25 November 2019

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

Half yearly results for the six months ended 30 September 2019

SysGroup PLC (AIM:SYS), the multi award-winning Managed IT Services and Cloud Hosting provider, is pleased to announce its unaudited half year results for the six months ended 30 September 2019 (H1 2020).

Financial highlights

- Revenue increased 60.0% to £9.3m (H1 2019: £5.8m)
- Recurring Managed IT Services represented 79.7% of total revenue (H1 2019: 77.8%)
- Adjusted EBITDA[1] increased 111.2% to £1.18m (H1 2019: £0.56m)
- Adjusted profit before tax[2] of £0.65m (H1 2019: £0.26m)
- Statutory loss before tax of £0.37m (H1 2019: loss of £0.35m)
- Adjusted basic EPS[3] of 1.1p (H1 2019: 1.1p)
- Basic loss per share of 0.9p (H1 2019: loss per share 1.4p)
- Adjusted cash generated from operations[4] increased 106% to £1.1m (H1 2019: £0.5m)
- Cash of £2.65m at 30 September 2019 (30 September 2018: £1.15m)
- Net (debt)[5] at 30 September 2019 of £(0.72)m (30 September 2018: £(0.84)m)

Operational highlights

- Acquisition of Hub Network Services Limited ("HNS") for £1.45m
- Integration of HNS completed in under three months
- Introduction of Customer Engagement plan demonstrating >97% satisfaction
- Planned closure of legacy Coventry office and datacentre complete

Post-period highlights

- Martin Audcent awarded North West Finance Director of the year 2019

Adam Binks, Chief Executive Officer, commented:

"I am pleased to report that SysGroup continues to deliver strongly against its stated strategy, with recurring revenues now representing almost 80% of our total income compared to 68% when I stepped into the CEO role in April 2018. The acquisition of HNS has supplemented the acquisition of Certus which we completed in H2 2018 and was our largest acquisition to date. The successful execution of these transactions demonstrates our capability to identify and attract good businesses, together with the capability to successfully integrate them as we build out our operational infrastructure to scale up the business.

Supported by a team of more than 130 individuals, SysGroup is moving forward at pace and is taking its place in the market as a serious contender. I thank each and every one of the team that strive each day to help make SysGroup one of the leading MSPs in the UK and give me the confidence to report that the Company continues to trade in line with management's expectations."

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.
4. Adjusted cash generated from operations represents operational cashflows adjusted to exclude cashflows for exceptional items
5. Net (debt) represents cash balances less bank loans, lease liabilities and contingent consideration.

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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, London, Newport, Bristol and Telford.

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

Introduction

The Company has continued to make significant progress during the first six months of the year in a difficult economic environment, reflecting the success of our focus on building strong levels of recurring revenue. Revenue grew by 60% over the first half of last year, to £9.3m, with recurring revenue of 79.7% compared to 77.8% for the first half of last year. The revenue reflects the first full six-month contribution of Certus IT Limited ("Certus") which we acquired in February 2019, and a part period contribution from Hub Network Services Limited ("HNS"), which we acquired in June 2019.

The market environment for Value Added Reseller ("VAR") services has been impacted due to ongoing macroeconomic uncertainty, with many businesses choosing to delay major asset refreshes and purchasing decisions until the political backdrop is clearer. While this has impacted the rate of our revenue growth we remain confident in meeting our expectations. In the six months under review, the Company delivered adjusted EBITDA of £1.18m (H1 2019: £0.56m) with strong operating cash generation. This has been achieved through a clear focus on our cost base, synergies from prior acquisitions and prioritising investment into areas most suitable for the current environment, providing a platform for the continued sustainable growth of the Group for the future. The VAR business remains well placed to capitalise on this investment once conditions normalise.

Both Certus and HNS have integrated very well which is a result of the structures previously put in place to enable the Company to scale effectively and seamlessly as it continues to seek attractive acquisition opportunities. Further operational and structural improvements have been made during the course of the first six months in preparation for the full integration of Certus once the earn-out period is completed in February 2020. Certus and HNS both continue to perform well and in line with our expectations and the feedback from customers and staff alike has been very positive.

Strategy

The Group's strategy remains consistent: 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 forever changing world of IT. The process is supplemented by customer service and support. The Group invests in R&D to ensure its clients take advantage of the latest and best solutions available to them, with a vendor/cloud agnostic approach.

The Company's route to execute this strategy is through a combination of organic and acquisitive growth whilst ensuring we create cross-selling opportunities across our acquired customer bases.

Results and trading

During the period, the Group has delivered revenues of £9.3m (H1 2019: £5.8m) and Adjusted EBITDA of £1.18m (H1 2019: £0.56m). Gross profit increased in the period to £5.5m (H1 2019: £3.6m), representing a gross margin of 59% (H1 2019: 62%). As expected, gross margin has shifted slightly lower compared to H1 2019 following the acquisitions of Certus and HNS.

Adjusted operating expenses have increased to £4.3m (H1 2019: £3.0m) which reflects the increased size of the Group following the acquisitions. Management have maintained good control of the cost base with operating expenses as a percentage of revenue having reduced by 6% to 46% in H1 2020 (H1 2019: 52%). We expect this improvement in operating cost efficiency to be maintained throughout the course of H2 2020.

Exceptional items of £0.3m (H1 2019: £0.2m) relate to professional fees for the acquisition of HNS, property exit costs for the planned closure of the Coventry office, and integration and restructuring costs following the acquisitions. The increase in amortisation is due to the commencement of amortisation charges for the Certus and HNS acquired intangible assets.

Adjusted basic earnings per share for H1 2020 was 1.1 pence (H1 2019: 1.1 pence). Basic loss per share for H1 2020 was 0.9 pence (H1 2019: loss per share of 1.4 pence).

Gross cash at 30 September 2019 was £2.65m (30 September 2018: £1.15m). The Group continues to manage working capital effectively with a strong operating cash conversion of 96% in H1 2020 (H1 2019: 99%) which is at the high end of the Board's target range. During H1 2020 cash has been invested in capex of £0.2m, one-off acquisition and integration costs of £0.3m and consideration paid for acquisitions of £1.7m. Net debt at 30 September 2019 was £0.72m (H1 2019: £0.84m) which includes the full fair value of contingent consideration payable for the acquisition of Certus which will be due for payment in Q1 of the next financial year, subject to the financial performance of Certus. During H2 2020 we will be investing in the core operational business systems for the Group and expect to capitalise the development costs associated with the design, build and implementation. The benefits afforded to the Group by this project will allow for further seamless scalability and a single platform from which our teams can operate.

The Group has adopted IFRS 16 – Leases for the financial year ending 31 March 2020 and has chosen to use the modified retrospective approach to adoption which means there are no restatements to the prior year figures. Within the income statement, operating lease charges, which previously sat in administrative expenses, have been replaced by depreciation and interest expenses. The adoption of IFRS 16 resulted in a right to use asset of £0.51m, with a corresponding liability of £0.60m, being recognised as at 1 April 2019. Within the consolidated income statement, the operating lease charge has been replaced by depreciation and interest expenses. This has resulted in a decrease in operating expenses and increase in finance costs. Further information is disclosed in the notes to the half yearly report.

Market Opportunity

The opportunity for SysGroup is, we believe, both significant and growing driven by both commercial and regulatory forces, most notably since the implementation of GDPR in May 2018 which has led to increased levels of demand from both prospects and customers for secure solutions. 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.

Operations

In sales and marketing, integration of sales teams across the acquired businesses of Certus and HNS with existing sales teams has been effective. As a result, all sales capabilities are aligned around the Group's strategy, with development training to focus on new business generation and opportunity creation across the board. Rebranding of the acquired businesses will take place in the second half of the year to reflect our operating model of a single brand across the Group. We have also launched a customer engagement strategy to better identify customer motivations and preferences to ensure we maintain our excellent customer retention rates. It's particularly pleasing to note that customer satisfaction in the six months under review was in excess of 97%.

The Group's Coventry data centre was decommissioned towards the end of the period with customers migrated to other facilities within our existing footprint, which was enhanced following the acquisition of Certus, providing further cost synergies as we move forward into the second half of the financial year.

Following the acquisition of the HNS business, we have commenced a project to consolidate all of our legacy network assets onto a single platform that will interconnect at each of our key datacentre locations, providing further scalability and redundancy to our hyper-scale hosting platforms. The project is expected to last for a period of 12 months and will provide future cost synergies once completed.

Outlook

We are continuing to build a very robust and capable business as a result of a growing, talented and dedicated team, all focused on delivering outstanding customer outcomes. Our geographical reach has expanded, along with our suite of products and services and we are increasingly well placed to meet the complex needs of our customers.

The operational and structural improvements that we continue to make will further benefit the business as it continues to scale and we have a proven ability to identify, attract and integrate good businesses to add to our platform, alongside the appetite to do so. I am pleased to report that the Group continues to perform in line with our expectations as we continue to execute on our growth strategy.

Adam Binks
Chief Executive Officer

INDEPENDENT REVIEW REPORT TO SYSGROUP PLC

Introduction

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 2019 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.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM 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.

Our responsibility

Our responsibility is to express to the Company a conclusion on the set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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 for companies trading securities on AIM and 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

BDO LLP

BDO LLP
Chartered Accountants
Manchester, UK
Date 22 November 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 SEPTEMBER 2019

	Notes	Unaudited six months to 30-Sep-19 £'000	Unaudited six months to 30-Sep-18 £'000	Audited year to 31-Mar-19 £'000
Revenue	2	**9,260**	**5,786**	**12,773**
Cost of sales		(3,788)	(2,214)	(4,994)
Gross profit	2	**5,472**	**3,572**	**7,779**
Operating expenses before depreciation, amortisation, acquisition and integration costs and share based payments		(4,291)	(3,013)	(6,366)
Adjusted EBITDA		**1,181**	**559**	**1,413**
Depreciation		(427)	(243)	(494)
Amortisation of intangibles		(636)	(336)	(723)
Exceptional items	4	(288)	(236)	(736)
Share based payments		(95)	(32)	(119)
Administrative expenses		(5,737)	(3,860)	(8,438)
Operating loss		**(265)**	**(288)**	**(659)**
Finance costs		(103)	(60)	(167)
Loss before taxation		**(368)**	**(348)**	**(826)**
Taxation		(59)	34	104
Total comprehensive loss attributable to the equity holders of the company		**(427)**	**(314)**	**(722)**
Basic earnings per share (pence)	3	(0.9p)	(1.4p)	(2.8p)
Fully diluted earnings per share (pence)	3	(0.9p)	(1.4p)	(2.8p)

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 2019

	Notes	Unaudited 30-Sep-19 £'000	Unaudited 30-Sep-18 £'000	Audited 31-Mar-19 £'000
Assets				
Non-current assets				
Goodwill		15,578	9,727	15,508
Intangible assets		6,704	2,709	6,173
Plant, property and equipment		1,977	804	1,420
		24,259	**13,240**	**23,101**
Current assets				
Trade and other receivables	6	2,283	1,313	2,856
Cash and cash equivalents		2,647	1,154	3,376
		4,930	**2,467**	**6,232**
Total Assets		**29,189**	**15,707**	**29,333**
Equity and Liabilities				
Equity attributable to the equity shareholders of the parent				
Called up share capital		494	231	494
Share premium		9,080	-	9,080
Other reserve		2,226	2,042	2,129
Translation reserve		4	4	4
Retained earnings		7,856	8,778	8,370
		19,660	**11,055**	**20,077**
Non-current liabilities				
Lease liabilities		540	28	81
Contingent consideration due on acquisitions		-	-	1,000
Deferred taxation		1,288	594	1,120
Bank loan		1,284	1,607	1,397
		3,112	**2,229**	**3,598**
Current liabilities				
Trade and other payables	7	3,575	1,796	3,992
Deferred income		1,297	268	1,238
Contingent consideration due on acquisitions		1,000	-	-
Bank loan		224	226	224
Lease liabilities		321	133	204
		6,417	**2,423**	**5,658**
Total Equity and Liabilities		**29,189**	**15,707**	**29,333**

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
SIX MONTHS ENDED 30 SEPTEMBER 2019

	Attributable to equity holders of the parent					
	Share capital	Share premium	Other reserve	Translation reserve	Retained profit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	**231**	**-**	**2,010**	**4**	**9,092**	**11,337**
Profit and total comprehensive income for the period	-	-	-	-	(314)	(314)
Movement in share option reserve	-	-	32	-	-	32
At 30 September 2018	**231**	**-**	**2,042**	**4**	**8,778**	**11,055**
Profit and total comprehensive income for the period	-	-	-	-	(408)	(408)
Share options granted	-	-	87	-	-	87
Issue of share capital - fees	-	(657)	-	-	-	(657)
Issue of share capital - placing	263	9,737	-	-	-	10,000
At 31 March 2019	**494**	**9,080**	**2,129**	**4**	**8,370**	**20,077**
Adjustment on adoption of IFRS16	-	-	-	-	(87)	(87)
Profit and total comprehensive income for the period	-	-	-	-	(427)	(427)
Movement in share option reserve	-	-	97	-	-	97
At 30 September 2019	**494**	**9,080**	**2,226**	**4**	**7,856**	**19,660**

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
Share premium	Amounts subscribed for share capital in excess of required values

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
SIX MONTHS ENDED 30 SEPTEMBER 2019

	Unaudited six months to 30 Sept 19 £'000	Unaudited six months to 30 Sep 18 £'000	Audited year to 31 Mar 19 £'000
Cash flows used in operating activities			
Net loss after taxation	(427)	(314)	(722)
Adjustments for:			
Depreciation and amortisation	1,063	579	1,226
Finance costs	103	60	167
Share based payments	95	32	119
Taxation	59	(34)	(104)
Operating cash flows before movement in working capital	**893**	**323**	**686**
Decrease/(Increase) in trade and other receivables	942	299	(188)
(Decrease)/Increase in trade and other payables	(902)	(307)	275
Operating cashflows before interest and tax	**933**	**315**	**773**
Interest paid	(103)	(60)	(123)
Taxation refunded/ (paid)	21	12	(49)
Operational cashflows	**851**	**267**	**601**
Cash flows from investing activities			
Payments to acquire property, plant & equipment	(180)	(193)	(296)
Acquisition of subsidiary companies	(1,659)	-	(7,956)
Cash acquired with acquisitions	609	-	949
Net cash used in investing activities	(1,230)	(193)	(7,303)
Cash flows from investing activities			
Net proceeds from issue of ordinary share capital	-	-	9,343
Repayment of loan facility including fees	(113)	(125)	(383)
Capital repayment of lease liabilities	(237)	(110)	(197)
Net cash from financing activities	(350)	(235)	8,763
Cash flows from financing activities			
Net (decrease)/increase in cash and cash equivalents	**(729)**	**(161)**	**2,061**
Cash and cash equivalents at the beginning of the period	3,376	1,315	1,315
Cash and cash equivalents at the end of the period	**2,647**	**1,154**	**3,376**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SIX MONTHS ENDED 30 SEPTEMBER 2019

1. ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated interim financial information for the six months ended 30 September 2019 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union and are consistent with those that will be adopted in the annual statutory financial statements for the year ended 31 March 2020.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of IFRS, as adopted by the European Union, these financial statements do not contain sufficient information to comply with IFRSs. The accounting policies applied by the Group in this financial information reflect the adoption of IFRS 16 Leases which is effective as of 1 January 2019. The adoption of this standard has not resulted in a restatement of the prior year figures.

Other than the adoption of IFRS 16 – Leases, the accounting policies adopted in the interim financial statements are consistent with those adopted in the financial statements for the year ended 31 March 2019.

IFRS 16 – Leases
IFRS16 has replaced IAS17 Leases and is effective on 1 January 2019. The Group has adopted IFRS 16 using the modified retrospective basis with recognition of a transitional adjustment on the date of initial application being 1 April 2019. IFRS 16 introduces a single lessee accounting model, where the Group now recognises a lease liability and a right of use asset for all leases. The group has no significant leasing activities acting as a lessor. On adoption of IFRS16 the group recognised a right of use asset in relation to the lease of office space.

IFRS16 provided for certain optional practical expedients, including those in relation to the initial adoption of the standard. The group applied the following practical expedients:

- The group did not reassess any contracts not previously identified as a lease under IAS17 or IFRIC4 prior to the transition date of 1 April 2019.
- A single discount rate was applied to a portfolio of leases with reasonably similar characteristics
- Applied the exemption not to recognise a right-of-use asset and liability for leases with less than 12 months of lease term remaining as at the date of initial application

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Right of use assets have been calculated as if the standard had been applied from the lease commencement date and initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Within the income statement, operating lease charges, which previously sat in administrative expenses, have been replaced by depreciation and interest expenses. The adoption of IFRS 16 resulted in a right of use asset of £0.51m, with a corresponding liability of £0.60m, being recognised as at 1 April 2019. Within the consolidated income statement, the operating lease charge has been replaced by depreciation and interest expense. This has resulted in a £0.1m decrease in operating expenses and Adjusted EBITDA, and a £0.1m increase in finance costs.

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

Going concern
The 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 Chief Operating Decision Maker for the Group is the Board of Directors. The Group reports in two segments: Managed IT Services – this segment provides all forms of managed services to customers and includes professional services; and Value Added Resale (VAR) – this segment provides all forms of VAR sales where the business sells products and licences from supplier partners.

The monthly management accounts reported to the Board of Directors is reviewed at a consolidated level with the operating segments representative of the business model for growth of recurring contract income in Managed IT Services and VAR sales as a complementary business activity. The Group's trading business is not subject to seasonal fluctuations, but the timing of VAR sales is subject to when customers elect to make asset refresh investment decisions. The Board review the results of the operating segments at the levels of revenue and gross profit since the Group's management and operational structure operate as centralised Group functions. Assets and liabilities are also not reviewed on a segmental basis. All assets are within the UK other than a low value of property, plant & equipment in the USA. All segments are continuing operations and there are no transactions between segments.

	Unaudited Six months to 30-Sep-19 £'000	**Unaudited six months to 30-Sep-18 £'000**	**Audited year to 31-Mar-19 £'000**
Revenue			
Managed IT Services	7,382	4,501	9,448
Value Added Resale (VAR)	1,878	1,285	3,325
	9,260	**5,786**	**12,773**
Gross Profit			
Managed IT Services	5,073	3,285	6,959
Value Added Resale (VAR)	399	287	820
	5,472	**3,572**	**7,779**

There were no sales between the two business 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.

3. EARNINGS PER SHARE

	Unaudited six months to 30-Sep-19 £'000	Unaudited six months to 30-Sep-18 £'000	Audited year to 31-Mar-19 £'000
Loss for the financial period attributable to shareholders	(427)	(314)	(722)
Adjusted profit for the financial period	562	251	809
Weighted number of equity shares in issue	49,419,690	23,103,898	25,843,624
Adjusted basic earnings per share (pence)	1.1p	1.1p	3.1p
Basic loss per share (pence)	(0.9p)	(1.4p)	(2.8p)
Diluted loss per share (pence)	(0.9p)	(1.4p)	(2.8p)

	Unaudited six months to 30-Sep-19 £'000	Unaudited six months to 30-Sep-18 £'000	Audited year to 31-Mar-19 £'000
Loss after tax used for basic earnings per share	(427)	(314)	(722)
Amortisation of intangible assets	636	336	723
Exceptional items	288	236	736
Share based payments	95	32	119
Tax adjustments	(30)	(39)	(47)
Adjusted profit used for adjusted earnings per share	**562**	**251**	**809**

4. EXCEPTIONAL ITEMS

	Unaudited Six months to 30-Sep-19 £'000	Unaudited Six months to 30-Sep-18 £'000	Audited year to 31-Mar-19 £'000
Integration and restructuring	204	170	182
Acquisition costs	84	66	554
	288	**236**	**736**

The acquisition costs of £84,000 in H1 FY20 relate to professional fees incurred for the acquisition of Hub Network Services Limited in June 2019. 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. ALTERNATIVE PERFORMANCE MEASURES

Reconciliation of Operating loss to Adjusted EBITDA	Unaudited Six months to 30-Sep-19 £'000	Unaudited Six months to 30-Sep-18 £'000	Audited year to 31-Mar-19 £'000
Operating loss	(265)	(288)	(659)
Depreciation	427	243	494
Amortisation of intangibles	636	336	723

EBITDA	**798**	**291**	**558**
Exceptional items	288	236	736
Share based payments	95	32	119
Adjusted EBITDA	**1,181**	**559**	**1,413**

Reconciliation of Loss before Tax to Adjusted Profit before Tax	**Unaudited Six months to 30-Sep-19 £'000**	**Unaudited Six months to 30-Sep-18 £'000**	**Audited year to 31-Mar-19 £'000**
Loss before tax	(368)	(348)	(826)
Amortisation of intangibles	636	336	723
Exceptional items	288	236	736
Share based payments	95	32	119
Adjusted Profit before Tax	**651**	**256**	**752**

Cash conversion	**Unaudited Six months to 30-Sep-19 £'000**	**Unaudited Six months to 30-Sep-18 £'000**	**Audited year to 31-Mar-19 £'000**
Operational cashflows	851	267	601
Adjustments:			
Acquisition, integration and restructuring cashflows	288	286	611
Cash generated from operations	**1,139**	**553**	**1,212**
Adjusted EBITDA	**1,181**	**559**	**1,413**
Cash conversion	96%	99%	86%

Net (debt)/cash	**Unaudited six months to 30-Sep-19 £'000**	**Unaudited six months to 30-Sep-18 £'000**	**Audited year to 31-Mar-19 £'000**
Cash balances	2,647	1,154	3,376
Bank loans – current	(224)	(226)	(224)
Bank loans – non-current	(1,284)	(1,607)	(1,397)
Lease liabilities	(861)	(161)	(285)
Contingent consideration	(1,000)	-	(1,000)
Net (debt)/cash	**(722)**	**(840)**	**470**

6. TRADE AND OTHER RECEIVABLES

	Unaudited Six months to 30-Sep-19 £'000	**Unaudited Six months to 30-Sep-18 £'000**	**Audited year to 31-Mar-19 £'000**
Trade debtors	1,166	906	1,744
Prepayments and accrued income	1,117	407	1,112
	2,283	**1,313**	**2,856**

7. TRADE AND OTHER PAYABLES

	Unaudited six months to 30-Sep-19 £'000	Unaudited six months to 30-Sep-18 £'000	Audited year to 31-Mar-19 £'000
Trade payables	1,622	783	1,885
Corporation tax	451	122	311
Other taxes and social security	626	444	817
Accruals	876	447	979
	3,575	**1,796**	**3,992**

8. ACQUISITIONS

In June 2019, the Company acquired 100% of the share capital of Hub Network Services Limited ("HNS"), a Managed IT Services Company registered in England & Wales with a head office in Bristol, England. HNS provides high quality internet connections, co-location and hosting solutions.

HNS was acquired for £1.46m cash paid on completion, cash free debt free, with a further £0.45m cash payment following the agreement of the completion accounts for the cash balance acquired, debt items and working capital adjustment. The company incurred £84,000 of professional fees and other acquisition costs in relation to this acquisition. These costs are included as Exceptional items in the consolidated statement of comprehensive income.

The Directors have considered the intangible assets acquired with HNS and have recognized an intangible asset in respect of customer relationships. The asset value has 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 9.80% was used in the valuation and the customer relationships are amortised over an estimated useful life of seven years. The goodwill arising on this acquisition is attributable to the technical skills of the workforce and cross-selling opportunities achievable from combining the acquired customer bases and trade with the existing Group.

The goodwill and intangible asset has been allocated to a new CGU, HNS, given the Company has its own operational structure, cash generation and financial reporting processes. The Directors consider that HNS does not form a separate operating segment and instead the revenue and gross profit is included in the managed IT services and VAR segments.

Recognised value of net assets acquired and liabilities assumed	**Book value £'000**	**Fair value adj £'000**	**Fair value £'000**
Cash and cash equivalents	609	-	609
Trade and other receivables	341	2	343
Property, plant and equipment	111	(8)	103
Intangible assets	-	1,146	1,146
Trade and other payables	(338)	(53)	(391)
Current income tax liability	(8)	-	(8)
Deferred tax liability	(19)	(195)	(214)
Identifiable net assets			**1,588**
Goodwill			323
Total net assets			**1,911**
Satisfied by:			
Cash paid - on acquisition			1,457
Cash paid – consideration adjustment			454
Total consideration			**1,911**

9. AVAILABILITY OF INTERIM REPORT

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