase in profit before tax of £0.03 million as the pre-IFRS 16 rental charge is replaced by a depreciation charge and interest cost. There is no net impact on the opening balance sheet and the balance sheet at 30 June 2019 shows the assets and liabilities associated with the right-of-use assets separately. There has been no impact on cash flows.

2. The financial information for the year ended 31 December 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

3. The Directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections, taking account of reasonably possible changes in trading conditions show that the Group should be able to operate within the level of its facilities. After making enquiries the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report). Accordingly, they continue to adopt the going concern basis in preparing the interim condensed financial statements.

4. The half year results were neither audited nor reviewed by the auditors. The interim financial information has been prepared on the basis of accounting policies set out in the Group's statutory accounts for the year ended 31 December 2018.

5. Turnover analysis

All turnover arises within the HTEC Solutions business segment.

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Software licences and hardware	1,196	1,289	3,644
Service and installations	3,621	3,954	8,184
Data services	2,628	2,039	4,117
Consultancy and license maintenance	2,477	1,964	3,947
	<u>9,922</u>	<u>9,246</u>	<u>19,892</u>

6. Operating profit and adjusted EBITDA

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Revenue	9,922	9,246	19,892
Cost of sales	(4,369)	(4,907)	(10,298)
Gross profit	5,553	4,339	9,594
Administrative expenses	(5,269)	(4,168)	(8,684)
Operating profit	284	171	910
<i>Add back:</i>			
Depreciation on owned assets	295	431	716
Depreciation on right-of-use assets	369	-	-
Amortisation	661	371	1,012
Share-based payments	2	9	15
Acquisition costs expensed	149	-	-
Adjusted EBITDA	1,760	982	2,653
Adjusted EBITDA (excluding depreciation on right-of-use assets)	1,391	982	2,653

7. Taxation

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Current tax:			
Current year charge/(credit)	-	-	-
Adjustments to tax charge in respect of previous periods	-	-	(158)
	-	-	(158)
Deferred tax:			
Current year	-	-	218
Adjustments to tax charge in respect of previous periods	-	-	(29)
	-	-	189
Total tax (credit)/charge	-	-	31

8. Earnings per share

Earnings per share is calculated by reference to the results and the weighted average of 243,454,819 shares in issue during the period (H1 2018: 232,277,000, FY 2018: 232,313,661). Diluted earnings per share is calculated by reference to the results and the weighted average of 266,673,979 shares in issue during the period (H1 2018: 237,105,000, FY 2018: 240,915,462). The number of shares in issue at 30 June 2019 was 255,191,720.

9. Operating segments

The Group has one business segment. All material operations and assets are in the UK and Ireland. The trading segment is HTEC Solutions ('Solutions'). Solutions provides hardware, software, payment and service solutions into the UK and Ireland petrol and convenience store markets and loyalty solutions across Europe.

6 months ended 30 June 2019

	Solutions	Corporate	Total
	£'000	£'000	£'000
Revenue - all external	9,922	-	9,922
Gross profit	5,553	-	5,553
Segment expenses	(5,269)	-	(5,269)
Segmental operating profit	284	-	284
Net finance expense			(103)
Taxation			-
Profit for the period			181

6 months ended 30 June 2018

	Solutions	Corporate	Total
	£'000	£'000	£'000
Revenue - all external	9,246	-	9,246
Gross profit	4,339	-	4,339
Segment expenses	(3,960)	(208)	(4,168)
Segmental operating profit	379	(208)	171
Net finance expense			(43)
Taxation			-
Profit for the period			128

Year ended 31 December 2018

	Solutions	Corporate	Total
	£'000	£'000	£'000
Revenue - all external	19,892	-	19,892
Gross profit	9,594	-	9,594
Segment expenses	(8,440)	(244)	(8,684)
Segmental operating profit	1,154	(244)	910
Net finance expense			(74)
Taxation			(31)
Profit for the period			805

10. Net finance expense

	Six months ended 30 June 2019 £'000	Six months ended 30 June 2018 £'000	Year ended 31 December 2018 £'000
Interest receivable on bank deposits	9	6	14
Finance income	9	6	14
Interest payable on bank loans and overdrafts	(5)	(5)	(10)
Interest payable on finance leases	(22)	(31)	(65)
Other interest	(35)	(13)	(13)
Amortisation of loan fees	(15)	-	-
Notional interest on operating leases right-of-use assets	(35)	-	-
Finance expense	(112)	(49)	(88)
Net finance expense	(103)	(43)	(74)

11. Acquisitions during the year

Camden Technologies Limited

On 3 April 2019 the Group acquired 95% of the issued share capital of Camden Technology Investments Limited ("Camden Technology") and its subsidiaries, each trading as Celtech ("Celtech"), for an initial cash consideration of €4.48 million and the issue (out of existing AGM authorities) of 22,842,785 new shares in Universe representing 8.95% of the issued share capital of the Company as enlarged by the issue of these shares, (the "Acquisition"). The issued shares are subject to a 12-month lock-in period.

The total initial consideration due, at the Company's closing share price on 2 April 2019 and assuming a EUR/GBP exchange rate of 1.17, is £4.96 million. In addition, the remaining 5% of the shares in Camden Technology are subject to a put and call option exercisable after 1 year at a cost of €0.32 million, payable in cash in April 2020.

The Acquisition was funded out of existing cash resources and a new 4-year, £3.50 million term loan and a 3-year, £1.50 million revolving credit facility with HSBC which has not been drawn at 30 June 2019.

Celtech's ab-initio software product is a class-leading, cloud-based RMS offering that gives large, multi-site operators a uniquely powerful modular suite operating in real-time and allowing them to control all aspects of their business with full reporting, insights and analytics. As such, it meets the needs of Universe's larger customers and broadens the Group's customer base in the UK and Ireland with additional high-profile retailers.

Details of the provisional fair value of identifiable assets and liabilities acquired and purchase consideration are as follows:

	Fair value
	£'000
Goodwill and intangible fixed assets	4,164
Property, plant and equipment	81
Right-of-use assets	365
Receivables	242
Other debtors	680
Cash	958
Payables	(84)
Other creditors	(125)
Deferred revenue	(607)
Corporation tax	(73)
Finance leases	(5)
Borrowings – right-of-use assets	(365)
	<u>5,231</u>
Fair value of consideration paid:	
Cash	3,838
Shares issued	1,119
Deferred consideration	274
Total consideration	<u>5,231</u>

12. Copies of the interim report will be available from the Company's head and registered office: Southampton International Park, George Curl Way, Southampton, SO18 2RX, and on the Company's website, www.universeplc.com.