27 November 2023

SysGroup plc

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

Half year results for the six months ended 30 September 2023

SysGroup plc (AIM:SYS), the end-to-end data solution provider, is pleased to announce its unaudited half year results for the six months ended 30 September 2023 ("H1 FY24" or the "Period").

Financial highlights

- Revenue decrease of 3% to £10.96m (H1 FY23: £11.32m)
- Managed IT Services revenue growth of 8% representing 84% of total revenue (H1 FY23: 75%)
- Adjusted EBITDA[1] of £1.57m (H1 FY23: £1.68m)
- Adjusted profit before tax[2] of £0.99m (H1 FY23: £1.10m)
- Statutory loss before tax of £1.09m (H1 FY23: loss before tax of £0.19m)
- Adjusted basic EPS[3] of 1.7p (H1 FY23: 2.0p)
- Basic EPS of (1.5)p (H1 FY23: (0.2)p)
- Adjusted cashflow from operations of £1.24m (H1 FY23: £2.01m)
- Net debt[4] of £3.43m at 30 September 2023 (30 September 2022: £1.92m)

Operational highlights

- A new strategy to provide end-to-end solutions focused on Artificial Intelligence ("AI") and Machine Learning ("ML") with an associated investment in a team of ML engineers from AWS, JP Morgan, Validus and McLaren
- Refreshed the SysCloud infrastructure with the latest hardware and upgraded our internal security architecture with industry leading cloud-based security platform
- Strengthened the senior management team with individuals with invaluable experience and expertise from industry leading companies
- Heejae Chae appointed as Executive Chair and Paul Edwards as new Non-Executive Director

Heejae Chae, Executive Chair, commented:

"Our strategy aims to position SysGroup as the go–to end-to-end data solution provider for small and medium sized businesses ("SMB") embarking on their AI/ML journey. AI's prominence is undeniable with daily media coverage and increasing demand for AI strategies at the board level of every company. We recognise a significant market gap: while many SMBs are eager to adopt AI/ML, they often lack a clear strategy or implementation path. There is a great demand for a partner to support their development of an AI/ML strategy and transition from the current platform.

We have made significant investments in both technology and people. We have recruited a team of ML engineers from industry leaders such as AWS, JP Morgan, Validus and McLaren. We have significantly strengthened the senior management team to help take us on this journey, bringing together the right skillsets and mindsets. Throughout the organisation, we are reinforcing a culture of customer focus and outstanding service underpinned by innovation, entrepreneurialism and high performance. Whilst we are at the early stage of our journey, I am excited at the potential of what we are building at SysGroup combined with the considerable unexploited market opportunity that lays ahead of us.

Finally, the core business, which has more than 80% recurring revenues provides a very solid base from which we can expand, giving us very good revenue certainty and visibility, albeit that in the short term we may see our overall bottom line performance impacted marginally, reflecting the investment we are making in the Company to drive revenue growth in future financial years."

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, and excludes contingent consideration.*

About us

SysGroup plc is a managed service provider of end-to-end data solutions enabling us to take our customers on their AI data journey. The Group offers an integrated set of modern technologies that collectively meets our customers end-to-end data needs including connectivity, cloud hosting, delivery, analytics and governance of customer data, as well as a security layer for users and applications.

The Group has offices in Bristol, Edinburgh, Liverpool, London, Manchester and Newport.
For more information, visit http://www.sysgroup.com

For further information please contact:

SysGroup Plc	Tel: 0151 559 1777
Heejae Chae, Executive Chair	
Martin Audcent, Chief Financial Officer	
Zeus Capital (Nominated Adviser and Broker)	Tel: 0161 831 1512
Jordan Warburton	
Nick Cowles	
Nick Searle	

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Overview & Strategy

During the Period, SysGroup maintained a stable revenue of £10.96m. This consistency reflects growth in Truststream, our CyberSecurity acquisition in April 2022, counterbalancing a decrease in traditional SysGroup revenues. Notably, managed IT services now constitutes 84% of our revenues, an increase from 75% last year, bolstering our financial stability and visibility. In the Period we delivered Adjusted EBITDA of £1.57m, maintaining a margin comparable to last year.

The Group's gross cash balance was £1.99m at the end of the Period (H1 FY23: £4.22m) following payments to satisfy the Truststream year one earn-out and settle the contractual terms of the previous CEO's departure including the acquisition of 2,076,394 ordinary shares of 1 pence each ("Ordinary Shares"), now held in Treasury. Excluding these one-off payments, the cash conversion was 79%. The net debt[4] at the end of the Period was £3.43m (H1 FY23: £1.92m), which excludes contingent consideration payable within one year of £1.84m (H1 FY23: £2.93m).

Since my appointment as Executive Chair in June, I have engaged with various stakeholders including customers, employees, partners and competitors. These interactions have provided valuable insights into both industry trends and company-specific challenges. SysGroup is well positioned to participate in the burgeoning field of AI/ML, a technology set to redefine our era. AI's prominence is undeniable, with daily media coverage and increasing demand for AI strategies at the board level of every company. The reality is that AI is here to stay and will be a powerful tool for those that embrace it.

Factors driving the AI/ML adoption include:

- The growing availability of data, crucial for training AI/ML algorithms. As the amount of data that companies collect continues to grow, so does the potential for AI and ML to deliver value;
- Decreasing costs of computing power, making AI/ML algorithms more accessible across various company sizes and budgets; and
- The increasing sophistication and user-friendliness of AI/ML tools and technologies

Our strategy is to position SysGroup as the go–to end-to-end data solution provider for SMBs embarking on their AI/ML journey. It is clear from our conversations with our customers we recognise a significant market gap: while many SMBs are eager to adopt AI/ML, they often lack a clear strategy or implementation path. There is a great demand for a partner to support their development of an AI/ML strategy and transition from their current platforms. Many providers claim to be AI/ML experts but lack the capability to provide an end-to-end solution. Traditionally, most IT providers specialise in specific technology stacks. AI/ML strategy requires a holistic approach where the outcome is delivered from both software and hardware solutions. Over 80% of all AI projects fail because they have not taken a holistic approach, for example, by not defining the correct business case or not employing appropriate data architecture framed by the right technology infrastructure. Whilst gaps still exist in our offerings, we believe that we have the framework to build our strategy, underpinned by the relationship with our customers.

Our Technology Services strategy is to build a modern unified data solution platform that is simple for SysGroup to sell and support and is simple for our customers to consume and benefit from. This will comprise of an integrated set of technologies that collectively meets our customers end-to-end data needs. It will allow for connectivity, storage, preparation, delivery, analytics and governance of customer data, as well as a security layer for users and applications.

Operations

We have made substantial investments both in our IT infrastructure and people during the Period. These include upgrading SysCloud infrastructure with the latest hardware and enhancing our internal security architecture with a leading cloud-based security platform. We have completed the refurbishment of our offices to provide a positive and productive working environment as we moved to more flexible working.

We have recruited a team of ML engineers with turnkey experience to deliver AI solutions from design to delivery at an annual cost of £0.5m. They bring considerable combined experience in a nascent field of technology having worked at industry leaders such as AWS, JP Morgan, McLaren and Validus. To support the end-to-end strategy, we have segmented our technology into five key areas: (i) data analytics and ML; (ii) data storage and management; (iii) data connectivity; (iv) data engineering; and (v) cybersecurity. We will invest to enhance the existing competencies organically as well as through acquisitions to fill the gaps in our technology offerings.

Board and Management Changes

We have taken steps to ensure robust corporate governance, reviewing the Board and committees' Terms of Reference and establishing a new Nomination Committee to ensure that the composition and succession of the Board is reviewed and reflects a balance of skills, knowledge and experience which is appropriate for the Company. Wendy Baker has been appointed as Company Secretary and General Counsel, providing oversight and guidance on governance. Wendy was previously at Scapa Group plc, Promethean World plc and Volex Group plc.

Paul Edwards joined as a Non-Executive Director on 26 September 2023 to balance the independence in the Board. Paul brings extensive PLC experience as the CFO of Tatton Asset Management plc and previously Scapa Group plc and NCC Group plc.

We have also upgraded the senior management team with the appointments of people with relevant experience from leading companies in the sector:

- Heinrich Koorts joined us as Chief Revenue Officer from Softcat plc where he spent the past ten years in London and Bristol;

- Paul Sullivan has been appointed as Chief Technology Officer. Paul was the founder of Truststream which SysGroup acquired in April 2022;
- Ross Humphrey has recently joined as the Chief AI Officer to lead our AI/ML initiative. Ross has over a decade of experience in machine learning as one of the UK's early adopters during his tenure at JP Morgan and Validus; and
- Charles Vivian has joined as Director of Business Development to support our M&A strategy as acquisitions will be part of our growth plan. Charles was previously at MXC Capital, Marwyn Capital and Freshfields Bruckhaus Deringer.

These individuals bring invaluable experience and expertise, positioning SysGroup for future success.

Results and Trading

The Group has delivered revenue of £10.96m (H1 FY23: £11.32m) and Adjusted EBITDA of £1.57m (H1 FY23: £1.68m) in H1 FY24. Managed IT services revenue increased to £9.22m (H1 FY23: £8.54m), a growth of 8% on the comparative period, whilst Value Added Resale ("VAR") revenue was £1.74m (H1 FY23: £2.78m), a decrease of 37%. The driver of the Managed IT services growth has been in IT security where this year we have seen more customers take up contracted managed service support in addition to the provision of security licences. In cases where managed services and licences are sold together the revenue is recognised as Managed IT services uniformly across the contract term. This also explains the reason for the reduction in VAR revenue since fewer "licence only" contracts are being sold. The revenue mix in H1 FY24 is 84% Managed IT services and 16% VAR sales (H1 FY23: 75%:25%) and this is expected to remain similar in H2 FY24.

Gross profit was £5.47m with a gross margin of 49.9% (H1 FY23: £5.61m and 49.6% respectively). Whilst the revenue mix has moved to higher margin Managed IT Services, the IT security sales which led the contracted income growth are lower margin than core managed services business. The gross margin has also been impacted by supplier cost increases which have been prevalent in the UK economy over the last twelve months.

Adjusted operating expenses of £3.90m were broadly flat with the same period last year (H1 FY23: £3.94m). We expect overheads to increase in H2 FY24 from our investments in the Senior Leadership Team and AI/Machine Learning team.

The consolidated income statement includes £1.05m of exceptional costs which are for the settlement of the former CEO's contractual terms, payments of supplier charges which are disputed and remain subject to ongoing action, and restructuring activity with the Senior Leadership Team.

Finance costs of £0.29m have increased compared to the same period last year (H1 FY23: £0.24m). Finance costs include £0.21m of bank loan interest, which has increased due to the increase in the Bank of England's base rate, and £0.06m of non-cash finance charges relating to the unwinding of discount on contingent consideration and amortisation of the loan arrangement fee.

The Group delivered an adjusted profit before tax of £0.99m (H1 FY23: £1.10m) and a statutory loss before tax of £1.09m (H1 FY23: loss before tax £0.19m). The statutory loss before tax results from having £1.05m of exceptional costs (H1 FY23: £0.34m) in the Period and from an increase in share based payments.

The taxation credit of £0.34m (H1 FY23: credit of £0.08m) represents the movement on deferred tax in the Period with no corporation tax charge arising on the Group's trading position in H1 FY24. The corporation tax rate increased on 1 April 2023 from 19% to 25%.

Adjusted basic earnings per share for H1 FY24 was 1.7p (H1 FY23: 2.0p) and basic loss per share was (1.5p) (H1 FY23: loss per share (0.2p)).

Cashflow & Net Debt

The Group had a gross cash balance of £1.99m at 30 September 2023 (H1 FY23: £4.22m) and net debt of £3.43m (H1 FY23: £1.92m). Cash balances were utilised in H1 FY24 for the Truststream year one earn-out (£0.88m), the acquisition of 2,076,394 Ordinary Shares into Treasury (£0.76m), and to settle the former CEO's contractual terms (£0.66m). Cashflow from operations was £0.23m (H1 FY23: £1.67m) and included £1.00m of exceptional cash costs. Cash conversion of 79% was broadly in line with the target range and compares to 120% in H1 FY23 which as explained at the time was due to a number of VAR deals where customer payments had been received in advance. Capex expenditure in H1 includes the refurbishment of the Bristol office which was completed in July and development costs for the implementation of a new financial accounts system.

The Truststream year 1 earn-out was finalised in H1 FY24 and in accordance with the share purchase agreement 75% of the year 1 consideration was paid to the vendors. Accordingly, £0.89m was paid in cash consideration and £0.29m is deferred for payment to H1 FY25. The contingent consideration liability held in the Consolidated Statement of Financial Position is £1.84m which compares to £2.94m as at 31 March 2023 and 30 September 2022. The liability is held at the maximum consideration payment value under the terms of the earn-out agreement and this will be re-assessed for fair value at the 31 March 2024 year end.

Share Options

In April 2023, under the 2020 LTIP Scheme and in respect of performance for the FY23 financial year, a grant of 362,709 performance shares was made to Adam Binks, Chief Executive Officer, and 204,024 performance shares to Martin Audcent, Chief Financial Officer. In May 2023, in respect of Mr Binks' departure, the Board agreed that the unvested options held by Mr Binks would vest with immediate effect with restrictions waived. Mr Binks exercised his share options, totalling 2,076,394 Ordinary Shares and the Company acquired them at a price of £0.375 per Ordinary Share. The Company holds these Ordinary Shares in Treasury to satisfy the exercise of future share options under SysGroup's share incentive schemes.

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 2023 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 2023 which comprises the consolidated condensed statement of comprehensive income, consolidated condensed statement of financial position, the consolidated condensed statement of changes in equity, the consolidated condensed statement of cashflows and the notes to the consolidated condensed 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:
Graham Ellis
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BDO LLP
Chartered Accountants
Liverpool, UK
Date: 24 November 2023

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 2023

	Notes	Unaudited six months to 30-Sep-23 £'000	Unaudited six months to 30-Sep-22 £'000	Audited year to 31-Mar-23 £'000
Revenue	2	**10,963**	**11,321**	**21,648**
Cost of sales		(5,497)	(5,708)	(10,552)
Gross profit	2	**5,466**	**5,613**	**11,096**
Operating expenses before depreciation, amortisation, exceptional items and share based payments		(3,897)	(3,935)	(7,768)
Adjusted EBITDA		**1,569**	**1,678**	**3,328**
Depreciation		(297)	(330)	(625)
Amortisation of intangible assets		(866)	(866)	(1,739)
Exceptional items	4	(1,052)	(337)	(408)
Share based payments		(156)	(96)	(178)
Administrative expenses		(6,268)	(5,564)	(10,718)
Operating (loss)/profit		**(802)**	**49**	**378**
Finance costs	5	(287)	(243)	(483)
Loss before taxation		**(1,089)**	**(194)**	**(105)**
Taxation		343	77	98
Total comprehensive loss attributable to the equity holders of the company		**(746)**	**(117)**	**(7)**
Basic loss per share (pence)	3	(1.5)p	(0.2)p	0.0p
Diluted loss per share (pence)	3	(1.5)p	(0.2)p	0.0p

All the results arise from continuing operations.

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2023

	Notes	Unaudited 30-Sep-23 £'000	Unaudited 30-Sep-22 £'000	Audited 31-Mar-23 £'000
Assets				
Non-current assets				
Goodwill	7	21,666	21,894	21,666
Intangible assets	7	5,536	7,005	6,295
Plant, property and equipment		2,013	2,139	1,966
		29,215	**31,038**	**29,927**
Current assets				
Trade and other receivables	8	5,609	4,090	5,007
Cash and cash equivalents		1,986	4,216	4,186
		7,595	**8,306**	**9,193**
Total Assets		**36,810**	**39,344**	**39,120**
Equity and Liabilities				
Equity attributable to the equity shareholders of the parent				
Called up share capital	12	515	494	494
Share premium		9,080	9,080	9,080
Treasury reserve		(984)	(201)	(201)
Other reserve		3,293	3,123	3,205
Retained earnings		8,173	8,741	8,851
		20,077	**21,237**	**21,429**
Non-current liabilities				
Lease liabilities		520	685	621
Contract liabilities		174	486	383
Contingent consideration	11	-	1,060	1,875
Provisions		148	175	191
Deferred taxation		1,106	1,642	1,434
Bank loan	10	4,720	5,187	4,705
		6,668	**9,235**	**9,209**
Current liabilities				
Trade and other payables	9	4,576	3,844	3,861
Lease liabilities		176	268	182
Contract liabilities		3,475	2,885	3,633
Contingent consideration	11	1,838	1,875	806
		10,065	**8,872**	**8,482**
Total Equity and Liabilities		**36,810**	**39,344**	**39,120**

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

SIX MONTHS ENDED 30 SEPTEMBER 2023

	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 2022	**494**	**9,080**	**(201)**	**3,027**	**4**	**8,854**	**21,258**
Loss and total comprehensive expense 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**
Profit and total comprehensive income for the period	-	-	-	-	-	110	110
Share options charge	-	-	-	82	-	-	82
At 31 March 2023	**494**	**9,080**	**(201)**	**3,205**	**-**	**8,851**	**21,429**
Loss and total comprehensive expense for the period	-	-	-	-	-	(746)	(746)
Purchase of own shares into Treasury	-	-	(783)	-	-	-	(783)
Issue of share capital	21	-	-	-	-	-	21
Share options charge	-	-	-	156	-	-	156
Reserves transfer on forfeiture of share options	-	-	-	(68)	-	68	-
At 30 September 2023 (unaudited)	**515**	**9,080**	**(984)**	**3,293**	**-**	**8,173**	**20,077**

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.
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 2023

	Unaudited six months to 30-Sep-23 £'000	Unaudited six months to 30-Sep-22 £'000	Audited year to 31-Mar-23 £'000
Cashflows used in operating activities			
Loss after tax	(746)	(117)	(7)
Adjustments for:			
Depreciation and amortisation	1,163	1,196	2,364
Finance costs	287	243	483
Share based payments	156	96	178
Taxation credit	(343)	(77)	(98)
Operating cashflows before movement in working capital	**517**	**1,341**	**2,920**
(Increase)/decrease in trade and other receivables	(713)	68	(737)
Increase in trade and other payables	430	260	837
Cashflow from operations	**234**	**1,669**	**3,020**
Taxation paid	(64)	(128)	(303)
Net cash from operating activities	**170**	**1,541**	**2,717**
Cashflows from investing activities			
Payments to acquire property, plant & equipment	(180)	(105)	(252)
Payments to acquire intangible assets	(139)	-	(163)
Acquisition of subsidiary companies net of cash acquired	-	(5,390)	(5,389)
Net cash used in investing activities	**(319)**	**(5,495)**	**(5,804)**
Cashflows from financing activities			
Payment of contingent consideration on acquisitions	(886)	-	-
RCF drawdown	-	4,500	4,500
Payment of bank loan arrangement fee	-	(127)	(127)
Repayment of bank loan	-	(82)	(582)
Repurchase of shares into treasury	(783)	-	-
Proceeds for issue of share capital	21	-	-
Capital/principal paid on lease liabilities	(171)	(102)	(303)
Interest paid on loan facility	(217)	(138)	(316)
Interest paid on lease liabilities	(15)	(14)	(32)
Net cash used in financing activities	**(2,051)**	**4,037**	**3,140**
Net (decrease)/increase in cash and cash equivalents	**(2,200)**	**83**	**53**
Cash and cash equivalents at the beginning of the period /year	4,186	4,133	4,133
Cash and cash equivalents at the end of the period/year	**1,986**	**4,216**	**4,186**

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SIX MONTHS ENDED 30 SEPTEMBER 2023

1. ACCOUNTING POLICIES

The accounting policies used in the preparation of the unaudited consolidated condensed financial information for the six months ended 30 September 2023 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 2024.

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 2023 and 30 September 2022 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 2023 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2023 have been filed with the Registrar of Companies. The Independent Auditor's Report on that Annual Report and Financial Statements for 2023 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.

This unaudited interim financial information has been prepared in accordance with the requirement of the AIM Rules for Companies and in accordance with this basis of preparation.

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 with 84% of revenue deriving from contracted managed IT services which are business critical supplies to customers. The Group has a gross cash balance of £1.99m and a net debt position of £3.43m (excluding contingent consideration of £1.84m) at 30 September 2023. The Group has undrawn RCF facilities available of £3.2m which can be used for working capital and acquisitions, and an unutilised overdraft facility of £0.5m. The Group is forecasting to generate healthy operational cashflows and achieve the bank loan covenants for the full period of the forecast to March 2025.

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 and overdraft facilities, 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 is for sales of IT hardware and licences 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-23 £'000	Unaudited six months to 30-Sep-22 £'000	Audited year to 31-Mar-23 £'000
Revenue			
Managed IT Services	9,223	8,543	17,441
Value Added Resale	1,740	2,778	4,207
	10,963	**11,321**	**21,648**
Gross Profit			
Managed IT Services	5,167	5,157	10,349
Value Added Resale	299	456	747
	5,466	**5,613**	**11,096**

3. EARNINGS PER SHARE

	Unaudited six months to 30-Sep-23	Unaudited six months to 30-Sep-22	Audited year to 31-Mar-23
Loss for the financial period attributable to shareholders	(£746,336)	(£117,000)	(£7,000)
Adjusted profit for the financial period	£809,553	£974,000	£1,917,000
Weighted number of equity shares in issue*	48,912,025	48,859,690	48,859,690
Weighted number of equity shares for diluted calculation*	50,935,963	52,189,652	52,274,633
Adjusted basic earnings per share (pence)	1.7p	2.0p	3.9p
Basic loss per share (pence)	(1.5p)	(0.2p)	0.0p
Diluted loss per share (pence)	(1.5p)	(0.2p)	0.0p

**The weighted number of equity shares in issue and for diluted calculation excludes the Treasury shares held by the Company*

	Unaudited six months to 30-Sep-23 £'000	Unaudited six months to 30-Sep-22 £'000	Audited year to 31-Mar-23 £'000
Loss after tax used for basic earnings per share	(746)	(117)	(7)

Amortisation of intangible assets	866	866	1,739
Exceptional items	1,052	337	408
Share based payments	156	96	178
Tax adjustments	(519)	(208)	(401)
Adjusted profit used for Adjusted earnings per share	**809**	**974**	**1,917**

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-23 £'000	**Unaudited six months to 30-Sep-22 £'000**	**Audited year to 31-Mar-23 £'000**
Integration and restructuring costs	832	113	189
Supplier charges in dispute	220	-	-
Acquisition costs	-	224	219
	1,052	**337**	**408**

The integration and restructuring costs relate to the settlement of the former CEO's contractual terms and costs associated with the restructuring of the Senior Leadership Team. The supplier charges in dispute are subject to ongoing action for which the company is pursuing recovery. In the prior periods, the acquisition and integration costs relate to two acquisitions in April 2022, Truststream Security Solutions Limited and Independent Network Services Limited (trading as "Orchard IT").

5. FINANCE COSTS

	Unaudited six months to 30-Sep-23 £'000	**Unaudited six months to 30-Sep-22 £'000**	**Audited year to 31-Mar-23 £'000**
Interest payable on lease liabilities	15	26	32
Interest payable on bank loan	212	120	307
Arrangement fee amortisation on bank loan	17	18	29
Unwinding of discount on contingent consideration	43	79	105
Other interest	-	-	10
	287	**243**	**483**

6. ALTERNATIVE PERFORMANCE MEASURES

Reconciliation of operating profit to adjusted EBITDA	**Unaudited six months to 30-Sep-23 £'000**	**Unaudited six months to 30-Sep-22 £'000**	**Audited year to 31-Mar-23 £'000**
Operating (loss)/profit	(802)	49	378
Depreciation	297	330	625
Amortisation of intangible assets	866	866	1,739
EBITDA	**361**	**1,245**	**2,742**

Exceptional items	1,052	337	408
Share based payments	156	96	178
Adjusted EBITDA	**1,569**	**1,678**	**3,328**

Reconciliation of loss before tax to adjusted profit before tax	**Unaudited six months to 30-Sep-23 £'000**	**Unaudited six months to 30-Sep-22 £'000**	**Audited year to 31-Mar-23 £'000**
Loss before tax	(1,089)	(194)	(105)
Amortisation of intangible assets	866	866	1,739
Exceptional items	1,052	337	408
Share based payments	156	96	178
Adjusted profit before tax	**985**	**1,105**	**2,220**

Cash conversion	**Unaudited six months to 30-Sep-23 £'000**	**Unaudited six months to 30-Sep-22 £'000**	**Audited year to 31-Mar-23 £'000**
Cashflow from operations	234	1,669	3,020
Adjustments:			
Acquisitions, integration and restructuring cashflows	1,005	337	408
Adjusted cashflow from operations	**1,239**	**2,006**	**3,428**
Adjusted EBITDA	**1,569**	**1,678**	**3,328**
Cash conversion	79%	120%	103%

Net debt	**Unaudited 30-Sep-23 £'000**	**Unaudited 30-Sep-22 £'000**	**Audited 31-Mar-23 £'000**
Cash balances	1,986	4,216	4,186
Bank loans - non-current	(4,720)	(5,187)	(4,705)
Net debt before lease liabilities	**(2,734)**	**(971)**	**(519)**
Lease liabilities - property	(696)	(953)	(803)
Net debt	**(3,430)**	**(1,924)**	**(1,322)**
Contingent consideration	(1,838)	(2,935)	(2,681)
Net debt including contingent consideration	**(5,268)**	**(4,859)**	**(4,003)**

7. INTANGIBLE ASSETS

	Systems development £'000	**Software licences £'000**	**Customer relationships £'000**	**Goodwill £'000**	**Total £'000**
Cost					

At 1 April 2022	1,073	205	9,156	15,554	**25,988**
Additions	163	-	3,553	6,112	**9,828**
Disposals	(225)	(205)	-	-	**(430)**
At 31 March 2023 (audited)	**1,011**	**-**	**12,709**	**21,666**	**35,386**
At 1 April 2023	1,011	-	12,709	21,666	**35,386**
Additions	107	-	-	-	**107**
At 30 September 2023 (unaudited)	**1,118**	**-**	**12,709**	**21,666**	**35,493**
Accumulated amortisation					
At 1 April 2022	404	205	5,507	-	**6,116**
Charge for the year	177	-	1,562	-	**1,739**
Disposals	(225)	(205)	-	-	**(430)**
At 31 March 2023 (audited)	**356**	**-**	**7,069**	**-**	**7,425**
At 1 April 2023	**356**	**-**	**7,069**	**-**	**7,425**
Charge for the year	110	-	756	-	**866**
At 30 September 2023 (unaudited)	**466**	**-**	**7,825**	**-**	**8,291**
Net book value					
At 31 March 2023 (audited)	**655**	**-**	**5,640**	**21,666**	**27,961**
At 30 September 2023 (unaudited)	**652**	**-**	**4,884**	**21,666**	**27,202**

8. TRADE AND OTHER RECEIVABLES

	Unaudited	**Unaudited**	**Audited**
	30-Sep-23	**30-Sep-22**	**31-Mar-23**
	£'000	**£'000**	**£'000**
Trade receivables	2,067	1,723	1,706
Other receivables	3,542	2,367	3,301
	5,609	**4,090**	**5,007**

9. TRADE AND OTHER PAYABLES

	Unaudited	**Unaudited**	**Audited**
	30-Sep-23	**30-Sep-22**	**31-Mar-23**
	£'000	**£'000**	**£'000**
Trade payables	2,304	1,399	1,813
Corporation tax	360	427	438
Other taxes and social security	615	836	622
Accruals	1,297	1,182	988
	4,576	**3,844**	**3,861**

10. BANK LOAN

	Unaudited	**Unaudited**	**Audited**

	30-Sep-23	30-Sep-22	31-Mar-23
	£'000	**£'000**	**£'000**
Bank loan net of arrangement fee	4,720	5,187	4,705
	4,720	**5,187**	**4,705**

The Group has an £8.0m revolving credit facility with Santander of which £4.83m is drawn down at 30 September 2023. The banking facility has a term of five years to April 2027, an interest rate of Base Rate +3.25% margin on drawn funds and covenants that are tested quarterly relating to total net debt to adjusted EBITDA leverage and minimum liquidity.

11. CONTINGENT CONSIDERATION

The Group acquired Truststream Security Solutions Limited in April 2022 and the agreement included 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 Year 1 earn-out period was completed in April 2023 and a payment of £1.18m was due to the Sellers based on the Maintainable EBITDA achieved. In accordance with the SPA, 75% of this amount, £0.89m, was paid in August 2023 and £0.29m is deferred to be paid with the Year 2 payment in H1 FY25.

The contingent consideration liability of £1.84m has been assessed at its discounted fair value at 30 September 2023, and includes the £0.29m payment deferred from Year 1. The liability assumes that Truststream achieves its full Maintainable EBITDA target in Year 2.

Contingent consideration	**Unaudited 30-Sep-23**	**Audited 31-Mar-23**
Amounts due within one year	**£'000**	**£'000**
Contingent consideration	1,869	806
Discounted value	(31)	-
	1,838	**806**
Amounts due after one year		
Contingent consideration	-	1,949
Discounted value	-	(74)
	-	**1,875**
Discounted contingent consideration	**1,838**	**2,681**

12. SHARE CAPITAL

Equity share capital	**Number**	**£'000**
Allotted, called up and fully paid		
At 1 April 2022	49,419,690	494
At 31 March 2023	**49,419,690**	**494**
Issue of share capital – exercise of share options	2,076,394	21
At 30 September 2023	**51,496,084**	**515**

In May 2023, the Company issued 2,076,394 shares to the CEO, Adam Binks, on the exercise of share options under the 2020 LTIP Scheme. These shares were subsequently repurchased by the Company into Treasury reserves.

13. AVAILABILITY OF INTERIM REPORT

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