RNS Number : 4207I
Tialis Essential IT PLC
07 August 2023

**Tialis Essential IT plc**
**("Tialis", the "Group" or the "Company")**

**7 August 2023**

**Unaudited Interim Results**

Tialis Essential IT plc, the mid-market IT managed services provider, today announces its unaudited results for the six months ended 30 June 2023.

**Financial Highlights**

- Revenue of £11.6 million (H1 2022: £6.7 million)
- Gross profit of £3.6 million (H1 2022: £2.4 million)
- Adjusted EBITDA* profit of £1.2 million (H1 2022: 0.9 million)
- Year two of the £22.5m contract previously announced is progressing to plan.

**Allvotec acquisition:**

- Completion of acquisition of profitable partner contracts from Allvotec, a division of Daisy Group
- The acquisition has brought three new channel partners to Tialis, supporting the diversification of Tialis' partner base
- Four Allvotec contracts have now been extended beyond the original end date.

**Organic Growth**

- Six new lifecycle contracts have recently commenced or are starting imminently
- National WiFi rollout won with a UK water company with expected value of £1m over 24 months
- Started new media company contract which will rise to an annualised value in excess of £1 million from 1st July 2023 for up to seven years
- Awarded new million pound plus support contract for national power supplier
- Started an all Lifecycle contract with major car rental company
- Significant new channel partnership in the final stages of agreement for Lifecycle services
- Very healthy pipeline of new prospects

**Andy Parker, Executive Chairman, commented:**

"The start to this year hasn't been without its challenges, with some major contracts having a delayed start but that aside we have delivered a strong first half with real momentum being felt in sales activity and conversion into new customers. We will now see the benefit of the delayed contracts in H2 which fills us with confidence for the full year outturn to deliver against board expectations. Furthermore, the board notes the continued decline in the Company's share price and is considering whether or not to use its authorities to buy back shares on the market if it deems it to be the best use of capital and accretive to shareholders."

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

**Executive Chairman's Statement**

On 1 February 2023, Tialis Essential IT Manage Limited, the trading subsidiary of Tialis Essential IT PLC, acquired the profitable partner contracts from Allvotec Limited, a division of Daisy Group, for an initial consideration of £2.042 million. An estimated £0.2 million of deferred consideration will be paid in shares, subject to certain performance conditions being met by February 2025, also at an effective price of 89.2 pence per ordinary share.

The acquisition has brought three new channel partners to Tialis, supporting the diversification of Tialis' partner base and will build on the existing relationship that Tialis has with its largest channel partner.

The first six months of the year have been a period of integration with Allvotec and strong financial and operational performance.

The business profile is like last year, with a stronger second half anticipated.

Management expect revenue for FY23 full year to show significant growth on FY22 full year.

In the first six months, the Company appointed two non-executive directors, Nick Bedford and Matthew Riley, broadening the skillset and independence of the board.

All our colleagues in Manage deserve a hearty thank you for the outstanding work delivered and service excellence enjoyed by our partners.

***Summary and Outlook***

The board continues to be pleased with the trading as we build for a profitable, cash generative year. We continue to build our base of customers and revenue. The Company has latter stage engagement with new partners that would deliver a meaningful uplift of revenues for 2023 and beyond.

We have a cash generative business and at an adjusted EBITDA level, we have a profitable business. Our plan is to continue with our organic initiatives that will continue to demonstrate growth. We intend to expand our partner network and are also looking to expansion into Europe. The Group will also consider growth through further acquisition and would consider synergistic targets that would expand and deepen our service offerings.

We can confidently look forward to a positive and rewarding future for Tialis shareholders.

Andy Parker
Executive Chairman

**Financial Review**

***Results for the six months to 30 June 2023***

Revenue from continuing operations for the six months to 30 June 2023 from operations was £11.6 million (H1 2022: £6.7 million).

Gross profit from continuing operations for the six months to 30 June 2023 was £3.6 million (H1 2022: £2.4 million), representing an overall decline in gross margin of 5 percent, compared to the prior period. The change in gross profit in the six months to 30 June 2023 was due to a change in product mix with less Lifecycle project work.

At an Adjusted EBITDA* level for continuing operations the Group generated a profit of £1.2 million (H1 2022: £0.9 million).

Exceptional costs amounted to £0.4 million (H1 2022: £0.04 million) and related predominantly to acquisition redundancy costs as a result of the synergies achieved. Going forward, we expect exceptional costs to decrease.

Net financial costs were £0.3 million (H1 2022: £1.4 million), which include £0.2 million of interest on the loan notes issued which is payable at the end of their term. In addition, the costs include £6,000 of notional interest in relation to the convertible loan notes.

The loss after tax for the period was £0.9 million (H1 2022: loss of £0.7 million).

Loss per share was 0.18p (H1 2022: loss per share 0.14p).

*Cashflow and Net Debt*

The Group's cash generated from operating activities in the period was £0.2 million (H1 2022 inflow of £0.7 million), reflecting positive underlying performance and careful management of working capital. The second half is expected to be stronger, with further improvements in working capital and a continued reduction in exceptions. The Group invested £0.04 million in fixed assets. There were no new borrowings, but repayment of lease liabilities consumed £0.1 million (H1 2022: £0.1 million). The net result is that as at 30 June 2023 there were no bank borrowings or overdraft debt and the cash balance was £0.5 million (H1 2022: £0.8 million). Net debt as at 30 June 2023 was £4.7 million (H1 2022: £19.3 million).

**Consolidated Statement of Comprehensive Income**

| **Continuing Operations** | Note | **Unaudited Six months ended 30 June 2023 £000** | Unaudited Six months ended 30 June 2022 £000 | Audited Year ended 31 December 2022 £000 |
|---|---|---|---|---|
| **Revenue** | 2 | **11,592** | 6,741 | 14,463 |
| Cost of sales | | **(8,013)** | (4,317) | (9,408) |
| **Gross profit** | | **3,579** | 2,424 | 5,055 |
| Other operating income | | **-** | - | - |
| Administrative expenses excluding impairment | | **(3,976)** | (2,210) | (4.011) |
| **Operating profit/(loss)** | | **(397)** | 214 | 1,044 |
| *Analysed as:* | | | | |
| Adjusted EBITDA* | | **1,203** | 942 | 1,950 |
| Non underlying items | 3 | **(355)** | (36) | (421) |
| Depreciation | | **(145)** | (98) | (208) |
| Amortisation | | **(1,032)** | (585) | (1,169) |
| Gain on the conversion of secured loan note | | **-** | - | 892 |
| Profit/(Loss) on the sale of assets | | **(1)** | (9) | - |
| Fair value loss on deferred consideration | | **(67)** | - | - |
| Net financial costs | | **(256)** | (1,440) | (2,324) |
| **Loss before taxation** | | **(653)** | (1,226) | (1,280) |
| Income tax | | **(292)** | 513 | 843 |
| **Loss for the period after taxation** | | **(945)** | (713) | (437) |
| **Discontinued operations:** | | | | |
| Profit on discontinued operations | | 9 | - | - |
| Derecognition of foreign currency reserve | | **-** | - | (150) |
| **Loss for the period and total comprehensive income attributable to equity holders of the parent** | | **(936)** | (713) | (587) |
| **Basic and diluted loss per share - continuing operations** | 4 | | | |
| Basic and diluted (pence per share) | | **(0.18)** | (0.14) | (0.10) |
| **Basic and diluted loss per share - discontinued operations** | | | | |
| Basic and Diluted (pence per share) | | **-** | - | (0.04) |
| Total basic and diluted profit/(loss) (pence per share) | | **(0.18)** | (0.14) | (0.14) |

* 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 2023** | Unaudited 30 June 2022 | Audited 31 December 2022 |
|---|---|---|---|---|

| | Note | 2023 £000 | 2022 £000 | 2022 £000 |
|---|---|---|---|---|
| ***Non-current assets*** | | | | |
| Intangible assets | | **8,179** | 7,647 | 7,062 |
| Property, plant and equipment | | **970** | 748 | 1,076 |
| Deferred tax asset | | **2,816** | 2,778 | 3,108 |
| Financial and other assets | | **100** | - | 100 |
| | | **12,065** | 11,173 | 11,346 |
| **Current assets** | | | | |
| Trade and other receivables | | **5,468** | 3,530 | 3,661 |
| Cash and cash equivalents | | **473** | 798 | 414 |
| | | **5,941** | 4,328 | 4,075 |
| **Total assets** | | **18,006** | 15,501 | 15,421 |
| ***Current liabilities*** | | | | |
| Borrowings | 5 | **-** | - | - |
| Trade and other payables | | **4,740** | 4,300 | 4,544 |
| Contract liabilities | | **924** | - | 51 |
| Finance lease obligations | | **210** | 162 | 210 |
| Provisions | | **-** | 113 | - |
| | | **5,874** | 4,575 | 4,805 |
| ***Non-current liabilities*** | | | | |
| Trade and other payables | | **174** | 900 | - |
| Borrowings | 5 | **3,711** | 18,422 | 3,490 |
| Convertible loan notes | 6 | **149** | 137 | 143 |
| Finance lease obligations | | **660** | 629 | 765 |
| Provisions | | **266** | 181 | 245 |
| | | **4,960** | 20,269 | 4,643 |
| **Total liabilities** | | **10,834** | 24,844 | 9,448 |
| **Net assets / (liabilities)** | | **7,172** | (9,343) | 5,973 |
| **Equity attributable to equity holders of the parent** | | | | |
| Called up share capital | | **12,610** | 12,418 | 12,586 |
| Share premium account | | **52,865** | 35,882 | 50,754 |
| Other reserves | | **58** | 58 | 58 |
| Retained earnings | | **(58,361)** | (57,701) | (57,425) |
| **Total equity** | | **7,172** | (9,343) | 5,973 |

**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 2021 (Audited) | 12,418 | 35,882 | 58 | (56,838) | (150) | (8,630) |
| ***Total comprehensive income for the period*** | | | | | | |
| Loss for the financial year and total comprehensive income | - | - | - | (713) | - | (713) |
| Loss on FX realised | - | - | - | (150) | 150 | - |
| **At 30 June 2022 (unaudited)** | **12,418** | **35,882** | **58** | **(57,701)** | **-** | **(9,343)** |
| ***Total comprehensive income for the period*** | | | | | | |
| *Shares issued for the conversion of secured loan notes and in lieu of bonus to an employee* | 168 | 14,872 | - | | - | 15,040 |
| Loss for the financial year and total comprehensive income | - | - | - | 276 | - | 276 |
| ***Transactions with owners recorded directly in equity*** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **At 31 December 2022 (Audited)** | **12,586** | **50,754** | **58** | **(57,425)** | **-** | **5,973** |
| **At 1 January 2023** | **12,586** | **50,754** | **58** | **(57,425)** | **-** | **5,973** |
| ***Total comprehensive income for the period*** | | | | | | |
| *Shares issued for the acquisition and in lieu of bonus to an employee* | 24 | 2,111 | - | - | - | 2,315 |
| Loss for the financial year and total comprehensive income | - | - | - | (936) | - | (936) |
| **At 30 June 2023 (unaudited)** | **12,610** | **52,865** | **58** | **(58,361)** | **-** | **7,172** |

(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. As the foreign subsidiaries are being liquidated the balance on the reserve has been recognised in Retained earnings.

**Consolidated Cash Flow Statement**

| | **Unaudited Six months ended 30 June 2023 £000** | Unaudited Six months ended 30 June 2022 £000 | Audited Year ended 31 December 2022 £000 |
|---|---|---|---|
| Loss from continuing operations | **(653)** | (1226) | (1,280) |
| Loss from discontinuing operations | **-** | - | - |
| Loss before tax for the period | **(653)** | (1,226) | (1,280) |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | **145** | 98 | 208 |
| Amortisation of intangible assets | **1,032** | 585 | 1,169 |
| Profit on discontinued operations | **9** | - | - |
| Fair value loss on deferred consideration | **67** | - | - |
| Net financial costs | **256** | 1,440 | 2,324 |
| Gain on conversion of secured loan notes | **-** | - | (892) |
| Profit/Loss on sale of fixed assets | **1** | 9 | - |
| | **857** | 906 | 1,529 |
| (Increase) / decrease in trade and other receivables | **(1,806)** | 750 | 521 |
| Increase / (decrease) in trade and other payables | **1,161** | (897) | (461) |
| Increase/(decrease) in provisions | **21** | (65) | (114) |
| | **233** | 694 | 1,475 |
| Net corporation tax recovered/ (paid) | **-** | - | - |
| Net cash acquired from operating activities | **233** | 694 | 1,475 |
| *Cash flow from investing activities:* | | | |
| Acquisition of property, plant and equipment | **(40)** | (30) | (208) |
| Proceeds from sale of fixed assets | **-** | - | - |
| Net cash used in investing activities | **(40)** | (30) | (208) |
| *Cash flows from financing activities:* | | | |
| Repayment of lease liabilities | **(105)** | (77) | (286) |
| Nimoveri loan note repaid | **-** | - | (100) |
| Repayments of loans and borrowings, net of expenses | **-** | (100) | - |
| Share issue, net of expenses | **-** | - | - |
| Interest received | **9** | - | (10) |
| Interest paid | **(39)** | (38) | (268) |
| Supplier finance repaid | **-** | - | (558) |
| Net cash absorbed by financing activities | **(135)** | (215) | (1,202) |

| | | | |
|---|---|---|---|
| Net increase/ (decrease) in cash and cash equivalents | **58** | 449 | 65 |
| Cash and cash equivalents at beginning of period | **414** | 349 | 349 |
| Cash and cash equivalents at end of period | **472** | 798 | 414 |
| Being: | | | |
| Cash and cash equivalents | **472** | 798 | 414 |
| | **472** | 798 | 414 |

**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 2023 and 30 June 2022 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 2023. A copy of this half- yearly financial report is available on the Company's website at www.tialis.com.

The comparative figures for the financial year ended 31 December 2022 are extracted from but do not comprise the Group's consolidated financial statements for that year.

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.

Tialis 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 2023 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 2022, 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 2022 were approved by the Board of Directors on 5 May 2023 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 2023 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 2023.

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 2022.

**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 3.

**Going concern**

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

Taking into account the support of certain of the Company's significant shareholders, of which the largest is represented on the Board, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider that the adoption of the going concern basis is appropriate.

**2. Segment reporting**

There is only one segment remaining, the Tialis Essential IT Manage Limited business.

**3. 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 2023** | Unaudited Six months ended 30 June 2022 | Audited Year ended 31 December 2022 |
|---|---|---|---|
| | **£000** | £000 | £000 |
| Restructuring and reorganisation costs | **355** | 36 | 421 |

**4. 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 2023 £000** | Unaudited Six months ended 30 June 2022 £000 | Audited Year ended 31 December 2022 £000 |
|---|---|---|---|
| Loss attributable to shareholders | **(936)** | (713) | (437) |
| Weighted average number of shares | **520,408,748** | **496,702,702** | **418,575,630** |
| Diluted weighted average number of shares | **520,408,748** | **496,702,792** | **418,575,630** |
| Basic loss per share (pence) | **(0.18)** | (0.14) | (0.10) |
| Diluted loss per share (pence) | **(0.18)** | (0.14) | (0.10) |

**5. Borrowings**

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"). In February and March 2019, a further £4.7 million in total of Loan Notes were issued. 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 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%.

The Company issued a further loan note ("Loan Note 2025") net of expenses for proceeds of £1m on 1 December 2022. The loan is subject to interest at 20.4% per annum compound. The maturity date is 23 December 2025. At the year-end management intended to settle the loan notes before 31 December 2023 and accordingly, they are classified as current liabilities.

On 2 November 2022 the members meeting at the Annual General Meeting, and then at the General Meeting that followed, voted to convert £25.5 million of loan notes (including fees and interest) into share capital.

| | **Unaudited Six months ended 30 June 2023 £000** | Unaudited Six months ended 30 June 2022 £000 | Audited Year ended 31 December 2022 £000 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Non-Current** | | | |
| Loan Notes | **3,711** | 18,422 | 3,490 |

| | | | |
|---|---|---|---|
| **Current** | | | |
| Loan Notes | **-** | - | - |

**6. 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 Tialis 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).

On 7 June 2021 £2,397,519 of the unsecured convertible loan notes issued in August 2018 were converted into 95,900,760 Ordinary shares of 2.5p each, at a conversion price of 2.5p per share. £2.1 million has been posted against the Consolidated Loan Notes debt component in June 2022 and the balance of £0.3 million set off against the Equity reserve.

| | **Unaudited Six months ended 30 June 2023 £000** | Unaudited Six months ended 30 June 2022 £000 | Audited Year ended 31 December 2022 £000 |
|---|---|---|---|
| Balance at beginning of period | **143** | 131 | 131 |
| Issue of new shares* | **-** | - | |
| Interest unwound | **6** | 6 | 12 |
| Total | **149** | 137 | 143 |