26 November 2018

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

Half yearly results for the six months ended 30 September 2018

SysGroup PLC (AIM: SYS), the Managed IT Services and Cloud Hosting provider, is pleased to announce its unaudited half year results for the six months ended 30 September 2018 (H1 2019).

Financial highlights

- Revenue increased 47.3% to £5.8m (H1 FY18: £3.9m)
- Recurring Managed IT Services represented 77.8% of total revenue (H1 FY18: 72.8%)
- Adjusted EBITDA[1] increased 300% to £0.56m (H1 FY18: £0.14m)
- Adjusted profit[2] before tax of £0.25m (H1 FY18: loss of £0.008m)
- Adjusted basic EPS[3] of 1.1p (H1 FY18 0.2p)
- Loss before tax of £0.35m (H1 FY17: profit of £0.08m)
- Basic loss per share of 1.4p (H1 FY18: EPS 0.8p)
- Gross cash of £1.15m (H1 FY18: £2.69m; FY18: £1.32m)
- Net debt of £0.84m (H1 FY18: Net cash £2.41m; FY18 Net debt £0.92m)

[1]Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation of intangible assets, exceptional items, share based payments and fair value adjustments
[2]Adjusted profit before tax is profit before tax after adding back amortisation of intangible assets, exceptional items, fair value adjustments, and share based payments.
[3]Adjusted basic EPS is profit after tax after adding back amortisation of intangible assets, exceptional items, fair value adjustments, share based payments and associated tax.

Operational highlights

- Restructuring of Board complete with Martin Audcent appointed as CFO and retirement of Robert Khalastchy as Non-Executive Director
- 2nd Hyper-Scale Cloud Platform in London datacentre now servicing customers
- Implementation of Long Term Incentive Plan for executive management to deliver long-term value creation for shareholders and ensure alignment with shareholder interests
- Enhanced staff benefits to attract and retain the best talent in the business
- Refurbishment of Liverpool office complete and London office commenced

Post Period-end

- Won Security Vendor of the Year at Computing Security Excellence Awards

Adam Binks, Chief Executive Officer, commented:

"During the period we have focussed on execution and I am pleased to report that the Group has made steady progress in the first half of the year during my first period as CEO. The increasing proportion of recurring revenue demonstrates the ongoing success of our strategy and position as a consultative led provider of Managed IT Services and Cloud Hosting.

We have continued to invest in our business, our people, our brand and in systems and as a result have a more sales focused workforce all working towards the same common goals. We are beginning to see the results of this investment through a strengthened pipeline and remain confident in delivering full year performance in line with current market expectations."

For further information please contact:

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About SysGroup

SysGroup is a leading provider of Managed IT Services, Cloud Hosting, and expert IT Consultancy. The Group delivers solutions that enable clients to understand and benefit from industry leading technologies and advanced hosting capabilities. 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 delivering IT services.

The Group has offices in Liverpool, Coventry, London and Telford.

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

Introduction

The first half of the financial year has been one of steady progress with a focus on execution and continued delivery against our stated strategy. Revenue grew by 47.3% over the first half of last year to £5.8m, with recurring revenue of 77.8% compared to the first half of 2018. As stated at the full year, the business is continuing to invest in its sales and marketing functions to accelerate growth and expects to see the benefits begin to flow through into the second half and beyond.

This is the first six month period under my stewardship, having been appointed Chief Executive on 3 April 2018. I was delighted to welcome Martin Audcent to the Board, taking up the role of Chief Financial Officer in July and have been impressed by the contribution he has already made. Further, with the recent additions of Mark Quartermaine (November 2017) and Mike Fletcher (January 2018) as Non-Executive Directors, along with the long-standing support from our Chairman Michael Edelson, I believe that we have successfully composed a Board with the right blend of experience and skills to be able to execute the strategic vision for the Company and ultimately deliver shareholder value into the future.

At the beginning of the year we unified all Group operations and launched our services under a single brand, SysGroup, which was completed in April 2018. This has been an important step for the business following the acquisition and integration of Rockford IT (2017) and Sys-Pro (2016) and has helped to enhance our visibility and reputation in the market place. The rebranding has helped SysGroup transition towards being a more sales focused business, driven by the investments we have made to retain and recruit experienced and skilled staff in the sales and marketing functions, whilst maintaining the excellent service levels which is the bedrock of our business. Furthermore, the back-office investments made, such as a new CRM, integrated service desk platform and unified communications platforms are providing a more cohesive environment for our team. These developments will also allow us to scale the business and ensure that we can add both organic growth and integrate future acquisitions seamlessly.

At the beginning of the period, we committed to provide an enhanced working environment for all of our team in line with that of a growing technology company. We set out to refurbish our office locations throughout the course of the year with Liverpool being the first to be completed and London is expected to be completed by the end of the calendar year.

These changes typically take time to bed in, but we are already starting to see the benefits. We have added more clients and have a strong pipeline of opportunities upon which we hope to capitalise.

Strategy

SysGroup's clear focus is to expand its position as a trusted provider of Managed IT Services to clients in the UK. The Board believes that a business focused on the provision of Managed IT Services offers the highest growth opportunity and the potential for increased margins and longer-term contracts, thereby providing greater revenue visibility. In pursuit of 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 market.

The Group intends to continue to supplement organic growth with carefully considered acquisitions that can add both value, through breadth of service offering and additional sector specialisms, and scale to the existing operations of the Group. We continue to actively explore strategic acquisition opportunities, being a key tenet of our growth strategy. The Company entered into advanced negotiations with regards to one sizable opportunity, however the Board was not able to get comfortable with a number of factors and the discussions were subsequently terminated by mutual agreement.

Results and trading

During the period the Group has delivered revenues of £5.8m (H1 2018: £3.93m) and Adjusted EBITDA of £0.56m (H1 2018: £0.14m). Of this revenue, 77.8% was generated from recurring Managed IT Services business, up from 72.8% at the same time last year, demonstrating the continued success of the Company's strategy.

Gross profit for the period increased to £3.57m (H1 2018: £2.38m), corresponding to a gross profit margin of 61.7% (H1 2018: 60.6%).

The expected increase in operating expenses comes from the addition of the Rockford IT business to the Group and the increased investment in Sales and Marketing and Group support functions.

Exceptional items of £0.2m (H1 2018: £0.3m) relate to the integration and restructuring of acquired businesses and also includes £0.066m for professional fees incurred relating to the terminated acquisition process.

Adjusted basic earnings per share for the Half Year ended 30 September 2018 was a profit per share of 1.1 pence (H1 FY18: 0.2 pence). Basic earnings per share (EPS) for the Half Year was a loss per share of 1.4 pence (H1 2018: 0.8 pence).

Gross cash at 30 September 2018 was £1.15m (30 September 2017: £2.69m) with net debt of £0.84m (30 September 2017: net cash £2.41m). Improvements in working capital management have led to good operating cash generation in H1 FY19 which has been invested in capex, acquisition and integration activities and has reduced the net debt from £0.92m at 31 March 2018 to £0.84m at 30 September 2018.

Market Opportunity

The opportunity for SysGroup is, we believe, both significant and growing driven by both commercial and regulatory forces, most notably in the period the implementation of GDPR in May 2018. Security, Governance and Compliance remain three of the key areas of focus for organisations looking to consume managed IT services. With increasing regulation and external threats, businesses want to minimise risk as they rely more and more on IT to deliver their own products and services. Further, they want to understand where liability and risk share lies in the case of breaches and at the same time, make their chosen solution as cost effective as possible. The volume and breadth of solutions, particularly with migration to the cloud, means that IT departments are struggling to understand what best suits their needs, exacerbated by the fact that the pace of technological change continues to be so swift.

SysGroup is ideally placed to benefit from these dynamics through its consultative approach to fulfilling clients' needs. Our staff are continually focused on the latest product developments and are able to design and present technology agnostic solutions. IT is no longer viewed merely as a burden cost centre but as a business critical enabler and with the shortage of non-industry skilled, relevant staff, an outsourced, consultative approach such as ours is proving an increasingly attractive proposition.

Sales and Marketing

The benefits are starting to be seen from the investments made in the prior year and in the first half of the current year. We now have a strong and skilled sales function with a clear go-to-market strategy under the leadership of an industry seasoned Sales Director and the resultant cultural shift within SysGroup has been noticeable.

Our continued efforts in marketing are also beginning to bear fruit. We have launched a number of external campaigns as part of our newly defined marketing strategy with the introduction of digital marketing channels, including social media and targeted email campaigns, increased our efforts on search engine optimisation and have ramped up our internal lead generation function, all of which coupled together are creating an enhanced pipeline of opportunity.

Outlook

With the support of a team of almost 100 committed colleagues, each playing to their individual strengths, the growth opportunity for SysGroup is significant and continues to accelerate.

We have a clearly defined strategic focus within Managed IT Services and Cloud Hosting, delivered through a highly consultative approach to businesses who are increasingly in need of guidance due to a continually changing landscape of risk and compliance issues coupled with a wide-ranging portfolio of solutions.

Our operations have been unified under a single brand which is gaining recognition in the market, establishing us firmly as a trusted provider and supporting our strengthened sales and marketing teams. We are seeing a strong pipeline of opportunities and our focus on the UK market should provide a level of resilience to the possible impacts on the wider market from the currently uncertain political landscape.

The continued investments we are making in the Group mean that we can effectively scale the business, both organically and through acquisition as we continue to monitor and assess opportunities.

Trading in the second half of the year has begun well and as a result, the Board remains confident in delivering full year performance in line with current market expectations.

Adam Binks
Chief Executive Officer
26 November 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 SEPTEMBER 2018

	Notes	Unaudited six months to 30-Sep-18 £'000	Unaudited six months to 30-Sep-17 £'000	Audited Year to 31-Mar-18 £'000
Revenue	2	**5,786**	**3,928**	**10,451**
Cost of sales		(2,214)	(1,549)	(4,456)
Gross profit	2	**3,572**	**2,379**	**5,995**
Operating expenses before depreciation, amortisation, exceptional items, fair value adjustment and share based payments		(3,013)	(2,236)	(4,995)
Adjusted EBITDA		**559**	**143**	**1,000**
Depreciation		(243)	(144)	(372)
Amortisation of intangibles		(336)	(201)	(500)
Exceptional items	4	(236)	(268)	(581)
Fair value adjustment		-	555	540
Share based payments		(32)	-	(10)
Administrative expenses		(3,860)	(2,294)	(5,918)
(Loss)/profit from operations		**(288)**	**85**	**77**
Finance costs		(60)	(7)	(84)
(Loss)/profit before taxation		**(348)**	**78**	**(7)**
Taxation		34	113	245
Total comprehensive (loss)/profit attributable to the equity holders of the company		**(314)**	**191**	**238**
Basic earnings per share (pence)	3	(1.4p)	0.8p	1.0p
Fully diluted earnings per share (pence)	3	(1.4p)	0.7p	1.0p

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

All the results arise from continuing operations.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018

	Notes	Unaudited 30-Sep-18 £'000	Unaudited 30-Sep-17 £'000	Audited 31-Mar-18 £'000
Assets				
Non-current assets				
Goodwill		9,727	7,563	9,727
Intangible assets		2,709	1,454	3,094
Plant, property and equipment		804	602	809
		13,240	**9,619**	**13,630**
Current assets				
Trade and other receivables	5	1,313	1,056	1,624
Cash and cash equivalents		1,154	2,691	1,315
		2,467	**3,747**	**2,939**
Total Assets		**15,707**	**13,366**	**16,569**
Equity attributable to the equity shareholders of the parent				
Called up share capital		231	231	231
Other reserve		2,042	2,000	2,010
Translation reserve		4	4	4
Retained earnings		8,778	9,045	9,092
		11,055	**11,280**	**11,337**
Non-current liabilities				
Obligations under finance leases		28	149	128
Deferred taxation		594	295	674
Bank loan		1,607	-	1,742
		2,229	**444**	**2,544**
Current liabilities				
Trade and other payables	6	1,796	1,133	1,900
Deferred income		268	378	425
Bank loan		226	-	216
Obligations under finance leases		133	131	147
		2,423	**1,642**	**2,688**
Total Equity and liabilities		**15,707**	**13,366**	**16,569**

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
SIX MONTHS ENDED 30 SEPTEMBER 2018

	Attributable to equity holders of the parent				
	Share capital	Other reserve	Translation reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2017	**231**	**2,000**	**4**	**8,854**	**11,089**
Profit for the period	-	-	-	191	191
At 30 September 2017	**231**	**2,000**	**4**	**9,045**	**11,280**
Profit for the period	-	-	-	47	47
Share based payments	-	10	-	-	10
At 31 March 2018	**231**	**2,010**	**4**	**9,092**	**11,337**
Loss for the period	-	-	-	(314)	(314)
Share based payments	-	32	-	-	32
At 30 September 2018	**231**	**2,042**	**4**	**8,778**	**11,055**

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

Reserve	Description and purpose
Other Reserve	Amount reserved for share based payments to be released over the life of the instruments and the equity element of convertible loans and the amount subscribed for share capital in excess of nominal value of acquisition of another company
Retained earnings	All accumulated profits and losses arising net of distributions to shareholders

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
SIX MONTHS ENDED 30 SEPTEMBER 2018

	Unaudited six months to 30-Sep-18 £'000	Unaudited six months to 30-Sep-17 £'000	Audited year to 31-Mar-18 £'000
Cash flows used in operating activities			
Net (loss) / profit after tax	(314)	191	238
Depreciation and amortisation	579	345	872
Fair value adjustment on contingent consideration	-	(555)	(540)
Finance costs	60	7	84
Exceptional costs	236	268	581
Share based payments	32	-	10
Taxation	(34)	(113)	(245)
Operating cash flows before movement in working capital	**559**	**143**	**1,000**
Decrease in trade and other receivables	299	292	190
Decrease in trade and other payables	(257)	(448)	(405)
Operating cash flows before interest and tax	**601**	**(13)**	**785**
Interest paid	(60)	(7)	(66)
Taxation refunded	12	80	80
Cash generated from operations	**553**	**60**	**799**
Cash flows from investing activities			
Payments to acquire property, plant & equipment	(193)	(118)	(212)
Payments to acquire intangible assets	-	-	(3,523)
Deferred consideration	-	(150)	(150)
Acquisition and integration costs	(286)	(254)	(592)
Net cash used in investing activities	(479)	(522)	(4,477)
Cash flows from financing activities			
(Repayment)/drawdown of loan facility	(125)	-	1,940
Capital repayment of finance leases	(111)	(128)	(228)
Net cash from financing activities	(236)	(128)	1,712
Net decrease in cash and cash equivalents from continuing operations	**(162)**	**(590)**	**(1,966)**
Cash flows from discontinued operations			
Net cash used for operating activities	-	(192)	(192)
Net decrease in cash and cash equivalents from discontinued operations	**-**	**(192)**	**(192)**
Cash and cash equivalents at the beginning of the period/year	1,315	3,473	3,473
Cash and cash equivalents at the end of the period/year	**1,153**	**2,691**	**1,315**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SIX MONTHS ENDED 30 SEPTEMBER 2018

1. ACCOUNTING POLICIES

The financial information for the half year ended 30 September 2018 set out in this half yearly report does not constitute statutory financial statements as defined in section 435 of the Companies Act 2006.

The half yearly financial information has been prepared using the same accounting policies and estimation techniques as will be adopted in the Group financial statements for the year ending 31 March 2019. The Group financial statements for the year ended 31 March 2019 will be prepared under International Financial Reporting Standards as adopted by the European Union. These half yearly financial statements have been prepared on a consistent basis and format with the Group financial statements for the year ended 31 March 2018. The provisions of IAS 34 'Interim Financial Reporting' have not been applied in full.

In the current period the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting years beginning on 1 January 2018. The Group has adopted IFR15 – Revenue from Contracts with Customers, and an assessment of the impact on current revenue recognition policies has been completed, and IFRS9 – Financial Instruments. The adoption of both technical standards has not resulted in a material change to the Group statement of comprehensive income.

New standards, amendments to standards and interpretations have been issued but are not effective (and in some cases had not yet been adopted by the EU) for the financial year beginning 1 January 2018. These have not been early adopted and the Directors are considering the potential impact of IFRS 16 'Leases'.

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 excluded from Adjusted EBITDA as management believe they should be considered separately to gain an understanding of the underlying profitability of the trading businesses.

GOING CONCERN

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

The Directors have reviewed cash flow forecasts for the Group, including sensitivity analysis on key assumptions and the forecasts show that the Group expects to meet its liabilities taking into account all risks and uncertainties. As a result, the Directors formed a judgement that there is 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. SEGMENTAL REPORTING

The Group has two operating segments: Managed IT Services and Value Added Resale (VAR). The Managed IT Services segment comprises enterprise hosting, private and public cloud, IT support and consultancy. Value Added Resale (VAR) is resale of hardware, software licences and 3rd party support services.

Information regarding the operation of the reportable segments is included below. The performance of each operating segment is based on revenue and gross profit as the Board believe this is the best measure for segmental performance.

Assets and liabilities are not reviewed on a segmental basis. All non-current assets are within the UK. All segments are continuing operations. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between segments are accounted for using an arm's length commercial basis.

	Unaudited 30-Sep-18 £'000	Unaudited 30-Sep-17 £'000	Audited 31-Mar-18 £'000
Revenue			
Managed IT Services	4,501	2,858	7,130
Value Added Resale (VAR)	1,285	1,070	3,321
	5,786	**3,928**	**10,451**
Gross Profit			
Managed IT Services	3,285	2,132	5,224
Value Added Resale (VAR)	287	247	771
	3,572	**2,379**	**5,995**

There are no sales between the two business segments, and all revenue is earned from external customers. The business segments' gross profit reconciles to profit before taxation in 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 segmental level. No customer in any period represents more than ten per cent of the Group's revenue.

3. EARNINGS PER SHARE

	Unaudited six months to 30-Sep-18	Unaudited six months to 30-Sep-17	Audited year to 31-Mar-18
(Loss)/profit for the financial period/year attributable to shareholders	(£314,475)	£190,680	£237,923
Weighted number of equity shares in issue	23,103,898	23,103,898	23,103,898
Adjusted basic earnings per share (pence)	1.1p	0.2p	2.3p
Basic earnings per share (pence)	(1.4p)	0.8p	1.0p
Diluted earnings per share (pence)	(1.4p)	0.7p	1.0p

Profit used in the EPS calculation	Unaudited six months to 30-Sep-18	Unaudited six months to 30-Sep-17	Audited year to 31-Mar-18
	£'000	**£'000**	**£'000**
Profit after tax used for basic earnings per share	(314)	191	238
Amortisation of intangible assets	336	201	500
Exceptional items	236	268	581
Fair value adjustment	-	(555)	(540)
Share based payments	32	-	10
Tax adjustments	(39)	(53)	(250)
Adjusted profit used for adjusted earnings per share	251	52	539

4. EXCEPTIONAL ITEMS

In accordance with the Group's accounting policy on exceptional items, the following charges were incurred:

	Unaudited 30-Sep-18 £'000	Unaudited 30-Sep-17 £'000	Audited 31-Mar-18 £'000
Acquisitions	66	-	186
Integration and restructuring	170	268	395
	236	268	581

The acquisition costs of £66k in H1 FY19 relate to professional fees incurred on a terminated acquisition process, the costs of £186k in the prior financial year relate to the acquisition of Rockford IT Limited. Integration and restructuring costs represent the costs incurred for integrating newly acquired companies and for restructuring the internal business to manage the requirements of a larger group.

5. TRADE AND OTHER RECEIVABLES

	Unaudited six months to 30-Sep-18 £'000	Unaudited six months to 30-Sep-17 £'000	Audited year to 31-Mar-18 £'000
Trade debtors	906	682	1,101
Prepayments and accrued income	407	374	523
	1,313	1,056	1,624

6. TRADE AND OTHER PAYABLES

	Unaudited six months to 30-Sep-18 £'000	Unaudited six months to 30-Sep-17 £'000	Audited year to 31-Mar-18 £'000
Trade payables	783	484	893
Corporation tax	122	106	85
Other taxes and social security	444	290	439
Accruals	447	253	483
	1,796	1,133	1,900

7. AVAILABILITY OF INTERIM REPORT

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