RNS Number : 5600C
Vianet Group PLC
13 June 2023

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Vianet Group plc

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

Final Results (unaudited)

A year of gathering momentum with strong prospects

Dividend reinstated

The following amendments have been made to the "Final Results (unaudited)" announcement released on 13 June 2023 at 07:00 under RNS No 4616C.

- The Record Date for the dividend has been amended from Thursday, 14 September 2023 to Friday, 15 September 2023
- In the cash flow statement the net interest payable has been amended from £230,000 to £206,000 and the repayments of borrowings has been amended from £756,000 to £992,000
- Note 6 to the accounts supporting the statement of cashflows ahs been amended to reflect the above state changes.

All other details remain unchanged.

The full amended text is shown below.

Vianet Group plc (AIM: VNET), the international provider of actionable data and business insight through devices connected to its Internet of Things platform ("IOT"), is pleased to announce its unaudited results for the year ended 31 March 2023 and a reinstated proposed final dividend of 0.5p per share.

Financial highlights

- Revenue increased 6.7% to £14.11m (FY2022: £13.22m);
- Recurring revenues remained strong at 89% (FY2022: 88%) increasing by £1.19m to £12.56m;
- Gross margin increased slightly to c. 66% (FY2022: c.65%);
- Adjusted operating profit, pre-exceptional costs, amortisation, and share-based payments of £3.11m, an increase of 31% (FY2022: £2.36m);
- Profit before tax £0.45m (FY2022: £0.17m loss);
- Basic earnings per share 0.56p (FY2022: 0.65p) net of £0.29m tax charge vs FY2022 credit of £0.36m;
- Net cash generation pre-working capital £4.45m (FY2022: £2.74m), including accrued tax rebate of £0.92m;
- Normalised profit to cash conversion was 102.8% of EBITDA; and
- Dividend policy reinstated, with proposed final dividend of 0.5p per share.

Divisional & Operational highlights

- The average recurring revenue per connected device grew to £60.19 (2022: £54.02), 11.4% year on year growth;
- Smart Machines adjusted operating profit increased 10.4% to £2.01m (FY22: £1.82m), despite £0.45m of stock premium costs;
- Smart Machines added 11,062 new connected devices (FY22: 12,895) despite the vending sector distraction of planning related to the UK-wide 3G switch-off;
- SmartContact Pro all-in-one contactless and telemetry wins vending industry award as best payment system and launch of SmartVend in H1 2023 strengthens Smart Machines' offering;
- Smart Zones revenue increased 4.2% to £8.16m (FY2022: £7.83m) with operating profit up 26.7% to £3.79m (FY2022: £2.99m);
- Smart Zones' net installation base solid at 9,800 as ongoing investment and a pipeline of new installations offset a slowing rate of hospitality sector closures; and
- Post year-end acquisition of trade and assets of US based Beverage Metrics Inc (BMI) and receipt of HMRC tax refund of £0.92m.

Commenting, James Dickson, Chairman of Vianet Group plc, said:

" *I am pleased to report that the proactive measures we implemented over the past few years together with the dedication and hard work of our staff have yielded excellent results.*

The business has recovered strongly and is now performing in line with pre-pandemic levels. During the year we focused on new *initiatives to ensure that customer relationships were maintained, along with new connections delivering recurring revenue growth over the period. Although pressures on global semi-conductor supply chains and uncertainty from the conflict in Ukraine remain, we are confident that our sales will continue to grow, moving towards higher profits and wider markets.*

Our focus over the last year has been on prudent cash management, a further strengthening of our relations with customers and strategic investment in sales and technology. These efforts now place the Company on a sound footing and will enable us to scale sustainable growth in both existing and new vertical markets.

The Smart Machines division reported 11,062 new connected devices and is well placed to convert current and future opportunities given our investment and the continued trend towards non-cash transactions. Two significant recent contract wins and the launch of SmartVend solution, expected in H1 2023, give us confidence that the division will continue to grow strongly. Our SmartContact Pro all-in-one again won best payment system, against international competition, at the 2023 vending industry awards held last week.

Smart Machines offers industry leading end-to-end product suites, supporting growth prospects, with a clear line of sight toward a doubling of the business by the end of FY25.

The Smart Zones division recovery continued with new contract wins during the period. The launch of SmartDraught generated an increased appetite from existing and prospective customers for the inherent value of our market data. In collaboration with Oxford Partnership, our offering guides decision-making and enhances customer profitability, giving Vianet an exciting opportunity to capture market share and grow revenue.

Both divisions are capitalising on new vertical opportunities putting the Group on track to continue strong earnings growth. The Board is confident that Vianet is well positioned to enter wider markets. While the pandemic has thrown its challenges our way, we feel that we have weathered the storm and are now pushing forward and making up for lost time and the reinstatement of the dividend is a reflection of our confidence in the future of the business.

- Ends -

James Dickson, Chairman & CEO, and Mark Foster CFO will provide a live presentation relating to financial results for the year ended 31 March 2023 via the Investor Meet Company platform on 13th June 2023 at 10:30am GMT.

The presentation is open to all existing and potential shareholders. Questions can be submitted pre-event via your Investor Meet Company dashboard up until 9am the day before the meeting or at any time during the live presentation.

Investors can sign up to Investor Meet Company for free and add to meet Vianet Group via:

https://www.investormeetcompany.com/vianet-group-plc/register-investor

Investors who already follow Vianet Group plc on the Investor Meet Company platform will automatically be invited.

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CHAIRMAN'S STATEMENT

Introduction

I am delighted to report that the Group has continued to build on positive commercial momentum in all areas through FY2023. This positions us exceptionally well to capitalise on the exciting growth opportunities, not only in the UK but in the USA and Europe for FY2024 and beyond.

Global semiconductor supply chain pressures, high inflation resulting from the Ukraine conflict and customers taking time to develop strategic connectivity plans to address the mobile network operators' ('MNO') 3G switch-off were issues that had to be navigated in FY2023. However, the underlying trends remain strong, and given the visibility we have, and the relationships we have nurtured, we see FY2024 accelerating as it benefits from customer estate upgrades to 4G LTE.

Encouragingly, sales grew c.7% to £14.1m (FY2022: £13.2m), delivering an adjusted operating profit of £3.11m compared to FY2022 £2.36m, representing c.31% year-on-year growth. We have always had a rigorous drive to grow the top line and on maximising the business' profitability which in return has enabled reinstatement of dividend payments. All these are true testaments to the team's hard work.

We were delighted to announce the acquisition of the trade and assets of Beverage Metrics Inc. (BMI) post year-end. We have known the BMI team for some years and believe that the comprehensive inventory platform that they have developed will enhance our existing draught beer management solution as well as directly expanding our US footprint. Together with SmartDraught, these form the most compelling beverage management solution available for hospitality operators in the USA and UK.

In May 2020, a £3.5m Coronavirus Business Interruption Loan (CBIL) was taken to support recovery and investment in technology and commercial operations. Our strong operational cash generation has permitted the relatively aggressive repayment of £0.7m per annum plus interest, and the outstanding balance stands at £2.1m at the end of May 2023.

Management is pleased to confirm that post year end we successfully completed negotiation and due diligence with HSBC on significantly improved finance facilities which are in the process of completion and are due to commence in Q2 FY2024. Given how the lending market has tightened during 2023, the fact that we have negotiated an increased facility on improved terms shows the financial strength of the business.

Dividend

The Group's FY2023 results, high levels of customer engagement, and commercial momentum provide confidence that in FY2024, the Group will benefit from solid revenue growth and high levels of cash generation.

While semiconductor supply pressure is becoming less of a concern there are still some uncertainties regarding prolonged inflationary pressures. That said the Group remains committed to achieving relatively aggressive repayment of loans. The new HSBC facility will offer flexibility to support ongoing investment in the business, particularly in relation to the exciting growth opportunities, including Vianet Americas

The Board has always considered the paying of a dividend to shareholders an important constituent of being a listed PLC, and, notwithstanding the pressures alluded to above, is delighted to announce our intention to reinstate our dividend policy. However, the Board considers it prudent to prioritise the preservation of the majority of cash for investment in growth, but recognising the significance of dividends as an important component of total shareholder returns, the Board proposes a FY23 dividend of 0.5p per share payable on 27 October 2023 to shareholders on the register on 15 September 2023.

Board Changes and Staff

Following Chris Williams' retirement from the Board at the AGM, Stella Panu was appointed as a Non-Executive Director and Chair of the Audit Committee. Stella brings a wealth of financial expertise, City experience, and a strong background in finance, strategy, and M&A activity. Her valuable contributions have been extremely helpful to the Board, and the Executive team, as we remain committed to executing on our growth strategy.

The Board and I have also agreed that I shall remain as interim CEO to ensure we continue to establish and maintain our strong sales, and growth momentum. Having previously served as CEO, and being a significant shareholder, I am committed to driving the Company forward during this crucial time.

The Board regularly evaluates its composition and effectiveness to ensure a balanced mix of experience and independence, supporting the business and our growth ambitions. The operational structure of the Group continues to evolve to address the growth opportunities, and I am pleased to report further growth and development of the management team, who continue to be highly motivated and focused on delivery.

Our exceptional people consistently demonstrate enthusiasm, commitment, and openness, underpinning the Group's excellent reputation among customers, suppliers, and stakeholders.

I take great pride and am extremely grateful for the unwavering commitment of our executive team, employees, and Board members in continuing to drive the Group's progress.

Conclusion and Outlook

FY2023 brought about positive outcomes in increased sales, profit, and cash generation. However, what really stands out is the remarkable customer engagement and momentum generated by introducing new solutions, partnerships, and commercial initiatives. This is particularly encouraging for the Company's future growth.

Our solutions empower customers to enhance their business performance, fostering deeper stakeholder relationships and creating substantial sales opportunities.

The Group is on track to deliver strong earnings growth across our two divisions and maximise the opportunities in new verticals for the financial year ending March 2024 and beyond.

Smart Machines leads the industry with its comprehensive product suite, strengthened by new releases of our SmartVend solution and the migration of existing customers to our exciting platform. Vianet received accolades for Best Supplier Website and Best Payment System at the vending industry awards, where our SmartContact Pro all-in-one contactless payment and telemetry solution prevailed over stiff international competition. With a strong commercial team, long-term contracts with major blue-chip customers, and a strong presence in the UK and European markets, we have a robust pipeline of opportunities for telemetry and contactless sales and data management.

- The partnership between Vianet and Suresite Group Ltd has bolstered our position in the fast-growing 'unattended' contactless payments sector. By combining Vianet's cutting-edge contactless payment hardware with Suresite's market-leading acquiring services, we can now offer a competitive, user-friendly, and highly secure payments solution that effectively future-proofs any unattended or automated retail business. This solution caters to various applications, from charging points and unmanned car washes to air and vacuum stations.
- In collaboration with Vendekin Technologies, the Group has introduced an innovative mobile payment solution based on QR codes offering customers a fast, secure, and convenient payment solution. Through this partnership, we can expand our offerings and equip our customers with the latest technology in the unattended retail industry, to enhance the customer experience and help drive growth.
- Smart Zones has a pipeline of new site installations in leased and tenanted pub companies. Integrating Vianet's draught beer management solution with the recently acquired BMI inventory platform offers customers a comprehensive drinks management solution that enhances profitability by reducing costs, improving productivity, and maximising sales. The integration also provides brewers a cost-effective brand monitoring and market insight solution. While the US operation may be initially loss-making in FY2024, it's expected to approach breakeven position by the year-end. More importantly, this acquisition should support Vianet's growth in UK hospitality and be a step forward in developing a profitable footprint in the USA.
- Investing in our technology and commercial activity has attracted strong interest from the environmental, catering, forecourt, and tank monitoring sectors, with a breakthrough expected in H1 FY2024.
- The continued investment in our cloud infrastructure and mobile technology will drive the development of existing revenues in Smart Machines and Smart Zones. This investment will also enable scalability, flexibility, and speed, which are crucial for supporting rapid growth in both existing and new verticals.
- The Group has consistently high contracted recurring income and fully expects to generate strong operating cash flow.

The Board remains confident in the Group's long-term growth strategy and ability to achieve earnings growth and expand future strategic options. While cash management is a priority, the Board's primary focus is on driving sales growth and seizing exciting growth opportunities.

James Dickson

Chairman

13 June 2023

STRATEGIC REPORT

James Dickson

Chairman and Chief Executive

The year to March 2023 was a year of recovering growth and re-establishing our market position. Having emerged from the pandemic, we have successfully navigated the global semiconductor chip supply problems and are progressing well in a high-inflation economy.

Our core business provides connectivity to assets, enabling the collection of operational data and the production of actionable analytics and insights to help customers transform their business performance. In a world increasingly reliant on Internet of Things and AI we believe that we are at the forefront of our industry, not only in providing solutions for today but developing tools for the future.

With Vianet's leading-edge contactless payment capability supporting customer sales growth from unattended retail machines, the business is well placed to strengthen its position in this rapidly developing area, with further contactless and data opportunities on assets in marketplaces such as petrol forecourts.

Our well invested cloud-based platform now supports much greater flexibility of device connection and data connectivity to the extent that it is possible to connect a range of business-critical third-party devices, not just those we supply.

In collaboration with customers and partners such as Suresite and Vendekin in unattended retail, we can identify compelling end-to-end solutions to address business opportunities. This combination of capabilities will enable us to drive sustained business growth over the coming years.

Whilst FY2023 has had its global challenges, the Group has made excellent progress executing key elements of our growth plan, including securing new and renewed customer contracts over several years, successfully launching SmartVend and our new market data insights, and establishing 'strategic go to market' partnerships. Via our contactless payment and telemetry solutions, we have strengthened customer relationships and helped secure new business in existing new verticals, such as retail, fuel forecourts and industrial kitchens.

Post year-end, we acquired the trade and assets of BMI, which, combined with our draught beer monitoring solution, establishes a comprehensive beverage management platform. Whilst the combined US operations will require initial investment during FY2024, the acquisition has accelerated our hospitality-related development roadmap enabling profitable expansion of our footprint in the USA and UK beyond our legacy leased and tenanted customers.

OPERATING REVIEW

Smart Zones

The Smart Zones division recovery continued strongly. Revenues rose by 4.2% at £8.16m (FY2022: £7.83m), with profit being up 26.7% at £3.79m (FY2022: £2.99m).

Sales improved to 259 (FY2022: 252) new site installations with 11 new contract wins, and 6 contract renewals as customers' needs and demand for data and insights grew.

Our UK estate had 603 (FY2022: 535) pub closures and 259 new installations, resulting in a net 344 site reduction (FY2022: 357), taking our installed base to c 9,800. Whilst it is difficult to predict the pace of closure rates and new openings, we believe this is now a sustainable leased and tenanted level.

The post year end trade and asset acquisition from BMI will accelerate our penetration of the UK hospitality sector beyond our current leased and tenanted footprint.

Building on the customer engagement of the last two years and the launch of SmartDraught and our insights portal, we see an increased appetite for market data insights. This is particularly relevant for the provision of retail data for brewers. Through our relationship with the Oxford Partnership, we deliver ground-breaking insights that support consumer-level decision-making for beer brands. We expect to show further growth in this exciting area in FY2024.

Adding our compliance service and data insight analytics to the BMI assets will result in a heightened emphasis on improving operational and retail performance. This strategic approach aims to drive value from pubs, especially those under private equity ownership, by maximising their return potential.

<u>Vianet Americas Inc ("VAI")</u>

VAI saw losses increase to £150k for FY2023 (Fy2022: £127k loss), impacted by the pandemic related loss of over 250 units with AMC Theatres.

The acquisition from BMI included customers, an established inventory operating platform, software IP, patents for barcode 3D scanning and advanced technology for point-of-sale data integration.

The combination of Vianet's SmartDraught draught beer management solution with BMI's inventory platform provides a comprehensive one-stop drinks management solution which enables operators to reduce costs, improve productivity and maximise sales, and drive improved profitability across the entire drinks category. SmartDraught integration with the inventory platform will also enable Vianet to provide brewers with a more cost-effective and competitive brand monitoring and market insight solution.

Together with our recent investment in SmartDraught, this acquisition positions Vianet's hospitality operations firmly on the path to growth in the UK and to establishing a profitable footprint in the USA, where we benefit from direct access to a significant number of national retail chains.

The opportunity for the Company in the US, the world's largest single-operator market, remains significant. While the combined US operations will require investment and is expected to be loss-making during FY2024, we anticipate monthly loss to have narrowed significantly by year-end and remain committed to establishing a significant US profit centre.

Overall, the Board remains confident that the Smart Zones division will see growth and deliver enhanced turnover, profit, and cash returns to the Group.

Smart Machines

Our investment in sales and marketing, including a new CRM system, resulted in solid business gains, including 75 new customer contract wins, which provides a healthy pipeline to underpin our growth plans.

Turnover was up 10.5% at £5.95m (FY2022: £5.38m), with operating profit up 10.4% at £2.01m (FY2022: £1.82m).

The number of connected devices was 11,062 (FY2022: 12,895). Post machine rationalisation, the total connected devices grew 11.6% to 53,800 at the year-end (FY2022: 48,000).

The division made good progress despite short-term challenges, namely:

- Global semiconductor component supply pressure, whilst easing during the FY2023, added £0.45m to our component costs, impacted component supply chains and slowed down our customers' introduction of new vending machines.
- The continued uncertainty around the pace of office re-openings and changing working habits regarding remote working has made it challenging for vending operators to determine new site economics.
- The MNO 3G sunset, or switch-off, is a short-term distraction to vending operators developing plans to upgrade machines from 3G to 4G LTE. Whilst this has dampened short-term demand, Vianet has developed the Vianet Assist hardware support package, which will result in upgrade activity and footprint expansion.

The division's recurring revenues grew 16.5% YOY by £0.63m and now represent 80% of turnover (FY2022: 77%).

As has been widely reported in the press, the trend toward non-cash transactions is growing significantly, with contactless payments giving a fast, easy, and secure transaction in a world where fewer people carry cash. Contactless payment solutions drive increased machine utilisation and sales for our customers, who benefit from the reduced cost of cash handling, improved cash flow and secured payment.

handling, improved cash flow and assured payment.

We believe that there is a significant opportunity to drive growth in the unattended retail market by delivering market-leading analytics and insight into premium coffee and unattended retail snack & can channels from new device connections and the rollout of contactless payment capability, as well as other market verticals such as fuel forecourts.

The market opportunity for the Group is significant even when limited to the immediately addressable market of over 300,000 vending machines in the UK. It is estimated that the wider addressable market in mainland Europe is nearer 3 million devices, and there are 15 million machines worldwide, of which only c.30% have any form of connectivity.

Our contactless payment solution is supported by leading industry partners Elavon, Worldpay and NMI and is enhanced by establishing our PCI Master Merchant service. This allows us to speed up the onboarding of customers for payment capability and provide a more cost-effective reconciliation and payment service to our customers.

Contactless payment remains a desirable solution in a market where traditional cash-only payments have long inhibited vending-related usage, consumption, and customer experience. We believe the evolution and growth of contactless payment solutions, QR code technology and the insight from our telemetry firmware will materially change this dynamic and attract more consumers to the vending vertical.

In summary, the growth prospects for our Smart Machines business are positive, and there is a clear line of sight toward a doubling of the business by the end of FY2025.

R&D Investment

R&D investment is vital to maintaining the Group's market position and thus we have continued to invest in delivering our product roadmap and operational capabilities.

- SmartVend vending management software service module released in Q3 FY2023 with a finance module due for release in Q1 FY2024. Customer migrations should be complete by spring 2024.
- SmartDraught hardware and software development, partially in collaboration with BMI, has resulted in enhanced features and reduced the cost of both hardware and support.
- SmartInsight market insight portal developed and launched.
- Speed and latency of our solutions has improved with incremental hardware development to adapt existing technology for new verticals.

Further product enhancements, migration of all customers to SmartVend, integration of BMI, and securing new market verticals for telemetry and contactless payments on a cloud-based platform will further boost our services to customers in existing and new verticals.

The Board believes the investment in data capture technology, our core data management capability, and management software platforms will continue to deliver growth and enhance the quality and visibility of our recurring revenue streams.

LOOKING FORWARD

- Vianet has excellent momentum to take advantage of opportunities in remote asset management, contactless payment, and market data insights both in our core and new markets, whilst the recent BMI acquisition will enable growth in our hospitality operations. The launch of the SmartVend management platform in H2 2023 has been well received and will generate further operational efficiencies for our customers with complex migrations expected to complete in Q4 2024. This will further cement Smart Machines as the marketplace's leading end-to-end solution. Our highly motivated sales and commercial team in Smart Machines are continuing to accelerate growth from the significant pipeline of opportunities from existing and new customers in the c 3 million machine UK and Europe vending machine market. New business gains resulted in 75 customers being onboarded, helping us deliver significant new device sales.
- Smart Zones has a healthy sales pipeline in its core UK leased and tenanted sector driven primarily by our data capabilities. We expect new system sales in FY2024 to more than offset further pub closures. The combination of BMI's inventory platform and Vianet's draught beer monitoring creates a comprehensive and affordable beverage management solution which will also unlock opportunities for stock management, enhanced analytics, and insight, which will result in growth across all UK pub sectors and the USA. Continued Private Equity pub company ownership is expected to drive greater focus on operating and retail performance, where we are well placed to deliver value for customers.
- Growing demand for connectivity solutions, data capture, insights, and payment systems are driving new sales in our core hospitality and unattended retail sectors. The recent announcement of our partnership with Suresite, a leading forecourt retail specialist, and Vendekin QR payment specialists, demonstrates our progress toward leveraging our existing technology to extend our growth in other sectors such as catering and forecourt solutions where we anticipate good growth.

Whilst we are not immune from the global supply chain challenges or the economic backdrop, increasing demand for our highly relevant products will continue to drive growth, high-quality recurring income, and cash generation. Ongoing investment in product development and people is creating real momentum. The Group is confident that the team, products, and financial capabilities we have will continue delivering growth of the business.

The Board remains confident that momentum and sales will continue to build as we execute our long-term strategy and deliver sustainable earnings growth and profitability.

Finally, our high-calibre, energised team, robust strategy, and strong earnings visibility provides a natural platform for growth as we expand our IoT capability and deliver data and insight applications that help our customers make better decisions about their assets, to transform business performance.

FINANCIAL REVIEW

Mark Foster
Chief Financial Officer

FINANCIAL PERFORMANCE

Group operating profit, pre-exceptional costs, amortisation and share based payments was £3.11m (FY2022: £2.36m), being c77% of pre-pandemic performance, a strong momentum-based recovery in the last two years from the loss of FY2021 being the core pandemic year. It is important to recognise we have been impacted by c£450k of stock premium costs in the year, without which our operating profit would have been c£3.56m, versus a like for like last year of £2.59m allowing for c£230k of stock premium costs in FY2022 - £0.96m growth, c37%.

Despite some stock premium cost headwinds absorbed in the year, proactive management delivered robust gross margins at c. 66% (FY2022: 65%) reflecting the strength of the margin enhancing growing recurring revenue footprint.

TURNOVER

Turnover improved 6.8% by £0.9m to £14.11m (FY2022: £13.22m), with Smart Machines continuing its growth curve and best result to date, in addition to Smart Zones continued strong recovery with growing revenue and profit.

RECURRING REVENUE

Group contracted recurring revenue base remains very robust and has been strengthened by several new 3-5-year contracts, both from new customers and contract renewals.

Consolidated recurring revenue across the two divisions remained robust at 89% (FY2022: 88%), despite new sales being more capex based, but demonstrating the strength of a growing recurring revenue footprint. Overall actual recurring revenue grew 12% by £1.19m year on year, and it is set to continue.

The average recurring revenue per connected device grew to £60.19 (FY2022: £54.02), 11.4% year on year growth.

PERFORMANCE SUMMARY

Profit before tax was £0.45m (FY2022: £0.17m loss), being a material improvement from the low of FY2021 pandemic year. We took the opportunity to seek a tax refund, which was received post year end, for accrued R&D losses which has impacted the tax position in the year, which shows a tax charge of £291k after all tax movements. The table below shows the performance of the Group.

	FY2023	FY2022	Change
Revenue	£14.11m	£13.22m	6.7%
Operating profit[a]	£3.11m	£2.36m	31.4%
Profit/(loss) before tax	£0.45m	(£0.17m)	
Basic EPS	0.56p	0.65p	
Dividend per share	0.5p	0.0p	
Net debt	£3.37m	£3.00m	11.0%

a) Pre-exceptional items, share based payments and amortisation.

EXCEPTIONALS

Exceptional items of £122k was flat year of year (FY2022: £121k) largely comprised of corporate activity costs of £103k.

DIVIDEND

As noted in the Chairman's statement, the Board has proposed re-instating a dividend policy with a payment of 0.5p per share (FY22: nil).

CASH / FINANCING

Net cash generation pre-working capital movements was an inflow of £4.45m (2022: £2.74m which includes an accrued tax rebate of c£0.92m. Normalised cash generation was £3.53m, 113.6% of EBITA, and 102.8% of EBITDA - back at the healthy levels of profit to cash conversion we were used to seeing pre-pandemic.

Working capital was closely managed, noting the impact of semiconductor supply and stock premium costs together with inflationary pressures, which delivered a post working capital generation inflow of £2.04m (2022: £2.40m).Excluding the one off effect of the accrued tax refund of £0.92m, the underlying operational working capital drawdown was £1.49m (FY2022: £0.34m) which was significantly impacted by stock investment to manage the global semiconductor supply challenge and ensure we had stock on the shelf to service customers, together with increased trade debts from improving trade, and higher credit outflows funding that stock and increased VAT. Q4 of H2 FY2023 has seen that stock investment start to unwind which should continue in FY2024.

The cash generated was principally used to invest in R&D technology spend (as noted in the Chairmans and Strategic review), new recurring revenue rental assets, some delayed vehicle fleet refreshment, and servicing existing Lloyds bank debts, the CBIL, and mortgage obligations in the main, and overdraft interest costs. This resulted in an overall cash outflow of £1.37m (2022: £1.63m).

Post year end, we concluded negotiations and due diligence with HSBC on significantly improved finance facilities that materially reduces debt repayment requirements with a blend of RCF, new mortgage and term loan, allowing more of the cash generated to be invested in our products and services, and if we so choose, debt repayment, and dividend yield. The HSBC facility contracts are expected to complete by the end of June ahead of our audited Report & Accounts and Notice of AGM being released in July. In the interim whilst the Group finalises the new facilities with HSBC, which include migrating our mainstream banking, our existing bank Lloyds can extend to September 2023 or beyond.

At the year end, noting the stock premium costs incurred in the year of c£450k, pre-mortgage, CBIL and previous acquisition loans, the Group had gross cash of £0.07m (2022: £1.57m) and net debt of £3.37m (2022: £3.00m) - a solid position given those premium costs, and a funded growth plan that should deliver an improved cash generation bottom line.

The strong recovery over the last two years positions us well for FY2024 and beyond. We have incurred c £0.7m of stock premium costs in the last two financial years, but despite this, delivered growing cash generation to meet the needs of the business. This together with the planned improved bank facilities and the expected business plans we have developed over three indicative years, we believe we have solid cash runway forecasts well into 2024 and beyond, which will underpin our business strategy and allow for our growth plans.

DIVISIONAL PERFORMANCE

Currently the Smart Zones division principally consists of the core beer monitoring and insight business services (including the US).

SMART ZONES

	FY2023	FY2022
Turnover	£8.16m	£7.83m
Operating profit[a]	£3.79m	£2.99m
Profit/(loss) before tax	£2.97m	£2.23m
Connected devices	154,216	166,804
New site installations	259	252
YE Net premises[b]	c. 9,800	c. 10,100
iDraught penetration[b]	28.9%	30.2%

a) Pre-exceptional items, share based payments and amortisation.

b) UK, USA, and Europe

Recurring revenue of 95% (FY2022: 96%) with recurring revenue per device up 12.2% to £50.35 (FY22: £44.89).

Average adjusted operating profit per device in the year grew to £24.57 (2022: £17.93), up 37.0% reflecting a year of full billing.

The division has recovered well and ahead of what was expected at the outset of the year demonstrating both the customer engagement for the services we provided and the resilience of the revenue model. The net estate at the year-end was circa 9,800 sites (UK & Europe) versus last year's c. 10,100 (excluding USA), the reduction stemming from disposals and C19 impact.

Despite this, we were able to increase Smart Zones operating profit to £3.79m (FY2022: £2.99m), which was 65.4% of pre-pandemic performance.

SMART MACHINES

The Smart Machines division consists of telemetry insights and monitoring, and contactless payment predominantly in the unattended vending retail and coffee sector, as well as ERP and mobile connectivity services.

	FY2023	FY2022
Turnover	£5.95m	£5.38m
Operating profit [a]	£2.01m	£1.82m
Profit before	£1.65m	£1.59m

Profit before tax [b]	[illegible]	[illegible]
New Telemetry connections	2046	2,275
New Contactless connections	9,016	10,620
YE Net estate	53,758	48,179

a) Pre-exceptional items, share based payments and amortisation on a continuing basis.

b) FY2023 includes £nil of deferred consideration release (FY2022: £0.76m)

Recurring revenues were c80% of turnover (FY2022: c77%) reflecting the increasing recurring revenue footprint despite more capex sales this year. Recurring revenue grew c£630k year on year, c16.5%.

Semiconductor component global supply, and some change in working habits regarding remote working did impact the pace of new connected devices, but despite that, new contactless connections in our Smart Machines division continued to be achieved with 9,016 new contactless devices compared to 10,620 last year. The estate figures in the table above reflect the net movement which also includes some customers rationalising their estates in light of the new normal office working.

Average recurring revenue per device grew 3.33% to £88.42 (FY2022: £85.57), reflecting the increased footprint and is despite most sales in the year being capex based, and some customer estate refinement which would impact recurring revenue overall levels. As stated previously, this is an evolving growth story, with overall turnover and profit growth trends being driven by increased penetration of our contactless and telemetry solutions and so these measures will flex each year.

Profit per device is on a par with last year £37.45 (FY2022: £37.75), reflecting the impact of the stock premiums incurred during the year of around £450k compared to last year-round £230k. Without that impact, the year-on-year profit per device would have been nearer £41.54, growth of c£3.81, 10.0%. Indeed, the overall profit of £2.01m was held back by the stock premium costs, without which results would have been c£2.46m, representing a like for like growth of c20.1%.

Taxation

The Group has continued to utilise available tax losses during the year resulting in no tax being paid (FY2022, £nil). The Group will continue to utilise the available tax losses carried forward into FY2024, but we did elect to receive a refund of R&D tax losses for FY2021 and FY2022 amounting to c£922k, which was received post balance sheet. The impact of this on the brought forward tax losses and deferred tax position contributed to an overall tax charge of £0.29m (FY2022 tax credit £0.36m) recognising the impact of the tax losses available and being utilised.

Earnings per share

Basic EPS was 0.56p (FY2022: 0.65p). This reflects the step forward in results but impacted by the tax charge this year compared to the tax credit last year.

Balance sheet and cash flow

The Group balance sheet remains strong, very capable of supporting our growth position and is further enhanced post balance sheet by a more flexible HSBC bank facility which will in essence remove the aggressive CBIL repayment terms and term.

The Group generated operating cash flow pre working capital of £3.53m (FY2022: £2.74m) being 28.8% growth year on year.

Post working capital covered above, there was a net inflow of £2.04m (FY2022: £2.398m) impacted by £0.45m of stock premium costs (FY2022: £0.23m).

The cash generated was used to continue to invest in the Group's technology plans to service borrowings and acquire rental assets, alongside some delayed vehicle fleet refreshment.

At the year-end, the Group had borrowings of £3.44m (FY2022: £4.58m), including the CBIL facility and overdraft, with net debt of £3.37m (FY2022: £3.00m).

Our resilient balance sheet and capacity to generate cash provides the Company with a solid base to build on the results of FY2023 results to pursue the significant growth opportunities that have been identified.

Business risk

The Board and senior management review business risk two to three times per year. Naturally, over the last two years C19 has had its well documented impact. The last year has seen increased stock premium costs and an increased inflationary environment. The Directors had considered the areas of potential risk in assessing the Group's prospects. Based on their review, and having considered various factors such as market conditions, stock supply and premium costs, inflation, financial plans and approved new bank facilities, they believe that the business is of sound financial footing and has a forward looking sustainable operating future. They note that the business has achieved a good recovery financially in the year despite noting some of the hurdles they have faced, set against overall market confidence in liquidity and credit.

The Directors consider that material business risks are limited to:

- Inflation remaining for a long-term period and a return of significant stock premium costs.
- The potential for a cyber security breach where data security is compromised resulting in unauthorised access to information which is sensitive and/or proprietary to Vianet or its customers. This threat is in common with most technology businesses, however both short term and long-term mitigation plans continue to be in place. Payment Card Industry Data Security Standard (PCI DSS - Level 1) highest level of compliance has already been achieved to support the Group's contactless payment solutions and by May 2022 all on premise servers are in the cloud.

Key performance indicators

		Actual	Actual
	Target	**2023**	**2022**
Percentage of revenue from recurring income streams[1]	80%	88%	88%
Gross Margin[2]	70%	66%	64%
Employee Turnover[3]	2%	3.8%	3.5%

Notes to KPIs

[1] Percentage of revenue from recurring income streams = recurring income streams as a percentage of all income streams. Group trading companies aim to increase shareholder value through growth in revenue, linked to profitability (see Gross Margin below). Source data is taken from management information. The recurring contractual nature of the Company's income stream has led to continued improvement in performance versus target. The achievement of this target depends on the mix of new hardware sales versus on going recurring revenue.

[2] Gross Margin = Gross profit as a percentage of revenue. Group trading companies aim to generate sufficient profit for both distribution to shareholders and re-investment in the Company, as measured by Gross Margin.

[3] Employee Turnover = Gross trading companies aim to be seen as a good, attractive employer with positive values and career prospects, measured against internal People and Development reports. In addition to normal employee turnover, the figure also includes employees leaving because of business rationalisation activity.

Consolidated Statement of Comprehensive Income for the year ended 31 March 2023

	Note	Before Exceptional 2023 £000	Exceptional 2023 £000	Total 2023 £000	Before Exceptional 2022 £000	Exceptional 2022 £000	Total 2022 £000
Continuing operations							
Revenue		14,115	-	14,115	13,215	-	13,215
Cost of sales		(4,737)	-	(4,737)	(4,654)	-	(4,654)
Gross profit		9,378	-	9,378	8,561	-	8,561
Administration and other operating expenses		(6,273)	(122)	(6,395)	(6,198)	(121)	(6,319)
Operating profit pre amortisation and share based payments		**3,105**	**(122)**	**2,983**	**2,363**	**(121)**	**2,242**
Intangible asset amortisation		(2,254)	-	(2,254)	(2,195)	-	(2,195)
Share based payments		(71)	-	(71)	(83)	-	(83)
Total administrative expenses		(8,598)	(122)	(8,720)	(8,476)	(121)	(8,597)
Operating profit/(loss)		**780**	**(122)**	**658**	**86**	**(121)**	**(36)**
Net finance costs		(206)	-	(206)	(138)	-	(138)
Profit/(loss) before tax		**574**	**(122)**	**452**	**(53)**	**(121)**	**(174)**
Income tax (charge)/credit	1	(291)	-	(291)	361	-	361
Profit/(loss) and other comprehensive income for the year		**283**	**(122)**	**161**	**308**	**(121)**	**187**
Earnings per share							
Total							
- Basic	3			0.56p			0.65p
- Diluted	3			0.56p			0.63p

Consolidated Balance Sheet at 31 March 2023

	2023	2022
	£000	£000

Assets

Assets

Non-current assets		
Goodwill	17,856	17,856
Other intangible assets	5,425	5,976
Property, plant and equipment	3,370	3,262
Deferred tax asset	-	386
Total non-current assets	26,651	27,480
Current assets		
Inventories	2,275	1,573
Trade and other receivables	3,781	2,690
Cash and cash equivalents	69	1,583
	6,125	5,846
Total assets	32,776	33,326
Equity and liabilities		
Liabilities		
Current liabilities		
Trade and other payables	2,348	2,983
Leases	70	25
Borrowings	1,925	2,310
	4,343	5,318
Non-current liabilities		
Leases	122	-
Borrowings	1,517	2,273
Deferred tax liability	827	-
	2,466	2,273
Equity attributable to owners of the parent		
Share capital	2,880	2,880
Share premium account	11,711	11,711
Capital redemption reserve	15	15
Share based payment reserve	563	499
Merger reserve	310	310
Retained profit	10,488	10,320
Total equity	25,967	25,735
Total equity and liabilities	32,776	33,326

Consolidated Statement of Changes in Equity for the year ended 31 March 2023

	Share capital	Share premium account	Share based payment reserve	Merger reserve	Capital Redemption Reserve	Retained profit	Total
At 1 April 2021	2,895	11,709	437	310	-	10,238	25,589
Issue of shares	-	2	-	-	-	-	2
Cancellation of shares	(15)	-	-	-	15	(126)	(126)
Share based payments	-	-	83	-	-	-	83
Share option forfeitures	-	-	(21)	-	-	21	-
Transactions with owners	(15)	2	62	-	15	(105)	(41)
Profit and total comprehensive income for the year	-	-	-	-		187	187
Total comprehensive income less owners transactions	(15)	2	62	-	15	82	146
At 31 March 2022	2,880	11,711	499	310	15	10,320	25,735

At 1 April 2022	2,880	11,711	499	310	15	10,320	25,735
Share based payments	-	-	71	-	-	-	71
Share option forfeitures	-	-	(7)	-	-	7	-
Transactions with owners	-	-	64	-	-	7	71
Profit and total comprehensive income for the year	-	-	-	-		161	161
Total comprehensive income less owners transactions	-	-	64	-	-	168	232
At 31 March 2023	2,880	11,711	563	310	15	10,488	25,967

Consolidated Cash Flow Statement for the year ended 31 March 2023

	Note	2023 £000	2022 £000
Cash flows from operating activities			
Profit for the year		161	187
Adjustments for			
Net interest payable		206	138
Income tax charge/(credit)		291	(361)
Amortisation of intangible assets		2,254	2,195
Depreciation		519	489
Contingent consideration release		-	(76)
Loss on impairment of property, plant and equipment and businesses		24	83
Tax receivable		922	-
Share based payments		71	83
Operating cash flows before changes in working capital and provisions		**4,448**	**2,738**
Change in inventories		(702)	(142)
Change in receivables		(1,091)	68
Change in payables		(618)	(267)
		(2,411)	(341)
Cash generated from operations		**2,037**	**2,397**
Net cash generated from operating activities		**2,037**	**2,397**
Cash flows from investing activities			
Purchases of property, plant and equipment		(651)	(465)
Capitalisation of development costs		(1,699)	(1,975)
Purchases of intangible assets		(4)	(12)
Proceeds from disposal of property, plant and equipment		-	22
Net cash used in investing activities		**(2,354)**	**(2,430)**
Cash flows from financing activities			
Net interest payable		(206)	(138)
Repayment of leases		(65)	(28)
Issue of share capital		-	2
New leases		231	-
Cancellation of shares		-	(126)
Payment of contingent consideration		(16)	(16)
Repayments of borrowings		(992)	(1,289)
Net cash used in financing activities		**(1,048)**	**(1,595)**
Net decrease in cash and cash equivalents		(1,365)	(1,628)
Cash and cash equivalents at beginning of year		266	1,894
Cash and cash equivalents at end of year		**(1,099)**	**266**

Cash balance as per consolidated balance sheet	69	1,583
Bank overdrafts	(1,168)	(1,317)
Balance per statement of cash flows	(1,099)	266

Notes to the financial statements

1. Taxation

Analysis of tax charge/(credit) in year

	2023	2022
	£000	£000
Current tax credit		
- Amounts in respect of the current year	-	-
- Amounts in respect of prior periods	(922)	-
	(922)	-
Deferred tax charge/(credit):		
- Amounts in respect of the prior year	1,262	-
- Amounts in respect of the current year	(49)	(390)
- Amendment re-recognition of losses	-	29
Income tax charge/(credit)	291	(361)

Reconciliation of effective tax rate

The tax for the 2023 year is higher (2022: was lower) than the standard rate of corporation tax in the UK (2023: 19% and 2022: 19%). The differences are explained below:

	2023	2022
	£000	£000
Profit/(loss) before taxation		
- Continuing operations	452	(174)
Profit/(loss) before taxation multiplied by rate of corporation tax in the UK of 19% (2022: 19%)	86	(33)
Effects of:		
Other expenses not deductible for tax purposes	(17)	(20)
Non-taxable income	(44)	(33)
Losses not provided for	567	129
Adjustments for prior years	(922)	29
Amortisation of intangible assets	427	-
Research and development	194	(488)
Other differences	-	55
Total tax charge/(credit)	291	(361)

2. Ordinary dividends

	2023	2022
	£000	£000
Final dividend for the year ended 31 March 2023 of nil (year ended 31 March 2022: nil)	-	-
Interim dividend paid in respect of the year of nil (2022: nil)	-	-
Amounts recognised as distributions to equity holders	-	-

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2023. Total dividend payable 0.005p (2022: nil).

3. Earnings per share

Earnings per share for the year ended 31 March 2023 was 0.56p (2022: 0.65p).

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders being a profit of £161k (2022: £187k) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated on the basis of profit for the year after tax divided by the weighted average number of shares in issue in the year plus the weighted average number of shares which would be issued if all the options granted were exercised.

	2023			2022		
	Earnings £000	Basic earnings per share	Diluted earnings per share	Earnings £000	Basic earnings per share	Diluted earnings per share
Post-tax profit attributable to equity shareholders	161	0.56p	0.56p	187	0.65p	0.63p

	2023	2022
	Number	Number
Weighted average number of ordinary shares	28,808,914	28,949,491
Dilutive effect of share options	66,673	380,517
Diluted weighted average number of ordinary shares	28,875,587	29,330,008

4. Exceptional items

	2023	2022
	£000	£000
Corporate activity and acquisition costs	103	127
Corporate restructuring and transitional costs	17	61
Contingent consideration release	-	(76)
Network obsolesce costs	-	5
Other	2	4
	122	121

Corporate activity and acquisition costs relate to fees paid to corporate advisors in respect of prospective acquisitions and corporate evaluations.

Corporate restructuring and transitional costs relate to the transition of people and management to ensure we have to succession and calibre of people on board to deliver the strategic aims and aspirations of the Group.

The contingent consideration release in the prior year referred to the acquisition of Lookoutsolutions Limited in 2011. The balance was fair valued at the year end with the change in fair value recognised through the income statement, in that year, as the deferred period for consideration closed as at 31 March 2022.

5. Basis of preparation

In accordance with the Companies Act 2006, this preliminary report based on the unaudited financial statements has been prepared and approved by the Directors in accordance with UK adopted international accounting standards, and in accordance with the AIM rules and is not therefore in full compliance with IFRS. The company prepares its parent company financial statements in accordance with FRS 101.

The financial information for the year ended 31 March 2022 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The independent auditors' report on the full financial statements for the year ended 31 March 2022 was unqualified and did not contain an emphasis of matter paragraph or any statement under section 498 of the Companies Act 2006. This preliminary announcement does not constitute the Group's full financial statements for the year ended 31 March 2023.

The Group's full financial statements will be approved by the Board of Directors and reported on by the auditors in July-August 2023. Accordingly, the financial information for the year ended 31 March 2023 is presented unaudited in the preliminary announcement.

The consolidated financial statements have been prepared on an historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand, expressed in millions to one decimal point, except when otherwise indicated.
The Directors have prepared this financial information on the fundamental assumption that the Group is a going concern and will continue to trade for at least 12 months following the date of approval of the financial information. In determining whether the Group's accounts should be prepared on a going concern basis the Directors have considered the factors likely to affect future performance.

6. Notes supporting statement of cashflows

	Borrowings due within one year	Borrowings due after one year	Total
	£000	£000	£000
Net debt as 1 April 2021	(1,265)	(3,290)	(4,555)
Cash flows	134	1,017	1,151
Non cash-flows			
- Interest accruing in the year	138	-	138

Net debt at 31 March 2022	(993) *	(2,273)	(3,266)
Cash flows	236	756	992
Non cash-flows			
- Interest accruing in the year	-	-	-
Net debt at 31 March 2023	(757)**	(1,517)	(2,274)

* The net debt as at 31 March 2022 for borrowing due within one year of £993k as stated here, does not agree to the Balance Sheet amount of £2,310k, as this does not include the bank overdraft of £1,317k as at 31 March 2022.
** The net debt as at 31 March 2023 for borrowing due within one year of £757k as stated here, does not agree to the Balance Sheet amount of £1,925k, as this does not include the bank overdraft of £1,168k as at 31 March 2023.

Cash and cash equivalents for the purpose of the statement of cash flows comprises

	2023	2022
	£000	£000
Cash at bank available on demand	69	1,581
Cash on hand	-	2
Adjusted net cash generation	69	1,583

Non- cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions in Note 7.

7. Alternative Performance Measures

In the reporting of financial information, the Directors have adopted the APMs "Adjusted operating (loss)/profit", "Adjusted operating cash generation", and "Adjusted net cash generation", (APMs were previously termed 'Non-GAAP measures'), which is not defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMS, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. These APMs are also used to enhance the comparability of information between reporting periods and business units, by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and this remains consistent with the prior year. Adjusted APMs are used by the Group in order to understand underlying performance and exclude items which distort compatibility, as well as being consistent with public broker forecasts and measures.

	2023	2022
	£000	£000
Operating profit/(loss) (IFRS measure)	658	(36)
Add back:		
Amortisation charge	2,254	2,195
Share based payment charge	71	83
Exceptional items charge	122	121
Adjusted operating profit	3,105	2,363

8. Post balance sheet events

On 12th May 2023, the Company acquired the trade and assets of a US based business, BevMetrics Inc. (BMI).

BMI is based in Denver, being a USA based provider of inventory software solutions to the USA hospitality sector, and wholly owned subsidiary of Identec AG.

The acquisition consisted of software IP and patents, an established operating platform, and minor customers. BMI's five employees will be incorporated into Vianet's USA subsidiary Vianet Americas Inc. ("VAI") which has worked closely with BMI over the past couple of years.

The initial consideration payable to BMI is £577,500 and has been satisfied in the form of the issue of 700,000 ordinary Vianet shares at a price of 82.5p each with contingent consideration payable dependent on performance metrics. The contingent consideration, to be calculated as 7% of net revenue of VAI for the period 1 April 2024 through 31 December 2028, will be payable in cash annually and is capped at a maximum future contingent consideration of £4 million. That will be evaluated for the first time in the year ended March 2024.

The provisional fair values of assets and liabilities acquired is noted in the table below:

Asset /(Liability)	$	£ at $1.20/£1
Furniture F&F NBV	804.18	670.15
Computer equipment NBV	3,411.92	2,843.27
Patent related legal costs NBV	80,397.23	66,997.69
Trade Debts	22,074.63	18,395.53
Trade Creditors	(3,445.80)	(2,871.50)
Software and IP Intangible asset value	589,757.84	491,464.87
Price Paid Vianet Group plc shares at 82.5p	693,000.00	577,500.00

The trade and assets from the acquisition were transferred immediately on completion of the transaction to the Company's US subsidiary, Vianet Americas Inc. (VAI). VAI will continue to trade with the existing BMI customers as plans to expand evolve in the coming year.

Financing

At the time of publication, the company is in the process of moving banks from Lloyds to HSBC. The expected date of change is 1 August 2023.

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