

Grafenia plc

Final Results

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Grafenia plc
12 August 2020

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Grafenia plc

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

Preliminary Results for the period ended 31 March 2020

Grafenia plc (AIM: GRA) announces its full year audited results for the year ended 31 March 2020.

Operational Highlights

- Subscription and licence income increased to £2.1m (2019: £2.0m)
- Nettl partner network now 239 locations around the world (2019: 228)
- Nettl company studios sales increased to £2.8m (2019: £2.6m)
- Launch of Nettl Works Maker platform to sell third-party products

Post Period end:

- £50m bond facility in place, with £3m nominal value issued (raising c.£2.01m before expenses) to support buy, build and licence strategy
- Completed refinancing of assets and £1m CBILS working capital loan granted

Financial Overview

	Year ended 31 March 2020	Year ended 31 March 2019
	£'000	£'000
Total Revenue	15,604	15,962
Gross Profit	7,977	8,545

Earnings before interest, tax, depreciation and amortisation	(1,289)	(1,112)
Operating Loss	(3,314)	(2,987)
Net finance expense	(317)	(179)
Tax Income	258	343
Loss for the Year	(3,373)	(2,823)
EPS - Continuing Operations	(3.27)p	(3.79)p
Investment in property plant and equipment	£0.43m	£2.47m
Acquisitions of subsidiaries	Nil	£0.27m
Net Debt (excluding right of use assets)	£(1.42m)	£(3.12m)

For further information:

Grafenia plc

Peter Gunning (CEO) 07973 191 632

Allenby Capital Limited (Nominated Adviser and Broker) 0203 328 5656

David Hart / Liz Kirchner (Corporate Finance)

Matt Butlin (Sales & Broking)

Chairman's Statement

In the last fiscal year we continued on our journey to build, buy and licence Nettl. The results for this strategy became visible in our numbers at the end of the fiscal year. Subsequently, Covid-19 hit and shook our industry in an unprecedented way. However, the crisis brought out the best in our team. I could not be more proud of a management team that steered the ship in a calm and decisive manner. We never forgot to be human.

It has become clear that partners and clients value being part of a large network such as Nettl. In fact, having added products beyond print to our offering a few years back, these provided our partners with the opportunity to help their clients in the most challenging of times.

On to our scorecard of the 2019/20 fiscal year:

Operational Performance

In the recent fiscal year, our turnover decreased by 2.2% to **£15.60m**(2019: £15.96m) and gross profit decreased by 6.6% to **£7.98m**(2019: £8.55m). The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation, to **(£1.29m)**(2019: loss £1.11m). Our loss for the year came in at **£3.37m** versus £2.82m last year. We finished the year with a cash position of **£1.10m**(2019: £1.35m) and net debt (including deferred consideration, excluding 'right of use asset' related liabilities) of £1.42m (2018: £3.12m). We invested **£0.43m** on capex (2019: £2.47m), and capitalised **£0.68m** in R&D (2019: £0.74m).

Importantly, these results include several cost items that are either one-time in nature, or constitute up-front costs, rather than ongoing operating costs. Such costs went down in the fiscal year in comparison to the prior year. The finance function restructuring has progressed well and the major operating cost investment in the US is finished. However, we did incur substantial restructuring costs in our UK business in the context of the redesign of our production hub. In addition, we have taken an increased charge against aged debtors at the year end to reflect the uncertainties due to Covid-19 and the changed economic outlook this presents.

Some firms decide to back-out many costs from their profit and loss statement to arrive at some 'adjusted' figure. I find that a slippery slope, as it opens the door to mark every cost as 'extraordinary' or 'non-recurring'. Such accounting doesn't help with cost discipline internally. Also, communicating what ends up being a 'profit before cost' doesn't help external readers either.

I want to reiterate this approach and strongly believe that Grafenia can and will become significantly free cash-flow generative in the mid-term. The results in the last months of the fiscal year are a cause for optimism and it is now of paramount importance to emerge from the Covid-19 dislocation stronger.

In the past, I have called out our like-for-like (i.e. excluding acquisitions) development of gross profit. In the last fiscal year, that figure declined by more than we hoped. This decline has been significantly more severe in the past. Nonetheless, growth is of paramount importance. Peter and I will use our letters to explain how we expect to get there.

People at Grafenia & Priorities in the last year

In past letters, I wrote that there were three areas where my fellow non-executive directors and I can impact the Grafenia organisation. Firstly, get governance right. Secondly, set the right incentives. Thirdly, make rational capital allocation decisions.

We were rather quiet on the capital allocation and M&A front in the last fiscal year. By and large, we haven't found valuations particularly attractive. Certainly, we got lucky not acting too quickly as some areas of the sign industry (e.g. trade fair related) have been hit dramatically in recent months. Nonetheless, we have learned a lot about what we are looking for when acquiring signage firms and have been seeing more and more opportunities. Valuations went from rich to realistic. Peter does a great job explaining our focus at the moment and I sincerely hope to report value-accretive new additions to the Grafenia family next year.

In July 2020, we announced a bond issuance programme that allows us to raise up to GBP 50m in capital.

As Chairman, I feel strongly about protecting value for shareholders. The bond programme gives us the possibility to tap capital markets without diluting our shareholders, which we find is an important arrow in our quiver.

In fact, I'm frustrated to not report better progress in making use of our public company listing. As a public company we keep on having listing costs which are way too high and overhead relative to the size of our operating business. More than ever, using the utility of our public listing will be among my key priorities. With our supportive shareholder base and optionality in our capital structure, we are ready to act when opportunity emerges.

Last year I said:

"...from lots of work with numbers, we had some (quite literally) heavy-lifting to do in our business."

The heavy lifting in 19/20 involved numbers! As described in the letter last year, we have been tackling some important improvements in our finance department. Some of them were outright necessities of day-to-day finance operations. Others will enable us to be more effective decision makers and to integrate acquisitions much more efficiently. Our most recent addition to the executive team, Iain Brown, has proven to be the very right person for the FD role. The overhaul of our finance function has proven to be much more complicated and took much longer than I expected. Iain however achieved progress in months for which we needed years before. Thank you Iain!

Outlook and Current Priorities

The core idea behind Nettl is to help our partners better serve their clients. In the months after the fiscal year-end, Covid-19 has turned our industry on its head.

When the Nettl idea was conceived, the ability to create websites for clients was an innovative and new tool to offer our partners.

After Covid-19 hit, litho print volumes essentially went to zero. Not only for us, but for the entire industry.

Not surprisingly, demand for websites and signs went through the roof. The trend in website deployments has been upwards and grown to a significant level over the last months - but materially accelerated from March onwards.

Signage was a promising and growing category that our partners started to offer over the last year. However, the board has always had slightly higher expectations of sales traction. These hopes materialised from March onwards with signage sold by partners increasing more than eightfold. Arguably, some of that is one-time protection equipment for stores and offices which will not recur. Nonetheless, we are absolutely certain that every partner and client now understands that Nettl is about more than print and websites!

Apart from our direct trade sales and sales in our own stores, we do track product revenue sold per partner quite closely. Interestingly, this aggregated number has been fairly resilient throughout the Covid-19 crisis.

Clients ordered fewer business cards but instead thought about websites, e-commerce solutions and signs.

For Nettl to become a long-term success, we need to continue to offer our partners new products to sell, while being the best supplier to them for their existing range. We will be successful when our partners are successful and the last few months arguably improved our standing with our partners.

There is absolutely no reason to believe why our number of partners cannot grow further - in the UK but also internationally - and why we cannot sell significantly more products per partner.

With that being said, we reiterate our mid-term guidance of 10-15% EBITDA margin.

Unfortunately, we can only hold a virtual AGM this year due to health and safety considerations. We have enjoyed the dialogue with shareholders a lot and it's a bit sad to miss the event this year. We'll try hard to make the virtual AGM this year worthwhile participating in.

The AGM will take place at 9am on Tuesday 22nd September.

Jan-Hendrik Mohr

Chairman

Chief Executive's Statement

Dear Shareholders,

Oh boy

Since I last wrote to you in November's interim report, the world is a very different place. We've had two Prime Ministers, the briefest of 'Boris bounces' and then we've run face-mask-first into the biggest economic crisis in generations.

We made good progress on our transformation plan during the first half. As with many businesses, things got tougher in the second half.

Before we get into the detail, it's worth recapping on our strategy. That hasn't changed. Although how we get there, has adapted.

Build, buy and licence

That's it. We build performance in our company-owned Nettl locations, buy sign and graphic businesses and licence our know-how and systems to others. I'll go into more detail on each of the sections in turn.

Nettl company stores

In our Nettl company stores, we sell websites, ecommerce shops, online booking systems, SEO, printing, displays, exhibition and signage. We mostly sell to SME clients, who often don't have their own in-house marketing department. Increasingly, we're selling to larger businesses, where our relationship starts with signage.

We operate five company-owned Nettl locations. In Birmingham, a 2,000sq.ft. city-centre Nettl Business Store. In Liverpool and Exeter, out-of-town Nettl Business Superstores, each 5,000 to 7,500 sqft. A first-generation small Nettl web studio in central Dublin and a huge Nettl 'pop-up' Business Store in Manchester city centre.

Sales in our company stores increased to **£2.80m**(2019: £2.63m). In this revenue segment, we count all invoiced sales to end clients of our company stores, whether they be print, display, design, websites or search engine optimisation. Essentially, everything we ring through the till in our own stores. In the first half of the year, sales were up 20% compared to last year. In the second half, sales were impacted by the lockdown in the UK and Ireland.

We closed our company stores on 23 March 2020. Some team members worked remotely and some were furloughed under the Government scheme. We upgraded our Nettl.com site to make it easier for clients to schedule video calls with us. We were still 'here', just not 'there'. Some stores re-opened on 6 July 2020 and all were open by 20 July 2020.

One method we use to grow sales in company stores is to "acqui-hire" existing Nettl partners. Effectively we acquire their client base and hire their sales and design team. We rolled in a couple of businesses in the prior year, but didn't agree terms with any new ones this year. However, we expect to find further roll-in opportunities in the future. When we roll-in, we're able to strip out overhead and have more people work from

our locations. We aim to keep client relationships intact. When we strip out these roll-ins, like-for-like sales were up 3% in H1, but H2's performance dropped and the year ended 6% down, like-for-like. We like rolling in existing teams, since we've usually got a long trading relationship and historical performance data. As studios use our systems to manage their businesses, the data we harvest is very rich indeed.

Buy sign and graphic businesses

We've talked many times about our acquisition strategy, to roll up the signs sector. We still find this sector attractive, for a variety of reasons. There's both investment and industrial logic. Logic twins, as it were. Almost always, the businesses we target are buying some of our product range from elsewhere. We don't factor that into our valuations, but those are very real merger benefits. Nothing tastes sweeter than deleting a competitor from the supplier list of a business we acquire.

We're looking in two areas. With smaller businesses with revenues up to £500k, we'd like to roll-in to one of our existing locations. Some could be Nettle teams or individuals, where we've got a long partnership history. Others could be clients - sign businesses where we have a trading relationship. We've had plenty of discussions with businesses like these, typically where the owner is looking to retire. For us to consider these, location is important. We'd rather not remotely manage a distant team, so some of those discussions are parked, until we have a suitable location to roll into. However, if the owner has already replaced themselves with a capable manager, we'd take a look.

The other area is sign businesses with revenues above £2m or so. That's where we're targeting our outreach activity.

If I asked you to think of a sign, chances are "No entry" or "No shirt, no service" springs to mind. The signs sector is hugely diverse. And the word "signs" covers anything from a small wall poster to a building wrap. From a branded reception desk to a giant flag. Vehicle livery to exhibition stands. Printed deckchairs and gazebos. Banners, beanbags, bunting and billboards. In a visual world, every surface can be a sign.

That means every sign business has a slightly different expertise and exposure. Some mostly work with retailers, others with construction. Some are geared towards events and exhibitions. Others focus on fabrication of structural signage. Coronavirus has impacted each business differently and luck has played a large part in that.

Last year, we'd talked to plenty of these businesses. With some, we weren't able to agree on valuations. With others, when we started due diligence, we didn't like the smell or sustainability of some of their revenue streams. We didn't rush to do deals, for the sake of doing deals.

At the start of the crisis, we refreshed our marketing and changed our deal structure approach. We figured some decent businesses would face difficulties. The UK Government's response package has definitely helped many businesses stay afloat, particularly the furlough scheme. If you told us in February the Government would pay 80% of salaries for six months, we'd definitely have nodded very slowly whilst backing away. But they have. And with deferred VAT, rent holidays, very low interest loans, businesses have kept going for now. As these measures end, the crunch starts.

We estimate there are a few hundred larger sign businesses in the UK who could act as regional hubs for our network. We mailed a prospectus-in-a-box to 200 targets in May. Why a box? Nothing beats the 'thud factor'. You can filter an email. You can discard a postcard. What kind of monster could toss a black box without opening it? You can read the prospectus at www.grafeniam.com/acquisition. It explains our transparent approach. We have ongoing discussions with potential vendors and hope to find a way forward for some businesses, who value the safety of being part of a larger group.

These larger businesses tend to have a locally-known brand, which we keep. Existing clients will continue to deal with the name they trust. They'd also become "Nettle Works". We think we need five of these regional hubs. Our first is "Works Manchester", which I'll talk a little more about later. We're looking for other businesses primarily in The Midlands, South West England, Greater London and Scotland or Northern England.

In our revenue segments, we show these in "Works sign businesses". For now, Image Group is the only business in there. Sales were **£4.62m** (2019: £4.91m), hampered by the cancellation of multiple events and exhibitions at the start of 2020.

Licence our systems

We licence our software, brands and systems to design studios, printers and sign companies around the world. Some use it under white label, where the end client is unaware they're using our software. However, in most cases, the end client interacts with one of our **Brand Partners**. We call them brand partners, because they present themselves as part of the Nettle or printing.com network.

Our partners use content and marketing material, such as e-shots, website landing pages, catalogues, brochures, direct mail, point-of-sale and product samples that we create. They use that to keep in touch with existing clients and attract new ones. It helps them sell print, websites and signs. We release fresh content

multiple times a month, to stay in clients' front-of-mind.

Partners pay us a subscription fee, depending on the size of their exclusive territory, ranging from £300 to £1,000 per month. To grant them geographical exclusivity, they pay an initial licence fee of around £2,000. Our standard licence agreement is three or five years, sometimes with an option to break at 18 or 24 months.

Historically, after the initial term was completed, partners rolled into monthly agreements, with three month's notice to terminate. In January 2020, we introduced a new rolling three-year extension and invited existing partners to extend their agreement. As a thank you, we gave them product credits which could be used on orders for new customers. We were pleased that more than 70 partners extended their contracts by three further years. More than 150 partners now have contracts where their next break option is greater than a year from now.

But times are tough for resellers. Anyone who has been reliant on selling print and print alone has had a rough year. Traditional print is in decline and there is still too much overcapacity. The pandemic will remove some capacity. We've had a higher-than-usual churn in the second half, as some partners have closed or sought to cut all investment.

Nonetheless, our Nettl partner network has grown to **239** locations around the world (2019: 228). At the date of our last trading update, we had 183 active Nettl partners in the UK and Ireland, 25 in Benelux, 9 in France, 15 in the USA, four in New Zealand and three in Australia. We also currently have **59** printing.com locations (2019: 85). Upgrading from printing.com to Nettl is a path well trodden and we anticipate further partners will diversify their businesses away from simply selling print.

Subscription and Licence Fees increased to **£2.08m**(2019: £1.97m). In this segment, we count initial licence fees, monthly subscriptions, website deployment royalties, the wholesale price of hosting, domain names, digital stock photography and search engine optimisation sold via our brand partners.

Since the year end, and during the pandemic, we've supported our partners in different ways. Every partner is different. For some, we're their entire business. For others, we're just part of what they do. As the crisis deepened, we put individual measures in place. Those could be paused licence fees, while they hibernated under lockdown, deferred fees for three months or by agreeing extended payment terms. We genuinely consider ours a true partnership and we wanted to provide assistance, to strengthen our relationship, and ensure our partners get through this crisis.

As the world entered lockdown, our usual methods of acquiring new partners were impacted. We followed up our pipeline, but as you'd expect, many businesses were nervous about the future and cautious about entering into new contracts. So we adapted our offering, to make it easier to join Nettl. We set a shorter break of six or nine months and deferred initial licence fee and grant of exclusive territory until after the break was passed. In the lockdown period, we added 14 new Nettl partners in the UK, two in The Netherlands and two in America. I'll come back to America later.

Every new partner subscription includes classroom training seats. As the lockdown prohibited non-essential travel, this posed a problem. Figuring out how to build e-commerce sites may well be critical for a print business to learn, but we're sure the police would have taken a different view. So rather than risk partners travelling from Durham or London, we've migrated all our training syllabuses online. Now they're a mix of pre-recorded content and live group video sessions in our virtual Nettl Academy. When events are allowed, we'll once again get together with partners at regional "Pow Wows", like we did in February just before lockdown. However, now it will be more productive and cost-effective to deliver our training exclusively online.

We increased the frequency of our virtual group 'do more together' partner sessions. These cover different topics, around marketing, technical application, product development and sales opportunities. We've seen a significant increase in engagement on our internal partner community forums and discussions, as partners look to others for guidance. At times like this, the strength of being part of a network is demonstrated very clearly. We recently interviewed partners from around the world and shared the videos online. If you'd like to hear it from the zebras' mouths, as it were, take a look at www.nettl.com/action.

As well as licence fees, Nettl and printing.com partners are able to buy printing, exhibition kit, displays and signs from our Works Manchester hub. They pay a wholesale price and resell to end clients. Most Nettl and printing.com partners are seasoned print buyers. They have alternative suppliers. In the second half, trade prices continued to fall. Last year, I mentioned Personal Shopper - a way for partners to get help with more complex projects or choosing the right options. We're often asked to match competitor pricing, even by less than a pound. So in August last year we launched CrowdPrice. If one partner requests a price match, and it passes our commercial rules, we make that price match available to all other partners automatically. Our aim is to reduce the need for partners to shop around. Overall, sales of product to Brand Partners was **£3.41m**(2019: £3.58m).

Marqetspace.com and online channels

We sell print and signs to professional buyers through Marqetspace.com and a few other online channels. This space is super-competitive. Not only are there many trade-only printers in the UK, but shipping from mainland

Europe is currently cost-effective for continental printers. Marqetspace is important to us for a number of reasons.

Firstly, it's often where our relationships start. We get to know printers, graphic designers and sign companies with a simple trading relationship. Then we build trust. Then we figure out if any of our software tools or systems can help them achieve their own objectives. And so Marqetspace is a fertile ground for cultivating Nettl partners.

Secondly, we use it to test and develop automation. It's the first place we try new features for online channels, before we roll them out. We had lower people costs in this segment than last year.

Thirdly, it contributes to our print volumes. Prior to the events in March, sales were broadly flat and ended at **£2.68m**(2019: £2.87m).

Nettl of America

We said in the interim report that we were seeing slower traction in signing up partners in America. We knew the 200 page franchise disclosure document would slow things down, but not by as much as it has. So we developed a second model for the US.

We call it Nettl System. It's essentially everything that a Nettl Franchise gets, without access to the brand or rights to use any marketing material.

Now, given what we said about how our partners value marketing, you'd be forgiven for thinking we'd drunk bleach. But Federal law is pretty strict about what constitutes a franchise. As none of us look good in orange, we need to work within the law. So, Nettl System is a licence agreement, like in the UK, without the rights to use the brand. We can meet a partner, sign them up and they can get started immediately. It allows them to learn-by-doing and hopefully answers most of the questions that they would have had during the due diligence process.

Of course, we still want System users to upgrade to become Franchisees. And after the year-end, the first did just that, signing a ten year Franchise agreement.

We'd planned to host an event in Fort Lauderdale, Florida during April 2020. With the travel bans in place, that was subsequently cancelled. We replaced it with some virtual sessions and we're further testing different marketing until we find something we can scale.

Secrets & Chandeliers

The system which drives our whole business is called w3p. It's used by every partner. Clients order on websites powered by it. Conveyors and belts and chutes in Works Manchester are controlled by it.

It's a big system. By its nature, there's a lot to learn. We wanted existing partners to get a concise understanding of everything it does and discover parts they weren't making the most of. So we wrote a book, "Secrets & Chandeliers". Partners got a printed copy as an early Christmas present. But we didn't want it to be a dry, user instruction manual. Instead, it starts with a true story. And explains all of the things that had to come together to deliver a great client experience. It tells the reason why each feature was built.

We thought other graphic professionals might enjoy it too. So we're also using it as part of our Nettl partner acquisition toolkit and have distributed 10,000 copies to prospects in the UK and US.

If you'd like to read it, you can buy it on the Kindle store. But here's a secret. You can get a free printed copy at www.nettl.com/secrets

Pandemic Paraphernalia Pivot

March is historically a strong sales month, boosted by event season. Lots of exhibitions take place in the Spring and our company stores, brand partners and Image Group help clients with pop-up displays, exhibition stands and all the printed collateral that gets distributed. We started to hear of events being cancelled at the end of January. First it was those which had a strong presence from Asia, where companies were prohibited from international travel. Then steadily, one after another, event after event began to get cancelled, and with it, expected orders. Then lockdown hit. The NEC, the UK's biggest exhibition space, have now said they don't expect to hold any indoor events in 2020. At all.

We kept our Works Manchester production hub open, with a limited number of people and social distancing measures. As we began to imagine what clients might need to re-open their businesses, we started to launch new social distancing products. Our product engineering and production teams were fantastically agile as we switched to producing sneeze guards, custom printed face masks, hand sanitiser stands, crowd control material, social distancing stencils and floor graphics. Getting stock has been challenging and in-demand materials needed prepayment. For a couple of months, we suspended postal mailings, as many businesses were either closed or working from home. So each product was launched with digital marketing. As businesses

started to reopen in June, they were able to browse our 52 page Pandemic Paraphernalia buying guide.

When I look back at how many products we sold in June that didn't exist in March, it's even more astonishing what our teams were able to achieve. More than half our sales in June were for covid-secure products. We're grateful for their combined efforts in invention, merchandising, prototyping, selling and manufacturing.

Doing the right things

At the start of the pandemic, we convened daily crisis meetings. We called them "GRABRA", as a nod to the Government's COBRA meetings. Although, our executive board and production management did actually turn up to each one. We would be formulating our response to the daily Government Briefings, then keeping our teams updated. It was a very stressful and upsetting time for many of our team members. Some were impacted by the loss of family and friends.

At times of crisis, nobody wants to be sold to. Research shows that advertising, which is heavily price-led becomes less effective. So we initially turned off product-led marketing messages. Instead, we delivered content to reassure and build trust. That included charity animal-face masks, printed and stitched in-house, with proceeds donated to NHS charities. So far, we've donated over £10,000 to charities, from sales of Animasks.co.uk, an ecommerce site our Nettle team developed.

We also created print-at-home colouring books to keep bored kids occupied. We scheduled a weekly release of 'Nettle Chaise Lounge' playlists to work or relax to. They're all on Spotify and Youtube if you'd like to listen - www.nettl.com.uk.mixtape.

And we made checklists, guides and return-to-work guides available for free download. Partners were able to locally proliferate this stream of content on a daily basis, keeping front-of-mind and building positive brand association.

We did this because we believe businesses who did the right thing, would be viewed favourably on the other side. I'm sure we can all think of examples of businesses that acted in their own self-interest. Those memories last.

Works Manchester

In July 2019 we completed the relocation of Image Group's main factory into our litho hub. There are multiple parts to integrate. Having enough toilets is the easiest challenge to fix. Combining teams and systems is a little more tricky.

After some bedding in time, we started a restructuring in January 2020 to address some duplication of roles. This restructuring completed at the end of February 2020 and resulted in annualised savings of around £0.5m.

We brought all our teams together in a series of town-hall meetings, to share our plans for the road ahead and what part each individual must play.

We've been selling products produced by Image Group through all our channels since they became part of Grafenia in July 2017. Having two software systems is never ideal. w3p was built to handle thousands of set-specification orders each week. The system Image Group uses caters for projects, rather than products. So we've had to upgrade w3p. As with all of our software development, we've done this in stages. The final part is presently in development and we aim to fully migrate to one system by the end of the calendar year. Once this is in place, future Nettle Works will share a combined product catalogue and workflow.

March of the Works Makers

Whatever an SME needs to promote their business, we want to be there to support. Whether that's online or offline, paper or board, vinyl or metal. Most of what we sell, we make in our factories. We do sell some niche products, made by other third parties. In the past, we've listed products like pens and bags on our websites for anyone to buy. In other cases, weird products have been sourced ad-hoc.

As part of our upgrade to w3p, we've made it easier to sell third party products. We're asking manufacturers of specialist, niche items to become Works Makers. They use w3p to upload their products for approval. Once each goes through our verification process, their products are listed on all our websites, like printing.com, nettl.com and marqetspace.com. They're sold to our brand partners at wholesale prices, and they use the same tools to place orders, just like print and signs. When orders are placed, the Works Maker downloads an order pack and produces the order and ships directly to the client, using our carrier infrastructure.

The first products already for sale include printed socks, golf umbrellas, coasters, bunting, wristbands and mugs. We're currently working with the first Works Makers and expect to significantly grow our product range during the coming months. We're inviting suppliers of other platforms to register at www.nettl.works.

We plan to use the same infrastructure to connect third party installers with clients needing installation of window and wall graphics.

Share stake and save as you earn

As we announced on 28 April 2020, all the Executive Directors have elected to receive between 20% and 30% of their monthly net remuneration in New Ordinary Shares from 1 April 2020 for a period of seven months. Non Executive Directors have elected to receive 100% of their fees in New Ordinary Shares for the same period. The Company's Chairman, Jan-Hendrik Mohr, has also donated his fee to "The Chairman's Seam Team Fund" for the same period. This initiative has donated sewing machines to seamsters who've been made redundant or furloughed from other businesses, so they can volunteer to make Animasks.

All New Ordinary Shares in respect of the Scheme will be issued in December 2020, at a price of 7.75p per share, which is above the market price on the date of announcement and the same as the exercise price of share options, which matured under the Company's Save as You Earn share scheme on 1 March 2020. As the share price was below the option price in the SAYE scheme, we invited eligible team members to participate in the Share Stake scheme.

Outlook

In our Annual Report last year, we estimated we would be on a run-rate breakeven during this financial year. With reductions in our cost base, partly due to our factory merger and restructuring, we were breakeven at EBITDA level in the month of February 2020. In normal years, February has lower sales seasonality than strong months September, October, November, March and April. We were on track. However, we updated the market on 25 March 2020, to say we'd take a little longer to reach breakeven, given the lockdown. On 15 July 2020, our release said Coronavirus impacted sales in March (65% of last year), April (30% of last year) and May (40% of last year). In June 2020, sales were 90% of last year, and we achieved breakeven at EBITDA level. In July, sales ended around 70% of last year. We still do not have visibility on what will happen to our clients as economic stimulus ends. We have a diverse product portfolio and it is likely that a significant number of our competitors will be impacted by the economic climate, perhaps fatally.

Despite the haziness on the horizon, we will continue to be agile and adapt our product offering and marketing emphasis to support our clients and our partners. Our aim is to come out the other side of this crisis with more clients, more partners, more products, more locations and more profit than we entered it with. We keep our eyes firmly on a mid-term goal of 10-15% EBITDA.

Virtually meet you

Our annual meetings are usually a good time for shareholders and our key team to meet face-to-face. Last year, we met in our Nettl of Birmingham Business Store, and shareholders asked questions while our saxophonist-cum-designer played some soothing jazz. This year, a masked-saxophonist feels impossible.

With social distancing and transport restrictions, we're not sure whether we'll be able to meet in person. So this year, we'll meet online.

Until then,

Peter Gunning

Chief Executive

Financial Review

Revenue

Group revenue this year finished at **£15.60m**, down from *£15.96m* in 2019. Despite Brexit and election uncertainty impacting the business for the most part of the year, going into March we were still expecting to report a growth in revenue. Then the impact of COVID-19 first started to be felt in earnest and our revenue fell to 65% of the prior year level for the month of March.

As you can see in our segmental disclosure (note 2) 95% of our business remains in the UK & Ireland. Despite the overall fall in revenue, we have seen a marginal increase in licence fee income, **£2.08m(2019: £1.97m)** thanks to growth in subscription services. Our Company stores have returned a higher revenue, **£2.81m(2019: £2.63m)**, benefitting from a full year of contribution from prior year roll-ins. But these results, along with our other channels, have been suppressed by the wider economic factors already mentioned. Sales of print and other products through our Brand Partner Network fell to **£3.41m(2019: £3.58m)**, online and Trade sales fell to **£2.68m(2019: £2.87m)** and Works Signs Businesses fell to **£4.62m(2019: £4.91m)**.

Gross profit

Gross Profit, defined as revenue less direct materials (including the cost of distribution when made direct to

customers, fell to **£7.98m**(2019: £8.55m).

The reduced gross margin percentage of **51.1%**(2019: 53.5%) comes during a year full of uncertainty. Print margins continued to erode, as input costs have risen and trade prices pursue their race to the bottom. Services, subscription and licence income has increased year-on-year, and carries a higher margin than Print and Signage, but has not been sufficient to offset the fall in other parts of the business.

Other operating costs

Staff costs reduced by 6.4% to **£5.69m**, as we have integrated our operations following acquisitions and business roll-ins from previous years, whilst other operating charges have been flat at **£3.55m**. This includes various costs incurred in the year aimed at reducing our future cost base; redundancy payments to reduce our staff costs, plus factory dilapidation and site move costs incurred relocating the Image Group factory into our Trafford Park hub that totalled £0.20m.

In addition, with tougher trading conditions and then the impact of COVID-19, we have reassessed our receivables and deemed it prudent to increase the bad debt provision by £0.60m. We are working with our customers and Partners to try to come through the current difficulties together, however we have to accept that some of those debts may never be paid.

The other significant change from last year has been the impact of IFRS 16, which has become effective for the first time for this financial year. Payments that would previously have been treated as a cost within other operating costs of £0.36m have been replaced with an increased depreciation charge of £0.30m and finance costs of £0.13m.

Profitability

As a combination of the factors discussed above, our pre tax loss has worsened to **£3.63m**(2019: £3.17m). Despite this, the loss per share of 3.27p improved against the loss of 3.79p in 2019 as a result of increasing the number of shares in issue during the year.

Operating Cash Flow

In the current year the Group used **£1.16m** of cash through operating activities (2019: £0.96m), closely reflecting the EBITDA loss in the respective years.

Investment activity

The current year has seen investment in plant and equipment of **£0.43m**, primarily in our hub with the construction of a new mezzanine level that gave us the space to merge two factories into one, enabling the group to reduce operating costs in the years to come. We have also continued our investment in the Group's systems, totalling **£0.63m**(2019: £0.74m), the major item being software for Nettl and the Groups SaaS platforms.

Financing activity

On 24 July 2019, the Group announced that it had raised approximately **£4.01m** before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each at an issue price of 14 pence per share. Issue costs incurred with the transaction were **£0.06m**.

We changed primary bankers during the year and as part of that move repaid our invoice finance funding by **£0.95m**. We've also paid **£0.44m** in vendor loan notes and deferred consideration related to the acquisitions in previous years, reducing the outstanding payments to **£0.15m**.

KPIs

Management monitors a number of KPIs, which underpin the performance of the business. The **number of Nettl Network Partners** has grown in the year, as discussed by earlier. The **average product price per partner** has marginally reduced, reflecting the pressure on gross margin. **Website deployments and hosting fees per month** have continued to increase, along with the number and value of **SEO subscriptions**.

Post balance sheet events

COVID-19 has significantly impacted the whole industry since March, and Grafenia has not been immune. Revenue in April was 30% of the previous year, and May only 40% of the result 12 months prior. We have however seen a stronger recovery in June to 90% of prior year revenue, driven by our new COVID related product ranges, and 70% in July. In response to the pandemic, we have updated our forecasts and applied reasonable sensitivities to cover a range of operational scenarios. We have utilised government support where available through the Coronavirus Job Retention Scheme, local business grants, rates relief and Time-To-Pay arrangements for our PAYE and NI liabilities, and renegotiated with suppliers and to reduce cash outflows through this period.

To further ensure that the business has enough liquidity through this period, we secured an additional term loan for £1.00m through the Coronavirus Business Interruption Loan Scheme (CBILS) and refinanced our primary hire purchase facility through CBILS, reducing our cash repayments for 12 months.

On 15th July we announced the creation of a £50.00m perpetual bond facility and the issue of £3.00m of the bonds, at nominal value, to investors, raising approximately £2.01m before expenses. This facility ensures that we have the capital available to execute our acquisition strategy discussed by Peter earlier.

Outlook

The future developments of the business are included in the Chairman's statement and Chief Executive's statement. With the restructuring activity undertaken in this financial year, and the financial support secured through the bond issue and CBILS loan, we believe we have secured the financial future of the business and have the resources to execute our expansion plans. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Principal Risks and Uncertainties

The following are the principal risks relating to the Group's operations:

- uncertainty in the general economic environment, including Brexit and COVID-19, that may impact upon revenues and profitability;
- markets in which the Group operates are extremely competitive posing a threat to profitability;
- technological advances in manufacturing and or software may impact on operational effectiveness and earnings potential;
- the Group and its clients depend on the W3P SaaS platform and all reasonable operational contingency is embedded for resilience in the event of a catastrophe;
- the ability to retain and recruit key people, across a multitude of disciplines, is essential in maintaining and growing the business;
- Group SaaS platforms are developed in-house but use third party components, the necessary rights exist but there is no certainty that these rights will be retained indefinitely.

Treasury Policies

Surplus funds are intended to support the Group's short-term working capital requirements. These funds are invested through the use of short-term deposits and the policy is to maximise returns as well as provide the flexibility required to fund ongoing operations. The Board anticipates cash balances will rise moving forward. The Board has developed a model to establish a fair value for the Company's shares and will only purchase shares when the offer price is materially below that value and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

Iain Brown

Group Finance Director

Consolidated Statement of Comprehensive Income for the year ended 31 March 2020

	<i>Note</i>	2020 £000	2019 £000
Revenue	2	15,604	15,962
Raw materials and consumables used		(7,627)	(7,417)
Gross profit		7,977	8,545

Staff costs		(5,686)	(6,077)
Other operating charges		(3,553)	(3,533)
Share based payments		(27)	(47)
Earnings before interest, tax, depreciation and amortisation		(1,289)	(1,112)
Depreciation and amortisation		(2,025)	(1,875)
Operating loss		(3,314)	(2,833)
Financial income		25	7
Financial expenses	3	(342)	(186)
Net financing expense		(317)	(179)
Loss before tax		(3,631)	(3,166)
Tax income	4	258	343
Loss for the year		(3,373)	(2,823)
Other comprehensive income		-	-
Total comprehensive income for the year		(3,373)	(2,823)
Loss per share attributable to the ordinary equity shareholders of Grafenia plc			
Basic and diluted, pence per share	5	(3.27)p	(3.79)p

Consolidated Statement of Financial Position
At 31 March 2020

	<i>Note</i>	2020	2019
		£000	£000
Non-current assets			
Property, plant and equipment	6	5,483	4,060
Intangible assets	7	3,858	4,371
Deferred tax assets		-	10
Total non-current assets		9,341	8,441
Current assets			
Inventories	8	346	455
Trade and other receivables	9	2,150	3,008
Prepayments		447	548
Cash and cash equivalents	10	1,104	1,354
Total current assets		4,047	5,365
Total assets		13,388	13,806
Current liabilities			
Other interest-bearing loans and borrowings	12	753	1,695
Deferred consideration	12	147	366
Trade and other payables	11	2,160	2,832
Deferred income	11	143	256
Total current liabilities		3,203	5,149

Non-current liabilities			
Other interest-bearing loans and borrowings	12	3,483	2,180
Deferred consideration	12	-	229
Deferred income	11	-	36
Deferred tax liabilities		448	576
Total non-current liabilities		3,931	3,021
Total liabilities		7,134	8,170
Net assets		6,254	5,636
Equity attributable to equity holders of the parent			
Share capital	13	1,135	847
Merger reserve		838	838
Share premium	14	7,801	4,125
Share based payment reserve		74	47
Retained earnings		(3,594)	(221)
Total equity		6,254	5,636

Consolidated Statement of Changes in Shareholders' Equity

Group - year ended 31 March 2019

	Share Capital	Merger reserve	Share Premium	Share Based Payment Reserve	Retained Earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018	475	838	-	-	2,672	3,985
Loss and total comprehensive income for the year	-	-	-	-	(2,823)	(2,823)
Shares issued in the period	372	-	4,202	-	-	4,574
Costs associated with share issue	-	-	(77)	-	-	(77)
Share option reserve	-	-	-	47	-	47
Exchange differences	-	-	-	-	(70)	(70)
Total movement in equity	372	-	4,125	47	(2,893)	1,651
Balance at 31 March 2019	847	838	4,125	47	(221)	5,636

Group - year ended 31 March 2020

Loss and total comprehensive income for the year	-	-	-	-	(3,373)	(3,373)
Shares issued in the period	288	-	3,738	-	-	4,026
Costs associated with share issue	-	-	(62)	-	-	(62)
Share option reserve	-	-	-	27	-	27

Total movement in equity	288	-	3,676	27	(3,373)	618
Balance at 31 March 2020	1,135	838	7,801	74	(3,594)	6,254

**Consolidated Statement of Cash Flows
for year ended 31 March 2020**

	Note	Group 2020 £000	Group 2019 £000
Cash flows from operating activities			
Loss for the year		(3,373)	(2,823)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		2,025	1,876
Profit on sale of plant and equipment		(99)	(105)
Reduction in deferred consideration		(220)	-
Release of deferred profit on sale of plant and equipment		(12)	(218)
Share based payments		27	47
Net finance expense		317	179
Bad debt expense		588	-
Foreign exchange loss		-	(70)
Tax income		(258)	(343)
Operating cash flow before changes in working capital and provisions		(1,005)	(1,457)
Change in trade and other receivables		444	(154)
Change in inventories		109	439
Change in trade and other payables		(708)	214
Cash (utilised by)/generated from Operations		(1,160)	(958)
Interest paid		-	(179)
Income tax received /(paid)		67	97
Net cash (outflow)/ inflow from operating activities		(1,093)	(1,040)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		265	265
Acquisition of plant and equipment		(383)	(480)
Capitalised development expenditure	7	(373)	(375)
Acquisition of other intangible assets	7	(305)	(325)
Acquisition of Subsidiary net of cash (group)		-	(134)
Net cash used in investing activities		(796)	(1,049)
Cash flows from financing activities			
Funding from invoice finance		(947)	(1)
Payment of loan notes		(211)	(634)
Payment of finance leases (under IAS 17)		-	(561)
Capital payment of lease liabilities		(622)	-
Interest payment of lease liabilities		(317)	-
Payment of deferred consideration		(228)	(29)
Issue of shares (net of costs)		3,964	4,497
Net cash generated from financing activities		1,639	3,272
Net increase/(decrease) in cash and cash equivalents		(250)	1,183
Cash and cash equivalents at start of year		1,354	171
Cash and cash equivalents at 31 March 2020	10	1,104	1,354

Notes to the preliminary statement

1. Basis of preparation

Grafenia plc (the "Company") is a public limited company incorporated and domiciled in the UK. The company's registered office is Third Avenue, The Village, Trafford Park, Manchester M17 1FG.

This financial information does not include all information required for full annual financial statements and therefore does not constitute statutory accounts within the meaning of section 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards. These should be read in conjunction with the Financial Statements of the Group as at and for the year ended 31 March 2019.

The comparative figures for the year ended 31 March 2019 are also 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.

The preliminary financial information was approved by the Board of Directors on 11 August 2020.

Adoption of new and revised international financial reporting standards

IFRS 16 Leases

In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 April 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application;
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones with a value of less than £3,000), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to its portfolio of leases;
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application;
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 April 2019.

The impact on the financial statements on 1 April 2019 has been to recognise a right of use asset within property, plant and equipment and equivalent lease liability of £2,092,000. These leases were previously reported as operating leases within administrative expenses. Interest charged on the lease liability for the period ended 31 March 2020 amounted to £125,000 and is included within finance expenditure. Depreciation charged on the right of use assets amounted to £296,000 for the period.

Going Concern

From March 2020 onwards, our business, like many others, has been impacted by the COVID-19 pandemic. These impacts are discussed in detail within the strategic review. In response we have updated our forecasts and applied reasonable sensitivities to cover a range of operational scenarios. We have utilised government support where available through the Coronavirus Job Retention Scheme, local business grants, rates relief and Time-To-Pay arrangements for our PAYE and NI liabilities, and renegotiated with suppliers and existing providers of finance to reduce cash outflows through this period.

After the year-end and in light of the Group's signs rollup strategy the Board decided to offer a corporate bond facility and successfully raised £2.1m on 15th July. A further £1.0m term loan has been secured through the Coronavirus Business Interruption Loan Scheme (CBILS) to provide additional working capital to the Group. With funding secured, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook caused by COVID-19 and have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

2. Revenue and Segmental information

The Group's operating and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service includes Licence Fees, Company owned Studio revenue, Brand Partner print and Online sales plus Trade print. This disclosure correlates with the information which is presented to the Board, which 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

	UK & Ireland £000	Europe £000	Other £000	Total £000
Year ended 31 March 2020	14,791	384	429	15,604
Year ended 31 March 2019	15,163	447	352	15,962

Revenue generated outside the UK is attributable to partners in Australia, Belgium, France, New Zealand, The Netherlands and the USA.

No single customer provided the Group with over 6% of its revenue.

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Licence Fees	Company Stores	Brand Partner Print	Works Signs Businesses	Online & Trade	Total
	£000	£000	£000	£000	£000	£000
Year ended 31 March 2020	2,083	2,806	3,414	4,624	2,677	15,604
Year ended 31 March 2019	1,975	2,629	3,577	4,910	2,871	15,962

Of the Group's non-current assets (excluding deferred tax) of £9,341,000, £9,335,000 are located in the UK. Non-current assets located outside the UK are in France £6,000 (2019: £7,000).

3. Finance income and expense

Finance expense

	2020 £000	2019 £000
Lease interest	330	139
Invoice finance	10	24
Loan note interest	2	23
Interest payable	342	186

Lease interest in 2020 includes £125,000 in relation to right of use assets recognised on 1 April 2019 following the adoption of IFRS 16. As the Group has applied IFRS 16 using the cumulative catch-up approach, the comparative figure for 2019 has not been restated.

4. Taxation

Recognised in the income statement	2020 £000	2019 000
Current tax expense		
Current year	(146)	(201)
Foreign tax	-	6
Adjustments for prior years	6	(86)
	(140)	(281)
Deferred tax expense		
Origination and reversal of temporary differences	(128)	(213)
Adjustment in respect of prior year	10	151
Total tax in income statement	(258)	(343)

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 18%). The differences are explained below:

	2020 £000	2019 £000
Loss for the period	(3,631)	(3,166)
Tax using the UK corporation tax rate of 19% (2019: 18%)	(690)	(570)
<i>Effects of:</i>		
Permanent differences	-	-
Other tax adjustments, reliefs and transfers	(40)	3
Adjustments in respect of prior periods - current tax	6	(87)
Adjustments in respect of prior periods - deferred tax	10	151
Deferred tax not recognised	403	174
Withholding tax	-	7
Research and Development losses surrendered	227	54
Research and Development super deduction	(174)	(128)
Movement due to the change in the tax rate	-	53
Total tax credit	(258)	(343)

The Group tax debtor amounts to £354,000 (2019 Debtor: £281,000). The deferred tax liabilities as at 31 March 2020 have been calculated using the tax rate of 19% which was substantively enacted at the balance sheet date.

The UK corporation tax rate has been progressively reduced over the last 4 years. The October 2015 statement announced that the rate will further reduce to 18% from 1 April 2020. At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

5. Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	2020 £000	2019 £000
Loss after taxation for the financial year from continuing operations	(3,373)	(2,823)
	Number of Shares	Number of Shares
For basic earnings per ordinary share	102,993,216	74,504,359
Exercise of share options	-	-
For diluted earnings per ordinary share	102,993,216	74,504,359
Basic loss and diluted, pence per share	(3.27)p	(3.79)p

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The holders of deferred shares shall not be entitled to any participation in the profits or the assets of the Company and the deferred shares do not carry any voting rights.

6. Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Assets held for resale	Motor Vehicles £000	Fixtures and Fittings £000	Right of use assets £000	Total £000
Cost							
Balance at 31 March 2018	576	3,698	-	88	1,102	-	5,464
Additions	-	2,261	-	-	206	-	2,467

Acquisition of subsidiary	-	54	-	24	16	-	94
Revaluation of sale and leaseback assets in the year	-	(150)	-	-	-	-	(150)
Disposals	-	(230)	-	(29)	-	-	(259)
Transfer asset to held for resale	-	(250)	250	-	-	-	-
Revaluation of assets held for resale	-	-	15	-	-	-	15
Balance at 31 March 2019	576	5,383	265	83	1,324	-	7,631
Balance at 31 March 2019	576	5,383	265	83	1,324	-	7,631
IFRS 16 adoption	-	-	-	-	-	2,092	2,092
Additions	-	173	-	-	259	-	432
Disposals	-	(2)	(265)	-	-	-	(267)
Balance at 31 March 2020	576	5,554	-	83	1,583	2,092	9,888
Depreciation and impairment							
Balance 31 March 2018	574	2,083	-	75	656	-	3,388
Depreciation charge for the year	2	327	-	12	142	-	483
Acquisition of subsidiary	-	29	-	6	12	-	47
Revaluation of sale and leaseback assets in the year	-	(163)	-	-	-	-	(163)
Disposals	-	(75)	-	(24)	-	-	(99)
Transfer asset to held for resale	-	(85)	85	-	-	-	-
Revaluation of assets held for resale	-	-	(85)	-	-	-	(85)
Balance at 31 March 2019	576	2,116	-	69	810	-	3,571
Balance 31 March 2019	576	2,116	-	69	810	-	3,571
Depreciation charge for the year	-	369	-	5	164	296	834
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2020	576	2,485	-	74	974	296	4,405
Net book value							
At 31 March 2018	2	1,615	-	13	446	-	2,076
At 31 March 2019	-	3,267	265	14	514	-	4,060
At 31 March 2020	-	3,069	-	9	609	1,796	4,060

Leased plant, machinery and fixtures and fittings

At 31 March 2020, the Group had leased assets with a carrying value of £2,443,000 (2019: £2,589,000).

7. Intangible assets and investments

Domains & Brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
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Cost								
Balance at 31 March 2018	905	3,647	3,314	2,969	78	157	11,070	
Additions	-	-	-	-	3	-	3	
Additions - internally developed	-	-	372	-	-	-	372	
Additions - purchased	7	318	-	43	-	-	368	
Acquisition of subsidiary	-	-	-	153	60	-	213	

Balance at 31 March 2019	912	3,965	3,686	3,165	141	157	12,026	
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Balance at 31 March 2019	912	3,965	3,686	3,165	141	157	12,026	
Additions - internally developed	-	-	373	-	-	-	373	
Additions - purchased	-	300	-	-	-	5	305	

Balance at 31 March 2020	912	4,265	4,059	3,165	141	162	12,704	
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Amortisation and impairment

Balance at 31 March 2018	321	3,097	2,283	447	12	102	6,262	
Amortisation for the year	45	396	589	357	-	6	1,393	

Balance at 31 March 2019	366	3,493	2,872	804	12	108	7,655	
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Balance at 31 March 2019	366	3,493	2,872	804	12	108	7,655	
Amortisation for the year	45	312	426	401	-	6	1,191	

Balance at 31 March 2020	412	3,805	3,298	1,205	12	114	8,846	
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Net book value

At 31 March 2018	584	550	1,031	2,522	66	55	4,808	
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At 31 March 2019	546	472	814	2,361	129	49	4,371	
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At 31 March 2020	500	460	761	1,960	129	48	3,858	
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Impairment Testing

Goodwill

The recoverable amount of goodwill is determined from value in use calculations.

The Group prepares cash flow forecasts derived from budgets and five-year business plans. For the purposes of impairment testing inflationary growth of 3% is assumed beyond this period. The sales growth relates to all key revenue streams of the business.

Rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites. A pre-tax discount factor of 6.8% (2019: 6.2%) was applied.

If the growth rate were not achieved and was reduced 0% and the discount factor was increased to 15% there would be no impairment in the carrying value.

Other intangible assets have also been considered for impairment due to indicators of impairment being present in the form of losses and wider economic conditions. These assets are not considered to be impaired.

Amortisation and impairment charge

The amortisation charge of £1,191,000 (2019: £1,393,000) is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil (2019: £nil) was recognised during the year.

8. Inventory

	2020	2019
	£000	£000
Raw Materials	346	452
Work in progress	-	3
	346	455

9. Trade and other receivables

At 31 March 2020 trade receivables are shown net of an impairment allowance of £1,000,000 (2019: £412,000).

Trade and other receivables denominated in currencies other than sterling comprise £112,000 (2019: £149,000) of trade receivables.

	2020	2019
	£000	£000
Trade receivables	2,743	2,985
Less provision for trade receivables	(1,000)	(412)
Trade receivables net	1,743	2,573
Total financial assets other than cash and cash equivalents classified at amortised cost	1,743	2,573
Corporation tax	354	281
Other taxes	-	154
Other receivables	53	-
Total Other receivables	407	435
Total trade and other receivables	2,150	3,008

The carrying value of trade and other receivables classified at amortised cost approximates fair value

	Under 6 months	Over 6 months	Total
	£000	£000	£000
Gross carrying amount	1,353	1,390	2,743
Loss provision	(115)	(885)	(1,000)
Net carrying amount	1,238	505	1,743

Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model. The Group continues to trade with the same customers and in the same marketplace and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables. The implementation of IFRS 9 has therefore not resulted in a change to the impairment provision in the current or prior year.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on factors affecting the Group's customers including the area of operations of those debtors and the market for the Group's products. The assessment of the expected credit risk for the year has not increased, when looking at the factors affecting the risk noted above.

Movements in the impairment allowance for trade receivables are as follows:

Impairment	As at 31 March	As at 31 March
Group	2020	2019
	£000	£000
Balance at 1 April	412	339
Receivable written off during the year as uncollectible	-	(136)
Increase in impairment allowance	588	208
Balance at 31 March	1,000	412

Of the total impairment provision £72,000 (2019: £110,000) relates to Partners that have ceased trading.

There is no material difference between the net book value and the fair values of trade and other receivables due to their short-term nature.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

Of the net trade receivables £128,000 (2019: £1,075,000) was pledged as security for the invoice discounting facility. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the debts sold within trade receivables until the debtors repay or default. Since the trade receivables continue to be recognised, the business model of the Group is not affected. The proceeds from transferring the debts are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

10. Cash and cash equivalents

	2020	2019
	£000	£000
Cash and cash equivalents	1,104	1,354

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash in transit and other short term highly liquid investments. All cash is held in Sterling other than Euro of £138,000 (2019: £52,000).

11. Trade and other payables

Current Liabilities	2020	2019
	£000	£000
Trade payables	1,326	1,488
Accruals	472	830
Other liabilities	362	514
Total financial liabilities, excluding 'non-current' loans and borrowings classified as financial liabilities measured at amortised cost	2,160	2,832
Deferred income	143	256
Total trade and other payables	2,303	3,088
Non-current Liabilities	2020	2019
	£000	000
Deferred income	-	36

Trade payables denominated in currencies other than Sterling comprise £28,000 (2019: £42,000) denominated in Euro. The invoice discounting arrangement is secured upon the trade debtors to which the arrangement relates see note 9.

There is no material difference between the net book value and the fair values of current trade and other payables due to their short- term nature.

12. Borrowings

Current Liabilities	2020	2019
	£000	£000
Invoice Financing	128	1,075
Lease Liabilities	625	409
Vendor Loan Notes	-	211
	753	1,695
Deferred consideration	147	366
Non-Current Liabilities		
Lease Liabilities	3,483	2,180
	3,483	2,180
Deferred consideration	-	229

13. Share Capital

	Ordinary shares	
<i>In thousands of shares</i>	2020	2019
In issue at 31 March 2019	84,685	47,558
Issued by the Company	28,840	37,127
Shares on the market at 31 March 2020 - fully paid	113,525	84,685
Allotted, called up and fully paid	£000	£000
113,525,346 (2019: 84,684,683) ordinary shares of £0.01 each	1,135	847
63 deferred shares of £0.10 each	-	-
	1,135	847

On 24 July 2019, the Group announced that it had raised approximately £4.01 million before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each ("Placing Shares") at an issue price of 14 pence per share (the "Placing"). The placing was approved at the General Meeting on 12 August 2019. During the year 187,094 employee options over shares with a nominal value of 1p each were exercised at an issue price of £0.0775.

Dividends

During the year and prior year no dividends were proposed or paid. After the balance sheet date, the Board proposed no final dividend would be made (2019: *Nil*).

14. Share premium

	2020	2019
	£000	£000
In issue at 31 March 2019	4,125	-
Premium on shares issued by the Company in the year	3,738	4,202
Share issue costs	(62)	(77)
At 31 March 2020	7,801	4,125

15. Related parties

The Company provides cross company guarantees in respect of the invoice discounting for £0.13m. In the year ended 31 March 2020 no dividends were received (2019: nil).

Transactions with key management personnel

At the year end the Directors of the Company controlled 2.55 per cent of the voting shares of the Group.

On 5 April 2019 Conrad Bona transferred 149,545 ordinary shares from his personal holding to his individual savings account and 71,882 Ordinary Shares from his personal holding to his self-invested personal pension. These transactions resulted in a disposal of 795 Ordinary Shares.

On 27 November 2019 Peter Gunning purchased 100,000 Ordinary Shares increasing his holding to 1,725,000.

The compensation of the Directors, who are the key management personnel, is disclosed in the full Annual Report, see note 17.

16. Post balance sheet events

COVID-19 has significantly impacted the whole industry since March, and Grafenia has not been immune. Revenue in April was 30% of the previous year, and May only 40% of the result 12 months prior. We have however seen a stronger recovery in June to 90% of prior year revenue, driven by our new COVID related product ranges. In response to the pandemic, we have utilised government support where available through the Coronavirus Job Retention Scheme, local business grants and rates relief and Time-To-Pay arrangements for our PAYE and NI liabilities.

To further ensure that the business has enough liquidity through this period, we have secured an additional term loan for £1.00m through the Coronavirus Business Interruption Loan Scheme (CBILS). Further, we have also refinanced our primary hire purchase facility through CBILS, thereby reducing our cash repayments for 12 months.

On 15th July we announced the creation of a £50.00m perpetual bond facility and had issued £3.00m of the bonds, at nominal value, to investors, raising approximately £2.01m before expenses.

17. Annual report

The Annual Report and Notice of AGM will be sent to shareholders on or around 26 August 2020 and will be available on the Company's website www.grafeniam.com from that date.

Copies of this announcement are available on the Company's website www.grafeniam.com.

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