

Grafenia plc

Half Yearly Report

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Grafenia plc

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

Unaudited Interim Results for the period ended 30 September 2013

Financial Highlights	Six months to 30 September 2013	Six months to 30 September 2012	Change
Turnover	£10.08m	£10.43m	-3.4%
EBITDA	£1.29m	£1.19m	+8.4%
Profit before tax	£0.31m	£0.35m	-11.4%
EPS - Basic	0.56p	0.53p	+5.7%
EPS - Fully Diluted	0.56p	0.53p	+5.7%
Dividend	0.33p	1.05p	
Capital Expenditure	£0.60m	£0.57m	
Net Cash	£0.53m	£1.14m	
Net Funds*	£0.48m	£1.10m	

*Net funds is the net of cash and cash equivalents less other interest bearing loans and borrowings

Operational highlights

- **New W3P partners, in the UK, progress to 30**
- **Emerging revenue streams from SaaS offerings**
- **SaaS operations providing platforms to vend print**

- **Heads of terms agreed with a number of international partners**
- **W3Shop launched providing B2C online shop platforms**

For further information:

Grafenia plc

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Chairman's & Chief Executive's Statement

Trading Results, Cash and Dividend

Group turnover in the six month period marginally decreased to **£10.08m** (2012: £10.43m) representing a fall of **3.4%** compared to the corresponding period last year.

EBITDA was **£1.29m up** from £1.19m, an increase of **8.4%**. Pre Tax Profit was **£0.31m** (2012: £0.35m).

At 30 September 2013, the Company had cash-in-hand of **£0.53m** (2012: £1.14m). Cash generated by operating activities was **£0.39m** (2012: £0.60m). A Final Dividend of **£0.71m** was paid in the period (2012: £0.71m). During the period working capital increased by **£0.85m** (2012: £0.38m) and capital expenditure was **£0.60m** (2012: £0.57m), the majority reflecting the ongoing investment in the Company's software that underpins the new developments. Net funds at the close of the period were **£0.48m** (2012: £1.10m).

Dividend

The Directors are declaring an Interim Dividend of **0.33p** per share (2012: 1.05p) to be paid on 6 December 2013 to shareholders on the register at 15 November 2013.

Company Name Change

Along with the release of the Group's Preliminary Results on 10 June 2013, a Special Resolution was proposed to change the Company's name from Printing.com plc to Grafenia plc, reflecting the Group's broader activity. The motion was duly carried on 19 July 2013 at the company's AGM. The Company's new corporate website is www.grafeniam.com.

Trading Review

In the most recent Annual Report, we set out the three distinct revenue streams of Grafenia plc. Firstly, printing services via the Group's franchised and online channels. Secondly, W3P, a 'Software as a Service' (SaaS) offering for printers and graphic professionals. Thirdly, TemplateCloud, again, a SaaS based offering, vending templated graphic design and 'stock' photography in an online editable format. These revenue streams now form the basis of our reporting segmentation.

Today, it is the printing services that generate the Group's EBITDA, albeit from a mature and competitive sector. Conversely, the combined SaaS offerings impact negatively on Group EBITDA, but are we believe, eminently scalable, and will add to the Group's earnings moving forward.

Sale of Printing

Overall print revenues contracted to £9.4m (2012: £9.9m).

The Printing.com UK and Irish franchise network generated print revenue of £4.4m (2012: £5.6m). This reflected not only increased online competition, but also the migration of some franchisees to the Group's W3P format. BrandDemand volumes progressed slightly, whilst Flyerzone UK continued to gain momentum.

The W3P platform is an alternative mechanism to sell print which broadens the Group's printing reseller base. In the period this channel generated revenue of £0.36m (2012: £nil). Of this, new W3P partners (as opposed to partners switching from the Printing.com franchise) accounted for £0.13m (2012: £nil). We believe that print volumes via the W3P platform will become material during the next financial year.

Revenue from the Group's Dutch and Belgian channels, Flyerzone.nl, Drukland.nl and Drukland.be remained steady at £3.6m (2012: £3.6m), albeit the underlying revenue in Euros contracted slightly. Operating margins reduced slightly reflecting competition and increases in input costs.

Group revenues from France, taking into account both Printing.com, and Flyerzone.fr, continued at the same level, £0.26m (2012: £0.26m).

W3P and Licence Fees

Taking into account W3P and other licence fee income, revenue increased to £0.57m (2012: £0.46m) up 23.9% albeit from a low base.

Launched January 2012, W3P is a SaaS formula for printers and graphic design professionals. W3P enables online ordering and web-to-print type operations. Partners pay a monthly fee, typically £199, plus certain pay-per-click charges.

During the period under review, an additional 19 W3P agreements were completed, taking the total number of new UK partners to 30 of the total 283 established W3P users at the close of the period. The total included printing.com users in the UK and Ireland together with former franchisees who have become W3P partners.

W3Shop, which is an extension of the W3P system, was launched at the close of the period, and broadens the application by enabling partners to build consumer facing 'online shops'. W3Shop partners pay additional fees.

Versus other 'online shop' platforms, the differential of W3Shop is its pertinent configuration for the graphic arts sector. To this end, W3Shop integrates seamlessly with the Group's TemplateCloud solution. Providing this connectivity will, we believe, be the route to the successful commercial exploitation of both formulas.

The W3P platform is also offered internationally via master license. This format is set to supersede the Group's established master licences in New Zealand and the US. Recent negotiations with a number of prospective master licence partners have progressed well, heads of terms agreed and material deposits paid.

TemplateCloud

TemplateCloud revenue increased to £0.08m (2012: £0.02m).

TemplateCloud is the Group's other SaaS formula, offering online editable design content, 'crowdsourced' from freelance graphic designers, and complementary 'stock' photography. The revenue model for TemplateCloud is centred on a charge being paid 'per graphic design', with £20 being a typical fee. The freelance graphic designer is then paid a royalty of circa 25%, as and when their graphic designs are sold.

To date, the majority of TemplateCloud revenue hails from exploitation via the Group's own online printing channels. Other revenue is generated via an 'API' connection into third party webshops. The constraint of this type of connection was the requirement for the partner to have technical

programming skills. With the advent of W3Shop, it is possible for partners to utilise TemplateCloud content without the need for such technical capability. This, we believe, will help TemplateCloud gain momentum.

During the remainder of the current year, we believe that the advent of W3Shop will significantly increase the number of online shops utilising TemplateCloud content, and that moving forward into the next year, this will lead to the growth of TemplateCloud revenue.

Outlook

Post the update provided on 8th October, trading continues to trend in a similar manner. Further W3P UK licences have been granted along with existing W3P and franchise partners exploring the W3Shop opportunity.

Over the past few years, our objective has been to mitigate the Group's reliance upon the sale of printing by broadening the company's offering into leading edge SaaS formulas. We have endeavoured to do this whilst maintaining profitable trading, cash generation, along with the payment of a covered dividend.

This transition is taking longer than we would have initially envisaged. Notwithstanding this, we remain of the view that the Group's SaaS offerings have significant application in the graphic arts sector, and that W3P and TemplateCloud can be successfully exploited in many territories. We believe that this view is supported by the progress made with international master licences.

We remain cautious in the short-term, but believe the progress made with master licences supports the rationale for our endeavour, and will progress the Group's earnings in the medium term.

Les Wheatley
Chairman
4 November 2013

Tony Rafferty
Chief Executive
4 November 2013

Unaudited Interim Results for the period ended 30 September 2013

Consolidated Statement of Comprehensive Income for the six months ended 30 September 2013

	<i>Note</i>	<i>Unaudited Six months to 30 September 2013 £000</i>	<i>Unaudited Six months to 30 September 2012 £000</i>	<i>Year ended 31 March 2013 £000</i>
Revenue	3	10,078	10,425	20,664
<i>Raw materials and consumables used</i>		(4,431)	(4,865)	(9,453)
Gross profit		5,647	5,560	11,211
<i>Staff costs</i>		(2,634)	(2,504)	(4,825)
<i>Other operating charges</i>		(1,722)	(1,706)	(3,577)
<i>Depreciation and amortisation</i>		(986)	(844)	(1,698)
Operating profit before exceptional costs		305	506	1,111
<i>Exceptional costs</i>		-	(156)	(183)
Operating profit		305	350	928

<i>Financial income</i>		3	6	13
<i>Financial expenses</i>		(3)	(11)	(50)
<i>Net financing(expense)/income</i>		-	(5)	(37)
<i>Profit before tax</i>		305	345	891
<i>Taxation</i>	4	(37)	(92)	(86)
<i>Profit for the period</i>		268	253	805
<i>Other comprehensive income for the period</i>		-	-	-
<i>Total comprehensive income for the period</i>		268	253	805
<i>Basic earnings per share</i>	5	0.56p	0.53p	1.69p
<i>Diluted earnings per share</i>	5	0.56p	0.53p	1.69p

**Consolidated Statement of Financial Position
at 30 September 2013**

	<i>Unaudited 30 September 2013 £000</i>	<i>Unaudited 30 September 2012 £000</i>	<i>31 March 2013 £000</i>
<i>Non-current assets</i>			
<i>Property, plant and equipment</i>	1,785	1,976	1,976
<i>Intangible assets</i>	4,464	4,525	4,681
<i>Deferred tax assets</i>	2	2	2
<i>Other receivables</i>	67	-	-
<i>Total non-current assets</i>	6,318	6,503	6,659
<i>Current assets</i>			
<i>Inventories</i>	160	136	183
<i>Trade and other receivables</i>	2,537	2,662	2,543
<i>Cash and cash equivalents</i>	529	1,143	1,417
<i>Total current assets</i>	3,226	3,941	4,143
<i>Total assets</i>	9,544	10,444	10,802
<i>Current liabilities</i>			
<i>Other interest-bearing loans and borrowings</i>	(25)	(43)	(23)
<i>Trade and other payables</i>	(2,101)	(2,414)	(2,826)
<i>Current tax payable</i>	(151)	(252)	(157)
<i>Accruals and deferred income</i>	(1,137)	(1,198)	(1,075)
<i>Other liabilities</i>	(213)	(210)	(365)
<i>Total current liabilities</i>	(3,627)	(4,117)	(4,446)
<i>Non-current liabilities</i>			
<i>Other interest-bearing loans and borrowings</i>	(22)	-	-
<i>Deferred tax liabilities</i>	(453)	(476)	(453)
<i>Total non-current liabilities</i>	(475)	(476)	(453)
<i>Total liabilities</i>	(4,102)	(4,593)	(4,899)
<i>Net assets</i>	5,442	5,851	5,903
<i>Equity</i>			

<i>Share capital</i>	475	475	475
<i>Merger reserve</i>	838	838	838
<i>Retained earnings</i>	4,129	4,538	4,590
Total equity	5,442	5,851	5,903

Consolidated Statement of Changes in Shareholders Equity
for the six months ended 30 September 2013 (unaudited)

	Share Capital	Share Premium	Merger Reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Opening shareholders' funds at 1 April 2012	475	4,079	838	919	6,311
Profit for the period	-	-	-	253	253
Dividends paid	-	-	-	(713)	(713)
Total recognised income and (expense)	-	-	-	(460)	(460)
Capital Restructuring	-	(4,079)	-	4,079	-
Shares issued	-	-	-	-	-
Total movement in shareholders' funds	-	(4,079)	-	3,619	(460)
Closing shareholders' funds at 30 September 2012	475	-	838	4,538	5,851
Opening shareholders' funds at 1 October 2012	475	-	838	4,538	5,851
Profit for the period	-	-	-	552	552
Dividends paid	-	-	-	(500)	(500)
Total recognised income and (expense)	-	-	-	52	52
Shares issued	-	-	-	-	-
Total movement in equity	-	-	-	52	52
Closing shareholders' funds at 31 March 2013	475	-	838	4,590	5,903
Opening shareholders' funds at 1 April 2013	475	-	838	4,590	5,903
Profit for the period	-	-	-	268	268
Dividends paid	-	-	-	(713)	(713)
Total recognised income and (expense)	-	-	-	(445)	(445)
Capital restructuring	-	-	-	(16)	(16)
Shares issued	-	-	-	-	-
Total movement in shareholders' funds	-	-	-	(461)	(461)
Closing shareholders' funds at 30 September 2013	475	-	838	4,129	5,442

Consolidated Statement of Cash Flows
for the six months ended 30 September 2013

	Unaudited Six months to 30 September 2013 £000	Unaudited Six months to 30 September 2012 £000	Year ended 31 March 2013 £000
Cash flows from operating activities			

Profit for the period	268	253	805
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	986	844	1,698
Net finance expense/(income)	-	5	37
Exchange gain	-	-	(45)
Taxation	37	92	86
Operating cash flow before changes in working capital and provisions	1,291	1,194	2,581
Change in trade and other receivables	(61)	236	355
Change in inventories	23	11	(36)
Change in trade and other payables	(815)	(623)	(181)
Cash generated from the operations	438	818	2,719
Interest paid	(3)	(3)	(5)
Tax paid	(43)	(213)	(324)
Net cash inflow from operating activities	392	602	2,390
Cash flows from investing activities			
Interest received	3	9	13
Proceeds from sale of plant and equipment	21	-	-
Acquisition of plant and equipment	(143)	(59)	(303)
Capitalised development expenditure	(194)	(156)	(574)
Acquisition of other intangible assets	(261)	(359)	(687)
Net cash used in investing activities	(574)	(565)	(1,551)
Cash flows from financing activities			
Proceeds from the issue of share capital	-	-	-
Proceeds from supplier finance	52	-	-
Payment supplier finance	(5)	-	-
Repayment of Loan notes	(16)	-	-
Repayment of Bank Loans	(23)	(60)	(80)
Payment of equity dividend	(713)	(713)	(1,213)
Net cash outflow from financing activities	(705)	(773)	(1,293)
Net decrease in cash and cash equivalents	(887)	(736)	(454)
Exchange differences on cash and cash equivalents	(1)	5	(3)
Cash and cash equivalents at start of period	1,417	1,874	1,874
Cash and cash equivalents at end of period	529	1,143	1,417

Notes

(forming part of the interim financial statements)

1 Basis of preparation

Grafenia plc (the "Company") is a company incorporated and domiciled in the UK.

These financial statements do not include all information required for full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 March 2013.

The comparative figures for the year ended 31 March 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These condensed consolidated interim financial statements were approved by the Board of Directors on 4 November 2013.

2 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 March 2013.

3 Segmental information

The Group's primary operating segments are geographic being UK & Ireland, Europe and others. The secondary segmental analysis is by nature of service.

This disclosure correlates with the information which is presented to the Chief Operating Decision Maker, the Chief Executive (CEO), who reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

Analysis by location of sales

Period ended 30 September 2013	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000
Segment revenues	6,008	3,920	150	10,078
Operating Expenses				(9,773)
Results from operating activities				305
Net finance income				-
Profit before tax				305
Tax				(37)
Profit for the period				268
Assets				
Unallocated net assets				5,442

Analysis by location of sales

Period ended 30 September 2012	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000
Segment revenues	6,601	3,718	106	10,425
Operating Expenses				(9,919)
Results from operating activities				506
Exceptional costs				(156)
Net finance income				(5)
Profit before tax				345
Tax				(92)
Profit for the period				253
Assets				
Unallocated net assets				5,851

Analysis by type

Period ended 30 September 2013	Print sales	SaaS & Fees	Template Cloud	Total
	£000	£000	£000	£000
Segment revenues	9,435	566	77	10,078
Operating Expenses				(9,773)
Results from operating activities				305
Net finance expense				-
Profit before tax				305
Tax				(37)
Profit for the period				268
Assets				
Unallocated net assets				5,442

Analysis by type (continued)

Period ended 30 September 2012 (restated)	Print sales	SaaS & Fees	Template Cloud	Total
	£000	£000	£000	£000
Segment revenues	9,947	454	24	10,425
Operating Expenses				(9,919)
Results from operating activities				506
Exceptional costs				(156)
Net finance income				(5)
Profit before tax				345
Tax				(92)
Profit for the period				253
Assets				
Unallocated net assets				5,851

The comparator segment revenue categories have been restated to the format of the current year presentation.

4 Taxation

The tax charge is based on the base tax rate of 23% adjusted for R&D Tax claims (six month period ended 30 September 2012: 26%, year to 31 March 2013 9.7%).

5 Earnings per share

The calculation of the basic earnings per share is based on the profit after taxation divided by the

weighted average number of shares in issue, being 47,557,835 (*period ended 30 September 2012 47,557,835; year ended 31 March 2013: 47,557,835*).

The diluted earnings per share takes the weighted average number of ordinary shares in issue during the period and adjusts this for dilutive impact of share options existing at the period end. The diluted weighted average number of shares in the period ended 30 September 2013 was 47,607,835 (*period ended 30 September 2012: 47,774,288; year ended 31 March 2013 47,610,446*). The profit used in the diluted earnings per share is based on profit after taxation.

Independent Review Report to Grafenia plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2013 which comprises Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Shareholders' equity, the Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly 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 UK. 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 Ireland) 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 report for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

Mick Davies
for and on behalf of KPMG LLP
Chartered Accountants
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