

microgen plc

Interim Results for the six months ended 30 June 2014

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Chairman
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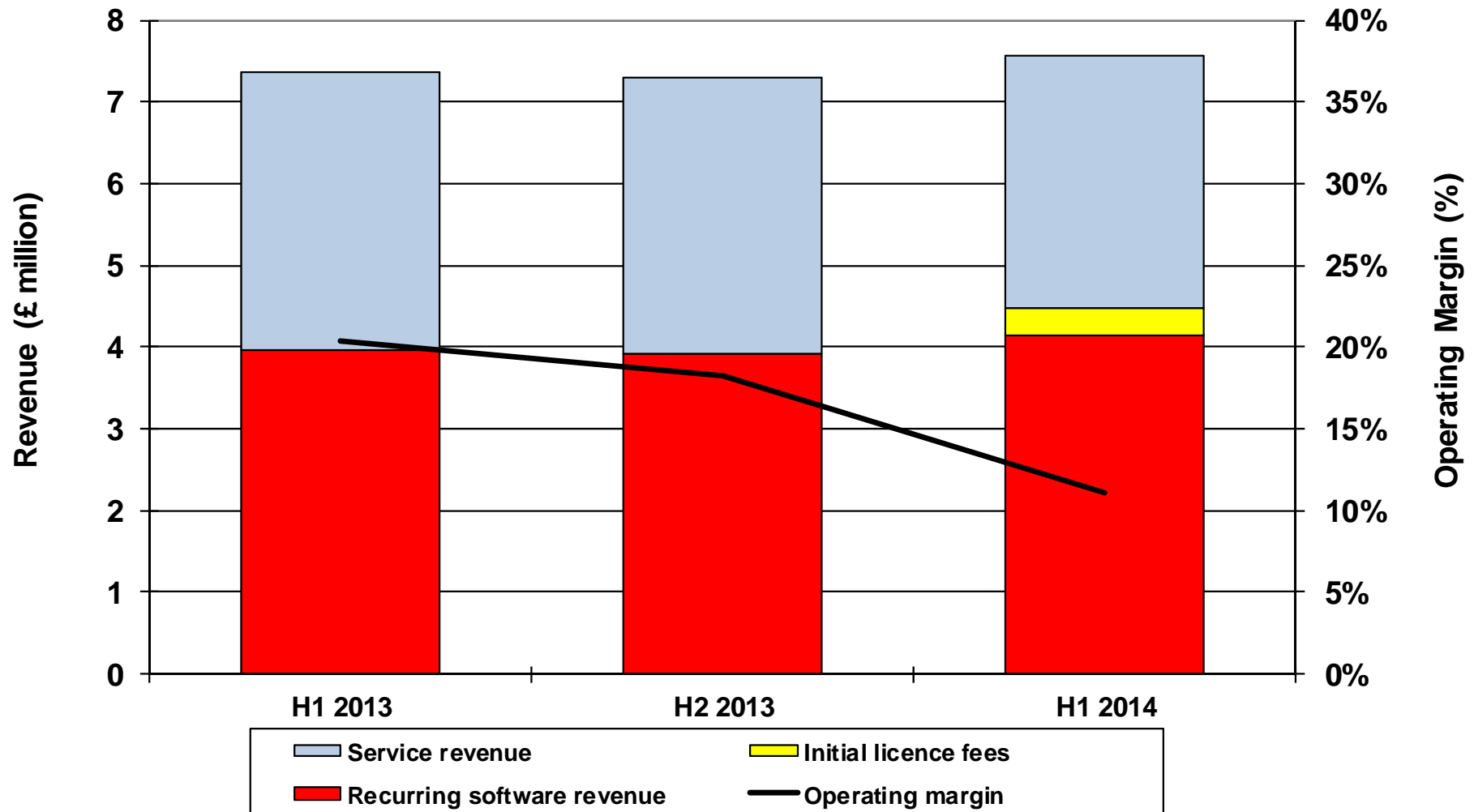
21 July 2014

**To be read in conjunction with the interim results
announcement released on 21 July 2014**

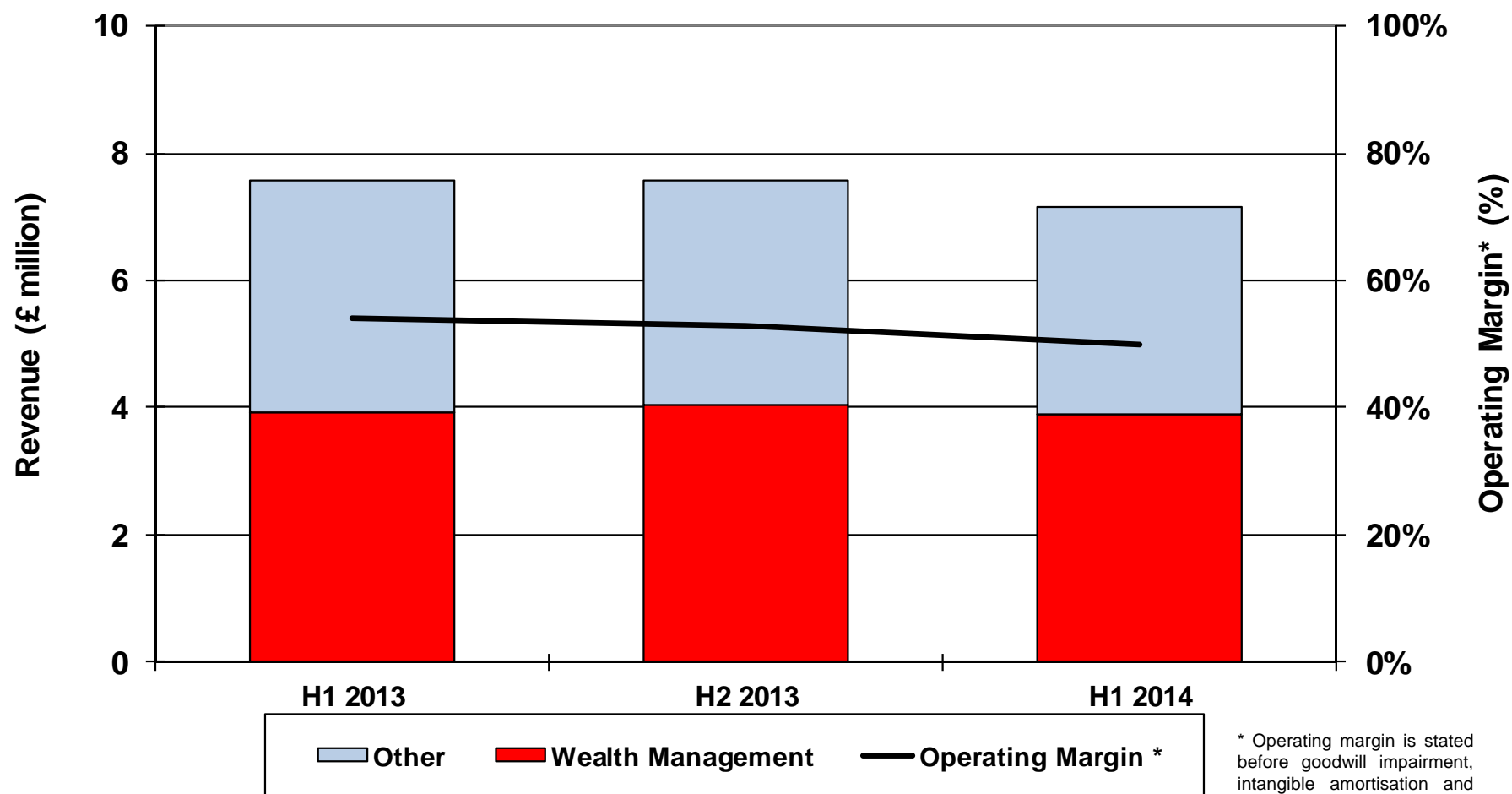
- Aptitude Software
 - Software revenue growth of 13% to £4.5m (H1-13: £4.0m)
 - Increase in sales activity with paid proof of concept exercises underway in the telecommunications and other sectors
- Financial Systems
 - Substantial increase in ROCE following capital restructuring in 2013
 - Revenue of £7.2m (H1-13: £7.6m) in line with Board's expectations
- Group
 - Strong balance sheet with cash of £37.9m (H1-13: £26.8m) and net funds of £20.2m (H1-13: £26.8m) following the return of £12.5m in the last year
 - Group adjusted operating profit reduced to £3.7m (H1-13: £4.4m) in line with investment strategy in the Aptitude Software business
 - Basic earnings per share 3.2 pence (H1-13: 4.2 pence)
 - Interim dividend of 1.1 pence per share (2013: 1.1 pence per share)
 - Strengthening of Sterling has led to a £0.3m negative revenue variance and £0.1m negative profit variance relative to H1-13

- Group Strategy to “Acquire, Enhance and Realise Value”
- Strategies set for each of the Group’s current two business units
 - Businesses now operated as independent business units
 - Overall reduction in corporate/central costs with some costs transferred into the business operations in line with strategy of independent business units
- Identification and appraisal of technology businesses and strategic investments which the Board believes may benefit from being operated as an independent business unit under Microgen’s stewardship
 - Businesses and investments evaluated to date have been predominantly UK based across a broad technology spectrum
- Group’s balance sheet, with cash of £37.9m at 30 June 2014, provides the Group with the cash resources to be a credible acquirer although the Board would seek additional support from shareholders if appropriate
- The Board will maintain its prudent approach and there can be no certainty that any acquisition will be completed

- Software revenue growth of 13% to £4.5m (H1-13: £4.0m)
- Recurring revenue now represents 55% of revenue (H1-13: 54%)
- Overall revenue of £7.6m (H1-13: £7.4m)
- Operating margin lower at 11% (H1-13: 20%) due to increased investment in the business as outlined in Strategic Review
- Product developments include:-
 - New version of Aptitude providing customers with the ability to incorporate Hadoop into Big Data solutions consistent with multi-platform product strategy
 - Aptitude Allocation Engine – Financial insight and profitability using Big Data
 - Aptitude Revenue Recognition Engine – Addresses IFRS 15 challenges with a particular focus on the telecommunications sector
- Number of paid proof of concept and scoping exercises in the telecommunication and other sectors in process



- Wealth management revenues of £3.9m (H1-13: £3.9m) representing 54% (H1-13: 52%) of overall revenue
- Revenue from payment software products remains stable
- Application Management business, now incorporating the minor financial services product categories, continued to decline as anticipated
- Overall revenue £7.2m (H1-13: £7.6m)
- Continuing strong operating margin of 50% (H1-13: 54%). Reduction due to the decline in the Application Management business and the transfer of some previous corporate/central costs into the business
- Six month ROCE increased to 24% (H1-13: 10%) following the Strategic Review and the change in capital structure
- Loan outstanding at 30 June 2014 of £17.8m
- Business is progressing a number of add-on acquisitions in the wealth management sector. No certainty that any acquisitions will be completed



Group Income Statement

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	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Revenue			
Aptitude Software	7,560	7,376	14,676
Financial Systems	7,151	7,569	15,148
Total revenue	14,711	14,945	29,824
Operating costs (excl. Group overheads)	(10,263)	(9,369)	(18,881)
Adjusted operating profit before Group overheads	4,448	5,576	10,943
Adjusted operating profit before Group overheads (by division)			
Aptitude Software	838	1,505	2,837
Financial Systems	3,610	4,071	8,106
	4,448	5,576	10,943
Group overheads	(751)	(1,133)	(1,874)
Adjusted operating profit	3,697	4,443	9,069
Net finance (cost)/income	(222)	67	-
Profit before tax & exceptional and other items	3,475	4,510	9,069
Exceptionals and other items	(427)	-	(381)
Taxation	(656)	(1,037)	(2,250)
Net profit for the period	2,392	3,473	6,438

Group Balance Sheet

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	As at 30 June 2014 £'000	As at 30 June 2013 £'000	As at 31 Dec 2013 £'000
ASSETS			
Non-current assets			
Goodwill	41,774	41,774	41,774
Property, plant and equipment	4,964	5,277	5,022
Deferred income tax asset	742	1,016	752
	47,480	48,067	47,548
Current assets			
Trade and other receivables	3,338	4,337	5,049
Financial assets – derivative financial instruments	104	51	94
Cash and cash equivalents	37,923	26,783	40,200
	41,365	31,171	45,343
LIABILITIES			
Current liabilities			
Financial liabilities – borrowings	(3,000)	-	(3,000)
Financial liabilities - derivative financial instruments	(125)	(67)	(47)
Trade and other payables	(14,415)	(15,416)	(18,186)
Current income tax liabilities	(767)	(1,305)	(701)
Provisions for other liabilities and charges	(32)	(38)	(33)
	(18,339)	(16,826)	(21,967)
Net current assets	23,026	14,345	23,376
Non-current liabilities			
Financial liabilities – borrowings	(14,750)	-	(16,250)
Provisions for other liabilities and charges	(266)	(255)	(269)
	(15,016)	(255)	(16,519)
NET ASSETS	55,490	62,157	54,405

Group Cash Flow

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	Six months ended 30 June 2014 £'000	Six months ended 30 June 2013 £'000	Year ended 31 Dec 2013 £'000
Cash flows from operating activities			
Cash generated from operations	2,037	1,416	8,103
Interest paid	(304)	-	(119)
Tax paid	(630)	(633)	(1,728)
Net cash generated from operating activities	1,103	783	6,256
Cash flows from investing activities			
Purchase of property, plant and equipment	(336)	(282)	(427)
Interest received	82	67	119
Net cash used in investing activities	(254)	(215)	(308)
Cash flows from financing activities			
Proceeds from bank loan	-	-	20,000
Net proceeds from issue of ordinary share capital	6	181	204
Dividends paid	(1,639)	(6,108)	(7,016)
Repayment of loan	(1,500)	-	(750)
Purchase of own shares	-	-	(10,269)
Net cash (used in)/generated from financing activities	(3,133)	(5,927)	2,169
Net (decrease)/increase in cash and cash equivalents	(2,284)	(5,359)	8,117
Opening cash and cash equivalents	40,200	32,134	32,134
Effects of exchange rate changes	7	8	(51)
Closing cash and cash equivalents	37,923	26,783	40,200

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