universe group plc

Interim Report 2013

Stock code: UNG

Advancing

Payment and Loyalty Technologies

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Contents

Advancing

Payment and Loyalty Technologies

Highlights

- Revenues up 23% to £6.59 million (2012: £5.37 million)
- Operating profit increased 28% to £0.75 million (2012: £0.59 million)
- Profit before tax increased 49% to £0.72 million (2012: £0.48 million)
- EBITDA up 17% to £1.21 million (2012: £1.03 million)
- Earnings per share of 0.36p (2012: 0.35p)
- Net cash inflow from operations of £1.06 million (2012: £1.36 million)
- Appointment of new Chief Executive Officer
- Acquisition of Indigo Retail Holdings Limited

"The benefits of the investment and reorganisation of the Group over the last two years are becoming increasingly apparent. Our improved product range and market reach has produced satisfying first-half results and we are set fair for the second half of 2013 and beyond.

The major turning point for Universe was about this time last year when the successful equity placement transformed the balance sheet, allowing the execution of the plans for products and markets that had been developed over the previous 12 months. The Board, management and staff are very grateful for the support of our shareholders over the last two years and the resulting boost to morale has been a major driver for the improved performance. In turn, the Board is grateful for the hard work of all our dedicated employees.

As we move into the next phase of the Group's development with increased confidence and with Jeremy Lewis as CEO, we intend to continue to exploit our enhanced capabilities to achieve further organic growth and in parallel make carefully-chosen acquisitions. With the resulting increase in scale, the Board looks forward to enhanced margins and bottom line growth."

Robert Goddard
Chairman

Chairman's Statement

Robert Goddard

Summary and introduction

I am pleased to report the Company's results for the six months ended 30th June 2013.

The solid foundations put in place in 2012 have been built upon and have resulted in continued strong growth in revenues coupled with further investments in products, our sales teams and an acquisition. All of these position the Group for further growth. A 23% increase in turnover has helped deliver a further improvement in operating profit and a 49% growth in profit before tax.

In December 2012, the Group's Contract Electronic Manufacturing business was successfully disposed of and so comparative data in this statement have been restated to reflect that.

The acquisition of Indigo Retail Technology ('Indigo') at the end of May 2013 has further enhanced the Group's product range. In addition, it has brought market share and access to a wider range of forecourt and convenience store customers. Indigo is now fully integrated into the HTEC business and is trading in-line with our expectations. Additional investments and operational measures are now being implemented to maximise the opportunities this combination provides.

The benefit of the range of strategic actions taken over the last two years has been well demonstrated by the last six months trading and the second half of 2013 has started equally strongly. We will continue organic growth by investing in products and marketing. At the same time we intend to make carefully-chosen acquisitions, especially those that extend our market reach and product range. We have identified already a range of further potential acquisitions with whom we are in discussion.

Profit & loss account

Revenue for the six-month period improved by 23% to £6.59 million (2012: £5.37 million) and gross profit grew by 21% to £2.50 million. The mix of business in the period was more weighted to hardware roll-outs than in the prior year and so gross margin eased slightly to 37.9% (2012: 38.5%).

The growth in sales and gross profit provided a 28% increase in operating profit to £0.75 million (2012: £0.59 million). This was despite an increase in administrative expenses to £1.75 million (2012: £1.48 million), resulting from an increase in the sales team and the expensing of the Indigo deal costs of £0.04 million through the Income Statement. The investment in the sales team reflects the Board's strategy of taking the refreshed and expanded product set into new markets.

Chairman's Statement
continued

Following the successful equity placing in 2012, expensive bank debt was retired and led to a 68% fall in finance costs to £0.04 million and a substantially-improved profit before tax of £0.72 million (2012: £0.48 million).

The main sources of revenue growth have been the continued buoyancy in project work for clients and the first large-scale deployments of our new, market-leading payment terminal, GemPAY. This product was introduced to replace the Gemini terminal that had been a mainstay of HTEC's product portfolio for many years. We have made significant progress in securing replacement orders from long-standing customers of the older model, as well as attracting new customers.

Revenue from project work has centred on further expansion of our largest on-line loyalty programmes; including the roll-out of a European programme into the UK. Whilst confidentiality agreements prevent the disclosure of any details, we are excited by the prospects for these schemes. Additional investment in the marketing and capability of our loyalty programmes is being made and is designed to capitalise on their continuing success and an increasing awareness among retailers of the need for high quality real-time loyalty solutions.

Overall, the Group achieved an operating profit that was 11.4% of sales. This compares with 11.0% for the first six months of 2012 and 10.4% for the whole of that year. It is particularly pleasing to have improved this measure at a time when we are committing revenue expense to invest for future growth. It also shows the progress that has been made in growing business with existing customers and, crucially, securing the hardware replacement orders that will maintain our serviced estate.

Earnings before interest, taxes, depreciation and amortisation ('EBITDA') increased by 17% to £1.21 million (2012: £1.03 million) in the period.

Balance sheet and cash flow

The balance sheet at the end of June reflects the continued strong cash generation from operations, which has largely been reinvested into the business. The acquisition of Indigo had a significant impact on the balance sheet and we are currently recognising £3.65 million of goodwill and other intangibles, including software products. This sum includes £1.46 million of deferred consideration that is shown within short-term and medium-term borrowings. The cash component of the initial consideration (£0.43 million) was funded from cash generated by the business in the first six months of 2013.

Limited capital expenditure (£0.15 million) was incurred in the period, although plans are now in place to renew the hardware used by one of our major loyalty customers. The indications are that this contract will be extended and expanded and work is underway to finalise details. Asset finance has been secured to allow expenditure of £0.80 million on the project, which will be completed in the second half of 2013.

We have continued to upgrade our products, with £0.29 million invested in doing so. In particular the new outdoor payment terminal is nearing market readiness and our new electronic funds transfer system is now operational and being rolled out.

Cash from operating activities at the half year fell to £1.06 million (2012: £1.36 million). This reduction is due mainly to the unwinding of significant advance payments that were being held as deferred income in the comparable balance sheet. After allowing for normal fluctuations in working capital, the cash inflow reflects closely the Group's EBITDA. Interest payments were significantly down, following last year's placing of new equity. Stamp duty of £0.02 million was paid on the Indigo transaction but the Group continues to benefit from brought forward corporation tax losses of approximately £1.30 million.

The strong cash generation has allowed the Group to continue its investments whilst retaining a cash balance of £1.15 million. Amounts outstanding on finance leases have fallen by £0.17 million, although the hardware investment referred to above will increase that figure before year end. Also as mentioned above, deferred consideration on the Indigo transaction appears in short-term borrowings (£0.54 million) and medium-term borrowings (£0.92 million). These sums are the discounted values of the guaranteed consideration and the estimated earn-out. At the Group's discretion, elements of this may be satisfied by equity shares, but will be recognised as liabilities until payment in the chosen form.

Market developments

The Group's market continues to be highly competitive; notably, there is continued pressure on service margins. With such pressures, retention and growth of our installed base is critical and so the success in having GemPAY accepted by a range of customers is very welcome. The Indigo acquisition and the wider deployment of 'point of sale' and 'back office' systems will also help maintain scale in our service organisation. In addition, other ways to expand our service income are being sought so as to maintain profitability in this part of our organisation.

By bringing new and updated products to our customers the Group aims to secure and increase its long-term contracted revenues, and also benefit from revenues at product roll-out stages. The new outdoor payment terminal is nearing market readiness and was well received when on trial with existing customers. Widespread deployment of this product is planned for 2014.

Chairman's Statement
continued

The addition of our electronic funds transfer system provides an opportunity to widen our customer base and enable us to offer security features that will ease the regulatory burden on retailers; particularly the small- to medium-sized ones.

The payment and loyalty market is constantly evolving. Examples are contactless payments, systems utilising smart phones and the increasing sophistication of loyalty schemes. We are monitoring these and other developments and carefully evaluating opportunities to bring new technologies in-house.

Outlook

The last two years have seen a radical transformation of Universe and the Board is pleased with the progress that has been made in reinvigorating the Group. With a restructured balance sheet, the disposal of non-core activities, and the strengthening, by development and acquisition, of the Solutions business, the Group is well positioned to develop further in its traditional markets, as well as in adjacent and complementary ones. A new Chief Executive Officer provides an excellent opportunity for the Group to plan its longer term goals, whilst delivering a revitalised range of products.

The Directors are confident that the Group will continue to improve its performance and remain optimistic about the prospects for the full year and beyond.

Directorate change

As recently announced, Stephen McLeod will leave the Group at the date of this announcement and is replaced as Chief Executive Officer by Jeremy Lewis.

Steve's tenure of a little over two years has seen the Group transformed. His legacy is a business that is reorganised, re-financed, highly motivated, and focussed on its core strengths and with a refreshed product set. These are the solid foundations for the Group's next stage of development.

Steve leaves with the Board's thanks and very best wishes. At the same time, I am delighted to welcome Jeremy. He brings the skills and experience that are needed to build on what has been achieved to date.

Robert Goddard
Chairman
30th September 2013

Condensed Statement of Total Comprehensive Income (unaudited)

for the six months ended 30th June 2013

	Six months ended 30th June 2013 £'000	Six months ended 30th June 2012 £'000	Year ended 31st December 2012 £'000
Continuing operations			
Revenue	**6,588**	5,367	11,851
Cost of sales	**(4,091)**	(3,300)	(7,484)
Gross profit	**2,497**	2,067	4,367
Administrative expenses	**(1,746)**	(1,479)	(3,140)
Operating profit	**751**	588	1,227
Finance costs	**(35)**	(109)	(215)
Profit before taxation	**716**	479	1,012
Taxation	**(22)**	—	—
Profit for the period from continuing operations	**694**	479	1,012
Discontinued activities			
Loss for the period from discontinued operations	**—**	(75)	(192)
Profit for the year attributable to equity shareholders	**694**	404	820

Earnings/(loss) per share	**pence**	pence	pence
Basic and diluted (see note 6) — continuing operations	**0.36**	0.42	0.71
— discontinued operations	**—**	(0.07)	(0.13)
Basic and diluted EPS	**0.36**	0.35	0.58

Condensed Consolidated Statement of Changes in Equity (unaudited)

At start of period	**14,078**	11,627	11,627
Total comprehensive income for the period	**694**	404	820
Share issue net of expenses	**1,079**	—	1,526
Share based payments	**14**	44	105
At end of period	**15,865**	12,075	14,078

Condensed Consolidated Balance Sheet (unaudited)

as at 30th June 2013

	30th June 2013 £'000	30th June 2012 £'000	31st December 2012 £'000
Fixed assets			
Goodwill and other intangibles	**15,866**	11,644	12,125
Property, plant and equipment	**1,749**	1,863	1,805
	17,615	13,507	13,930
Current assets			
Inventories	**1,060**	1,026	544
Trade and other receivables	**3,233**	2,467	2,839
Cash and cash equivalents	**1,151**	734	1,134
	5,444	4,227	4,517
Total assets	**23,059**	17,734	18,447
Current liabilities			
Trade and other payables	**(4,246)**	(3,536)	(2,878)
Corporation tax liabilities	**(421)**	(335)	(338)
Short-term borrowings	**(861)**	(521)	(318)
	(5,528)	(4,392)	(3,534)
Non current liabilities			
Medium-term borrowings	**(1,577)**	(1,267)	(835)
Provisions for liabilities and changes	**(89)**	—	—
	(1,666)	(1,267)	(835)
Total liabilities	**(7,194)**	(5,659)	(4,369)
Net assets	**15,865**	12,075	14,078
Equity			
Share capital	**2,115**	5,735	1,875
Capital redemption reserve	**4,588**	—	4,588
Share premium account	**12,390**	10,753	11,551
Other reserves	**2,269**	2,269	2,269
Translation reserve	**(225)**	(225)	(225)
Profit and loss account	**(5,272)**	(6,457)	(5,980)
Total equity	**15,865**	12,075	14,078

Condensed Consolidated Cash Flow Statement (unaudited)

for the six months ended 30th June 2013

	Six months ended 30th June 2013 £'000	Six months ended 30th June 2012 £'000	Year ended 31st December 2012 £'000
Net cash flows from operating activities (see note 8)			
— Continuing activities	**1,115**	1,511	2,370
— Discontinued activities	**—**	(34)	(51)
Interest paid	**(35)**	(122)	(241)
Tax paid	**(22)**	—	—
Net cash inflow from operating activities	**1,058**	1,355	2,078
Cash flows from investing activities			
Purchase of subsidiary undertaking	**(430)**	—	—
Purchase of property, plant & equipment	**(147)**	(61)	(216)
Expenditure on product development	**(293)**	(127)	(756)
Proceeds from sale of property, plant & equipment	**—**	—	52
Net cash outflow from investing activities	**(870)**	(188)	(920)
Cash flow from financing activities			
Proceeds from issue of shares	**—**	—	1,526
Repayment of obligations under finance leases	**(171)**	(205)	(539)
Repayment of borrowings	**—**	(638)	(1,621)
New loans raised	**—**	—	200
Net cash outflow from financing	**(171)**	(843)	(434)
Increase in cash and cash equivalents	**17**	324	724
Cash and cash equivalents at beginning of period	**1,134**	410	410
Cash and cash equivalents at end of period	**1,151**	734	1,134

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30th June 2013

1 The interim financial statements, which are unaudited, have been prepared on the basis of the accounting policies expected to apply for the financial year to 31st December 2013 and in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The accounting policies applied in the preparation of these interim financial statements are consistent with those used in the financial statements for the year ended 31st December 2012.

The interim financial statements do not include all of the information required for full annual financial statements and do not comply with all the disclosures in IAS 34 'Interim Financial Reporting'. Accordingly, whilst the interim statements have been prepared in accordance with IFRSs, they cannot be construed as being in full compliance with IFRSs.

2 The financial information for the year ended 31st December 2012 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 Auditors' report on those accounts was not qualified and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

3 The Directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections, taking account of reasonably possible changes in trading conditions show that the Group should be able to operate within the level of its facilities. After making enquiries the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report). Accordingly they continue to adopt the going concern basis in preparing the interim condensed financial statements.

4 The half year results were neither audited nor reviewed by the Auditors. The interim financial information has been prepared on the basis of accounting policies set out in the Group's statutory accounts for the year ended 31st December 2012.

5 Operating profit and EBITDA before discontinued activities

	Six months ended 30th June 2013 £'000	Six months ended 30th June 2012 £'000	Year ended 31st December 2012 £'000
Revenue	**6,588**	5,367	11,851
Cost of sales	**(4,091)**	(3,300)	(7,484)
Gross profit	**2,497**	2,067	4,367
Administrative expenses	**(1,746)**	(1,479)	(3,140)
Operating profit	**751**	588	1,227
Add back:			
Depreciation	**292**	268	568
Amortisation	**150**	128	251
Share option charge	**14**	44	105
EBITDA before discontinued activities	**1,207**	1,028	2,151

6 Earnings per share is calculated by reference to the results and the weighted average of 191,530,626 shares in issue during the period (H1 2012: 114,704,539, FY 2012: 141,965,000). Diluted earnings per share is calculated by reference to the results and the weighted average of 194,643,126 shares in issue during the period (H1 2012: 114,704,539, FY 2012: 141,965,000). The number of shares in issue at 30th June 2013 was 211,530,626.

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 30th June 2013

7 Segment information

6 months ended 30th June 2013

	Solutions £'000	Corporate £'000	Total £'000
Revenue	6,588	—	6,588
Gross profit	2,497	—	2,497
Operating expenses	(1,554)	(192)	(1,746)
Operating profit	943	(192)	751
Finance costs			(35)
Taxation			(22)
Profit for the period from continuing activities			694

6 months ended 30th June 2012

	Solutions £'000	Corporate £'000	Total £'000
Revenue	5,367	—	5,367
Gross profit	2,067	—	2,067
Operating expenses	(1,336)	(143)	(1,479)
Operating profit	731	(143)	588
Finance costs			(109)
Taxation			—
Profit for the period from continuing activities			479

7 Segment information continued

Year ended 31st December 2012

	Solutions £'000	Corporate £'000	Total £'000
Revenue	11,851	—	11,851
Gross profit	4,367	—	4,367
Operating expenses	(2,617)	(523)	(3,140)
Operating profit	1,750	(523)	1,227
Finance costs			(215)
Taxation			—
Profit for the period from continuing activities			1,012

In prior years Contract Electronic Manufacturing ('CEM') was disclosed as a segment. CEM was disposed of in 2012. In the first six months of 2012 £96,000 of central overheads were charged to the CEM segment. As these overheads were not eliminated as a result of the disposal, they have been reclassified as operating expenses within the Solutions segment.

8 Cash flows from operations

	Six months ended 30th June 2013 £'000	Six months ended 30th June 2012 £'000	Year ended 31st December 2012 £'000
Continuing operations			
Cash flows from operating activities			
Profit before taxation	**716**	479	1,012
Depreciation and amortisation	**442**	396	819
Share based payments	**14**	44	105
Interest payable	**35**	109	215
	1,207	1,028	2,151
Movement in working capital:			
(Increase)/decrease in inventories	**(466)**	(194)	288
Increase in receivables	**(391)**	(244)	(335)
Increase in payables	**765**	921	266
Net cash flow from operating activities	**1,115**	1,511	2,370

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 30th June 2013

8 Cash flows from operations continued

	Six months ended 30th June 2013 £'000	Six months ended 30th June 2012 £'000	Year ended 31st December 2012 £000
Discontinued operations			
Cash flows from operating activities			
— Loss before taxation	—	(75)	(192)
— Depreciation and amortisation	—	28	72
— Loss on disposal of fixed assets	—	—	43
— Interest payable	—	13	26
Net cash flow from discontinued activities	—	(34)	(51)

9 Post balance sheet events

On 26th July 2013 3,500,000 share options in total were issued to two directors at an exercise price of 4.25p, with a 6p performance condition.

On 29th August 2013 the Group announced that, with effect from 23rd September 2013, Jeremy Lewis would replace Stephen McLeod as Chief Executive Officer.

10 Copies of the interim report will be available from the Company's head and registered office: Southampton International Park, George Curl Way, Southampton, SO18 2RX, and on the Company's website, www.universeplc.com.

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