IDE Group Holdings Plc

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

Audited Results for the Year Ended 31 December 2019

IDE, the mid-market network, cloud and IT Managed Services provider, announces its audited results for the year ended 31 December 2019.

The Annual Report and Accounts for the year ended 31 December 2019 will shortly be available on the Company's website at www.idegroup.com.

Copies of the Annual Report and Accounts are being posted to shareholders today.

Summary

- Revenue of £28.2 million (2018: £41.1 million).

- Gross profit margins increased to 22.8% (2018: 16.1%). Gross profit margins before the impact of IFRS 16 are 22.1%.

- Adjusted EBITDA** profit £1.1 million (2018: loss of £3.9 million). The adjusted EBITDA of £1.1 million has benefited by £0.9 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.

- Additional funding raised of £11.5 million in the form of six-year secured loan notes from existing shareholders.

- No external debt other than with key shareholders.

- Stable leadership and consistent senior management team in place.

- Partnership channel delivering revenues from public sector.

- Strong partnership and direct customer pipeline of opportunities.

** Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments

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Nominated Adviser and Broker
Corporate finance: Jonny Franklin-Adams/ Hannah Boros
ECM: Tim Redfern/ Richard Chambers

Chairman's Statement

2019: A year of strategic realignment

This year has been pivotal for the Group, and whilst we saw a significant drop in revenues, we saw an increase in adjusted EBITDA. This confirms that the cost reductions and rationalisation of loss-making business has moved the Group to a better trading position from which to now grow.

After a period of consolidation and reflection we have embarked on a course for long term growth that will capitalise on our strengths and develop propositions that meet client needs. We have a strong story to tell about how outsourced managed and lifecycle services can bring value to organisations. We are also seeing increasing success when introducing clients to the breadth of our services including datacentre, cloud, and connectivity.

The Board decided that it is time for a more clearly articulated services offer and simplified business structure.

Our challenges in 2019

We had some major challenges to address during the year:

- Securing renewals of key customers
- Consolidating our data centre estate
- Developing a new strategy for Connect
- Rebuilding our partner and channel relationships
- Exploiting new sales opportunities

What has gone well?

Against a backdrop of economic and political uncertainty, we have secured some key customer renewals and won new clients particularly in managed services.

We retained our profitable key direct customers to whom we provide user support desk, managed services, on-site and field engineering.

On-going projects delivered by our lifecycle fulfilment centre were particularly strong and we have seen strong and consistent improvements in that area, with our major customer for that service renewing mid-year.

We began a comprehensive review of the Connect business during the year to develop a new strategy for this division after recent declines in revenue and complexities in its operations. I am pleased to provide an update that a major consolidation of the network and datacentres in which we operate is underway. This is a significant project which will take time to conclude, but we are confident that it will provide the foundations for profitable growth of our datacentre, cloud, and connectivity business.

Our relationship with third party system integrators has both been refreshed and reinvigorated, and we have seen an increase in opportunities both in service provision and project work through this channel particularly into the public sector; we are delivering IT services into both a number of Central Government departments and Blue Light clients.

We have ended the year with several long-term partnerships which are providing us with new sales opportunities.

What has changed?

During 2018 a key focus was on reducing the Group's overheads, headcount, and infrastructure footprint in order to provide a more sustainable cost base, and stabilising the business following a period of upheaval and uncertainty.

We did, unfortunately, see some customer losses during the year; lifecycle services are bolstered by project work which was lower in 2019 than the prior year, and subsequent projects were delayed into 2020. In our Connect business the customer churn was at an unacceptable level with some larger account losses in cloud services; this in part resulted in the programme to consolidate the datacentre estate and review our pricing strategy for Connect services.

In 2019, whilst managing costs has remained a key driver, we have focussed attention onto customers. We gave focus to individual customer and project profitability, continued to provide excellent service to existing customers as well as clearly articulating our value propositions to win new business.

Securing and developing our partnership channels has proven to be successful with several new customer wins in the public sector; and we have seen a positive affirmation in direct business with key account renewals.

COVID-19

The unprecedented and rapidly changing circumstances surrounding the COVID-19 outbreak provide an uncertain economic landscape and increased risk aversion in the financial markets. Whilst it is difficult to predict accurately the potential long-term consequences, we remain vigilant and, in common with all businesses, are closely monitoring the situation, the wellbeing of staff and the customers with whom they interact is our overriding priority. We have instituted measures to ensure that our people can work safely and, in most cases, remotely, ensuring the continuity of the business. We have rigorously stress tested our financial forecasts for a range of potential outcomes associated with COVID-19 and we are confident that the Group is well positioned to withstand any negative impact. To date there has been no material effect on the business.

Results

Revenue fell by 32% across the Group to £28.2 million for the full year (2018: £41.1 million), but significantly we have improved gross profit margins to 23%, which before the impact of IFRS 16 are 22% (2018: 16%), and the resulting gross profit has remained flat year-on-year at £6.4 million (2018: £6.6 million).

The significant work undertaken to reduce the Group costs underpins the improvement in gross margins, and allied to a reduction in overheads (excluding non-underlying costs, impairment, amortisation and depreciation) by some 50% to £5.3 million (2018: £10.0 million) has resulted in the adjusted EBITDA moving from loss to profit of £1.1 million (2018: loss of £3.9 million).

The net loss for the year from continuing operations is £8.5 million (2018: loss £29.5 million), a £3 million impairment charge against goodwill and acquired intangible assets (2018: £17.5 million).

The Group continues to improve its cash generation and has maintained strong working capital management, this along with the additional loan notes resulted in Group paying off its third-party bank debt and finance lease commitments.

Profitability of divisions

Manage

Manage encompasses our service lines broadly covering field and site engineering, projects and lifecycle, network monitoring and service desk support.

2019 saw revenues fall to £14.7 million (2018: £27.2 million), this was mostly down to novation of some £3.4 million of contracts over to Connect, £4.9 million of lower project and lifecycle services, and a further £3.7 million reduction in engineering and managed services; however, we have seen an improvement in gross profit margins to 31% (2018: 21%) and a reduction in overheads by over 50%. The sum of these moved adjusted EBITDA from a loss in the prior year to a profit in 2019 of £1.1 million (2018: loss of £3.1 million). The adjusted EBITDA of £1.1 million has benefited by £0.6 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs. This encouraging improvement underpins that this division is approaching the right-size, further consolidation of field engineering is underway, and that profitable growth can be achieved in 2020.

Connect

Connect business services are broadly networking and connectivity, cloud and hosting, and voice/telephony.

Revenues in Connect were flat year-on-year at £14.6 million (2018: £14.6 million); whilst we were disappointed to lose some of our larger cloud customers but benefited from contracts novated from Manage, and the net result was an improvement in gross margins to 13% (2018: 5%). There has been an increase in overheads to £4.5 million (2018: £3.3 million), including a £0.3 million benefit of adopting IFRS 16 in 2019. An impairment charge against intangible assets of £3.0 million (2018: £6.9 million) was incurred following an annual impairment review which indicates that Connect is still underperforming. The resulting adjusted EBITDA improved to £0.7 million (2018: loss £0.4 million). The adjusted EBITDA of £0.7 million has benefited by £0.3 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.

Our objectives in 2020 are to further reduce costs through the datacentre and network consolidation and leverage these commercial improvements into more competitive pricing to win new and extend existing business opportunities.

People

The management team had made consistent progress in simplifying the structure of the business and aligning services better to support our clients.

The Group executed on further headcount reductions during the year ending the period with 262 FTE (2018: 303 FTE).

The board would like to recognise and thank its employees who have worked hard to deliver excellent client service and retain existing key clients.

What will we keep doing?

We are improving our customer and partner relationships and that has shown in our longer-term contracts and customer renewals in 2019. Our focus is on developing those relationships and the skills and processes needed to manage accounts in a consistent and productive way by placing account management and service delivery at the heart of the business.

We will continue to generate revenue and cash but will also ensure that our business quality improves in terms of client fit, margin and sustainability.

What will we do better?

We have several priorities for the future, highlighted ones being:

- Improvements to our Governance in line with the Quoted Companies Alliance Corporate Governance Code.
- Complete our network and datacentre consolidation.
- Land and expand contracts through our partnership channel.
- Win more direct customers >£1m per annum contract value.
- Develop and deliver our datacentre, cloud and connectivity offering.
- Remove business and operational complexities thereby reducing overheads.

We are currently assessing the technology and market landscape and will evaluate our options in 2020. However, at our heart, we are a business that depends on our own talented people delivering best-of-class technology solutions. We need to build a strong sales force to support our group of knowledgeable experts.

Our strategy of a more integrated offering across service lines requires some investment in training and skills to ensure that we can deliver for our clients and our investors.

Strategy

Having been greatly encouraged by the opportunities identified in the partnership channel & lifecycle businesses, and strong direct customers the Board has outlined a strategy to provide better alignment between our operating businesses, customer needs and driving competitive advantage as we widen the client base to which we offer the full portfolio of our services.

Additionally, changes to our internal operating model will assure consistent quality in our relationship and account management whilst maintaining our strength in financial management.

Our aim is to drive further operating margin improvement and deliver consistent growth in earnings in the medium and long-term. This will be supported by forthcoming developments in marketing and lead generation activities we plan to implement in 2020.

Financing and dividend

During the year, the Company issued £11.5 million of secured loan notes the proceeds of which were used to repay the Group's debt facilities with National Westminster Bank, meet its finance lease obligations, and provide additional working capital.

Given the continued losses the Board is not proposing to declare a dividend at this time but will keep this policy under review.

Current trading and outlook

Trading in the current financial year remains broadly in line with management expectations, although the mix has changed due to the current COVID-19 crisis. We have won and implemented additional projects in the Managed division supporting mobile working across a number of our clients, offset by the expected pipeline of projects being deferred into the second half. The Board is confident in its strategy and continues to enhance operational efficiency in our core services and strengthen the senior management team in order to deliver an improved trajectory through 2020 and beyond.

Financial Review

The Group reported total revenues for the year to 31 December 2019 of £28.2 million, down from £41.1 million in 2018 and gross profit of £6.4 million (2018: £6.6 million). The gross profit of £6.4 million has benefited by £0.2 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.

The Group uses Adjusted EBITDA which is a non-GAAP measure of performance as it believes this more accurately reflects the underlying performance of the business. This is one of the key operational performance measures monitored by the Board. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments.

The adjusted EBITDA for the year to 31 December 2019 was a profit of £1.1 million (2018: loss £3.9 million). The adjusted EBITDA of £1.1 million has benefited by £0.9 million due to the adoption of IFRS 16.

A detailed review of the business is set out in the Chairman's Statement and this Financial Review. Included in these reviews are comments on the key performance indicators that are used by the Board monthly to monitor and assess the performance of the business. These indicators include the level of revenue, gross profit, and Adjusted EBITDA together with net debt

Manage

There was a decrease in revenues to £14.7 million (2018: £26.7 million), which is attributable to £3.4 million value of contracts novated to Connect, £4.9 million of lower project and lifecycle services, and a further £3.7 million reduction in engineering and managed services suffered from the loss of customer contracts or reduction in scope of services.

For the year we have seen an improvement in gross profit margins to 31%, which before the benefit of IFRS 16 is 28% (2018: 21%) as a result of the services mix and operational efficiencies, and a reduction in overheads by over 50% to £7.1 million (2018: £15.5 million), which is the result of reduced headcount, costs moving to Connect alongside novated contracts, and stringent cost saving initiatives.

Adjusted EBITDA attributable to Manage has moved from a loss in the prior year to a profit in 2019 of £1.1 million (2018: loss of £3.1 million). The adjusted EBITDA of £1.1 million has benefited by £0.6 million due to the adoption of IFRS 16.

Connect

Revenues in Connect are flat year-on-year at £14.6 million (2018: £14.6 million). This net neutral position reflects additional revenues from Manage contracts novated of £3.4 million against customer losses of a similar value.

However, there was an improvement in gross margins to 13% (2018: 5%), owing to savings in infrastructure costs, and changes in the customer and services mix.

There has been an increase in overheads to £4.5 million (2018: £3.3 million), and an impairment charge against intangible assets of £3.0 million (2018: £6.9 million) was incurred following an annual impairment review. The overheads of £4.5 million have benefited by £0.3 million due to the adoption of IFRS 16.

Adjusted EBITDA attributable to Connect has improved to £0.7 million (2018: loss £0.4 million). The adjusted EBITDA of £0.7 million has benefited by £0.34 million due to the adoption of IFRS 16.

Non-underlying items amount to £0.6 million in the year (2018: £2.4 million), these are predominantly redundancy costs.

After incurring net finance costs of £1.8 million (2018: £0.4 million), the loss before tax is £10.9 million (2018: loss of £30.5 million).

The utilisation of tax losses and a deferred tax credit arising on the amortisation of intangible assets has resulted in a tax credit for the year of £2.4 million (2018: £1.1 million)

The Group therefore reported a loss after tax from continuing operations of £8.5 million (2018: loss of £29.5 million), which equates to a basic loss per share of 2.12 pence (2018: loss per share of 11.97 pence).

Statement of Financial Position

The Group has property, plant, and equipment of £9.7 million (2018: £9.8 million) all of which are subject to depreciation as per the policies set out in the accompanying financial statements. During the year there were additions of £3.1million, £2.9m of this is in relation to the IFRS16 transition (2018: additions £0.6 million).

Further, intangible assets are £21.1 million (2018: £27.4 million) and are subject to amortisation as per the policies set out in the financial statements.

Further, intangible assets of goodwill, trademarks, capitalised technology and customer contracts are £21.1 million (2018: £27.4 million) and are subject to amortisation as per the policies set out in the accompanying financial statements. There was a goodwill impairment charge of £3m in 2019 relating to the recoverability against future cashflows from IDE Group Connect (2018: £17.5 million).

Trade and other receivables reflect revenue reductions in comparison to the previous year at £7.6 million (2018: £8.9 million) including trade receivables of £5.4 million (2018: £6.4 million) after a credit loss provision of £0.6 million (2018: £0.7 million). Whilst the overall improvement in trade debtors can be attributed to the fall in year-on-year revenues, there have been reductions resulting from improved customer payments and an improvement in the aged profile resulting in lower credit loss provisions.

Contract liabilities arising from customers invoiced in advance of services delivered amounted to £1.9 million (2018: £3.0 million), which reflects the contract position at the year end.

Cashflow and net debt

Cash generated from operating activities during the year was £0.4 million (2018 cash used £5.8 million). Losses for the year saw a material improvement to £8.7 million loss (2018: loss of £32.6 million), and working capital reduced to £0.3 million (2018: £3.2 million).The Group invested £0.2 million (2018: £0.3 million) in fixed assets and net new financing amounted to £3.47 million (2018: £4.2 million). The net result is that as at 31 December 2019 there were no bank borrowings or overdraft debt and the cash balance was £0.7 million (2018: overdraft of £2.9 million).

During the year the Company raised £11.45 million by way of an issue of secured loan notes ("Loan Notes") in three tranches: one in January 2019, the second in March 2019 and the third in December 2019. The Loan Notes have a term of 6 years and an annual coupon of 12% which is compounded and payable at the end of the term. The proceeds of the issue of the Loan Notes were used to fully repay the revolving credit facility of £4.75 million and overdraft of £3.5 million provided by Natwest and provide additional working capital for the Group.

With the issue of the Loan Notes, the Group now has no external debt other than with its major shareholders and has longer-term funding, thereby affording security for all the Group’s stakeholders.

Dividend

The Directors do not propose a dividend in respect of the current financial year (2018: £nil).

Update and outlook for 2020

Following the cost reduction programme started in 2018, and a renewed focus on customer retention and service delivery, in order to drive increased profitability and cash generation; the Group ended the year in a much stronger position than it started it, with a strong and consistent leadership team, an appropriate cost base and clear focus on operational execution and customer service.

The additional refinancing has provided long term funding and means that the Company has no external debt, as the Loan Notes are held solely by shareholders, and predominantly by the largest shareholders.

Since the year end there has been an improvement in the pipeline of opportunities across the business both with existing and new customers and the Group has been trading at acceptable levels of profitably in the year to date.

The COVID-19 outbreak has presented the Group with an unexpected new set of challenges. On a macroeconomic level, it is too early to predict the medium-term impact on global and regional economies. The UK government has announced an unprecedented £100 billion+ fiscal benefits package to help cushion the impact on jobs and public and private sector industries. Although, as yet, the consequences of COVID-19 on the Group have been limited, it does have the potential to impact the UK economy, although with the easing of the COVID-19 lock down seen in early July the impact on the Group has been temporary and limited; to date IT managed services have remained buoyant during the UK-wide lock down, with increased reliance on mobile working and the need to facilitate customers' staff working remotely.

The Board remains confident of the Group's future prospects.

Going Concern

The Directors have taken advantage of the Government's Job Retention Scheme to furlough some staff members during the COVID-19 lockdown period, as well as senior staff taking a short-term 20% salary reduction, and also deferment of PAYE and VAT liabilities. There has been increased demand for lifecycle services which necessitated an increase in shifts and production, and this has offset minor reductions in user support desk activities.

The Directors have prepared detailed cash flow projections; these projections, considering reasonably possible changes in trading performance and the timing of key strategic events, including COVID-19, show the Group expects to operate within the level and conditions of available funding. The directors note, however, that although the cash flow projections show that the group expects to have sufficient cash resources throughout the forecast period, the levels of cash fluctuate and at times in the forecast period are relatively low. The continuing Covid-19 pandemic creates added uncertainties for the Group. Any reasonably possible deviation from the forecast cash inflows could result in the Group requiring additional funding.

The directors have discussed the future cashflows with two of the Group's major shareholders who are represented on the Board and, furthermore, note the continued support of these shareholders, as demonstrated by the refinancing during the year. In reaching their conclusion on the going concern assumption, the directors note and rely on the letter of support provided by MXC Capital Limited, in which they undertake to continue to provide such financial support needed for continued operations for a period not less than one year from the date of approval of these financial statements. The directors having made the necessary inquiries, have satisfied themselves of MXC Capital's ability to provide such finance if necessary.

After making enquiries and having regard to the FRC's Guidance to Companies on COVID-19 issued in March 2020, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Consolidated Income Statement
for the year ended 31 December 2019

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Continuing operations		
Revenue	**28,161**	41,137
Cost of sales	**(21,742)**	(34,521)
Gross profit	**6,419**	6,616
Administrative expenses excluding impairment	**(12,450)**	(18,522)
Impairment gain/(loss) on trade receivables	**(30)**	(725)
Impairment charge on goodwill and intangibles	**(3,000)**	(17,528)
Total administrative expenses	**(15,480)**	(36,775)
Adjusted EBITDA*	**1,143**	(3,886)
Exceptional items	**(588)**	(2,368)
Depreciation	**(3,241)**	(2,848)
Amortisation	**(3,289)**	(3,290)
Impairment charge on goodwill and intangibles	**(3,000)**	(17,528)
Loss on disposal of fixed assets	**-**	(441)
Charges for share-based payments	**(86)**	202
Operating loss	**(9,061)**	(30,159)
Finance costs	**(1,827)**	(389)
Loss on ordinary activities before taxation	**(10,888)**	(30,548)
Income tax	**2,411**	1,089
Loss for the year from continuing operations	**(8,477)**	(29,459)
Discontinued operations		
(Loss) after tax for the year from discontinued operations	**(179)**	(3,165)
Loss for the year attributable to owners of the parent company	**(8,656)**	(32,624)
From continuing operations		
Basic and diluted loss per share	**(2.12)p**	(11.97)p
From discontinued operations		
Basic and diluted loss per share	**(0.04)p**	(1.29)p
Total basic and diluted loss per share	**(2.16)p**	(13.29)p

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, exceptional items, loss on disposal of fixed assets and share-based payments

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Loss for the year attributable to the owners of the parent company	**(8,656)**	(32,624)
Items that are or may be reclassified subsequently to the income statement		
Foreign exchange translation differences	**-**	(23)
Total other comprehensive (loss)/ income	**-**	(23)
Total comprehensive loss for the year attributable to the owners of the parent company	**(8,656)**	(32,647)

Statements of Financial Position

As at 31 December 2019

	Group		Company	
				(Restated)**
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Non-current assets				
Property, plant and equipment	**9,706**	9,836	**-**	-
Intangible assets	**21,106**	27,395	**-**	-
Investments	**-**	-	**7,877**	7,877
Deferred tax asset	**1,821**	-	**-**	-
Trade and other receivables	**-**	-	**18,940**	26,782
	32,633	37,231	**26,817**	34,659
Current assets				
Trade and other receivables	**7,621**	8,893	**29**	46
Cash and cash equivalents	**679**	-	**103**	5,488
	8,300	8,893	**132**	5,534
Total assets	**40,933**	46,124	**26,949**	40,193
Current liabilities				
Trade and other payables	**7,562**	7,670	**2,075**	1,651
Contract liabilities	**1,926**	2,962	**-**	-
Borrowings	**1,766**	7,800	**-**	4,681
Provisions	**192**	1,514	**50**	50
	11,446	19,946	**2,125**	6,382
Non-current liabilities				
Contract liabilities	**6**	13	**-**	-
Borrowings	**14,333**	494	**12,474**	-
Convertible loan notes	**1,803**	1,654	**1,803**	1,654
Provisions	**230**	1,705	**-**	-
Deferred tax liabilities	**3,272**	3,899	**-**	-
	19,644	7,765	**14,277**	1,654
Total liabilities	**31,090**	27,711	**16,402**	8,036
Net assets	**9,843**	18,413	**10,547**	32,157
Equity attributable to equity holders of the parent				
Share capital	**10,020**	10,020	**10,020**	10,020
Share premium	**35,439**	35,439	**35,439**	35,439
Equity reserve	**967**	967	**967**	967
Retained earnings	**(36,433)**	(27,863)	**(35,879)**	(14,269)
Foreign currency translation reserve	**(150)**	(150)	**-**	-
Total equity	**9,843**	18,413	**10,547**	32,157

** Following the introduction of IFRS 9 with effect from 1 January 2018, the company was required to assess the expected credit losses on intercompany receivables. Management has discovered an error in the application of the standard in the year ended 31 December 2018 which resulted in an overstatement of the impairment provision made at 31 December 2018, and an understatement of the impairment provision in the opening position at 1 January 2018.

The error has been corrected by restating each of the affected financial statement line items for the prior periods; details are shown in note 2 below.

Statements of Changes in Equity

for the year ended 31 December 2019

Group	Share Capital (a)	Share Premium (b)	Equity reserve (c)	Retained Earnings (d)	Foreign currency translation reserve (e)	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2018	**5,018**	**35,439**	**-**	**4,963**	**(127)**	**45,293**
Total comprehensive loss for the year						
Loss for the financial year	-	-	-	(32,624)	-	(32,624)
Movement in foreign currency translation	-	-	-	-	(23)	(23)
Transactions with owners recorded directly in equity						
Share issues	5,002	-	-	-	-	5,002
Share based payments	-	-	-	(202)	-	(202)
Convertible loan notes	-	-	967	-	-	967
Balance at 31 December 2018	**10,020**	**35,439**	**967**	**(27,863)**	**(150)**	**18,413**
Total comprehensive loss for the year						
Loss for the financial year	-	-	-	(8,656)	-	(8,656)
Movement in foreign currency translation	-	-	-	-		
Transactions with owners recorded directly in equity						
Share based payments	-	-	-	86	-	86
Balance at 31 December 2019	**10,020**	**35,439**	**967**	**(36,433)**	**(150)**	**9,843**

(a) Share capital represents the nominal value of equity shares

(b) Share premium represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue.

(c) The equity reserve consists of the equity component of convertible loan notes that were issued as part of the fundraising in August 2018 less the equity component of instruments converted or settled.

The fair value of the equity component of convertible loan notes issued is the residual value after deduction of the fair value of the debt component of the instrument from the face value of the loan note.

(d) Retained earnings represents retained profits and accumulated losses

(e) On consolidation, the balance sheets of the Group's foreign subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses arising from the consolidation of these foreign subsidiaries are recognised in the foreign currency translation reserve.

Statements of Cash Flows

for the year ended 31 December 2019

Group

	2019 £000	Restated*** 2018 £000
Cash flows from operating activities		
Loss before tax for the year:		
Continuing operations	**(10,888)**	(30,548)
Discontinued operations	**(216)**	(3,292)
Total loss before tax	**(11,104)**	(33,840)
Adjustments for:		
Depreciation	**3,241**	3,033
Amortisation	**3,289**	3,549
Impairment charge	**3,000**	21,505
Net finance expenses	**1,827**	390
Share based payments	**86**	(202)
Loss on disposal of fixed assets	**-**	425
Loss/(profit) on disposal of subsidiary	**-**	(680)
	339	(5,820)
Decrease in trade and other receivables	**1,271**	6,284
Decrease in inventory	**-**	366
Decrease in trade and other payables and contract liabilities	**(1,355)**	(11,320)
(Decrease)/increase in provisions	**(208)**	1,485
Net cash generated from/(used in) operating activities	**47**	(9,005)
Cash flows from investing activities		
Proceeds from sale of subsidiary and PACT business, net of overdraft repaid	**-**	3,611
Acquisition of property, plant and equipment	**(177)**	(272)
Realisation/ (acquisition) of non-current financial assets	**-**	89
Proceeds from sale of fixed assets	**-**	23
Net cash (used in)/generated from investing activities	**(177)**	3,451
Cash flows from financing activities		
Interest paid	**(451)**	(320)
Share issue, net of expenses	**-**	3,752
New loans and borrowings, net of expenses	**11,520**	3,800
Repayment of loans and borrowings	**(4,750)**	(2,750)
Repayment of lease liabilities	**(2,605)**	(335)
Net cash generated from financing activities	**3,714**	4,147
Net increase/(decrease) in cash and cash equivalents	**3,584**	(1,407)
Cash and cash equivalents at 1 January	**(2,905)**	(1,498)
Cash and cash equivalents at 31 December	**679**	(2,905)
Cash and cash equivalents comprise		
Cash at bank	**679**	-
Overdrafts	**-**	(2,905)
	679	(2,905)

*** Restatement of 2018 Group cash flow statement. The comparative figures for the Group cash flow statement have been restated to start from the Group's loss before tax and show discontinued activities separately, with the corresponding removal of the tax charge from adjustments in arriving at cash from operating activities, as follows:

	2018
	£000
Cash flows from operating activities as originally stated	(32,624)
Add tax	(1,216)
Total loss before tax	(33,840)

Notes to the Consolidated Financial Statements

1 Accounting policies

IDE Group Holdings plc ("IDE Group") is a company incorporated in Scotland, domiciled in the United Kingdom and limited by shares which are publicly traded on AIM, the market of that name operated by the London Stock Exchange. The registered office is 24 Dublin Street, Edinburgh EH1 3PP and the principal place of business is in the United Kingdom.

The principal activity of the Group is the provision of network, cloud and IT managed services.

1.1 Basis of preparation

The consolidated financial statements of IDE Group have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The financial information set out in this preliminary announcement does not constitute the company's statutory financial statements for the years ended 31 December 2019 or 2018.

The Directors have taken advantage of the Government's Job Retention Scheme to furlough some staff members during the COVID-19 lockdown period, as well as senior staff taking a short-term 20% salary reduction, and also deferment of PAYE and VAT liabilities. There has been increased demand for lifecycle services which necessitated an increase in shifts and production, and this has offset minor reductions in user support desk activities.

The Directors have prepared detailed cash flow projections; these projections, considering reasonably possible changes in trading performance and the timing of key strategic events, including COVID-19, show the Group expects to operate within the level and conditions of available funding. The directors note, however, that although the cash flow projections show that the group expects to have sufficient cash resources throughout the forecast period, the levels of cash fluctuate and at times in the forecast period are relatively low. The continuing Covid-19 pandemic creates added uncertainties for the Group. Any reasonably possible deviation from the forecast cash inflows could result in the Group requiring additional funding.
The directors have discussed the future cashflows with two of the Group's major shareholders who are represented on the Board and, furthermore, note the continued support of these shareholders, as demonstrated by the refinancing during the year. In reaching their conclusion on the going concern assumption, the directors note and rely on the letter of support provided by MXC Capital Limited, in which they undertake to continue to provide such financial support needed for continued operations for a period not less than one year from the date of approval of these financial statements. The directors having made the necessary inquiries, have satisfied themselves of MXC Capital's ability to provide such finance if necessary. After making enquiries and having regard to the FRC's Guidance to Companies on COVID-19 issued in March 2020, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable

future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements. In the year ended 31 December 2019, the Group fully repaid its banking facilities with National Westminster Bank plc which consisted of a £4.75 million Revolving Credit Facility (the total facility was £7.5 million; £2.75 million was repaid in October 2018 with the proceeds of the disposal of 365 ITMS Limited) and a £3.5 million overdraft facility. The facilities were repaid with the proceeds of the issue of 6-year secured loan notes to certain of the Company's shareholders.

Based on the above the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

1.2 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the total of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

1.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of Valued Added Tax, returns, rebates and discounts and after the elimination of sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Recurring revenue

The largest portion of the Group's revenues relates to a number of network, cloud and IT managed services, which the Group offers to its customers. All of the revenue in this category is contracted and includes a full range of support, maintenance, subscription and service agreements. Revenue for these types of services is recognised as the services are provided on the basis that the customer simultaneously receives and consumes the benefits provided by the Group's performance of the services over the contract term. In terms of performance obligations, the customer can benefit from each service on its own and the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract. The transaction price for each service is allocated to each performance obligation. The costs incurred for these revenue streams typically match the revenue pattern. A contract liability is recognised when billing occurs ahead of revenue recognition. A contract asset is recognised when the revenue recognition criteria were met but in accordance with the underlying contract, the sales invoice has not been issued yet.

Project revenue

These project services include mainly installation and consultancy services. Performance obligations are met once the hours or days have been worked. Revenue is therefore recognised over time based on the hours or days worked at the agreed price per hour or day. The costs incurred for this revenue stream generally match the revenue pattern, as a significant portion of consultancy costs relate to staff costs, which are recognised as incurred. Consultancy services are generally provided on a time and material basis.

1.4 Application of new IFRSs and interpretations

International Financial Reporting Standard (IFRS) 16 "Leases"

The Group implemented IFRS 16 Leases as of 1 January 2019, adopting the modified retrospective approach. The new standard is effective for periods beginning on or after 1 January 2019. IFRS 16 removes the operating and finance lease classification for lessees in IAS 17 Leases and replaces them with the concept of right-of-use assets and associated financial liabilities. This change results in the recognition of a liability on the balance sheet for all leases which convey a right to use the asset for the period of the contract. The lease liability reflects the present value of the future rental payments, discounted using either the effective interest rate or the incremental borrowing rate of the Group. The operating lease charges previously reflected within administrative expenses (and EBITDA) have been eliminated and instead depreciation and finance charges have been recognised in respect of the lease assets and liabilities.

The effect of IFRS 16 for the current reporting period, based on the operating leases in place and qualifying for recognition under IFRS 16 has resulted in the recognition of additional lease assets within property, plant and equipment at 31 December 2019 of £5.5 million and additional lease liabilities of £5.5 million in total for the Group. Additional lease liabilities include £2.6m in respect of contracts which were determined to be onerous in prior periods. The related right of use assets were recognised at £2.6m and the onerous leases provision brought forward was transferred to the right of use asset impairment provision The depreciation charge against the right of use asset in 2019 has been calculated to be £0.7 million, with an interest charge of £0.3 million, which compares to the previous IAS 17 treatment which would have been an operating lease charge within operating expenses of £0.9 million, resulting in an increase in Adjusted EBITDA reported in 2019 of £0.9 million compared to the IAS 17 treatment.

The weighted average incremental borrowing rate applied to lease liabilities recognised by the group at 1 January 2019 is 7.97%.

When adopting IFRS 16 from 1 January 2019, the consolidated entity has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- excluding any initial direct costs from the measurement of right-of-use assets; and
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.
- The right-of-use-assets have not been assessed for impairment at 1 January 2019 but have been reduced by the amount of any onerous lease provisions at that date.

Impact of adoption

IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

	1 January 2019 £000
Operating lease commitments as at 1 January 2019 (IAS 17)	**2,476**
Adjustment to opening lease commitments in respect of lease extension	**1,345**
Operating lease commitments discount based on the weighted average incremental borrowing rate of 7.97% (IFRS 16)	**(887)**
Onerous contract provision leases for network infrastructure and properties now recognised as lease liabilities at 1 January 2019	**2,590**
Right of use assets recognised on transition to IFRS 16 on 1 January 2019	**5,524**
Lease liabilities - current (IFRS 16)	**2,924**
Lease liabilities - non-current (IFRS 16)	**2,600**
	5,524

There was no impact on retained earnings on transition.

The Company has no leases.

2 Restatement of Company results for the year ended 31 December 2018

Correction of error in assessing expected credit losses

Following the introduction of IFRS 9 with effect from 1 January 2018, the company was required to assess the expected credit losses on intercompany receivables. Management has discovered an error in the application of the standard in the year ended 31 December 2018 which resulted in an overstatement of the impairment provision made at 31 December 2018, and an understatement of the impairment provision in the opening position at 1 January 2018.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Balance sheet:	31 December 2018 as originally stated £'000	2018 (increase)/ decrease £'000	Transition to IFRS 9 increase/(decrease) £'000	31 December 2018 (restated) £'000
Amounts due from subsidiary undertakings	56,338	-	-	56,338
Provision against amounts due from subsidiary undertakings	(56,338)	2,470	24,312	(29,556)
Total amounts due from subsidiary undertakings	-	2,470	24,312	26,782
Net assets	5,375	2,470	24,312	32,157

Retained earnings	(41,051)	51,094	(24,312)	(14,269)
Total equity	5,375	51,094	(24,312)	32,157
Loss for the year	(57,390)	51,094	-	(6,296)

Changes to cash flow statement:

	31 December 2018 as originally stated £'000	(Increase)/decrease £000	31 December 2018 (restated) £'000
Loss for year	(57,390)	51,094	(6,296)
Adjustment for impairment of intercompany loans	-	5,245	5,245
Decrease/(increase) in trade and other receivables	58,811	(57,460)	1,351
Amounts (advanced to)/repaid by subsidiaries	-	1,123	1,123

3 Exceptional costs

In accordance with the Group's policy in respect of exceptional items, the following charges were incurred for the year in relation to continuing operations:

	2019 £000	2018 £000
Restructuring and reorganisation costs	**466**	2,105
Trademark dispute	**-**	263
Other exceptional costs	**122**	-
	588	2,368

Restructuring and reorganisation costs in the year ended 31 December 2019 and the year ended 31 December 2018 relate to costs incurred on the restructure of the Group, predominantly redundancy costs. Trademark dispute costs in the year ended 31 December 2018 relate to the settlement and associated legal costs in relation to the trademark dispute with Coreix Limited.

Other exceptional costs in the year ended 31 December 2019 relate mainly to costs associated with a break in at the Dartford facility.

4 Discontinued operations

On 12 October 2018, the Company sold the entire issued share capital of 365 ITMS Limited ("365 ITMS") and its subsidiaries to PTCA Newco Limited ("PTCA"), a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital (the "Sale"). The consideration for the Sale was £2.8 million, payable in cash. The proceeds of the Sale were used to reduce the Group's net debt.

In addition, as part of the Sale, certain assets relating to PACT, the Group's business unit focused on cyber security, including contracts and staff, were transferred to 365 ITMS for cash consideration of £0.2 million which was paid to the Group by 365 ITMS upon completion of the Sale.

The results for 2018 showed a loss on discontinued operations of £3.2m and a profit on disposal of subsidiary of £0.7m. Further losses of £0.2m were identified in the current year on contracts novated as part of the disposal.

5 Intangible assets

Group

	Goodwill £000	Trademarks £000	Customer contracts and related relationships £000	Technology development £000	Total £000
Cost:					
At 1 January 2018	38,381	1,707	30,187	1,095	71,370
Disposal of discontinued operations	(6,125)	-	(1,111)	(160)	(7,396)
At 31 December 2018	32,256	1,707	29,076	935	63,974
Additions	-	-	-	-	-
At 31 December 2019	**32,256**	**1,707**	**29,076**	**935**	**63,974**
Impairment and amortisation:					
At 1 January 2018	9,339	640	5,841	200	16,020
Amortisation for the year – continuing operations	-	341	2,865	84	3,290
Impairment charge – continuing operations	16,986	-	13,655	542	31,183
Reversal of impairment charge	-	-	(13,655)	-	(13,655)
Impairment charge – discontinued operations	3,977	-	-	-	3,977
Amortisation for the year – discontinued operations	-	-	259	-	259
Disposal of discontinued operations	(3,977)	-	(518)	-	(4,495)
At 31 December 2018	26,325	981	8,447	826	36,579
Amortisation for the year – continuing operations	-	341	2,865	83	3,289
Impairment charge – continuing operations	3,000	-	-	-	3,000
At 31 December 2019	**29,325**	**1,322**	**11,312**	**909**	**42,868**
Net carrying amount:					
31 December 2019	**2,931**	**385**	**17,764**	**26**	**21,106**
31 December 2018	5,931	726	20,629	109	27,395

The amortisation charge of £3.3 million relates to continuing operations and is included in the loss for the year from continued operations in the Income Statement within administrative expenses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is supported by calculating the discounted cash flows arising from the businesses acquired which represent the cash generating unit ("CGU") to which goodwill is allocated.

The Group's CGUs are considered to be the two trading subsidiaries, IDE Group Manage and IDE Group Connect. The goodwill held is attributable to the IDE Group Connect CGU.

Other intangible assets are reviewed for impairment indicators in line with the Group's accounting policy.

As a result of this review, there is an impairment charge of £3.0 million in the year (2018: £17.5 million).

The recoverable amount of all cash generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets for the year ending 31 December 2020 and extrapolated forecasts for a further four years by prudent growth rates applicable to the CGU, which are below bench-marked median revenue growth rates and EBITDA profitability levels for relevant sectors. The financial budgets were approved by the Board of Directors as part of our annual forecasting and budgeting process. A terminal value has been calculated based on a long-term growth rate of 2%. The recoverable amount in relation to IDE Group Manage was calculated to be £19.7 million and the recoverable amount in relation to IDE Group Connect was calculated to be £10.7 million.

The calculations used to compute cash flows at CGU level are based on the Group's budget, growth rates, WACC and other known variables. The calculations are sensitive to movements in both WACC and EBITDA. The pre-tax WACC has been estimated at 11% per annum (2018: 15%) for both CGUs with reference to comparable companies operating within the sector. Sensitivities have been run on cash flow forecasts for all CGUs. The Board is satisfied that the key assumptions, summarised below, of revenue, gross profit, and overhead growth rates are achievable.

	Manage	**Connect**
Carrying amount £000	12,007	13,781
Value in use £000	19,768	10,743
Key assumptions		
2020 forecast Revenue £000	16,694	14.054
2020 forecast Gross Profit £000	4,463	1,897
2020 forecast Overheads £000	3,842	1,091
Gross Profit growth rate 2021-2024	+10%	+5%
Overhead growth rate 2021-2024	+2%	+2%
Discount rate	11%	11%

The Board reviewed the Manage CGU for impairment in view of pre-tax losses incurred in the CGU, and based on the review do not consider there to be any impairment of the Manage CGU intangible assets. Given the Group's current pipeline and ability to undertake large projects which could result in higher gross margin, as well as the fact that further direct cost savings are in the process of being identified, the Board is satisfied with the rates of growth in the base case and believe there could be significant upside and is therefore satisfied that there are no reasonably plausible scenarios which may result in an impairment of the Manage CGU's intangible assets. Accordingly, no sensitivity analysis is presented.

For the Connect CGU, the impairment review indicated a requirement for a further £3 million impairment against goodwill for the year (2018: £17.0 million) based on a shortfall of the estimated value in use compared to the carrying value CGU. The CGU's performance has improved compared to prior years, but the recovery has been slower than forecast.

The remaining unamortised life of the intangible assets at 31 December 2019 is as follows:

- IDE Group Connect Trademarks – 1 year, net carrying value £0.4 million
- IDE Group Connect Technology – 1 year, net carrying value £0.03 million
- IDE Group Connect novated customer contracts and related relationships- 5 years, net carrying value £6.8 million
- IDE Group Connect legacy customer contracts and related relationships- 1 year, net carrying value £0.4 million

- IDE Group Manage customer contracts and related relationships – 9 years, net carrying value £10.6 million

Company

The company had no intangible assets at 1 January 2018, 31 December 2018 or 31 December 2019.

6 Borrowings

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Non-current				
Lease liabilities	**1,859**	494	**-**	-
Loan Notes	**12,474**	-	**12,474**	-
	14,333	494	**12,474**	-

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Current				
Bank loan	**-**	4,750	**-**	4,750
Unamortised loan arrangement fee	**-**	(69)	**-**	(69)
Bank overdraft	**-**	2,905	**-**	-
Lease liabilities	**1,766**	214	-	-
	1,766	7,800	-	4,681

The carrying value is not materially different to the fair value of these liabilities.

Bank facilities

During the year ended 31 December 2018 the Group's borrowings were with National Westminster Bank plc ("Natwest") and comprised a five-year, fully drawn £4.75 million Revolving Credit Facility ("RCF") and a £3.5 million overdraft facility (the "Facilities"). Interest was payable on the utilised RCF at 2% above LIBOR.

In January 2019 the Company issued £5.3 million of secured loan notes with a six-year term and a 12% coupon which is compounded, rolled up and payable at the end of the term ("Loan Notes"). The proceeds of the Loan Notes were used to repay £4.125 million to Natwest and the RCF was reduced to £625,000. In February and March 2019, a further £4.7 million in total of Loan Notes were issued to repay the remaining Facilities, which were then cancelled, and provide additional working capital. The Loan Notes carry an arrangement fee of 2.5 per cent., payable at the end of the term, and an exit fee of 2.5 per cent., also payable at the end of the term.

In December 2019 the Company issued an additional £1.5 million of Loan Notes (with the same terms as those issued in the first quarter of the year). The proceeds of the issue of the Loan Notes were used to fully repay all outstanding leases to which the Group was party and to provide additional working capital for the Company.

The Loan Notes are held at amortised cost using the effective interest rate method. The effective interest rate for the Loan Notes has been calculated to be 18%.

Lease liabilities

The present value of lease liabilities is as follows:

Group	Gross contractual amounts payable 2019 £000	Interest 2019 £000	Carrying amount 2019 £000
Less than one year	**1,945**	**179**	**1,766**
Between one and five years	**1,686**	**407**	**1,279**
Greater than five years	**644**	**64**	**580**
	4,275	**650**	**3,625**

Finance lease obligations at 31 December 2018 were:

Group	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	254	40	214
Between one and five years	558	64	494
	812	104	708

The Company has no lease liabilities at 31 December 2019 (31 December 2018: nil)

Reconciliation of borrowings:

Group	Non-current Lease liabilities £000	Current Lease liabilities £000	Non-current Borrowings £000	Current Borrowings £000	Total Borrowings £000
Balance at 1 January 2019	494	214	-	7,586	**8,294**
Non-cash changes					
Transfer from current to non-current	1,239	(1,239)	-	-	**-**
Lease liabilities recognised on transition	126	5,398	-	-	**5,524**
Loan note interest	-	-	1,089	-	**1,089**
Lease interest	-	318	-	-	**318**
Amortisation of loan fee	-	-	-	138	**138**
Loan fees accrued	-	-	-	(69)	**(69)**
Fees in respect of loan notes	-	-	(135)	-	**(135)**
Interest and other charges	-	104	-	29	**133**
Cash flows					
Issue of loan notes	-	-	11,520	-	**11,520**
Repayment of loan	-	-	-	(4,750)	**(4,750)**
Repayment of lease liabilities	-	(2,605)	-	-	**(2,605)**
Overdraft repaid	-	-	-	(2,905)	**(2,905)**
Interest paid		(422)		(29)	**(451)**
Balance at 31 December 2019	1,859	1,766	12,474	-	**16,099**

Company	Non-current Lease liabilities £000	Current Lease liabilities £000	Non-current Borrowings £000	Current Borrowings £000	**Total Borrowings £000**
Balance at 1 January 2019			-	4,681	**4,681**
Non-cash changes					
Loan note interest	-	-	1,089	-	**1,089**
Amortisation of loan fee	-	-	-	69	**69**
Fees in respect of loan notes	-	-	(135)	-	**(135)**
Interest and other charges	-	-	-	44	**44**
Cash flows					
Issue of loan notes	-	-	11,520	-	**11,520**
Repayment of bank loan	-	-	-	(4,750)	**(4,750)**
Interest paid	-	-	-	(44)	**(44)**
Balance at 31 December 2019	-	-	12,474	-	**12,474**

7 Convertible loan notes

Group and Company

	£000
Balance at 1 January 2019	1,654
Interest unwound	149
Balance at 31 December 2019	**1,803**

On 21 August 2018, as part of a wider fundraising, the Company issued £2.55 million of unsecured loan notes, which have a term of 5 years and a zero per cent coupon (“CLNs”). The CLNs can be converted into new ordinary shares in the capital of IDE at a price of 2.5 pence per share. Conversion is at the option of the holder at any time during the 5-year term. At the end of the term, if the holder has not chosen to convert the CLNs, the CLNs will be settled with a cash repayment. At issue, the CLNs have a fair value of £2.54 million, split into an equity component (£0.96 million) and a debt component (£1.58 million).

8 Post balance sheet events

Covid-19

The unprecedented and continually changing circumstances surrounding the COVID-19 outbreak provide an uncertain economic landscape.

Whilst it is difficult to predict accurately the potential long-term consequences, we remain vigilant and, in common with all businesses, are closely monitoring the situation and to date there has been no material adverse effect on the business as IT managed services have remained buoyant during the UK-wide lock down; with increased reliance on mobile working and the need to facilitate customers’ staff working remotely, in addition there has been increased demand for lifecycle services which necessitated an increase in shifts and production, and this has offset modest reductions in user support desk activities.

The Directors have taken advantage of the Governments Job Retention Scheme to furlough some staff members during the lock down period, as well as senior staff taking a short-term 20% salary reduction, and also deferment of PAYE and VAT cash payments to maximise cash flows.

We have continued to see new opportunities during lock-down, and believe that the demand for centralised managed services, cloud, user support desk, mobile working & collaboration, and over-arching business continuity solutions will provide good opportunities during the remainder of 2020.

We therefore do not expect an adverse effect on asset values, with the exception of some receivable balances, which we do not foresee being material due to the sectors in which our largest clients operate and the critical nature of the services we provide.

Nimoveri Acquisition

On 1 June 2020, the Group completed the acquisition of Nimoveri Holdings Limited, a small cloud and IT services business, for a total consideration of £200,000; £100,000 paid in cash on completion, and £100,000 of secured 0% loan notes redeemable 31 December 2021. The initial accounting for this is still incomplete.