21 November 2022

SysGroup plc

("SysGroup" or the "Company" or the "Group")

Half year results for the six months ended 30 September 2022

SysGroup plc (AIM:SYS), the multi award-winning managed IT services, cyber security and cloud hosting provider, is pleased to announce its unaudited half year results for the six months ended 30 September 2022 ("H1 FY23").

Financial highlights

- Revenue increased by 49% to £11.32m (H1 FY22: £7.58m)
- Recurring Managed IT Services revenue represented 75% of total revenue (H1 FY22: 86%), in line with expectations as a result of acquisitions
- Adjusted EBITDA[1] increased by 25% to £1.68m (H1 FY22: £1.34m)
- Adjusted profit before tax[2] of £1.10m (H1 FY22: £0.96m)
- Statutory loss before tax of £0.19m (H1 FY22: profit before tax £0.25m)
- Adjusted basic EPS[3] of 2.0p (H1 FY22: 1.5p)
- Basic EPS of (0.2)p (H1 FY22: 0.3p)
- Cashflow from operations of £1.67m (H1 FY22: £1.14m)
- Net debt[4] on 30 September 2022 of £1.92m, excluding £2.94m of contingent consideration relating to the acquisition of Truststream (30 September 2021: net cash of £1.96m)

Operational highlights

- First two acquisitions since 2019 as M&A difficulties caused by pandemic and lockdowns ease
  - Truststream Security Solutions Limited ("Truststream") acquired for up to £7.9m, enhancing cyber security offering and adding Edinburgh location
  - Orchard Computers Limited ("Orchard") acquired for £1m in cash, strengthening south west operations
  - Both acquisitions immediately earnings enhancing and integration largely completed as a result of Project Fusion
- Consistently high customer satisfaction levels maintained above 97%
- Successful launch of multi-tenanted SysCloud 2.0 platform
- Early benefits seen from sales and marketing initiatives from Manchester hub with growing pipeline of opportunities
- Workforce at optimal levels as recruitment market eases

Outlook

- Further potential for cross selling and client growth
- Continuing to monitor and assess acquisition opportunities
- The Board remains confident that trading for the current financial year will be in line with its expectations

Adam Binks, Chief Executive Officer, commented:

"I am pleased to deliver results in line with expectations as the Group benefits from the operational investments and improvements that have been made over prior periods. Technology can help businesses improve efficiency and protect margins which is increasingly relevant when set against the current economic backdrop.

"The two acquisitions made in the period have strengthened our offering even further and added more great team members to the Group. Additionally, they have both brought a base of customers which we can service better from our enhanced footprint which now covers the whole of Great Britain. As well as being earnings enhancing, they are further evidence of our ambition to continue to be a consolidator in this highly fragmented market."

Notes

1. Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation of intangible assets, exceptional items and share based payments.

2. Adjusted profit before tax is profit before tax after adding back amortisation of intangible assets, exceptional items and share based payments.

3. Adjusted basic EPS is profit after tax after adding back amortisation of intangible assets, exceptional items, share based payments and associated tax, divided by the number of shares in issue.

4. Net debt represents cash balances less bank loans and lease liabilities.

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About SysGroup

SysGroup is a leading provider of managed IT services, cloud hosting, cyber security and expert IT consultancy. The Group delivers solutions that enable clients to benefit from industry leading technologies and delivers managed solutions with security, compliance and governance from the core. SysGroup focuses on a customer's strategic and operational requirements - enabling clients to free up resources, grow their core business and avoid the distractions and complexity of managing IT services.

The Group has offices in Bristol, Edinburgh, Liverpool, London, Manchester and Newport.

For more information, visit http://www.sysgroup.com

Overview

I am pleased to report on a strong first half for the Group, particularly in light of the continuing difficult economic backdrop. This performance highlights the strength of our strategy as we remain integral to our customers, understanding their individual corporate needs and providing the mission critical services required to meet their business ambitions. The Company completed two acquisitions during the first six months and both are performing in line with management's expectations whilst beginning to enable future cross-selling opportunities.

Our financial performance was in line with expectations and reflects the expected impact of the acquisitions. Revenue for the first six months was £11.32m, an increase of 49% over the prior year (H1 FY22: £7.58m). As expected, revenue mix changed back towards our previously guided split as both acquired businesses have a greater proportion of value added resale ("VAR"). Recurring managed services accounted for 75% of total revenue compared to 86% for the prior year, a blend that is expected to continue for the full year.

Gross profit margin of 50% reflects the higher proportion of lower margin VAR sales (H1 FY22: 60%) and the Group delivered a strong increase of 25% in Adjusted EBITDA to £1.68m (H1 FY22: £1.34m). Cash conversion was outstanding at 120% (H1 FY22: 85%) and the Group ended the half with a healthy gross cash balance of £4.22m (H1 FY22: £3.47m). The Group swung to a net debt position of £1.92m (H1 FY22: net cash of £1.96m) excluding contingent consideration of £2.94m relating to the acquisition of Truststream. The shift to a net debt position is a result of the financing of the acquisitions via the Group's committed debt facilities.

At the end of the last financial year, the Board highlighted that it was starting to see the early signs of a recovery towards more normalised trading conditions and the performance detailed for H1 FY23 demonstrates this. Difficult economic conditions drive businesses to explore ways in which they can maintain their competitive edge whilst also aiming to protect and improve margins. Investing in technology delivers these outcomes and our sales and marketing hub in Manchester has been working on a number of initiatives over the course of the year which are beginning to prosper and build a growing pipeline of future potential.

Operations

We are benefiting from the operational optimisation that became such a strong focus through the pandemic, readying the business for these opportunities. The investment in Project Fusion, which provided the Group with a single unified platform, has been pivotal, vastly improving visibility and inter-operability between locations as well enabling us to add scale at pace. There is still work to do relating to the integration of the acquisitions. However, we have made excellent progress in a short space of time.

The first half saw us launch SysCloud 2.0, the Group's multi-tenanted cloud platform, which went fully live and operational in May 2022 with all existing customers now migrated over from the legacy version. The design of the platform allows us to scale quickly as needed in order to fulfil customer demand. We support the full cloud lifecycle from design to deployment to management of the platform as well as providing monitoring and maintenance of customers' applications and data to ongoing service and change management. SysCloud 2.0 provides our clients with even better performance and provides the Group with greater efficiency, giving more capacity from less physical space.

Power consumption is obviously an essential part of our business and as is widely known the energy market continues to be unstable, often with increases in costs coming at short notice. The Group has worked closely with both its datacentre partners and energy brokers, where we are in control of our own energy supply, to negotiate the best rates possible for both the Group and our customers. In the majority of instances, we have been able to pass the increases in costs we have seen through to customers.

The Company renewed its lease on our London offices, ensuring that we have a necessary presence in the Capital. Following the closure of the office and data centre in Telford, the Board is confident that the right structure is in place to support further growth. Alongside existing operations in Bristol, Liverpool, London, Manchester and Newport, the addition of our Edinburgh location gives us a strong presence from which to grow our client base across the United Kingdom.

Our people remain all important to our success. The recruitment market has been a challenge in the post-pandemic world, however, this is beginning to ease and we have seen increased levels of activity in our recent talent acquisition drive and we are now seeing the benefits of maintaining our talent acquisition strategy. For our existing team members, their commitment and output remain outstanding and on behalf of the Board, I offer my sincere thanks.

Strategy

The Group's strategy remains consistent: to expand its position as a trusted provider of managed IT services to businesses in the UK mid-market. The Board believes that a business focused on the provision of managed IT services offers the highest growth opportunity, with the potential for increased margins and longer-term contracts, thereby providing greater revenue visibility.

To deliver against this strategy, the Group has positioned itself as an extension of a customer's existing IT department, with an emphasis on consultative-led sales to guide customers through the complexities and developments in the managed IT services, cyber security and cloud hosting marketplace. Our primary purpose is to remain abreast of developments in technology and advise our customers accordingly. This leading role is supplemented by exceptional customer service and support, resulting in strong client engagement and embedding SysGroup into their organisations. The Group continues to invest in R&D to ensure its clients are making use of the latest and best solutions available to them whilst maintaining its vendor agnostic approach.

Results and Trading

The Group delivered revenue of £11.32m (H1 FY22: £7.58m) and Adjusted EBITDA of £1.68m (H1 FY22: £1.34m), increases of 49% and 25% respectively on the comparative period last year.

Managed IT services revenue was £8.54m (H1 FY22: £6.50m), an increase of 31%, and VAR revenue was £2.78m (H1 FY22: £1.08m), an increase of 156%. The higher VAR revenue performance shifted the revenue mix back to our target model of 75%:25% (H1 FY22: 86%:14%) which had been anticipated on the acquisitions of Truststream and Orchard. The Group's results reflect a full half year of trading from the two acquisitions and we're pleased to have seen single digit organic growth in revenue after the recent COVID impacted periods.

Gross profit was £5.61m with a gross margin of 50% (H1 FY22: £4.56m and 60% respectively). Whilst gross profit has increased, the gross margin percentage has reduced which is in line with current guidance and relates to the revenue mix of the two acquired businesses. Both Truststream and Orchard have a higher number of VAR sales compared to the legacy SysGroup business, which is also transacted at slightly lower gross margin.

Adjusted operating expenses of £3.94m were £0.72m above the same period last year (H1 FY22: £3.22m) as the overheads of the acquired businesses have been absorbed into the Group. Costs continue to be controlled well, though like many other businesses we have seen a significant rise in energy costs. Our contract terms with customers have largely allowed us to pass these increases on although power consumption across our office footprint has been absorbed into the overhead base.

The consolidated income statement includes £0.34m of exceptional costs which are for the professional fees related to the acquisition of Truststream and Orchard and costs associated with the post-acquisition integration and restructuring.

Finance costs of £0.24m have increased compared to the same period last year (H1 FY22: £0.05m). Finance costs include £0.12m of bank loan interest and £0.10m of non-cash finance charges relating to the unwinding of discount on contingent consideration and amortisation of the loan arrangement fee. The bank loan interest has increased following the £4.5m drawdown to finance the acquisition of Truststream and also from the increase in bank interest rates.

The Group has an Adjusted profit before tax of £1.10m (H1 FY22: £0.96m) and a statutory loss before tax of £0.19m (H1 FY22: profit before tax £0.25m). The statutory loss before tax results from having £0.34m of non-recurring exceptional costs, a £0.25m increase in amortisation of acquired intangible assets, and the increase in finance costs.

The taxation credit of £0.08m includes no significant one-off items. The tax charge will increase in FY24 due to the increase in corporation tax rate from 19% to 25% which applies from 1 April 2023.

Adjusted basic earnings per share for H1 FY23 was 2.0 pence (H1 FY22: 1.5 pence) and basic loss per share for H1 FY23 was 0.2 pence (H1 FY22: earnings per share 0.3 pence).

The consolidated statement of financial position includes the impact of the Truststream and Orchard acquisitions with £6.3m of goodwill and £3.6m of acquired intangible assets recognised on acquisition. The increase in the Group's working capital balances primarily relate to the addition of the two businesses and the full £2.9m discounted fair value of the contingent consideration is included in current and non-current liabilities.

There were no significant items of capital expenditure in H1 FY23 and the total tangible capex spend was £0.1m. In H1 FY22 the higher expenditure was due to the refurbishments of our Newport & Manchester offices and investing into our multi-tenanted SysCloud 2.0 platform. As planned, we completed Project Fusion at the end of FY22 and there have been no system or commercial development projects in H1 FY23.

The Group's financial position structurally shifted following the financing of the two acquisitions in April. The net cash position of £1.96m at 31 March 2022 shifted to a net debt position of £1.92m at 30 September 2022, excluding the £2.94m of contingent consideration. The £1m acquisition of Orchard was financed from the Group's existing cash balance, and Truststream was acquired using £4.5m of funds drawn from the new £8.0m revolving credit facility and £0.85m from the Group's existing resources. The Group had a gross cash balance of £4.22m at 30 September 2022 (30 Sept 2021: £3.47m).

Cashflow from operations was £1.67m (H1 FY22: £1.14m) and cash conversion was higher than expected at 120% (H1 FY22: 85%). The target cash conversion range for the Group is 80-90% but was higher than usual due to a small number of VAR deals where payments had been received from customers in advance of the related supplier payments falling due for payment. Working capital continues to be managed well with debtor days below the target level of 25 days. Corporation tax of £0.13m was paid in H1 FY23 (H1 FY22: £0.19m).

Acquisitions

In April, SysGroup completed its first two acquisitions since 2019, both of which are strategically important for the Group. We are delighted with both additions as they bring with them great teams, complement our existing offering, provide opportunities for future cross selling and strengthen the Group's geographical footprint.

We acquired Truststream for an initial cash consideration of £4.8m and a maximum earn out consideration of up to £3.075m over a 24 month period. Established in 2011, Truststream is one of the UK's fastest growing providers of professional and managed cyber security services. The global managed security services market is forecast to grow by a CAGR of 7.9% through to 2027*. Truststream has a strong and growing client base across both the private and public sectors and is one of the UK's leading providers of security transformation services. Its offering covers all aspects of cyber security from analysis and threat detection, through protection architecture and implementation, to incident response and ongoing 24/7 support and training. Truststream has built long term sustainable relationships with key vendors and is identified as a leading partner of choice for market leading vendors by Gartner. Truststream has a number of relevant security accreditations, including ISO 9001 and ISO 27001.

We subsequently acquired Independent Network Solutions Limited, which trades as Orchard Computers, a Bristol based managed IT service provider, for £1.0m in cash. Orchard has been in operation for over 30 years and has built a loyal customer base totalling over 120 active clients in 2021, largely in the Southwest of England. The average length of relationship amongst their 20 largest clients is 12 years, with no single customer representing more than 7% of total revenues. Orchard represents customers across a broad range of sectors, covering both the private and public sectors. Its managed IT service offering mirrors that of SysGroup, providing high quality consulting services and building tailor made, vendor agnostic solutions, designed specifically to meet individual customer needs, followed by ongoing support.

At the time of the Truststream acquisition, the Company secured a new £8.0m revolving credit facility with Santander to provide additional financial flexibility for the Group. The new banking facility has a term of five years with covenants that will be tested quarterly relating to total net debt to Adjusted EBITDA leverage and minimum liquidity. The Group has drawn down £4.5m against the new facility towards the funding of the Truststream Acquisition.

As a result of Project Fusion, the integration of both businesses has been both swift and seamless. The integration of both finance operations, customer relationship management and team members have already been completed. By the end of the current financial year, we expect to have completed integration of all technical operations as well as have both businesses trading under the SysGroup brand.

The Board is continuing to monitor and assess further acquisition opportunities. The pipeline is looking healthy following the disruptions caused by the pandemic and, as a well-capitalised and well-run business with an increasing presence throughout the UK, we are well placed to add quality businesses and further scale whilst continuing to maintain discipline in line with our strict acquisition criteria.

Share Option Grants

In June 2022, the Remuneration Committee granted 284,010 performance shares to Adam Binks, Chief Executive Officer, and 170,406 performance shares to Martin Audcent, Chief Financial Officer in relation to the Group's performance in FY22 and under the terms of the 2020 SysGroup Long Term Incentive Plan.

Outlook

Trading for the second half has continued with positive momentum and the Board is therefore confident in meeting its full year expectations. Clearly, we are conscious of the ongoing economic uncertainty but are continuing to work hard to build a pipeline of opportunity. The business is continuing to benefit from the operational investments and optimisation focus of previous periods and is well placed to deliver further growth. Technology has the ability to drive productivity and efficiency and with the landscape becoming increasingly sophisticated and diverse, companies need outsourced expertise to deliver the right outcomes for their individual needs.

The need for managed IT services remains prevalent and as businesses increasingly seek to invest in technology to increase efficiencies and improve their margins, SysGroup is ideally placed to capitalise on this market opportunity.

The acquisitions of Truststream and Orchard demonstrate our desire and ability to add quality businesses and we have the right infrastructure to integrate them seamlessly and at pace. The market remains hugely fragmented and we will look to consolidate further as opportunities arise.

Adam Binks

Chief Executive Officer

*Source - "Managed Security Services Market Outlook to 2025: Global Report" by Research and Markets

INDEPENDENT REVIEW REPORT TO SYSGROUP PLC

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 is not prepared, in all material respects, in accordance with the London Stock Exchange AIM Rules for Companies.

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the consolidated interim statement of comprehensive income, the consolidated interim statement of financial position, the consolidated interim statement of cash flows and the notes to the consolidated interim financial statements.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the London Stock Exchange AIM Rules for Companies.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with the London Stock Exchange AIM Rules for Companies which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange AIM Rules for Companies for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

DocuSigned by:
BDO LLP
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BDO LLP
Chartered Accountants
Liverpool, UK
18 November 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 SEPTEMBER 2022

	Notes	Unaudited six months to 30-Sep-22 £'000	Unaudited six months to 30-Sep-21 £'000	Audited year to 31-Mar-22 £'000
Revenue	2	**11,321**	**7,580**	**14,746**
Cost of sales		(5,708)	(3,017)	(5,826)
Gross profit	2	**5,613**	**4,563**	**8,920**
Operating expenses before depreciation, amortisation, exceptional items and share based payments		(3,935)	(3,219)	(6,103)
Adjusted EBITDA		**1,678**	**1,344**	**2,817**
Depreciation		(330)	(334)	(654)
Amortisation of intangible assets		(866)	(615)	(1,243)
Exceptional items	4	(337)	-	-
Share based payments		(96)	(93)	(195)
Administrative expenses		(5,564)	(4,261)	(8,195)
Operating profit		**49**	**302**	**725**
Finance costs	5	(243)	(52)	(127)
(Loss)/profit before taxation		**(194)**	**250**	**598**
Taxation		77	(83)	(147)
Total comprehensive (loss)/profit attributable to the equity holders of the company		**(117)**	**167**	**451**
Basic earnings per share (pence)	3	(0.2)p	0.3p	0.9p
Diluted earnings per share (pence)	3	(0.2)p	0.3p	0.9p

All the results arise from continuing operations.

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2022

	Notes	Unaudited 30-Sep-22 £'000	Unaudited 30-Sep-21 £'000	Audited 31-Mar-22 £'000
Assets				
Non-current assets				
Goodwill	7	21,894	15,554	15,554
Intangible assets	7	7,005	4,822	4,318
Plant, property and equipment		2,139	1,614	1,478
		31,038	**21,990**	**21,350**
Current assets				

Trade and other receivables	8	4,090	1,926	2,079
Cash and cash equivalents		4,216	3,469	4,133
		8,306	**5,395**	**6,212**
Total Assets		**39,344**	**27,385**	**27,562**
Equity and Liabilities				
Equity attributable to the equity shareholders of the parent				
Called up share capital		494	494	494
Share premium		9,080	9,080	9,080
Treasury reserve		(201)	(201)	(201)
Other reserve		3,123	2,925	3,027
Translation reserve		-	4	4
Retained earnings		8,741	8,570	8,854
		21,237	**20,872**	**21,258**
Non-current liabilities				
Lease liabilities		685	269	195
Contract liabilities		486	-	296
Contingent consideration		1,060	-	-
Provisions	10	175	-	-
Deferred taxation		1,642	948	1,011
Bank loan	11	5,187	595	387
		9,235	**1,812**	**1,889**
Current liabilities				
Trade and other payables	9	3,844	2,766	2,692
Lease liabilities		268	255	144
Contract liabilities		2,885	1,291	1,163
Contingent consideration		1,875	-	-
Bank loan	11	-	389	416
		8,872	**4,701**	**4,415**
Total Equity and Liabilities		**39,344**	**27,385**	**27,562**

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

SIX MONTHS ENDED 30 SEPTEMBER 2022

	Attributable to equity holders of the parent						
	Share capital	**Share premium reserve**	**Treasury reserve**	**Other reserve**	**Translation reserve**	**Retained earnings**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2021	**494**	**9,080**	**(201)**	**2,832**	**4**	**8,403**	**20,612**
Loss and total comprehensive income for the period	-	-	-	-	-	167	167
Share options charge	-	-	-	93	-	-	93

At 30 September 2021 (unaudited)	**494**	**9,080**	**(201)**	**2,925**	**4**	**8,570**	**20,872**
Profit and total comprehensive income for the period	-	-	-	-	-	284	284
Share options charge	-	-	-	102	-	-	102
At 31 March 2022	**494**	**9,080**	**(201)**	**3,027**	**4**	**8,854**	**21,258**
Loss and total comprehensive income for the period	-	-	-	-	-	(117)	(117)
Reclass of translation reserve	-	-	-	-	(4)	4	-
Share options charge	-	-	-	96	-	-	96
At 30 September 2022 (unaudited)	**494**	**9,080**	**(201)**	**3,123**	**-**	**8,741**	**21,237**

The following describes the nature and purpose of each reserve within equity:

Reserve	**Description and purpose**
Share Premium Reserve	Amount subscribed for share capital in excess of nominal values.
Treasury reserve	Company owned shares held for the purpose of settling the exercise of employee share options.
Other Reserve	Amount reserved for share-based payments to be released over the life of the instruments and the equity element of convertible loans
Translation Reserve	Amount represents differences in relations to the consolidation of subsidiary companies accounting for currencies other than the Group's functional currency. In H1 FY23 the balance of the reserve was reclassified to Retained earnings and no further translation differences are expected to occur.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

CONSOLIDATED CONDENSED STATEMENT OF CASHFLOWS

SIX MONTHS ENDED 30 SEPTEMBER 2022

	Unaudited six months to 30-Sep-22 £'000	**Unaudited six months to 30-Sep-21 £'000**	**Audited year to 31-Mar-22 £'000**
Cashflows used in operating activities			
(Loss)/profit after tax	(117)	167	451
Adjustments for:			
Depreciation and amortisation	1,196	949	1,897
Finance costs	243	52	127
Share based payments	96	93	195
Taxation (credit)/charge	(77)	83	147
Operating cashflows before movement in working capital	**1,341**	**1,344**	**2,817**
Decrease/(increase) in trade and other receivables	68	(198)	(354)

Increase/(decrease) in trade and other payables	260	(5)	5
Cashflow from operations	**1,669**	**1,141**	**2,468**
Taxation paid	(128)	(192)	(159)
Net cash from operating activities	**1,541**	**949**	**2,309**
Cashflows from investing activities			
Payments to acquire property, plant & equipment	(105)	(476)	(620)
Payments to acquire intangible assets	-	(147)	(271)
Acquisition of subsidiary companies net of cash acquired	(5,390)	-	-
Net cash used in investing activities	**(5,495)**	**(623)**	**(891)**
Cashflows from financing activities			
RCF drawdown net of arrangement fees	4,373	-	-
Repayment of bank loan	(82)	(189)	(417)
Capital/principal paid on lease liabilities	(102)	(88)	(256)
Interest paid on loan facility	(138)	(45)	(67)
Interest paid on lease liabilities	(14)	(8)	(18)
Net cash used in financing activities	**4,037**	**(330)**	**(758)**
Net increase/(decrease) in cash and cash equivalents	**83**	**(4)**	**660**
Cash and cash equivalents at the beginning of the period /year	4,133	3,473	3,473
Cash and cash equivalents at the end of the period/year	**4,216**	**3,469**	**4,133**

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SIX MONTHS ENDED 30 SEPTEMBER 2022

1. ACCOUNTING POLICIES

The accounting policies used in the preparation of the unaudited consolidated condensed financial information for the six months ended 30 September 2022 are prepared in accordance with UK adopted International Financial Reporting Standards ("IFRS") and are consistent with those that will be adopted in the annual statutory financial statements for the year ended 31 March 2023.

While the financial information included has been prepared in accordance with the recognition and measurement criteria, in accordance with UK adopted International Financial Reporting Standards, these consolidated condensed financial statements do not contain sufficient information to comply with IFRSs.

The financial information for the six-month period ended 30 September 2022 and 30 September 2021 does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and is unaudited but has been reviewed by our auditors in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board. The comparative financial information for the year ended 31 March 2022 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2022 have been filed with the Registrar of Companies. The Independent Auditor's Report on that Annual Report and Financial Statements for 2022 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

This Interim Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The Interim Report should not be relied on by any other party or for any other purpose.

Exceptional items

The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which the Directors consider, because of their size or nature and expected non-recurrence, merit separate presentation to facilitate financial comparison with prior periods and to assess trends in financial performance. Exceptional items are included in Administration expenses in the Consolidated Statement of Comprehensive Income but excluded from Adjusted EBITDA (Note 6) as management believe they should be considered separately to gain an understanding of the underlying profitability of the trading businesses.

Going concern

The Directors have prepared the financial statements on a going concern basis which assumes that the Group and the Company will continue to meet liabilities as they fall due.

The Group has an operating model with a high level of resilience to economic downturn with circa 75% of revenue deriving from contracted managed IT services which are business critical supplies to customers. This resilience was demonstrated during the recent economic downturn when the Group continued to operate at full capacity throughout the period with no use of the government's furlough or loan assistance schemes. The Group has a gross cash balance of £4.2m and a net debt position of £1.92m (excluding contingent consideration of £2.94m) which is forecast to steadily reduce as the Group continues to generate strong levels of operating cash inflow.

The Directors have reviewed the Group's financial forecasts and taken into account the current UK economic outlook. The projected trading forecasts and resultant cashflows, together with the confirmed loan facilities and other sources of finance, taking account of reasonably possible changes in trading performance, show that the Group can continue to operate within the current facilities available to it.

The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing the financial statements.

2. SEGMENTAL REPORTING

The chief operating decision maker for the Group is the Board of Directors and the Group reports in two segments:

- Managed IT Services – this segment provides all forms of managed services to customers and includes professional services.
- Value Added Resale (VAR) – this segment provides all forms of product and licence sales procured from supplier partners.

The monthly management accounts reported to the Board of Directors are reviewed at a consolidated level and the Board review the results of the operating segments at a revenue and gross profit level since the Group's management and operational structure operate as unified Group functions. In this respect, assets and liabilities are also not reviewed on a segmental basis. All assets are located in the UK. All segments are continuing operations and there are no transactions between segments, and all revenue is earned from external customers. The business segments' gross profit is reconciled to profit before taxation as per the consolidated income statement. The Group's overheads are managed centrally by the Board and consequently there is no reconciliation to profit before tax at a segmental level.

	Unaudited six months to 30-Sep-22 £'000	Unaudited six months to 30-Sep-21 £'000	Audited year to 31-Mar-22 £'000
Revenue			

Managed IT Services	8,543	6,496	12,845
Value Added Resale	2,778	1,084	1,901
	11,321	**7,580**	**14,746**
Gross Profit			
Managed IT Services	5,157	4,329	8,511
Value Added Resale	456	234	409
	5,613	**4,563**	**8,920**

3. EARNINGS PER SHARE

	Unaudited six months to 30-Sep-22	**Unaudited six months to 30-Sep-21**	**Audited year to 31-Mar-22**
(Loss)/profit for the financial period attributable to shareholders	(117)	167	451
Adjusted profit for the financial period	974	741	1,748
Weighted number of equity shares in issue	48,859,690	48,859,690	48,859,690
Weighted number of equity shares for diluted calculation	52,189,652	51,786,614	51,983,666
Adjusted basic earnings per share (pence)	2.0p	1.5p	3.6p
Basic (loss)/earnings per share (pence)	(0.2p)	0.3p	0.9p
Diluted (loss)/earnings per share (pence)	(0.2p)	0.3p	0.9p

	Unaudited six months to 30-Sep-22 £'000	**Unaudited six months to 30-Sep-21 £'000**	**Audited year to 31-Mar-22 £'000**
(Loss)/profit after tax	(117)	167	451
Amortisation of intangible assets	866	615	1,243
Exceptional items	337	-	-
Share based payments	96	93	195
Tax adjustments	(208)	(134)	(141)
Adjusted profit used for Adjusted earnings per share	**974**	**741**	**1,748**

The tax adjustments relate to current and deferred tax on the amortisation of intangible assets, exceptional items and share based payments.

4. EXCEPTIONAL ITEMS

	Unaudited six months to 30-Sep-22 £’000	**Unaudited six months to 30-Sep-21 £’000**	**Audited year to 31-Mar-22 £’000**
Integration and restructuring costs	113	-	-
Acquisition costs	224	-	-
	337	**-**	**-**

5. FINANCE COSTS

	Unaudited six months to 30-Sep-22 £'000	Unaudited six months to 30-Sep-21 £'000	Audited year to 31-Mar-22 £'000
Interest payable on lease liabilities	26	2	20
Interest payable on bank loan	120	36	80
Arrangement fee amortisation on bank loan	18	14	27
Unwinding of discount on contingent consideration	79	-	-
	243	**52**	**127**

6. ALTERNATIVE PERFORMANCE MEASURES

Reconciliation of Operating profit to Adjusted EBITDA	Unaudited six months to 30-Sep-22 £'000	Unaudited six months to 30-Sep-21 £'000	Audited year to 31-Mar-22 £'000
Operating profit	49	302	725
Depreciation	330	334	654
Amortisation of intangible assets	866	615	1,243
EBITDA	**1,245**	**1,251**	**2,622**
Exceptional items	337	-	-
Share based payments	96	93	195
Adjusted EBITDA	**1,678**	**1,344**	**2,817**

Reconciliation of loss before tax to Adjusted profit before tax	Unaudited six months to 30-Sep-22 £'000	Unaudited six months to 30-Sep-21 £'000	Audited year to 31-Mar-22 £'000
(Loss)/profit before tax	(194)	250	598
Amortisation of intangible assets	866	615	1,243
Exceptional items	337	-	-
Share based payments	96	93	195
Adjusted profit before tax	**1,105**	**958**	**2,036**

Cash conversion	Unaudited six months to 30-Sep-22 £'000	Unaudited six months to 30-Sep-21 £'000	Audited year to 31-Mar-22 £'000
Cashflow from operations	1,669	1,141	2,468
Adjustments:			
Acquisitions, integration and restructuring cashflows	337	-	-
Adjusted cashflow from operations	**2,006**	**1,141**	**2,468**
Adjusted EBITDA	**1,678**	**1,344**	**2,817**
Cash conversion	120%	85%	88%

Net debt	Unaudited 30-Sep-22 £'000	Unaudited 30-Sep-21 £'000	Audited 31-Mar-22 £'000
Cash balances	4,216	3,469	4,133
Bank loans - current	-	(389)	(416)
Bank loans - non-current	(5,187)	(595)	(387)
Net (debt)/cash before lease liabilities	**(971)**	**2,485**	**3,330**
Lease liabilities - equipment	-	-	(8)
Lease liabilities - property	(953)	(524)	(331)
Net (debt)/cash	**(1,924)**	**1,961**	**2,991**
Contingent consideration	(2,935)	-	-
Net (debt)/cash including contingent consideration	**(4,859)**	**1,961**	**2,991**

7. INTANGIBLE ASSETS

	Systems development £'000	Software licences £'000	Customer relationships £'000	Goodwill £'000	Total £'000
Cost					
At 1 April 2021	802	205	9,156	15,554	**25,717**
Additions	271	-	-	-	**271**
At 31 March 2022	**1,073**	**205**	**9,156**	**15,554**	**25,988**
At 1 April 2022	1,073	205	9,156	15,554	**25,988**
Additions	-	-	3,555	6,340	**9,895**
At 30 September 2022	**1,073**	**205**	**12,711**	**21,894**	**35,883**
Accumulated amortisation					
At 1 April 2021	264	201	4,408	-	**4,873**
Charge for the year	140	4	1,099	-	**1,243**
At 31 March 2022	**404**	**205**	**5,507**	**-**	**6,116**
At 1 April 2022	404	205	5,507	-	**6,116**
Charge for the year	86	-	782	-	**868**
At 30 September 2022	**490**	**205**	**6,289**	**-**	**6,984**
Net book value					
At 31 March 2022	**669**	**-**	**3,649**	**15,554**	**19,872**
At 30 September 2022	**583**	**-**	**6,422**	**21,894**	**28,899**

8. TRADE AND OTHER RECEIVABLES

	Unaudited 30-Sep-22 £'000	Unaudited 30-Sep-21 £'000	Audited 31-Mar-22 £'000

Trade receivables	1,723	991	1,154
Other receivables	2,367	935	925
	4,090	**1,926**	**2,079**

9. TRADE AND OTHER PAYABLES

	Unaudited	Unaudited	Audited
	30-Sep-22	**30-Sep-21**	**31-Mar-22**
	£'000	**£'000**	**£'000**
Trade payables	1,399	1,344	1,116
Corporation tax	427	153	188
Other taxes and social security	836	468	499
Accruals	1,182	801	889
	3,844	**2,766**	**2,692**

10. PROVISIONS

	Unaudited	Unaudited	Audited
	30-Sep-22	**30-Sep-21**	**31-Mar-22**
	£'000	**£'000**	**£'000**
Dilapidations provision	175	-	-

This provision is for the estimated aggregate cost of returning the Group's offices to their original condition on the expiry and exit of the property leases.

11. BANK LOAN

	Unaudited	Unaudited	Audited
	30-Sep-22	**30-Sep-21**	**31-Mar-22**
	£'000	**£'000**	**£'000**
Bank loans - current	-	389	416
Bank loans - non-current	5,187	595	387
	5,187	**984**	**803**

In April 2022, SysGroup plc re-financed its existing term loan facility of £1.75m and its undrawn acquisition revolving credit facility of £3.25m and replaced both with a new £8.0m revolving credit facility with Santander to provide additional financial flexibility for the Group. The new banking facility has a term of five years, an interest rate of Base Rate +3.25% margin on drawn funds and covenants that will be tested quarterly relating to total net debt to Adjusted EBITDA leverage and minimum liquidity.

12. ACQUISITIONS

In April 2022 SysGroup acquired 100% of the issued share capital in Truststream and Independent Network Solutions Limited ("INSL") which is the holding company of Orchard.

Truststream

Established in 2011 and based in Edinburgh, Truststream is one of the UK's fastest growing providers of professional and managed cyber security services. Truststream covers all aspects of cyber security from analysis and threat detection, through protection architecture and implementation, to incident response and ongoing

24/7 support and training. The acquisition further enhances SysGroup's service offering and is complementary to the Group's core expertise and key areas of focus. In addition, the acquisition enables the Group to further strengthen its UK presence by opening up Scotland as an attractive hub for the Group.

Truststream was acquired for £4.8m initial cash consideration on a cash-free debt-free basis with an additional £0.5m paid for the net cash position following the conclusion of the completion accounts exercise. The acquisition agreement includes a two year earn-out mechanism with contingent consideration payable up to £3.08m following the first and second anniversaries of the transaction. The earn-out is subject to the achievement of certain maintainable EBITDA performance targets in the first and second 12-month periods following the completion of the acquisition.

The Truststream acquisition was funded from a new £8.0m revolving credit facility (“RCF”) which was signed with Santander in April 2022. SysGroup utilised £4.5m of funds from the RCF and £0.8m from existing Group cash balances to finance the acquisition.

Orchard
SysGroup acquired INSL in April 2022 for £1.0m cash consideration with no contingent or deferred consideration. The cash consideration was funded from the Group’s existing cash balances.

Orchard has been in operation for over 30 years and has built a loyal customer base largely in the south west of England and across a broad range of sectors, covering both the private and public sectors. Its managed IT service offering mirrors that of SysGroup, providing high quality consulting services and building tailor made, vendor agnostic solutions, designed specifically to meet individual customer needs, followed by ongoing support. The acquisition of Orchard furthers strengthen SysGroup's presence in the south west of England.

Fair value of acquired net assets
The Directors have reviewed the intangible assets of both companies and have recognized an intangible asset in respect of customer relationships for both acquisitions. The asset values have been calculated using a discounted cashflow method based on the estimated level of profit to be generated from the customers acquired. A post tax discount rate of 9.40% was used in the valuation and the customer relationships are amortised over an estimated useful life of seven years for Truststream and ten years for Orchard. The goodwill arising on the acquisitions is attributable to the technical skills of the workforce and cross-selling opportunities achievable from combining the acquired customer bases and trades with the existing Group.

The goodwill and intangible assets have been allocated to new CGUs, Truststream & Orchard since the companies have their own distinct cash operations and financial reporting processes.

The Directors consider it appropriate for both businesses to be reported within the existing Group’s operating segments, managed IT services and VAR, since they are both managed within the Group’s management and operating structure and have revenues that align with the segments.

	Orchard			Truststream		
Recognised amounts of net assets acquired and liabilities assumed	**Book value £'000**	**Fair value Adj. £'000**	**Fair value £'000**	**Book value £'000**	**Fair value Adj. £'000**	**Fair value £'000**
Cash and cash equivalents	398	-	398	550	-	550
Trade and other receivables	311	(15)	296	1,783	-	1,783
Property, plant and equipment	32	(32)	-	-	-	-
Intangible assets	-	1,028	1,028	-	2,526	2,526
Trade and other payables	(385)	(410)	(795)	(1,776)	-	(1,776)

Bank loan	(82)	-	(82)	-	-	-
Corporation tax	(63)	-	(63)	(119)	-	(119)
Deferred tax	(5)	(257)	(262)	-	(632)	(632)
Identifiable net assets			520			2,332
Goodwill			485			5,860
Total net assets			**1,005**			**8,192**
Satisfied by:						
Cash consideration - paid on acquisition			1,005			5,337
Contingent consideration			-			3,075
Discounting of contingent consideration			-			(220)
Total consideration			**1,005**			**8,192**

13. AVAILABILITY OF INTERIM REPORT

Copies of this report are available on the Company's website at http://www.sysgroup.com