30 September 2020

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

Unaudited Interim Results

IDE Group Holdings plc, the mid-market network, cloud and IT managed services provider, today announces its unaudited results for the six months ended 30 June 2020.

Summary

- Increased reliance on mobile working and the need to facilitate customers' staff working remotely, alongside increased demand for lifecycle services offset reduction in field, site and procurement as a result of the COVID-19 pandemic
- Business continuity plans successfully implemented and remote working facilitated across the business in response to the COVID-19 pandemic
- Revenue of £12.4 million (H1 2019: £14.7 million)
- Gross profit of £3.1 million (H1 2019: £3.6 million) representing an improved margin of 24.7% (H1 2019: 24.4%)
- Adjusted EBITDA* of £0.4 million (H1 2019: £1.2 million)
- Net debt** as at 30 June 2020 of £15.5 million, including gross cash of £0.5 million (31 December 2019: £15.0 million)

** before net finance costs, tax, depreciation, impairment charges, amortisation, exceptional items and share based payment charges*
*** excluding IFRS 16 liabilities*

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Andy Parker, Non-Executive Chairman

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

Non-Executive Chairman's Statement

Like many other companies, the COVID-19 pandemic has presented the Group with an unexpected new set of challenges. The Group was quick to implement its business continuity plan in response to the global outbreak of COVID-19 and successfully executed a transition to remote working across all of our operations.

The Board also took steps to conserve cash and maintain a satisfactory liquidity position. In particular, senior management took a short-term 20% salary reduction during the period and the Group took part in the Government's Job Retention Scheme resulting in a total of 56 members of staff being put on furlough; 32 of these staff members have since returned to work. A further 10 staff members returned from furlough and were made redundant and as at the date of this report, 14 people remain on furlough. Furthermore, the Group has deferred the payment of PAYE and VAT liabilities.

Trading in the first six months of the year saw a change in the mix of services provided due to the current COVID-19 crisis. While there was some significant additional business activity in the second quarter supporting the transition to mobile working, this was offset by the majority of our customers deferring projects into the second half or potentially into 2021. The Group continues to be impacted by a general level of churn in the business, in particular our cloud and networks divisions. The reorganisation of the business at the beginning of July, as further detailed below, is aimed at better addressing our customers' 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 operating margin improvement and deliver consistent growth in earnings in the medium and long-term.

Acquisition of Nimoveri

On 1 June 2020, the Group completed the acquisition of Nimoveri Holdings Limited ("Nimoveri"), 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 by 31 December 2021. In the month of June, Nimoveri generated revenue of £39k and a net profit of £16k. Nimoveri brings together the best of breed cloud and IT services and delivers these in a portfolio that allows the customers to select what best suits their requirements. Adam Eaton, the founder and sole shareholder of Nimoveri, has joined the Group as Managing Director of the 'Direct' business. Prior to founding Nimoveri, Adam was Sales Director at Pulsant Limited, the UK's leading colocation and cloud infrastructure provider.

Group Reorganisation

Post period end, on 1 July 2020, the Group was reorganised and certain customer contracts were novated from IDE Group Manage Limited, to IDE Group Connect Limited so that the business is now split into Partner and Direct. Partner includes the Group's business with channel partners and predominantly consists of lifecycle, field and site engineering and certain projects. Direct consists of the customers to which IDE provides services directly which include networking and connectivity, cloud and hosting, service desk as well as some field engineering and projects. The Directors believe that this revised split of the business will help to focus the sales team, which has been enhanced by several new hires, and better align services to support our customers' requirements.

Summary and Outlook

In the face of the COVID-19 pandemic, the Group took early measures to protect employees and ensure the continued support of customers and successfully executed a transition to remote working across all of our operations. We have continued providing uninterrupted service and support to our customers throughout this challenging period. I would like to thank our entire team for their cooperation as well as for quickly adapting to a new way of working.

Whilst the outlook for the UK economy remains uncertain it remains challenging to predict accurately business levels for the remainder of the current financial year to December 2020. However, the Board is confident that IDE is well positioned in the market with a product offering that is well aligned to customer requirements. There is a strong pipeline of opportunities, particularly in the newly formed Partner division, though the timing of these opportunities remains uncertain.

The Group is undergoing a programme of cost rationalisation which includes further redundancies to reflect the decrease in certain service lines as a result of the COVID-19 pandemic, as well as the ongoing data centre consolidation exercise, the benefits of which are expected to fall in 2021. Due to the uncertainty with respect to the timing of certain contracts and projects, the Board expects that both revenue and EBITDA will be lower in the second half of 2020 than that delivered in the first half. The internal cash flow projections show that the Group expects to have sufficient cash resources throughout the forecast period, however 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.

Our focus remains reducing the level of churn in the business and driving growth in sales, both from new and existing customers, as well as delivering improvements in operating margins resulting in consistent earnings growth.

Andy Parker
Non-Executive Chairman

Financial Review

Results for the six months to 30 June 2020

Revenue for the six months to 30 June 2019 was £12.4 million (H1 2019: £14.7 million). As detailed in the Non-Executive Chairman's report, the revenue mix was significantly different to the prior period as a result of the COVID-19 pandemic, with field, site and service desk revenues all down on the previous period. Project and lifecycle revenue, increased compared to the previous period predominantly due to the shift to home-working, however certain other project work has been deferred into the second half or even into next year. There was continued churn in the connectivity and hosting business, though since the period end a new management and sales structure has been put in place to help stem this churn and add new business both from existing and new customers.

Gross profit for the six months to 30 June 2020 was £3.1 million (H1 2019: £3.6 million), representing an overall gross margin of 24.7%, a slight increase compared to the comparative period.

At an Adjusted EBITDA* level the Group generated a profit of £0.4 million (H1 2019: £1.2m). The decrease in EBITDA was due to the decrease in revenues and gross profit whilst overheads remained largely static, as well as an increase in plc costs as a result of the appointment of a CFO in February, who has since left the business.

Exceptional costs amounted to £0.3 million (H1 2019: £0.4 million). Exceptional costs will increase in the second half of the year relating to unavoidable redundancies due to the necessary restructuring of the business as a result of the COVID-19 pandemic.

Net financial costs remained at £1.0 million (H1 2019: £1 million), which include interest on the loan notes issued in 2019 and which is payable at the end of their term as well as notional interest in relation to the convertible loan notes issued in 2018.

The loss after tax for the period was £3.6 million (H1 2019: £2.9 million).

Loss per share was 0.89p (H1 2019: 0.72p).

Cashflow and Net Debt

The Group's cash inflow from operating activities in the period was £0.9 million (H1 2019: outflow of £0.5 million). The Directors took advantage of the Government's Coronavirus Job Retention Scheme to furlough some staff members during the COVID-19 lockdown period and senior staff took a short-term 20% salary reduction. This, combined with the deferment of PAYE and VAT liabilities, amounting to c.£1 million helped the Group's working capital position.

The net debt balance (excluding IFRS 16 liabilities) at 30 June 2020 was £15.5 million (31 December 2019: £15.0), which comprised the secured loan notes issued in 2019 and the zero coupon loan notes issued in June, both held at amortised cost using the effective interest method (note 4), the convertible loan notes issued in 2018 (note 5) and non-IFRS 16 finance lease liabilities, net of cash of £0.5 million.

** before net finance costs, tax, depreciation, impairment charges, amortisation, exceptional items and share based payment charges.*

Consolidated Statement of Comprehensive Income

	Note	**Unaudited Six months ended 30 June 2020 £000**	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Continuing Operations				
Revenue		**12,425**	14,713	28,161
Cost of sales		**(9,351)**	(11,125)	(21,742)
Gross profit		**3,074**	3,588	6,419
Administrative expenses excluding impairment		**(5,887)**	(5,704)	(12,480)
Impairment charge on goodwill		**-**	-	(3,000)
Operating loss		**(2,813)**	(2,116)	(15,480)
Analysed as:				
Adjusted EBITDA*		**361**	1,218	1,143
Exceptional items	2	**(250)**	(410)	(588)
Depreciation of property, plant and equipment		**(1,295)**	(1,491)	(3,241)
Amortisation of intangible assets		**(1,630)**	(1,433)	(3,289)
Impairment of goodwill & intangibles		**-**	-	(3,000)
Loss on disposal of fixed assets		**-**	-	-
Charges for share based payments		**-**	-	(86)
Net financial costs		**(966)**	(1,007)	(1,827)
Loss before taxation		**(3,779)**	(3,123)	(10,888)
Income tax		**200**	200	2,411
Loss for the period from continuing operations attributable to owners of the parent company		**(3,579)**	(2,923)	(8,477)
Discontinued operations				
Loss after tax for the year from discontinued operations		**-**	-	(179)
Loss for the period after taxation		**(3,579)**	(2,923)	(8,656)
Other comprehensive income:				
Items that are or may be classified subsequently to profit or loss:				
Foreign exchange translation differences – equity accounted investments		**-**	6	-
Loss for the period and total comprehensive income attributable to equity holders of the parent		**(3,579)**	(2,917)	(8,656)
Basic and diluted loss per share – continuing operations	3			
Basic (pence per share)		**(0.89)**	(0.73)	(2.12)
Diluted (pence per share)		**(0.89)**	(0.73)	(2.12)

* Earnings from continuing operations before net finance costs, tax, depreciation, amortisation, impairment charges, share based payments and exceptional costs

Consolidated Statement of Financial Position

	Note	**Unaudited 30 June 2020 £000**	Unaudited 30 June 2019 £000	Audited 31 December 2019 £000
Non-current assets				
Intangible assets		**16,546**	20,267	18,175
Goodwill		**3,115**	5,931	2,931
Property, plant and equipment		**8,433**	10,493	9,706
Deferred tax asset		**1,821**	-	1,821
		29,915	36,691	32,633
Current assets				
Trade and other receivables		**5,330**	7,970	7,621
Cash and cash equivalents		**466**	690	679
		5,796	8,660	8,300
Total assets		**35,711**	45,351	40,933
Current liabilities				
Trade and other payables		**5,805**	6,578	7,562
Deferred income		**1,073**	2,190	1,926
Taxation		**1,134**	342	-
Finance lease obligations		**1,195**	613	1,766
Provisions		**159**	770	192
		9,366	10,493	11,446
Non-current liabilities				
Deferred income		**62**	13	6
Borrowings	3	**13,330**	10,676	12,474
Convertible loan notes	4	**1,890**	1,750	1,803
Finance lease obligations		**1,545**	1,526	1,859
Deferred tax liabilities		**3,061**	3,698	3,272
Provisions		**192**	1,705	230
		20,080	19,368	19,644
Total liabilities		**29,446**	29,861	31,090
Net assets		**6,265**	15,490	9,843
Equity attributable to equity holders of the parent				
Called up share capital		**10,020**	10,020	10,020
Share premium account		**35,439**	35,439	35,439
Other reserves		**817**	811	817
Retained earnings		**(40,011)**	(30,780)	(36,433)
Total equity		**6,265**	15,490	9,843

Consolidated Statement of Changes in Equity

	Share capital (a)	Share premium (b)	Equity Reserve (c)	Retained earnings (d)	Foreign currency translation reserve (e)	Total
	£000	£000	£000	£000	£000	£000
At 31 December 2018	**10,020**	**35,439**	**967**	**(27,863)**	**(150)**	**18,413**
Total comprehensive income for the period						
Loss for the period	-	-	-	(8,656)	-	(8,656)
Transactions with owners recorded directly in equity						
Share based payments	-	-	-	(86)	-	(86)
At 31 December 2019	**10,020**	**35,439**	**967**	**(36,433)**	**(150)**	**9,843**
Total comprehensive income for the period						
Loss for the period	-	-	-	(3,579)	-	(3,579)
At 30 June 2020	**10,020**	**35,439**	**967**	**(40,011)**	**(150)**	**6,265**

(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.

Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Loss for the period	**(3,579)**	(2,917)	(11,104)
Adjustments for:			
Depreciation of property, plant and equipment	**1,295**	1,491	3,241
Amortisation of intangible assets	**1,629**	1,433	3,289
Impairment Charge	**-**	-	3,000
Net financial costs	**966**	1,007	1,827
Equity settled share-based payment expenses	**-**	-	86
Taxation	**(200)**	(200)	-
Other	**-**	(6)	-
	112	808	339
Decrease in trade and other receivables	**2,386**	923	1,271
Decrease in trade and other payables and contract liabilities	**(1,565)**	(1,521)	(1,355)
Decrease in provisions	**(71)**	(745)	(208)
	862	(535)	47
Net corporation tax recovered/ (paid)	**-**	-	-
Net cash generated/ (used) in operating activities	**862**	(535)	47
Cash flow from investing activities:			
Acquisition of Nimoveri, net of cash acquired	**(52)**	-	-
Acquisition of property, plant and equipment	**(14)**	(131)	(177)
Net used in investing activities	**(66)**	(131)	(177)
Cash flows from financing activities:			
Proceeds from borrowings, net of expenses	**-**	9,810	11,520
Repayment of loans and other borrowings	**-**	(4,750)	(4,750)
Repayment of finance lease obligations	**(887)**	(613)	(2,605)
Net interest paid	**(122)**	(186)	(451)
Net cash (used in)/from financing activities	**(1,009)**	4,261	3,714
Net (decrease)/ increase in cash and cash equivalents	**(213)**	3,595	3,584
Cash and cash equivalents at beginning of period	**679**	(2,905)	(2,905)
Cash and cash equivalents at end of period	**466**	690	679

Notes to the half-yearly financial information

1. Basis of preparation

The condensed consolidated interim financial information for the six-month period ended 30 June 2020 and 30 June 2019 is unaudited. This statement has not been reviewed by the Company's auditor. This condensed consolidated interim financial information was approved by the Board of Directors and authorised for issue on 30 September 2020. A copy of this half-yearly financial report is available on the Company's website at www.idegroup.com.

The Company is a public limited liability company incorporated and domiciled in Scotland. The address of its registered office is 24 Dublin Street, Edinburgh EH1 3PP. The Company is listed on the AIM market of the London Stock Exchange.

IDE and its subsidiaries have not applied IAS 34, 'Interim Financial Reporting' as adopted by the European Union, which is not mandatory for UK AIM listed companies, in the preparation of this half-yearly financial report.

This condensed consolidated interim financial information for the six-month period ended 30 June 2020 therefore does not comply with all the requirements of IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The consolidated interim financial information should be read in conjunction with the annual financial statements of the Company as at and for the year ended 31 December 2019, which were prepared in accordance with IFRS as adopted by the European Union.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 13 July 2020 and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Accounting policies

The accounting policies used in the preparation of the condensed consolidated interim financial information for the six months ended 30 June 2020 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union and are consistent with those that will be adopted in the annual statutory financial statements for the year ended 31 December 2020.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of IFRS, as adopted by the European Union, these financial statements do not contain sufficient information to comply with IFRSs. The accounting policies adopted in the interim financial statements are consistent with those adopted in the financial statements for the year ended 31 December 2019.

Exceptional items and other non-recurring items

Items which are material because of their size or nature and which are non-recurring are highlighted separately on the face of the income statement. The separate reporting of exceptional items helps provide a better picture of the Company's underlying performance. Items which may be included within the exceptional category include:

- spend on major restructuring programmes;
- significant goodwill or other asset impairments; and
- other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group and are highlighted separately in the income statement as management believe that they need to be considered separately to gain an understanding the underlying profitability of the trading businesses.

For further details, please refer to note 2.

Going concern

The condensed consolidated interim financial information has been prepared on a going concern basis.

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. In reaching their conclusion on the going concern assumption, the Directors note and rely on the letter of support provided by MXC Capital Limited at the time of approval of the financial statements for the year ended 31 December 2019 in July 2020, 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 those financial statements. The Directors having made the necessary enquiries, have satisfied themselves of MXC Capital Limited'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 condensed consolidated interim financial information.

2. Exceptional costs

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

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Restructuring and reorganisation costs	**245**	410	588

3. Earnings per share from continuing operations

The calculation of basic and diluted loss per share is based on results from continuing operations attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares for the purpose of calculating the basic and diluted measures in the reporting periods is the same. This is because the outstanding options would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33. Basic and diluted unaudited loss per share from continuing operations are calculated as follows:

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Loss attributable to shareholders	**(3,579)**	(2,923)	(8,477)
Weighted average number of shares	**400,802,032**	400,802,032	400,802,032
Diluted weighted average number of shares	**400,802,032**	400,802,032	400,802,032
Basic loss per share (pence)	**(0.89)**	(0.73)	(2.12)
Diluted loss per share (pence)	**(0.89)**	(0.73)	(2.12)

4. Borrowings

In 2019 the Company issued a total of £11.5 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 the term loan, revolving credit facility and finance leases the Group had with National Westminster Bank plc. 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.

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%.

On 1 June 2020, the Company issued a total of £0.1 million zero coupon loan notes redeemable by 31 December 2020.

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Loan Notes	**13,330**	10,676	12,474

5. Convertible Loan Notes

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 had a fair value of £2.54 million, split into an equity component (£0.96 million) and a debt component (£1.58 million).

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Balance at beginning of period	**1,803**	1,654	1,654
Additions	**-**	-	-
Interest unwound	**87**	96	149
Total	**1,890**	1,750	1,803