Progility plc

("Progility" or "the Group")

Interim Results

Progility plc (AIM: PGY) the Professional Services, Healthcare and Communications firm is pleased to announce its Interim Results for the six months to 31 December 2015.

The results for the six months to 31 December 2015 once again show considerable growth in sales, up over 23% on the prior period, primarily from acquisitions. On consideration of the Group's growth into a more stable set of businesses, the Board has determined that it is now appropriate to report the businesses' performance in three segments; Professional Services (comprising the training and recruitment businesses), Healthcare (comprising Starkstrom, including its nascent overseas activities) and Communications (which is comprised of our communications technology businesses in India and Australia). Professional Services have improved markedly in the period; Healthcare has largely been a case of investing for future geographic expansion and Communications has been a mixture of the very successful integration of the Indian business set against a continued falling off of customer activity in Australia.

Six months' highlights – good revenue growth, investment and successful integration

- Revenues up to £30.5 million (2014: £24.7 million)
- Operating loss before highlighted items £0.1 million (2014: Loss £0.1 million)
- Loss before tax and highlighted items £1.4 million (2014: £1.2 million)
- Loss before tax £1.4 million (2014: Profit £1.7 million)
- Gross margin improvement to 38.6% from 36.2%
- Organic investment in Healthcare geographic expansion
- Acquisitions of last year successfully integrated into each segment
- Difficult economic environment in Australia

Wayne Bos, Executive Chairman, commented:

"The integration of our acquisitions in 2014 into the Group has progressed well. Healthcare through Starkstrom continues as a leader in the UK and we have invested organically into its growth overseas, particularly in the Middle East.

Professional Services, through a combination of focused leadership and better understanding and servicing the needs of our customers, has enjoyed strong profit growth, and the ILX brand in particular continues to be recognised as a mark of superior quality.

The Communications business has been a tale of two sides, with India, new to the Group, demonstrating why it was such an excellent addition, whilst Australia has necessarily been affected by the poor health of its mining and energy industries, where our Communications business has been badly hit.

Overall, we continue to pursue our strategic growth objectives. The outturn for the year to June 2016 as a whole remains heavily dependent on the second half of the year. Actions taken by management in the first half to reduce costs and increase revenue have begun to improve performance across most areas.

We fully intend to continue our strategy of transformation and organic growth over the next six months."

Enquiries:

Progility plc
Wayne Bos, Executive Chairman 020 7371 4444
Hugh Cawley, CFO

SPARK Advisory Partners Limited (Nominated Advisor)
Mark Brady/Sean Wyndham-Quinn 0203 368 3551

W H Ireland Limited (Broker)
Adrian Hadden 020 7220 1666

Executive Chairman and Financial Review

Introduction

The results for the six months to 31 December 2015 once again show considerable growth in sales, up over 23% on the prior period last year, primarily from acquisitions. On consideration, the Board has determined that it is appropriate now to report the businesses' performance in three segments; Professional Services (comprising the training and recruitment businesses), Healthcare (comprising Starkstrom, including its nascent overseas activities) and Communications (which is comprised of our communications technology businesses in India and Australia). Professional Services have improved markedly in the period; Healthcare has largely been a case of investing for future geographic expansion and Communications has been a mixture of the very successful integration of the Indian business set against a continued falling off of customer activity in Australia.

Highlights – good revenue growth, organic investment and successful integration

- Revenues up 23.4% to £30.5 million (2014: £24.7 million)
- Operating loss before highlighted items £0.1 million (2014: Loss £0.1 million)
- Loss before tax and highlighted items £1.4 million (2014: £1.2 million)
- Loss before tax £1.4 million (2014: Profit £1.7 million)
- Gross margin improvement to 38.6% from 36.2%
- Organic investment in Healthcare geographic expansion
- Acquisitions of last year successfully integrated into each segment
- Difficult economic environment in Australia

The last six months have seen considerable improvement in the efficiency of each of the businesses, and, although, the investment required to achieve these improvements has thus far masked the underlying profitability increase, the Group is generally in better financial shape now. With the hiatus in M&A activity over the period, the shape of central management functions has also been adapted better to suit the circumstances of the Group.

Overview and summary of results

The geographic spread of our Group is hugely helpful to a developing business, particularly in the digital age; it allows access for our offerings to more markets, as is clearly illustrated with the international spread of the project management training business. We now report the Group in three segments, however, rather than geographically, since the performance is effectively driven and managed more by common product and customer characteristics than by country.

The profitability of the Professional Services segment has improved significantly in the current period, particularly since the appointment of a new Managing Director to ILX in the spring of 2015, and bringing all parts of ILX's operations under his direct responsibility. The Recruitment business, specialising in information management resources, has a strong niche position but growth is challenging.

The predominantly UK-based Healthcare business has integrated well within Progility since the acquisition of Starkstrom in July 2014. Measures to streamline the operations have been undertaken. Meanwhile, exploitation of the strength of the Starkstrom brand within the Healthcare sector has been the thrust behind developing a distributor-based model for sales outside the UK and considerable investment has been put into growing the overseas market from new offices opened in Dubai; this remains in the investment phase and the fruits of those labours are not yet visible.

The Communications segment of our Group has experienced different levels of profitability, and absolutely justifies the timing and nature of the Indian acquisition. The telephony products are very similar, in providing communications infrastructure solutions, although the experiences of our customers have been very different over the past year or so. The Indian economy has been thriving and our business there reflects that, whereas Australia, has continued to suffer from substantially lower activity in the mining sector. Our involvement in healthcare infrastructure in Australia has been helpful, as has the relatively recent appointment of a highly capable and fully focused chief executive from outside the group.

Summary of Results and operating performance

The table below sets out a summary of our results:

	Unaudited six months ended 31 December 2015 £ ' 000	Unaudited restated six months ended 31 December 2014 £ ' 000
Revenue	30,493	24,714
Gross profit	11,769	8,956
Operating loss before highlighted items	(87)	(131)
Highlighted items	-	2,916
Operating (loss) / profit	(87)	2,785
Net finance costs	(1,267)	(1,038)
(Loss) / profit before tax	(1,354)	1,747

Professional Services' revenues grew 16.4% against prior year, from £7.49m to £8.71m. All the revenue increase came as a result of the Woodspeen acquisition, whilst profitability within the segment more than doubled from £0.45m to £0.95m, including a contribution from the acquisition, but the bulk of the improvement arose organically from operational and efficiency improvements.

The Healthcare segment, in the UK at least, makes the bulk of its sales and profits in the second half of the year; the business outside the home market is insufficiently developed yet to assess in such terms. Turnover overall was 5% down on the prior year's equivalent period, reflecting to an extent the choice of margin over turnover. Investment in the overseas expansion, which we believe will show a return over time, has adversely affected the bottom line with a loss of £0.05m compared to a profit of £0.24m in the first six months of last year.

The acquisition of the Indian business in the Communications segment has proved to be valuable. On a financial basis alone, the business which was acquired at a cost of just €1m, has so far been able to remit some £0.6m of dividends to the UK and continues to generate profits in its home market. India has achieved profitability in line with the Board's expectations and has allowed the segment as a whole to remain profitable despite the significant challenges experienced by its sister business in Australia. The net result of a 42.8% increase in turnover afforded by the acquisition, from £11.33m to £16.19m, was accompanied by a relatively modest 33.8% increase in profits from £0.13m to £0.17m.

Central costs reflect, inter alia, the expense of a variety of measures to cut our cloth according to our needs in the world of less corporate activity and the run rate now is below that reflected in the £1.16m (2014 £0.94m) for the period to December 2015.

The operating loss before highlighted items of £0.09m – and there are no items being highlighted in the current reporting period, as against a net profit of £2.79m in the equivalent period in 2014, relating principally to the bargain gain on the Indian acquisition – is slightly improved against a loss of £0.13m in 2014, although it should be pointed out that the trend now established is one of improving profitability in Professional Services and Communications, whereas the continuing investment in Healthcare is being made in the expectation of higher returns.

With the level of debt, principally incurred to fund acquisitions, increasing between the periods, the net interest charge rose to £1.27m (2014 £1.04m), giving rise to a loss before tax of £1.35m for the six months to December 2015 (2014: loss before tax and highlighted items £1.17m).

Cash flow, net debt and facilities

Cash absorbed by operations in the period was £0.37m (2014: £0.07m), principally reflecting a substantially greater settlement of creditors than receipts from debtors would fund. Capitalise-able investment activity (as distinct from the 'investment' in establishing our presence in the Healthcare business overseas) was substantially lower at £0.86m in the half year than in the equivalent period in 2014 (£6.78m) and mainly comprised payment of deferred consideration for a prior period acquisition, the settlement of which was funded by further borrowing in the form of shareholder loans.

At the balance sheet date, the Group's debt facilities, including, where appropriate, rolled up interest, comprised £0.2m by way of a fixed term facility (2014 £1.0m), £2.39m of invoice discounting facility (2014 £2.0m), £1.36m of third party borrowings (2014 £2.72m) and £17.1m of shareholder loans (including convertible loan notes) (2014 £13.4m) and a standard bank overdraft of £nil (2014 £0.3m). At the same date the Group's cash and cash equivalents amounted to £3.46m (2014 £3.22m).

Shareholder loans

The Group's acquisitions have been funded in recent years entirely through the issue of 12% loan notes which are listed on the Channel Islands Stock Exchange.

The subscriber for all these notes has been DNY Investments Limited, a company which is an asset of the DNY Trust, a family trust of which Wayne Bos, Executive Chairman, is a discretionary beneficiary and of which Praxis Trustees Limited, the company's controlling shareholder, is trustee. Praxis Trustees remain supportive of the Group's strategy.

Dividend

The Board does not recommend a dividend for the period ended 31 December 2015. Given the Group's strategic direction and historic financial performance, the Board does not envisage the Company's paying a dividend for the foreseeable future.

Outlook

The board believes that the improvements which have been evident throughout the Group's operations in the last six months will continue into the second half of the year. Given this is generally a second-half weighted business and the effect of improvement actions already taken should begin to come through, the board is looking forward to a better second half performance.

By order of the Board

Wayne M Bos
Executive Chairman
24 March 2016

Hugh C L Cawley
Chief Financial Officer

Unaudited consolidated statement of Comprehensive Income for the six months ended 31 December 2015

	Note	Unaudited six months ended 31.12.2015 £000	Unaudited six months ended 31.12.2014 Restated £000	Audited year ended 30.06.15 £000
Revenue	4	30,493	24,714	60,056
Cost of Sales		(18,724)	(15,758)	(37,078)
Gross profit		11,769	8,956	22,978
Administrative and distribution expenses – excluding highlighted items		(11,856)	(9,087)	(22,793)
Administrative and distribution expenses – highlighted items	5	-	(311)	(447)
Total administrative and distribution expenses		(11,856)	(9,398)	(23,240)
Other income – highlighted items	5	-	3,227	3,227
Other expenses – highlighted items	5	-	-	(229)
Operating (loss)/profit before highlighted items		(87)	(131)	185
Highlighted items	5	-	2,916	2,551
Operating (loss)/profit		(87)	2,785	2,736
Finance income		124	-	65
Finance costs		(1,391)	(1,038)	(2,296)
(Loss)/profit before tax and highlighted items		(1,354)	(1,169)	(2,046)
Highlighted items		-	2,916	2,551
(Loss)/profit before tax		(1,354)	1,747	505
Tax charge		(433)	-	(18)
(Loss)/profit for the period attributable to equity shareholders		(1,787)	1,747	487
Currency translation differences on foreign operations		216	(33)	(287)
Other comprehensive income, net of tax		216	(33)	(287)
Total comprehensive (loss)/profit		(1,571)	1,714	200
(Loss)/earnings per share				
Basic	6	(0.89p)	0.87p	0.24p
Diluted	6	(0.89p)	0.87p	0.24p

Unaudited consolidated statement of Financial Position as at 31 December 2015

	Unaudited As at 31.12.2015 £000	Unaudited As at 31.12.2014 Restated £000	Audited As at 30.6.2015 £000
Assets			
Non-current assets			
Property, plant and equipment	1,316	1,313	1,449
Intangible assets	20,009	20,289	20,135
Deferred tax asset	848	849	888
Total non-current assets	22,173	22,451	22,472
Current assets			
Inventories	3,473	5,020	4,001
Trade and other receivables	13,503	14,452	16,554
Other current assets	3,182	2,036	2,107
Tax receivable	49	82	41
Cash and cash equivalents	3,460	3,222	3,538
Total current assets	23,667	24,812	26,241
Total assets	45,840	47,263	48,713
Current liabilities			
Trade and other payables	(17,257)	(16,894)	(19,889)
Deferred consideration	(1,361)	(3,123)	(2,041)
Provisions	(4,275)	(4,327)	(4,282)
Tax liabilities	(412)	(321)	(28)
Bank and shareholder loans	(2,965)	(3,639)	(3,288)
Total current liabilities	(26,270)	(28,304)	(29,528)
Non-current liabilities			
Shareholder loans	(16,699)	(13,094)	(14,837)
Deferred tax liability	(199)	(277)	(199)
Provisions	(180)	(76)	(90)
Total non-current liabilities	(17,078)	(13,447)	(15,126)
Total liabilities	(43,348)	(41,751)	(44,654)
Net assets	2,492	5,512	4,059
Issued share capital	19,967	19,967	19,967
Share premium	114	114	114
Other reserve	75	75	75
Merger reserve	(14,854)	(14,854)	(14,854)
Own shares in trust	(2)	(50)	(2)
Share option reserve	47	41	43
Retained earnings	(2,740)	296	(953)
Foreign currency translation reserve	(115)	(77)	(331)
Total equity	2,492	5,512	4,059

Unaudited consolidated Cash Flow Statement for the six months to 31 December 2015

	Unaudited Six month ended 31.12.2015	Unaudited Six month ended 31.12.2104 Restated	Audited Year ended 30.6.2015
	£000	£000	£000
(Loss)/Profit from continuing operations	(87)	2,785	2,736
Adjustments for:			
Depreciation and amortisation	525	403	1,154
Loss on fixed asset disposal	56	86	86
Impairment of intangibles	-	-	229
Gain on bargain purchase	-	(3,227)	(3,227)
Share option charge	4	29	40
Revaluation of own shares held in trust	-	-	48
Movement in inventories	529	308	1,101
Movement in trade and other receivables	1,991	2,423	146
Movement in trade and other payables	(3,634)	(2,859)	(942)
Exchange difference on consolidation	266	11	(59)
Cash generated from operations	(350)	(41)	1,312
Income tax paid	(15)	(27)	(439)
Net cash generated from operations	(365)	(68)	873
Investing activities			
Interest received	124	-	65
Purchases of property and equipment	(258)	(180)	(555)
Capitalised expenditure on product development	(45)	(37)	(52)
Acquisition of subsidiaries (net of cash acquired)	(680)	(6,562)	(8,032)
Net cash used in investing activities	(859)	(6,779)	(8,574)
Financing activities			
Proceeds from borrowings	1,901	9,243	11,286
Repayment of borrowings	(413)	(834)	(1,235)
Interest costs paid	(158)	(135)	(408)
Net cash from financing activities	1,330	8,274	9,643
Net change in cash and cash equivalents	106	1,427	1,942
Cash and cash equivalents at start of period	3,350	1,533	1,533
Foreign exchange rate differences	4	(40)	(125)
Cash and cash equivalents at end of period	3,460	2,920	3,350
Cash and cash equivalents comprise:			
Cash in hand and at bank	3,460	3,222	3,538
Bank overdraft	-	(302)	(188)
	3,460	2,920	3,350

Notes to the unaudited accounts:

1. Basis of preparation and accounting policies

These interim financial statements are for the six months ended 31 December 2015. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and IFRC interpretations issued and effective at the time of preparing these statements. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of Progility plc for the year ended 30 June 2015. The financial information for the period ended 31 December 2014 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the period ended 30 June 2015 have been filed with the Registrar of Companies and can be found on the Group's website www.progility.com. The auditor's report on those financial statements was unqualified and did not contain statements under Section 498(2) or Section 498(3) of the Companies Act 2006. These interim financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments. These interim financial statements have been prepared in accordance with the accounting policies detailed in the Group's financial statements for the year ended 30 June 2015 except as documented herein. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements. The interim financial statements are presented in Sterling (£), which is also the functional currency of the Company.

These interim financial statements have been approved for issue by the board of directors. It should be noted that accounting estimates and assumptions are used in preparation of the interim financial information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim financial information, are set out in note 2 to the interim financial information. In the future, actual experience may deviate from these estimates and assumptions

The consolidated financial statements include the financial statements of Progility plc and its subsidiaries. There are no associates or joint ventures to be considered.

2. Accounting estimates and key judgements

The preparation of the interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment of conditions at the date of the financial statements. Key estimates and judgments relate to impairment analysis assumptions, revenue recognition over exam vouchers, stock movement and deferred tax assets. In the future, actual experience may deviate from these estimates and assumptions, which could affect the interim financial statements as the original estimates and assumptions are modified, as appropriate, in the period in which the circumstances change.

Key judgement - Goodwill

In respect of acquisitions, the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus the recognised amount of any non-controlling interests in the acquired; plus
- The fair value of the existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill is recognised immediately in the profit and loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Key judgement – Going concern

The Directors, after making enquiries of its loan note holders, considering its financing arrangements and based on its cash flow projections, have a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

3. Prior year restatements

In line with the 30 June 2015 financial statements, the prior year comparatives in these financial statements have been restated to reflect the following:

3.1 Change to recognition of income from software licences

The Group previously recognised Revenue from software licences at the start of the licence term provided that delivery had occurred. Following a review of the method delivery of the products, it has been determined that the correct practice should be to recognise the revenue over the period of its availability to the user rather than immediately upon the sale.

The opening balance sheet and 2014 comparatives in these financial statements have been restated to reflect this change in revenue recognition. The opening balance at 30 June 2014 has been restated to include an increased deferred income creditor of £1,917,000. During the six months ended 31 December 2015 revenue has been restated upwards by £276,000 to reflect the impact of the revenue recognition policy.

3.2 Recognition of deferred tax asset

A deferred tax asset previously recognised at 30 June 2014 in Progility Pty Ltd did not meet the Groups accounting policy for recoverability. Accordingly the deferred tax assets at 30 June 2014 has been adjusted and restated by £1,069,000.

3.3 Reclassification of costs

Certain costs including administrative and technical staff costs, marketing and IT costs which had previously classified as costs of sales have been reclassified as administrative and distribution expenses as it has been determined that this is the correct classification of these costs. The amount of this restatement in the six months to 31 December 2015 was £871,000, this has no impact on the reported results for the period.

3.4 Reclassification of development costs

Starkstrom Ltd capitalised Development costs which following review did not meet the Groups accounting policy for capitalisation. Accordingly the capitalised development costs at acquisition and to 31 December 2014 have been adjusted and restated by £8,000.

Summary of restatements

The impact of the above restatements on previously reported amounts is summarised below:

	Net assets at 31.12.14	Profit for the six months ended 31.12.14	Net assets at 30.6.14
	£'000	£'000	£'000
Previously stated amounts	8,092	1,393	6,672
3.1 Recognition of software licence revenue	(1,641)	276	(1,917)
3.2 Deferred tax asset	(1,069)	-	(1,069)
3.3 Reclassification of costs	-	-	-
3.4 Development costs	8	8	-
Foreign exchange difference	122	37	85
	5,512	1,714	3,771

4. Segmental reporting

In accordance with IFRS 8 the Group's operating segments are based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Group reports its results in three segments:-

Professional Services - The Group's Professional operations comprise the training, recruitment and consultancy activities operating in the UK, Dubai, Australia and New Zealand.

Healthcare – The Group's Health operations comprise the activities of Starkstrom Limited and Progility DMCC.

Communications – The Group's Technology operations comprise the technology solutions goods and services businesses which operate in Australia and India

Segment profit or loss consists of earnings before interest, tax and highlighted items. This measurement excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and purchased intangibles amortisation. Interest income and expenditure are not allocated to segments as this type of activity is driven by the central treasury activities, which manages the cash position of the Group.

	Six months ended 31.12.2015		Six months ended 31.12.2014 Restated		Year ended 30.6.2015	
	Revenue	**Segment Profit/ (loss)**	**Revenue**	**Segment Profit/ (loss)**	**Revenue**	**Segment Profit/ (loss)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Professional services	8,712	951	7,486	445	17,226	845
Healthcare	5,596	(53)	5,894	238	13,688	984
Communications	16,185	174	11,334	130	29,142	194
Central costs	-	(1,159)	-	(944)	-	(1,838)
Total segmental result	30,493	(87)	24,714	(131)	60,056	185
Highlighted items		-		2,916		2,551
Operating (loss)/profit		(87)		2,785		2,736
Interest		(1,267)		(1,038)		(2,231)
(Loss)/profit before tax		(1,354)		1,747		505

Adjusting for highlighted items note 5				
Acquisition and merger costs	Recurring	-	311	447
Bargain gain on acquisition	Non recurring	-	(3,227)	(3,227)
Impairment charges	Non recurring	-	-	229
		0	(2,916)	(2,551)

	As at 31.12.15		As at 31.12.14		As at 30.6.15	
				Restated		**Restated**
	Segmental assets	**Segmental liabilities**	**Segmental assets**	**Segmental liabilities**	**Segmental assets**	**Segmental liabilities**
	£'000	£'000	£'000	£'000	£'000	£'000
Professional services	21,511	22,335	20,746	19,059	22,392	21,481
Healthcare	4,933	4,505	6,849	7,248	5,860	6,067
Communications	19,396	16,508	19,668	15,444	20,461	17,106
Total	45,840	43,348	47,263	41,751	48,713	44,654

Unallocated costs comprise central costs that are not considered attributable to the segments.

5. Highlighted items

The Group incurred costs during the period which we have highlighted. These costs include transaction costs, restructuring costs and other strategic, non-cash items including impairment, bargain gain on acquisition and non-recurring acquisition expenses. This has resulted in the following charges, gains and intangibles impairment as follows:

	Unaudited six months ended 31.12.2015 £'000	**Unaudited six months ended 31.12.2014 Restated £'000**	**Audited year ended 30.6.2015 £'000**
Recurring			
Acquisition and merger costs	-	311	447
Non- recurring			
Bargain gain on acquisition	-	(3,227)	(3,227)
Impairment of intangibles	-	-	229
Total highlighted costs	-	(2,916)	(2,551)

6. Loss per share

This has been calculated on the loss for the period of £1,787,000 (2014 restated: Profit £1,747,000) and the number of shares used was 199,666,880 (2014: 199,666,880), being the weighted average number of share in issue during the period.

7. Dividends

No dividend is proposed for the six months ended 31 December 2015.

8. Copies of Interim financial statements

The Interim Results will be posted on the Company's web site www.progility.com