

21 May 2019



APC Technology Group PLC
("APC", the "Company" or the "Group")

Unaudited Interim Results for the half year ended 28 February 2019

APC Technology Group PLC (AIM: APC), the provider of design-in, specification and distribution services for specialist electronic components and systems, lighting technologies and connectivity products, is pleased to announce its unaudited interim results for the half year ended 28 February 2019.

Adjusted results (continuing operations before exceptional costs and share based payments)	Half year ended 28 February 2019	Half year ended 28 February 2018	
	£000	£000	% increase
Revenue	10,662	8,616	23.7%
EBITDA (Earnings before interest, tax, depreciation and amortisation)	851	581	46.5%
Adjusted operating profit	844	557	51.5%
Adjusted profit before tax	657	384	71.1%
Earnings per share (pence)	0.4p	0.3p	31.0%

Statutory results	Half year ended 28 February 2019	Half year ended 28 February 2018	
	£000	£000	% increase
Revenue	10,662	8,616	23.7%
Operating profit	657	526	24.9%
Profit before tax	470	353	33.1%
Basic earnings per share (pence)	0.3p	0.3p	

A reconciliation between the statutory and adjusted results shown above is contained in note 5 to the interim financial statements.

Financial and operational highlights

- Revenue increased to £10.6m (H1 2018: £8.6m), up 24% from the £8.5m posted in H2 2018.
- Adjusted profit before tax increased by 71% to £0.66m (H1 2018: £0.38m) with adjusted earnings per share increasing by 31% compared with H1 2018.
- Operating profit from continuing operations before exceptional costs and share based payments increased 51% to £0.84m (H1 2018: £0.56m).
- Operating profit margin increased by 21.5% from 6.5% in H1 2018 to 7.9% in the current period
- Pre-tax profit for the period increased to £0.47m (H1 2018: £0.35m), compared with £0.6m for the whole year ended 31 August 2018.
- Period-end cash balances increased by £0.5m to £0.8m (H1 2018: £0.3m).

- Net debt decreased further by £1.3m to £2.7m (H1 2018: £4.0m) with all high interest-bearing loan notes now repaid.
- Further reduction in trade and other creditors since last financial year, as the Group continues to invest in strengthening supplier relationships.
- Group now concentrating on proven business model of the technical sales of specialist electronic components, products and systems.
- Acquisition of Wavelength Electronics Limited in November 2018, which adds further complementary lines to the Group offering.
- Robust pipeline of further bolt-on acquisition opportunities identified to aid this strategy.
- Group processes being streamlined to realise synergies and establish robust back-office platform to absorb further acquisitions.

Commenting on the results, Richard Hodgson, Chief Executive, said:

“These results show a further increase in the Group’s profitability and demonstrate the continuing success of the strategy of concentrating on the technical sales of specialist electronic components, products and systems. We are achieving this growth through our stated strategy of increased revenue from our existing technologies, signing new product lines and carefully targeted bolt-on acquisitions.

We have also strengthened our balance sheet, with positive cash flow during the period and a decrease in debt, whilst achieving a reduced fixed cost base and a centralised support structure that is capable of absorbing further acquisitions.

Once again I would like to thank our staff for the wholehearted way in which they have embraced this strategy and for the positive additional contribution that staff of our acquired companies have brought to the Group’s team spirit and energy.”

Enquiries

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Mark Brown / Antonio Bossi

Board review

The Board is pleased to report unaudited interim financial results for the half year ended 28 February 2019.

The period has seen further increases in turnover and profit compared with the equivalent period in 2018. These encouraging results stem from the decision we took in 2017 to concentrate on our core business, the technical sales of specialist electronic components, products and systems. These results are a vindication of our simple strategy of: selling more of our existing technologies; signing-up new technologies; and completing strategic bolt-on acquisitions

The period also saw a significant further reduction in our debt, with all of the high interest bearing convertible loans paid off by the end of November 2018 and with cash balances increasing.

Acquisitions update

In November 2018, the Group completed its third acquisition in twelve months: Wavelength Electronics Limited ("Wavelength") was acquired for a total consideration of £494,000. Details of this acquisition are set out in note 6 of the interim financial statements. In the year to 31 December 2018 Wavelength had a gross profit of £472,000.

Wavelength has more than 25 years' experience as a representative of electronic component manufacturers. Operating in similar market sectors to the core APC and Aspen components businesses, Wavelength represents a group of well-known manufacturers of components and systems for applications including high reliability, power control and conversion, RF and microwave interconnect, man-machine interfaces and sensing. These manufacturers include industry-leading brands such as Q-Tech, Corning Dubilier, State of the Art, Astrodyne, Presidio and Vanguard. These additional product lines will enhance the Group's ability to sell into the UK's high reliability industries, including Space.

The Board is pleased with the integration and performance of all three acquisitions done so far. They are all trading at a run rate higher than acquired levels and in all cases have added to the Group's product and service offering. These businesses have also brought with them additional sales and technical expertise. The Group is also on track to deliver the targeted synergies in these transactions with the associated profit margin enhancement.

Operations update

Wavelength's representation business complements the Group's design-in distribution business, which is now concentrated on five focused technology portfolios, each managed by specialist business teams with specific technical expertise combined with in-depth industry and product knowledge, supported by a shared service framework of marketing, sales, logistics and administration.

High Reliability Electronics (trading as APC Hi-Rel) – the technical sale of high-reliability, high temperature and high voltage electronic components, semiconductors and power solutions, selling primarily into the aerospace and defence industries. Over the period this team has added to its product lines and is very focussed on the growing UK space market. This market access has been enhanced by the acquisition of Wavelength, which brings with it further expertise in this area;

Component services and sourcing solutions (trading as APC Locator) – offers a range of services relating to the location of obsolete, end of life and hard to find components, including obsolescence management, component requalification and anti-counterfeit testing. This is a growing market with the world shortage in components. This business also enables the Group to form strategic partnerships with its larger blue chip customers. APC's historical experience in this area was strengthened in January 2018 by the acquisition of First Byte Micro Limited, resulting in an expansion of this activity;

Radio Frequency and Microwave (trading as APC RF & Microwave) – distributes high performance connectors, passive and active devices and related electronic components, selling primarily into the defence, telecoms, wireless and broadband markets. This business was boosted by the acquisition of Aspen Electronics Limited ("Aspen") in July 2018. This enlarged team is now one of the largest independent groups servicing RF & Microwave in the UK. The team has had great success in the period with products sold into counter IED systems;

Time and Frequency Synchronisation (trading as APC Time) - provides time and frequency synchronisation systems to financial institutions, government bodies, broadcasters, telecoms organisations and rail companies. This continues to be a growing business for the Group. We have added to the lines we represent, to be able to offer a one stop shop for time synchronisation and network assurance. We have broadened our client and industry base. For example we are now providing solutions to the UK's largest broadcasters. Time synchronisation and network assurance impacts many industries and we are well placed to take advantage of this market growth as it happens;

Property Technology: This business combines the expertise of our Lighting Technologies business (trading as APC Lighting) and our connectivity, sensing and Internet of Things business (trading as APC Smartwave) to form a bespoke provider of high-end technology solutions to facility management companies. We have achieved further growth in our core Lighting customer base, but in addition we have added to the products that we are selling with an increase in solutions for smart building systems. *EEVS Performance Management* sits alongside these two, to provide energy verification services in connection with energy performance contracts by facilities management companies or energy-saving measures funded by public sector organisations.

Summary of financial performance

Revenue for the period was £10.7m (H1 2018: £8.6m), representing an increase of 24% over the corresponding period in 2018. The increase included the effect of a full six months' trading of Aspen (acquired in July 2018) and three months trading of Wavelength.

Gross profit increased by 20% from £2.9m to £3.5m based on the higher turnover. Overall gross profit margin for the period was 32.4% (H1 2018: 34.2%), reflecting the current mix of products in the enlarged Group. The recent restructuring has achieved a lower overhead base that mitigates this effect.

Operating profit before exceptional and non-recurring expenses, share based payments, interest and tax was £844k (H1 2018: £557k), representing a 51% increase. Operating profit margin increased by 21.5% from 6.5% in H1 2018 to 7.9% in the current period. This is a key indicator of the successful strategy of folding incremental gross profit into a controlled cost base. Overheads on continuing operations were £2.61m (H1 2018: £2.39m); tight cost control limited the increase to 9.3% despite the acquisitions of Aspen and Wavelength.

Adjusted profit (before exceptional and non-recurring costs), as calculated in note 5 to the interim financial statements, was £657k (H1 2018: £384k), an increase of 71%, as a result of which earnings per share calculated on this basis improved 31% from 0.3p to 0.4p.

Exceptional and non-recurring expenses increased from £5k in H1 2018 to £158k in the period due to the Group's acquisitive strategy. These costs are predominantly the result of restructuring to achieve synergies in later periods.

After exceptional and non-recurring expenses, share based payments, interest and tax, the Group is reporting a £510k post-tax profit for the period, an increase of 28% compared to £398k in H1 2018, resulting in a basic and diluted EPS of 0.3p (H1 2018: 0.3p).

Balance sheet and cash flow

Working capital (excluding net debt) moved from a surplus of £0.73m at 31 August 2018 to a surplus of £0.75m at 28 February 2019, despite the acquisitions referred to above.

Net debt at the end of the period was £2.7m, including £0.8m of cash, £2.9m drawn on the ABN invoice finance facility and £0.6m from the Pay4 trade payment facility. This compares with net debt of £4.0m at 28 February 2018 and £3.1m at 31 August 2018, including the loan notes, which were fully paid off during the period.

The repayment of the loan notes means that the bulk of the Group's borrowing is concentrated with the ABN invoice discounting facility of up to £6m. The facility continues with no fixed termination date and provides further capacity for growth, both organic and acquisitive.

Cash flow for the period resulted in an overall increase in net cash of £0.5m from February 2018 and £0.1m from 31 August 2018. This was driven by a strong surplus of £0.5m from operations, which facilitated a net decrease of £0.4m in borrowings compared with 31 August 2018..

The Board's strategy has been to invest cash from operations, together with surplus funds from the equity raise, into reducing net debt, whilst maintaining strong supplier relationships.

No new shares were issued during the half-year, but approximately 2.7m shares have been issued since the period-end, partly in lieu of directors' and professional fees and partly through the exercise of share options.

Board changes

Following the successful completion of the Group's turnaround, Michael Thompson decided to leave the business in March 2019 to pursue other challenges. The Board would like to thank him for his efforts and service and he has our every best wish for the future. The Board are not looking to replace Michael, as the Group has a strong financial control function supported by other Group services.

Outlook

The Group continues to reap the benefits of its clear strategy for moving forward with profitable cash-generative growth. This strategy has three tactical strands:

Increase revenue through our established and growth technologies. This growth is largely being driven by market or compliance requirements and is being achieved through reorganised and incentivised sales teams, strengthened by staff from our new acquisitions.

Growth by signing new proven technology partners. Further signings took place during the period and we are continuing to target other complementary technologies.

Sales growth through bolt-on acquisitions. The targets are established companies, with gross profit of £0.5m or more, that can provide additional revenue consistent with APC's strategic profile, together with a bank of existing customers. The acquisition of Wavelength is the latest example of this strategy.

The Group continues to trade in line with management expectations and the Board remains confident in its three faceted growth strategy.

Once again we would like to thank the Group's employees for their dedication and hard work, and our customers, suppliers and shareholders for their continued support.

The Board of Directors
21 May 2019

CONDENSED CONSOLIDATED STATEMENT OF INCOME
for the half year ended 28 February 2019

		Results from operations (unaudited) £000	Exceptional and non- recurring expenses (unaudited) £000	Half year ended 28 February 2019 (unaudited) £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
	Note					
Revenue	3	10,662	-	10,662	8,616	17,149
Cost of sales		(7,206)	-	(7,206)	(5,670)	(11,468)
Gross profit		3,456	-	3,456	2,946	5,681
Administration expenses		(2,612)	-	(2,612)	(2,389)	(4,571)
Operating profit before exceptional and non-recurring expenses		844	-	844	557	1,110
Exceptional and non-recurring expenses	4	-	(158)	(158)	(5)	(128)
Share based payments		(29)	-	(29)	(26)	(32)
Operating profit		815	(158)	657	526	950
Finance costs (net)		(187)	-	(187)	(173)	(395)
Profit before taxation		628	(158)	470	353	555
Taxation credit		40	-	40	45	78
Profit for the period		668	(158)	510	398	633
Basic earnings per share	5			0.3p	0.3p	0.5p
Diluted earnings per share	5			0.3p	0.3p	0.5p
Adjusted basic earnings per share	5			0.4p	0.3p	0.5p
Adjusted diluted earnings per share	5			0.4p	0.3p	0.5p

There were no other items of comprehensive income. Accordingly no consolidated statement of comprehensive income has been prepared.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for the half year ended 28 February 2019

	28 February 2019 (unaudited) £000	28 February 2018 (unaudited) £000	31 August 2018 (audited) £000
Non-current assets			
Intangible assets	9,842	7,856	9,126
Property, plant and equipment	560	29	564
	<u>10,402</u>	<u>7,885</u>	<u>9,690</u>
Current assets			
Inventories	1,323	1,089	1,330
Trade and other receivables	3,797	3,671	4,133
Current tax asset	40	-	73
Cash and cash equivalents	845	277	777
	<u>6,005</u>	<u>5,037</u>	<u>6,313</u>
Total assets	<u>16,407</u>	<u>12,922</u>	<u>16,003</u>
Current liabilities			
Trade and other payables	(4,392)	(4,102)	(4,375)
Borrowings	(3,595)	(4,272)	(3,820)
Current tax liability	(73)	-	-
	<u>(8,060)</u>	<u>(8,374)</u>	<u>(8,195)</u>
Total assets less current liabilities	<u>8,347</u>	<u>4,548</u>	<u>7,808</u>
Non-current liabilities			
Deferred tax	(110)	-	(110)
Net assets	<u>8,237</u>	<u>4,548</u>	<u>7,698</u>
Equity attributable to equity holders of the company			
Called up share capital	3,597	2,698	3,597
Share premium account	14,890	13,232	14,890
Share option valuation reserve	337	323	308
Merger reserve	4,987	4,635	4,987
Retained earnings	(15,574)	(16,340)	(16,084)
Total equity	<u>8,237</u>	<u>4,548</u>	<u>7,698</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year ended 28 February 2019

Attributable to the equity holders of the parent

	Share capital £000	Share premium account £000	Share option valuation reserve £000	Merger reserve £000	Retained earnings £000	Total £000
For the half year ended 28 February 2019						
At 1 September 2018	3,597	14,890	308	4,987	(16,084)	7,698
Profit for the period	-	-	-	-	510	510
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	510	510
Transactions with equity holders of the parent						
Share option charge	-	-	29	-	-	29
	-	-	29	-	-	29
At 28 February 2019 (unaudited)	3,597	14,890	337	4,987	(15,574)	8,237
For the half year ended 28 February 2018						
At 1 September 2017	2,698	13,232	297	4,635	(16,738)	4,124
Profit for the period	-	-	-	-	398	398
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	398	398
Transactions with equity holders of the parent						
Share option charge	-	-	26	-	-	26
	-	-	26	-	-	26
At 28 February 2018 (unaudited)	2,698	13,232	323	4,635	(16,340)	4,548
For the year ended 31 August 2018						
At 1 September 2017 (audited)	2,698	13,232	297	4,635	(16,738)	4,124
Profit for the year	-	-	-	-	633	633
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	633	633
Transactions with equity holders of the parent						
Issue of new shares	899	1,784	-	352	-	3,035
Costs associated with share issue	-	(126)	-	-	-	(126)
Share option charge	-	-	11	-	21	32
	899	1,658	11	352	21	2,941
At 31 August 2018 (audited)	3,597	14,890	308	4,987	(16,084)	7,698

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 28 February 2019

	Half year ended 28 February 2019 (unaudited) Note £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
Reconciliation of cash flows from operating activities			
Profit before taxation including discontinued operations for the period	470	353	554
Finance costs (net)	187	173	395
Taxation receipts	40	45	111
Depreciation of property, plant and equipment	7	24	43
Increase in inventories	(49)	(257)	(76)
Decrease/(increase) in trade and other receivables	438	(686)	(136)
Decrease in trade and other payables	(542)	(229)	(1,211)
Share-based payments charge	29	26	32
Net cash from/(used in) operating activities	580	(551)	(288)
Cash flows from investing activities			
Acquisition of property, plant and equipment	-	-	(5)
Acquisition of subsidiary company, net of cash acquired	6 (100)	(478)	(1,971)
Sale of other investment	-	307	307
Net cash used in investing activities	(100)	(171)	(1,669)
Cash flows from financing activities			
Finance costs (net)	(187)	(173)	(395)
Proceeds of share issue (net of associated costs)	-	-	2,409
Finance leases	-	-	(4)
Increase in short-term borrowings	230	695	447
Loan notes (repaid)/issued	(455)	100	(100)
Net cash (used in) /from financing activities	(412)	622	2,357
Increase/(decrease) in net cash	68	(100)	400
Cash and cash equivalents at start of period	777	377	377
Increase/(decrease) in net cash	68	(100)	400
Cash and cash equivalents at end of period	845	277	777

NOTES TO THE INTERIM REPORT
for the half year ended 28 February 2019

1. General information

APC Technology Group PLC is a public limited company ("the Company") incorporated in the United Kingdom under the Companies Act 2006 (registration number 01635609).

The Company is domiciled in the United Kingdom and its registered address is 6 Stirling Park, Laker Road, Rochester, Kent, ME1 3QR. The Company's Ordinary Shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange. The principal activity of the Company and its subsidiary undertakings (together "the Group") is the design, specification and distribution of specialist electronic components and systems.

2. Basis of preparation

This unaudited consolidated interim financial information has been prepared in accordance with IFRS as adopted by the European Union. The principal accounting policies used in preparing the interim results are those it expects to apply in its financial statements for the year ended 31 August 2019 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 August 2018.

The financial information does not contain all of the information that is required to be disclosed in a full set of IFRS financial statements. The financial information for the six months ended 28 February 2019 and 28 February 2018 is unreviewed and unaudited and does not constitute the Company's statutory financial statements for those periods. The comparative financial information for the full year ended 31 August 2018 has, however, been derived from the audited statutory financial statements for that period. A copy of those statutory financial statements has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

The financial information in the interim report is presented in UK pounds sterling and all values are rounded to the nearest thousand pounds (£000), except where otherwise indicated.

3. Segmental information

Operating Segments

IFRS 8 "Operating Segments", requires consideration of the chief operating decision maker ('CODM') within the Company. In line with the Company's internal reporting framework and management structure, the key strategic and operating decisions are made by the CEO, who reviews internal monthly management reports, budget and forecast information as part of this process. Accordingly, the CEO is deemed to be the CODM.

The Company operates within a single reportable segment, being the provision of design-in distribution services for specialist electronic components, products and systems.

	Half year ended 28 February 2019 (unaudited) £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
Revenue by geographic location			
UK	10,294	8,397	16,685
North America	78	74	140
Europe and Asia	290	145	324
	<u>10,662</u>	<u>8,616</u>	<u>17,149</u>

4. Exceptional and non-recurring expenses

	Half year ended 28 February 2019 (unaudited) £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
Corporate re-organisation costs, as follows:			
Compromise agreements and redundancy costs	158	-	37
Dilapidations and onerous lease provisions	-	5	-
Professional fees	-	-	91
	158	5	128

5. Earnings per share

The calculation of basic earnings per share is based on the profit after taxation attributable to equity holders of the parent company for the period and the weighted average number of shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding by the dilutive effect of shares that the Company may potentially issue relating to its share option scheme.

The result for the year and the weighted average number of shares used in the calculations are set out below:

	Half year ended 28 February 2019 (unaudited) £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
Net profit after tax for the period	510	398	633
Weighted average number of shares (000's)	179,884	134,913	139,472
Basic earnings per share	0.3p	0.3p	0.5p
Dilutive/free shares (000's)	917	945	917
Diluted number of shares (000's)	180,801	135,858	140,389
Diluted earnings per share	0.3p	0.3p	0.5p

The Directors believe that a more realistic view of the Group's underlying performance is provided by utilising a calculation of adjusted earnings per share, based on operating profit before exceptional costs and share based payments. The adjusted calculation is shown below:

	Half year ended 28 February 2019 (unaudited) £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
Profit before tax for the period	470	353	555
Adjustments:			
Exceptional costs	158	5	128
Share based payments	29	26	32
Adjusted profit before tax for the period	657	384	715
Finance costs (net)	187	173	395
Adjusted operating profit	844	557	1,110
Depreciation and amortisation	7	24	43
Earnings before interest, tax, depreciation and amortisation (EBITDA)	851	581	1,153

The adjusted earnings per share, based on the weighted number of shares in issue during the period, are calculated below:

	Half year ended 28 February 2019 (unaudited) £000	Half year ended 28 February 2018 (unaudited) £000	Year ended 31 August 2018 (audited) £000
Adjusted profit before tax	657	384	715
Taxation credit	40	45	78
Adjusted profit after tax	697	429	793
Adjusted basic earnings per share	0.4p	0.3p	0.5p
Adjusted fully diluted earnings per share	0.4p	0.3p	0.5p

6. Acquisition of subsidiary company

On 22 November 2018 the Group completed the acquisition of Wavelength Electronics Limited ("Wavelength"), an independent premium distributor and representative of electronic components. The net consideration consisted of £494,000, to be satisfied in cash, payable one third on completion, one third in 12 monthly instalments and the balance 12 months from completion. In the year to 31 December 2018 Wavelength had a gross profit of £472,000.

7. Copies of Interim report

The interim report is available to view and download from the Company's website at www.apcplc.com. If shareholders would like a hard copy of the interim report, they should contact the Company Secretary, APC Technology Group PLC, 6 Stirling Park, Laker Road, Rochester, Kent, ME1 3QR. Alternatively shareholders may request copies by e-mailing: investors@apcplc.com.