universe
group plc

Interim Report 2015

Stock code: UNG

Building **innovative** partnerships with **world-leading** retailers

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I am pleased by the progress Universe continues to make both corporately and operationally. The business has secured a good level of customer orders in the first half for delivery in the second and has also completed the refresh of our new on-line loyalty platform. The recent launch of our new point-to-point encryption service for payments also enhances our offering.

The acquisition of Spedinorcon in April increases our presence in the convenience store sector in line with plans. As we look forward, we continue to remain positive about Universe's growth prospects."

Robert Goddard, Chairman

Financial

- Revenues increased to £8.83 million (2014: £8.78 million)
- Adjusted EBITDA increased by 14% to £1.24 million (2014: £1.08 million)
- Operating profit increased by 18% to £0.38 million (2014: £0.32 million)
- Profit before tax increased by 32% to £0.30 million (2014: £0.23 million)
- Earnings per share increased by 22% to 0.11p (2014: 0.09p)
- Net cash inflow from operations up 29% to £0.93 million (2014: £0.73 million)

Operational

- Continuing development of product offering
- Acquisition of Spedinorcon in April – in line with strategy to develop presence in convenience store sector
- Two Board appointments (in May and September)
- Board remains positive about prospects for the full year

Contents

Chairman's Statement

Summary and introduction

I am pleased to report the Company's results for the six months ended 30 June 2015.

Universe has continued to make encouraging progress, securing a good level of customer orders in the first half for delivery in the second. This means that we expect full year results to reflect the same pattern as last year, with a stronger weighting of revenue and profits in the second half.

In line with our strategic growth plan, we have continued to invest in our business. In April, we acquired Spedinorcon Limited ("Spedi"), the retail software developer and supplier, which has particular expertise in the convenience store market. We were also pleased to launch a new product, 'Perseus', an innovative card payment encryption solution. In addition, we have strengthened the Board with the appointment of Andrew Blazye as a Non-executive Director in May and more recently, in early September, we were pleased to welcome Billy Tank as an Executive Director.

The second half has started well and there is a significant schedule of hardware roll-outs and new customer deployments currently underway.

Financial Results

Revenue for the six-month period increased to £8.83 million (2014: £8.78 million) and gross profit improved by 4% to £2.66 million (2014: £2.56 million). Gross margin rose by one percentage point to 30% (2014: 29%).

Administrative expenses increased slightly to £2.28 million (2014: £2.24 million). This small increase reflects the net effect of fees relating to the acquisition of Spedi and the recruitment of Andrew Blazye, which were largely offset by the cost savings initiated in the second half of last year.

Operating profit rose to £0.38 million (2014: £0.32 million) and earnings per share increased to 0.11p (2014: 0.09p).

The combined effect of these improvements resulted in a rise of 14% in earnings before interest, taxes, share based payments, depreciation and amortisation ('adjusted EBITDA') to £1.24 million (2014: £1.08 million).

There was a small decrease in finance costs to £0.08 million (2014: £0.10 million) and the net tax charge of £0.04 million was in line with the prior half year.

Revenue

£8.83m

(2014: £8.78m)

Gross profit

£2.66m

(2014: £2.56m)

£0.31m

Invested in product upgrades in 2015

Adjusted EBITDA

£1.24m

(2014: £1.08m)

Balance sheet and cash flow

The balance sheet at the end of June remained strong, following our successful 2014.

We have continued to invest in the core business, with the acquisition of Spedi and ongoing R&D. Investment in product upgrades remains a priority as we develop our next generation of back-office software, although capitalised development was down in the first half to £0.31 million (2014: £0.61 million). The back-office system development, which is nearing deployment with new customers, has been an important factor in opening up the convenience store market.

Capital expenditure increased in the period to £0.32 million (2014: £0.10 million) as we made certain improvements at our head office premises to enhance workflow for our operational and development teams.

The other significant balance sheet movement has been the settlement of the final tranche of deferred consideration due to the former shareholders of Indigo Retail Holdings Limited, acquired in May 2013. Payments of £0.2 million were made and ordinary shares valued at £0.4 million were issued. In July 2015, performance-based payments to the original vendors totalling £0.08 million were made. The final payment of contingent consideration will be made within the next 12 months.

Reflecting the improved trading performance, cash flow from operating activities at the half year increased to £0.93 million (2014: £0.73 million). Cash balances at 30 June stood at £1.97 million, compared with £2.06 million at 31 December 2014.

Products

We continue to invest in our core products and made good progress in the period in further enhancing our offering. We successfully refreshed our on-line loyalty solution and we continued with the installation of our new outdoor payment terminals at a major supermarket chain.

The acquisition of Spedi in April supports our continuing development in the convenience store market. Spedi currently supplies systems to more than 1,500 retail stores throughout the UK, many within the Londis and Costcutter chains, and its suite of software products complements our existing offerings. The business has now been fully integrated into the Group.

In August, we announced that 'Perseus', our new point-to-point encryption ("P2PE") service, has now been fully accredited. This new solution adds an additional layer of security to card payment transactions at the point of sale and makes HTEC the first provider of this type of encryption technology designed to be equally adept in both the petrol forecourt and traditional retail sectors. We expect the first live deployment before the year end.

Market Developments

The Group's customers continue to operate in highly competitive markets. They need to know their customers, record sales efficiently, re-order and manage their supply lines effectively and process payments securely. In addition, they must target their customers with appropriate offers in a timely manner to drive basket size and footfall. The Group's wide range of products facilitates all of this.

Outlook

The first six months of this year saw good progress, with the refreshing of our loyalty products, the integration of Spedi and the completion of our P2PE service. We confidently expect a busier second half, reflecting the same trading pattern as last year. There is good visibility of the projects to be completed in the second half and, reflecting this, we believe Universe remains on track to report a satisfactory outcome for the year.

Robert Goddard
Chairman

29 September 2015

Condensed Statement of Total Comprehensive Income (unaudited)

for the six months ended 30 June 2015

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Continuing operations			
Revenue	**8,827**	8,784	20,749
Cost of sales	**(6,170)**	(6,224)	(14,261)
Gross profit	**2,657**	2,560	6,488
Administrative expenses	**(2,276)**	(2,236)	(4,760)
Operating profit	**381**	324	1,728
Finance (costs)/income	**(83)**	(98)	25
Profit before taxation	**298**	226	1,753
Taxation	**(43)**	(28)	(345)
Profit for the period from continuing operations	**255**	198	1,408
Earnings per share (see note 7)	**Pence**	Pence	Pence
Basic EPS	**0.11**	0.09	0.65
Diluted EPS	**0.11**	0.08	0.60

Condensed Consolidated Statement of Changes in Equity (unaudited)

for the six months ended 30 June 2015

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
At start of period	**18,462**	16,524	16,524
Total comprehensive income for the period	**255**	198	1,408
Share issue net of expenses	**452**	424	423
Share based payments	**42**	42	107
At end of period	**19,211**	17,188	18,462

Condensed Consolidated Balance Sheet (unaudited)

as at 30 June 2015

	30 June 2015 £'000	30 June 2014 £'000	31 December 2014 £'000
Fixed assets			
Goodwill and other intangibles	**16,589**	16,281	16,503
Property, plant and equipment	**2,342**	2,182	2,466
Deferred tax	**–**	58	–
	18,931	18,521	18,969
Current assets			
Inventories	**2,061**	1,237	1,406
Trade and other receivables	**4,366**	3,908	4,221
Cash and cash equivalents	**1,967**	747	2,064
	8,394	5,892	7,691
Total assets	**27,325**	24,413	26,660
Current liabilities			
Trade and other payables	**(5,633)**	(4,784)	(5,138)
Corporation tax liabilities	**(188)**	(182)	(188)
Borrowings	**(478)**	(370)	(477)
Deferred consideration	**–**	(594)	(597)
Contingent consideration	**(155)**	(100)	(103)
	(6,454)	(6,030)	(6,503)
Non-current liabilities			
Borrowings	**(1,123)**	(1,117)	(1,350)
Provisions for liabilities and changes	**(348)**	–	(258)
Contingent consideration	**(189)**	(78)	(87)
	(1,660)	(1,195)	(1,695)
Total liabilities	**(8,114)**	(7,225)	(8,198)
Net assets	**19,211**	17,188	18,462
Equity			
Share capital	**2,309**	2,203	2,203
Capital redemption reserve	**4,588**	4,588	4,588
Share premium account	**13,062**	12,717	12,716
Other reserves	**2,269**	2,269	2,269
Translation reserve	**(225)**	(225)	(225)
Profit and loss account	**(2,792)**	(4,364)	(3,089)
Total equity	**19,211**	17,188	18,462

Condensed Consolidated Cash Flow Statement (unaudited)

for the six months ended 30 June 2015

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Net cash flows from operating activities (see note 9)			
Continuing activities	**951**	786	3,090
Interest paid	**(64)**	(57)	(124)
Tax received/(paid)	**47**	(3)	(4)
Net cash inflow from operating activities	**934**	726	2,962
Cash flows from investing activities			
Purchase of subsidiary undertaking	**(230)**	(57)	(57)
Purchase of property, plant & equipment	**(318)**	(98)	(243)
Expenditure on product development	**(309)**	(606)	(1,146)
Net cash outflow from investing activities	**(857)**	(761)	(1,446)
Cash flow from financing activities			
Proceeds from issue of shares	**52**	24	23
Repayment of obligations under finance leases	**(226)**	(220)	(453)
Net cash outflow from financing	**(174)**	(196)	(430)
(Decrease)/increase in cash and cash equivalents	**(97)**	(231)	1,086
Cash and cash equivalents at beginning of period	**2,064**	978	978
Cash and cash equivalents at end of period	**1,967**	747	2,064

Notes to Condensed Consolidated financial statements

for six months ended 30 June 2015

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 31 December 2015 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 31 December 2014.

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 31 December 2014 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 31 December 2014.

5 Turnover analysis

All turnover arises within the HTEC Solutions business segment.

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Sales of hardware and new software licences	**1,564**	1,343	4,801
Service and installation revenue	**3,418**	3,980	8,048
Hosted data service revenue	**1,891**	1,569	3,409
Software consultancy and license maintenance revenue	**1,954**	1,892	4,491
	8,827	8,784	20,749

6 Operating profit and adjusted EBITDA.

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Revenue	**8,827**	8,784	20,749
Cost of sales	**(6,170)**	(6,224)	(14,261)
Gross profit	**2,657**	2,560	6,488
Administrative expenses	**(2,276)**	(2,236)	(4,760)
Operating profit	**381**	324	1,728
Depreciation	**420**	379	812
Amortisation	**393**	338	818
Share option charge	**42**	42	107
Adjusted EBITDA	**1,236**	1,083	3,465

In the interim statement for the 6 months ended 30 June 2014 exceptional costs of £105,000 were disclosed on the face of the profit and loss account and were added back in the calculation of EBITDA, as the costs were material to the results for the period. In the results for the year ended 31 December 2014 these costs were no longer considered material and were not disclosed as exceptional items. This interim statement has followed the year end treatment of these costs, and consequently the prior year interim figures have been restated without any costs treated as exceptional.

7 Earnings per share

Earnings per share is calculated by reference to the results and the weighted average of 224,877,682 shares in issue during the period (H1 2014: 213,502,097, FY 2014: 216,914,388). Diluted earnings per share is calculated by reference to the results and the weighted average of 236,916,638 shares in issue during the period (H1 2014: 238,092,401, FY 2014: 232,814,394). The number of shares in issue at 30 June 2015 was 230,973,935.

8 Segment information

6 months ended 30 June 2015

	Solutions £'000	**Corporate £'000**	**Total £'000**
Revenue	**8,827**	**–**	**8,827**
Gross profit	**2,657**	**–**	**2,657**
Operating expenses	**(2,005)**	**(271)**	**(2,276)**
Operating profit	**652**	**(271)**	**381**
Finance costs			**(83)**
Taxation			**(43)**
Profit for the period from continuing activities			**255**

6 months ended 30 June 2014

	Solutions £'000	Corporate £'000	Total £'000
Revenue	8,784	–	8,784
Gross profit	2,560	–	2,560
Operating expenses	(2,092)	(144)	(2,236)
Operating profit	468	(144)	324
Finance costs			(98)
Taxation			(28)
Profit for the period from continuing activities			198

8 Segment information continued

Year ended 31 December 2014

	Solutions £'000	Corporate £'000	Total £'000
Revenue	20,749	–	20,749
Gross profit	6,488	–	6,488
Operating expenses	(4,138)	(622)	(4,760)
Operating profit	2,350	(622)	1,728
Net finance income			25
Taxation			(345)
Profit for the period from continuing activities			1,408

9 Cash flows from operations

	Six months ended 30 June 2015 £'000	Six months ended 30 June 2014 £'000	Year ended 31 December 2014 £'000
Continuing operations			
Cash flows from operating activities			
Profit before taxation	**298**	226	1,753
Depreciation and amortisation	**813**	717	1,630
Share based payments	**42**	42	107
Interest payable/(receivable)	**83**	98	(25)
	1,236	1,083	3,465
Movement in working capital:			
Increase in inventories	**(655)**	(112)	(281)
(Increase)/decrease in receivables	**(137)**	315	2
Increase/(decrease) in payables	**507**	(500)	(96)
Net cash flow from operating activities	**951**	786	3,090

10 Spedinorcon Limited

On 2 April 2015 the Group acquired the entire issued share capital of Spedinorcon Limited, a provider of point of sale and back office systems. The principal reason for the acquisition was to expand the Group's reach into related markets. Details of the provisional fair value assets and liabilities acquired and purchase consideration are as follows:

	Fair Value £'000
Goodwill and intangible fixed assets	160
Property, plant and equipment	2
Receivables	66
Bank overdraft	(12)
Payables	(48)
	168

Fair value of consideration paid:	£'000
Cash	30
Deferred consideration	10
Contingent consideration	128
Total consideration	168

The deferred consideration is payable in April 2016.

The contingent consideration is payable in two instalments 60 days after the first and second anniversaries of the acquisition. The consideration is payable based on 20% of aggregate turnover generated over the two years following the acquisition.

If the acquisition had occurred on 1 January 2015, group revenue in the first half would have been £0.1 million higher. As Spedinorcon was fully integrated into HTEC shortly after acquisition it is not possible to disclose profit figures directly attributable to the acquisition.

11 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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