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Dillistone Group Plc

**UNAUDITED INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2016**

Company No. 4578125



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Highlights to the unaudited interim report for the six months ended 30 June 2016

Operational:

Dillistone Systems Division

- *Encouraging success with FileFinder Anywhere*
 - *New business orders in January – August already significantly ahead of the equivalent value for the whole of 2015*
 - *May 2016 saw record month for implementations of FileFinder licences*
 - *Launch of a standalone browser based app in March – a first for the mainstream executive search software sector*
- *Recurring revenues recovered from poor performance in 2015 and account for 71% of divisional revenue*

Voyager Software Division

- *Incoming new business order values already ahead of equivalent figure for the whole of 2015*
- *Infinity SaaS delivering increased recurring revenues which were up 6% and account for 70% of divisional revenue*
- *New product announcements expected in September 2016*

Financial:

- *Revenue up 2% to £4.811m*
- *Recurring revenues represent 70% of total revenue and cover 100% of administrative expenses excluding acquisition related items*
- *Profit for the period up 3% to £0.489m (2015: £0.476m)*
- *Adjusted EBITDA¹ up 2% to £1.204m*
- *Basic EPS up 1% to 2.48p*
- *First half performance exceeded second half of 2015 as previously foreseen*
- *Cash balances of £1.611m at 30 June 2016 (2015: £1.335m) and debt of £0.242m (2015: £0.406m)*
- *2% increase in interim dividend to 1.375p (2015: 1.35p)*
- *Expectation of revenue and profits growth for full year in line with expectations*

Commenting on the results and prospects, Mike Love, Non-Executive Chairman, said:

“After a challenging 2015, we are very happy to deliver an encouraging set of results for the first half of the year, with the recently announced record implementations and orders expected to underpin future periods.”

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“Despite the uncertain economic horizons, we have delivered both revenue and profit after tax growth. Very significant increases in new business orders across the Group suggests that we are taking market share from our competitors and demonstrates the success of our ongoing product development strategy. The recent slide in the value of sterling is having a positive impact on revenues, partially offset by a negative effect on costs.

“We will continue to invest in our products, services and infrastructure across the Group as this is essential to delivering long term shareholder value and to strengthening Dillistone’s position in its chosen markets.

“Our confidence in the future has allowed us to declare a 2% increase in our interim dividend.”

Dr Mike Love, Chairman

¹ Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back.



Chairman's Statement

Our financial results show that the Group has made good progress in the first half. As expected, we have returned to revenue growth as our continued investment in product development is progressively delivering positive results. Investment in our products remains key to the future success of the business. We are increasingly selling SaaS based products which have less short term revenue impact but favour longer term recurring revenue. The advantage to this style of contract is recurring revenue visibility, albeit that it often appears that there is a delay in these new contracts reflecting in the Group's results.

We also continue to pursue growth through targeting complementary acquisitions. This is a strategy that has served us well in the past and which remains part of our core strategy at this time.

Revenues increased by 2% over the 6 months to June 2015 with recurring revenues up 4% and now representing 70% of total revenues. The growth in new business orders across both divisions in H1 has been very pleasing to see.

Profit after tax was up 3% to £0.489m (2015: £0.476m).

Divisional review

We are pleased to report a turnaround in the performance of our Dillistone Systems division. After a challenging 2015, we had stated that we faced a more competitive market than in previous years and, as a result, we felt it necessary to increase investment in the Division. It was our expectation that we would return to both revenue and profit growth in 2016. The performance in 2015 meant that we began the period with recurring revenues at a lower level than those seen at the same stage in the previous year, but over the reporting period we have wiped out this deficit. Despite economic turbulence, it remains our expectation that the Division will deliver growth in the full year.

Dillistone Systems (www.dillistone.com) reported revenues of £2.265m (2015: £2.306m) with recurring revenues up 2% to £1.614m and non recurring revenues down £0.072m in part due to the move in timing of the World Executive Search Congress which is being held in H2 2016 (in H1 2015).

The latest release of the FileFinder Anywhere platform has been extremely well received by both existing and new clients. Evidence of this can be seen in our record month of licence implementations in May and the contract that we announced post the period end with the global search firm Alexander Hughes International headquartered out of Paris for circa 200 new licences. By the end of August, we had won new business contracts worth significantly more than our total new business order book for the whole of 2015. Our challenge now is to implement the increased demand for our services while maintaining our performance standards.

As anticipated, Divisional profits are down by £0.063m in the period.

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Voyager Software (www.voyagersoftware.com) has also enjoyed a good trading period with revenue 6% ahead of 2015 at £2.546m (2015: £2.400m). We are particularly pleased with the performance of our Infinity SaaS platform, launched a year ago, and the continued growth in our FCP Evolve Platform. The performance of both of these products gives us improved visibility over future revenues.

The Division continues to invest in product development and a series of product enhancements will be announced later this month. Divisional profits increased 5% to £0.412m in the period.

Financial Performance

Revenue in the six months ended 30 June 2016 increased by 2% to £4.811m (2015: £4.706m). Recurring revenues increased by 4% to £3.384m over the comparable period last year (2015: £3.257m) and represented 70% of total revenues (2015: 69%). Non recurring revenues were down at £1.129m (2015: £1.202m).

Cost of sales increased by 5% in H1 2016 mainly due to the continued roll out of third party data centres for hosting our cloud products. Administration expenses rose 3% in H1 2016, in part due to increased depreciation and amortisation charges, relating primarily to investment in product development. Excluding depreciation and amortisation, administrative expenses rose 2% over H1 2015. Administrative costs also include £0.189m (2015: £0.189m) relating to the amortisation of acquisition intangibles.

EBITDA grew 2% to £1.204m (2015: £1.185m). Total depreciation and amortisation, including amortisation of acquisition intangibles, increased to £0.656m (2015: £0.599m) resulting in profit before tax being down 5% to £0.538m (2015: £0.566m).

The tax charge fell to £0.049m in the period to 30 June 2016 (2015: £0.90m). This gave an effective global tax rate of 9.2% (2015: 15.9%). Excluding acquisition related items the tax rate was 11.34%. The 2015 and 2016 rates have been reduced by claims in the UK for research and development tax credits reflecting the continuing development of our products. The falling UK tax rates have also had a positive impact on the charge, which is offset by the higher rates of corporation tax payable in the US and Australia.

Basic EPS increased by 1% to 2.48p (2015: 2.45p).

Cash generated from operating activities remained strong at £1.347m (2015: £1.111m). Total cash flow in the 6 months ended 30 June 2016 showed a net cash outflow of £0.070m (2015: outflow £0.560m). The main elements of non-operating expenditure related to dividends paid in the period of £0.541m (2015: £0.528m) and investment in new product development of £0.539m (2015: £0.464m) and deferred and contingent consideration payments in respect of acquisitions £0.212m (2015: £0.666m). At 30 June 2016 we had cash reserves of £1.611m (2015: £1.335m) and £0.242m in borrowings (2015: £0.406m).

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We continue to follow a progressive dividend policy and, reflecting this, the Board has declared an increase in the interim dividend for 2016 of 2%. Accordingly, a dividend of 1.375p per share (2015: 1.35p) will be paid on 17 November 2016 to holders on the register on 14 October 2016. Shares will trade ex-dividend from 13 October 2016.

Strategy

The Group remains committed to the continued investment in our core products as a means of delivering organic growth. It will also continue to target appropriate acquisitions in its current or related sectors.

Outlook

The Board is pleased to see that the Group's investment in the FileFinder Anywhere platform is starting to show real signs of success. Although economic turbulence has had some impact on the number and size of the opportunities available to us, our improved market position has seen an increase in both conversion rates and in average order values. The Dillistone Systems division plans to announce further improvements to the product suite in September 2016 and as a result expects to maintain its improved market performance.

Our Voyager Software division has shown growth at both the revenue and the pre-tax profit level, and we expect this to continue. Our Infinity SaaS product, launched in 2015, has proved increasingly popular, though this model does mean that revenue is not recognised as quickly as in the traditional licence sale but has longer term benefits. The Division also plans various product launches and upgrades in the remainder of 2016.

The last few months have seen some volatility in the recruitment market. This has led to a reduction in additional licence purchases amongst some of our existing client firms. This has been more than offset by growth in our new business sales and upgrades for existing clients and we expect this trend to continue. However, we would not be immune to a more significant economic slowdown. Nevertheless, with our recurring revenues covering our administrative expenses (excluding acquisition related items), the Group remains in a very solid position. As a result, in H2 of 2016 the Board expects the Group to make further progress and results are anticipated to be in line with market expectations with the Group delivering both revenue and operational profit growth in the full year.

The Board therefore remains confident in the future prospects of the Group and has declared an increase in the interim dividend to 1.375p per share.

Mike Love

20 September 2016

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	<i>6 Months ended 30 June</i>		<i>Year ended 31 Dec</i>
		<i>2016</i>	<i>2015</i>	<i>2015</i>
		<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Revenue	4	4,811	4,706	9,437
Cost of sales		(694)	(661)	(1,313)
Gross profit		4,117	4,045	8,124
Administrative expenses		(3,569)	(3,459)	(7,016)
Result from operating activities	4	548	586	1,108
<i>Analysed as:</i>				
<i>Result from operating activities before acquisition related items</i>		737	775	1,424
<i>Acquisition related items</i>	5	(189)	(189)	(316)
<i>Result after acquisition related items</i>		548	586	1,108
Financial income		3	4	5
Financial cost		(13)	(24)	(41)
Profit before tax		538	566	1,072
Tax (expense)/income	6	(49)	(90)	140
Profit for the period		489	476	1,212
Other comprehensive income net of tax:				
Currency translation differences		(4)	(14)	(27)
Total comprehensive income for period net of tax		485	462	1,185
Earnings per share (pence)				
Basic	8	2.48	2.45	6.20
Diluted		2.46	2.34	6.00

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>As at 30 June</i>		<i>As at</i>
	<i>2016</i>	<i>2015</i>	<i>31 Dec</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
ASSETS			
Non-current assets			
Goodwill	3,415	3,415	3,415
Intangible assets	6,084	6,245	6,163
Property plant & equipment	259	295	257
	<hr/>	<hr/>	<hr/>
	9,758	9,955	9,835
Current assets			
Inventories	9	27	16
Trade and other receivables	1,961	1,839	1,736
Cash and cash equivalents	1,611	1,335	1,595
	<hr/>	<hr/>	<hr/>
	3,581	3,201	3,347
Total assets	<hr/>	<hr/>	<hr/>
	13,339	13,156	13,182
EQUITY AND LIABILITIES			
Equity			
Share capital	983	978	983
Share premium	1,631	1,553	1,631
Merger reserve	365	365	365
Retained earnings	3,956	3,462	4,008
Share option reserve	70	130	71
Translation reserve	97	114	101
	<hr/>	<hr/>	<hr/>
Total equity	7,102	6,602	7,159
Liabilities			
Non current liabilities			
Trade and other payables	178	428	428
Borrowings	72	242	158
Deferred tax	980	1,139	1,006
Current liabilities			
Trade and other payables	4,599	4,281	4,193
Borrowings	170	164	167
Current tax payable	238	300	71
	<hr/>	<hr/>	<hr/>
Total liabilities	6,237	6,554	6,023
Total liabilities and equity	<hr/>	<hr/>	<hr/>
	13,339	13,156	13,182

The interim report was approved by the Board of directors and authorised for issue on 20 September 2016. They were signed on its behalf by:

JS Starr

J P Pomeroy

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CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>As at 30 June</i>		<i>As at</i>
	<i>2016</i>	<i>2015</i>	<i>31 Dec</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating Activities			
Profit before tax	538	566	1,072
Add taxation repaid/(paid)	96	(92)	(219)
Adjustment for			
Financial income	(3)	(4)	(5)
Financial cost	13	24	41
Depreciation and amortisation	656	600	1,240
Share option expense	(1)	22	28
Other including foreign exchange adjustments arising from operations	(16)	(10)	(16)
Operating cash flows before movements in working capital	1,283	1,106	2,141
Increase in receivables	(155)	(83)	278
Decrease / (Increase) in inventories	8	14	25
Increase in payables	211	74	(307)
Net cash generated from operating activities	1,347	1,111	2,137
Investing Activities			
Interest received	3	4	5
Finance cost	(5)	(7)	(13)
Purchases of property plant and equipment	(40)	(60)	(84)
Investment in development costs	(539)	(464)	(961)
Contingent consideration paid	(212)	(666)	(666)
Net cash used in investing activities	(793)	(1,193)	(1,719)
Financing Activities			
Proceeds from issue of share capital	-	130	213
Bank loan repayments made	(83)	(80)	(162)
Dividends paid	(541)	(528)	(793)
Net cash used by financing activities	(624)	(478)	(742)
Net change in cash and cash equivalents	(70)	(560)	(324)
Cash and cash equivalents at beginning of the period	1,595	1,929	1,929
Effect of foreign exchange rate changes	86	(34)	(10)
Cash and cash equivalents at end of period	1,611	1,335	1,595



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2014	969	1,432	365	3,514	118	128	6,526
Comprehensive income							
Profit for the 6 months ended 30 June 2015	-	-	-	476	-	-	476
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	(14)	(14)
Total comprehensive income	-	-	-	476	-	(14)	462
Transactions with owners							
Issue of share capital	9	121	-	-	-	-	130
Share option charge	-	-	-	-	12	-	12
Dividends paid	-	-	-	(528)	-	-	(528)
Balance at 30 June 2015	978	1,553	365	3,462	130	114	6,602
Comprehensive income							
Profit for the 6 months ended 31 Dec 2015	-	-	-	736	-	-	736
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	(13)	(13)
Total comprehensive income	-	-	-	736	-	(13)	723
Transactions with owners							
Issue of share capital	5	78	-	-	-	-	83
Share option charge	-	-	-	75	(59)	-	16
Dividends paid	-	-	-	(265)	-	-	(265)
Balance at 31 December 2015	983	1,631	365	4,008	71	101	7,159
Comprehensive income							
Profit for the 6 months ended 30 June 2016	-	-	-	489	-	-	489
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	(4)	(4)
Total comprehensive income	-	-	-	489	-	(4)	485
Transactions with owners							
Issue of share capital	-	-	-	-	-	-	-
Share option charge	-	-	-	-	(1)	-	(1)
Dividends paid	-	-	-	(541)	-	-	(541)
Balance at 30 June 2016	983	1,631	365	3,956	70	97	7,102



NOTES TO THE UNAUDITED INTERIM REPORT

1. Basis of Preparation

The financial information for the six months ended 30 June 2016 included in this condensed interim report comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes on pages 12 – 18.

These interim financial statements have not been audited nor have they been reviewed by the auditors under ISRE 2410 of the Auditing Practices Board. The financial information set out in this report does not constitute statutory accounts as defined by the Companies Act 2006. The comparative figures for the year ended 31 December 2015 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts received an unqualified audit report which did not contain statements under sections 498(2) or (3) (accounting records or returns inadequate, accounts not agreeing with records and returns or failure to obtain necessary information and explanations) of the Companies Act 2006.

The interim financial statements have been prepared on the basis of the accounting policies set out in the December 2015 financial statements of Dillistone Group Plc and on a going concern basis. They are presented in sterling which is also the functional currency of the parent company. They do not include all of the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

Dillistone Group Plc is the Group's ultimate parent company. It is a public listed company and is domiciled in the United Kingdom. The address of its registered office and principal place of business is 50 Leman St, London, E1 8HQ. Dillistone Group Plc's shares are listed on the Alternative Investment Market (AIM).

2. Share Based Payments

The Company operates two share option schemes. The fair value of the options granted under these schemes is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period at the end of which the option holder may exercise the option. The fair value of the options granted is measured using the Black-Scholes model.

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3 Reconciliation of adjusted operating profits to consolidated statement of comprehensive income

30 June 2016 and 30 June 2015

	Adjusted operating profits	Acquisition related items		Adjusted operating profits	Acquisition related items	
	30 June 2016	2016*	30 June 2016	30 June 2015	2015*	30 June 2015
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	4,811	-	4,811	4,706	-	4,706
Cost of sales	(694)	-	(694)	(661)	-	(661)
Gross profit	4,117	0	4,117	4,045	-	4,045
Administrative expenses	(3,380)	(189)	(3,569)	(3,270)	(189)	(3,459)
Results from operating activities	737	(189)	548	775	(189)	586
Financial income	3	-	3	4	-	4
Financial cost	(5)	(8)	(13)	(7)	(17)	(24)
Profit before tax	735	(197)	538	772	(206)	566
Tax expense/(income)	(83)	34	(49)	(128)	38	(90)
Profit for the year	652	(163)	489	644	(168)	476
Other comprehensive income net of tax:						
Currency translation differences	(4)	-	(4)	(14)	-	(14)
Total comprehensive income for the year net of tax	648	(163)	485	630	(168)	462

Earnings per share – from continuing activities

Basic	3.31p	2.48p	3.31p	2.45p
Diluted	3.28p	2.46p	3.16p	2.34p

* see accounts note 5

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31 December 2015

	Adjusted operating profits 31 December 2015	Acquisition related items 2015*	31 December 2015
	£'000	£'000	£'000
Revenue	9,437	-	9,437
Cost of sales	(1,313)	-	(1,313)
Gross profit	8,124	-	8,124
Administrative expenses	(6,700)	(316)	(7,016)
Results from operating activities	1,424	(316)	1,108
Financial income	5	-	5
Financial cost	(13)	(28)	(41)
Profit before tax	1,416	(344)	1,072
Tax income	3	137	140
Profit for the year	1,419	(207)	1,212
Other comprehensive income net of tax:			
Currency translation differences	(27)	-	(27)
Total comprehensive income for the year net of tax	1,392	(207)	1,185

Earnings per share – from continuing activities

<i>Basic</i>	<i>7.26p</i>	<i>6.20p</i>
<i>Diluted</i>	<i>7.02p</i>	<i>6.00p</i>

* see accounts note 5



4. Segment reporting

	6 months ended 30 June		Year ended
	2016	2015	31 Dec
	£'000	£'000	2015
Revenue			
Dillistone Systems	2,265	2,306	4,620
Voyager Software	2,546	2,400	4,831
Inter-divisional	-	-	(14)
Total revenue	4,811	4,706	9,437

Results by division

	6 months ended 30 June		Year ended
	2016	2015	31 Dec
	£'000	£'000	2015
Results from operating activities			
Dillistone Systems	417	480	891
Voyager Software	412	392	629
	829	872	1,520
Central	(92)	(97)	(96)
Amortisation of acquisition intangibles and other items	(189)	(189)	(316)
Result from operating activities	548	586	1,108

Geographical segments

The following table provides an analysis of the Group's revenues by geographical market.

	6 months ended 30 June		Year ended
	2016	2015	31 Dec
	£'000	£'000	2015
UK	3,938	3,805	7,642
US	679	676	1,381
Australia	194	225	414
	4,811	4,706	9,437



4. Segment reporting (continued)

Business Segment

The following table provides an analysis of the Group's revenues by products and services.

	<i>6 months ended 30 June</i>		<i>Year ended</i>
	<i>2016</i>	<i>2015</i>	<i>31 Dec</i>
	<i>£'000</i>	<i>£'000</i>	<i>2015</i>
			<i>£'000</i>
Recurring	3,384	3,257	6,606
Non recurring	1,129	1,202	2,333
Third party revenues	298	247	498
	<u>4,811</u>	<u>4,706</u>	<u>9,437</u>

Recurring income includes all support services, software as a service income (SaaS) and hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation. Third party revenues arise from the sale of third party software.

5 Acquisition related items

	<i>6 months ended 30 June</i>		<i>Year ended</i>
	<i>2016</i>	<i>2015</i>	<i>31 Dec</i>
	<i>£'000</i>	<i>£'000</i>	<i>2015</i>
			<i>£'000</i>
Estimated change in fair value of contingent consideration	-	-	(63)
Amortisation of acquisition intangibles	189	189	379
	<u>189</u>	<u>189</u>	<u>316</u>
Unwinding of discount on contingent consideration	8	17	28
	<u>197</u>	<u>206</u>	<u>344</u>
Total			



6 Tax

	6 months ended 30 June		Year ended
	2016	2015	31 Dec
	£'000	£'000	2015
Current tax charge	73	103	191
Prior year adjustment – current tax	-	-	(185)
Deferred tax charge	10	25	(25)
Prior year adjustment – deferred tax	-	-	16
Deferred tax re acquisition intangibles	(34)	(38)	(137)
Total	49	90	(140)

The tax charge is impacted by the higher rates of corporation tax payable in the US and Australia offset by the R&D tax credits available to both Dillistone Systems and Voyager Software. Deferred tax has been provided at 18%.

7. Dividends

The Board has decided to pay an interim dividend of 1.375p per share (2015: 1.35p) on 17 November 2016 to holders on the register on 14 October 2016. Shares will trade ex-dividend from 13 October 2016.

8. Earnings per Share

	6 months ended 30 June		Year ended
	2016	2015	31 Dec
Basic earnings per share			
Profit attributable to ordinary shareholders	£489,000	£476,000	£1,212,000
Weighted average number of shares	19,668,021	19,434,115	19,547,754
Basic earnings per share (pence)	<u>2.48</u>	<u>2.45</u>	<u>6.20</u>
Diluted earnings per share			
Profit attributable to ordinary shareholders	£489,000	£476,000	£1,212,000
Diluted weighted average number of shares	19,857,686	20,337,715	20,209,339
Diluted earnings per share (pence)	<u>2.46</u>	<u>2.34</u>	<u>6.00</u>



9. Related party transactions

The Company has a related party relationship with its subsidiaries, its directors, and other employees of the Company with management responsibility. There were no transactions with these parties during the period outside the usual course of business.

There were no transactions with any other related parties.