

HALF-YEAR REPORT

Released : 28/09/2017 07:00

RNS Number : 0200S
Touchstar PLC
28 September 2017

28 September 2017

Touchstar plc

Interim results for the Six months ended 30 June 2017

The Board of Touchstar plc (AIM:TST) 'Touchstar', the 'Company' or 'the Group', suppliers of mobile data computing solutions and managed services to a variety of industrial sectors, is pleased to announce its interim results for the six months ended 30 June 2017.

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those obligations.

Key Financials:

	30 June 2017	30 June 2016
• Revenues	£3,981,000	£4,146,000
• Operating profit before exceptional costs	£39,000	£219,000
• Profit before exceptional costs (after tax)	£133,000	£296,000
• Adjusted EPS	2.11p	4.69p
• Exceptional costs	£128,000	£nil
• Operating (loss)/profit	£ (89,000)	£219,000
• Profit (after tax)	£5,000	£296,000
• Basic EPS	0.08p	4.69p
• Net borrowings	£(168,000)	£(201,000)

Commenting on the results, Ian Martin, Chairman of Touchstar, said:

"The Company is now at a point to begin the most exciting, challenging and unpredictable phase of its transformation. We are actively introducing newer more relevant solutions, whilst deliberately phasing out older, less profitable products. That said, the current economic climate of uncertainty and modest growth has understandably led some customers to delay their investment decisions as long as possible, and, as such, our initial timelines have proven to be slightly optimistic, but we are firmly on our way. To get the business to a proper scale we now need a step change in the growth of sales. This will only come with investment into supporting sales, marketing and project management, and which, if targeted correctly, should ensure the opportunity that has presented itself is taken.

The short term remains difficult to predict accurately, but underneath the reporting of historical financial performance there are numerous moving parts, many of which are showing very positive signs. I remain realistic to the current challenges but optimistic to the potential I can see."

For further information, please contact:

Touchstar plc	Ian Martin	01274 741860
	Mark Hardy	01274 741860
WH Ireland - Nominated Adviser	Mike Coe/Ed Allsopp	0117 945 3472

Information on Touchstar plc can be seen at: www.touchstarplc.com

CHAIRMAN'S INTERIM STATEMENT 2017

The Company is now at a point to begin the most exciting, challenging and unpredictable phase of its transformation. Having moved through the repair phase of our plan to restore Touchstar to its core capability of specialists in data capture and mobile computing solutions, we are now preparing to execute a more growth orientated strategy. We are actively introducing newer more relevant solutions, whilst deliberately phasing out older, less profitable products. Substantial progress has been made in this regard, with tangible signs of progress; new products have been developed, moved through concept and beta testing, and are now being successfully used by clients. An example of this would be Touchstar On Board, our new software solution. It incorporates stock and pricing management for customers, is fully integrated to mobile devices on the aircraft, and incorporates the technology necessary for payments to be taken in flight. This system is now installed on aircraft of two regional airlines, and one national flagship carrier. All three are new customers to Touchstar. These provide much-needed reference customers whom are now in place, opening the door to wider industry adoption.

That said, the current economic climate of uncertainty and modest growth has understandably led some customers to delay their

investment decisions as long as possible. In my last communication, I highlighted the slippage of two large orders (both now fulfilled) that moved sales from 2016 to 2017, and we are still experiencing the lengthening lead times that make forecasting even more difficult.

I have consistently cautioned to the unpredictable nature of turning around a business - it is sometimes foolhardy to give both prediction and timing. When we started on this journey we had ambitious plans of what Touchstar could become, and that enthusiasm is still there. Our initial timelines have proven to be slightly optimistic, but we are firmly on our way.

Group Operating Results

Revenue for the six months ended the 30 June 2017 declined by 4% to £3,981,000 (six months ended 30 June 2016: £4,146,000) as we phased out older product. It should be noted that the rate of decline in revenue has slowed which could suggest we are approaching the tipping point as we work through this transitional phase.

Operating profit before exceptional items declined to £39,000 (six months ended 30 June 2016: £216,000) reflecting the slower than expected start to the year and highlighting our current experience of order flow, which is becoming more and more weighted towards the second half of the year. Taxation continues to be a positive as a result of our continued investment in research and development. After tax profits before exceptional items reflected the trend in operating profit and declined to £133,000 (six months ended 30 June 2016: £296,000).

We continue to develop and optimise the Group's organisational structure which led to an exceptional charge of £128,000 being taken in the six months ending 30 June 2017 (six months ended 30 June 2016: nil). After this item, the Group produced a before tax operating loss of £89,000 (six months ended 30 June 2016: profit £219,000) and on an after-tax basis, a profit of £5,000 (six months ended 30 June 2016: £296,000).

Basic earnings per share decreased to 0.08p (six months ended 30 June 2016: 4.69p) and adjusted earnings per share before the exceptional charge were 2.11p.

On a more positive note, even allowing for the cash costs associated with the exceptional items and continued investment in new products, the company generated cash of over £160,000 in the six months' period ending 30 June 2017. This resulted in the Company having a smaller level of net borrowing at the period end of only £168,000, which compares favorably to the year-end 31 December 2016 position of £329,000 (30 June 2016: net borrowing £201,000).

Overall the Group's financial position remains robust.

Strategy

Over the last year we have invested a lot of time in meetings and discussions with our customers. We now have greater clarity on the current market dynamics, where Touchstar sits in these market segments and where the opportunities lie. We are finalising our definitive plans, the intention of which is now to drive the business forward at a more rapid pace. The foundations and structure are in place and many growth oriented strategies have already been implemented. To get the business to a proper scale we now need a step change in the growth of sales. This will only come with investment into supporting sales, marketing and project management, and which, if targeted correctly, should ensure the opportunity that has presented itself is taken.

It is likely that we will experience lower margins in the short term, compressed by the additional costs that are required to accelerate growth in the top line. If achieved this should result in long-term value being created. We now need to be brave as we have the prospect to organically grow the business considerably - such scale, if forthcoming, would bring significant benefits to Touchstar and give us a platform from which to continue to build. Even in the light of such a forward shift we will maintain our conservative appetite to leverage, retain a robust balance sheet and ensure modest levels of borrowing.

Outlook for 2017

I would expect trading conditions in the second half to remain challenging, we will fall below the expectations we had at the beginning of the year, but we continue to work hard to achieve the best and most profitable outcome we can in both the second half and for the year overall. We will see the continuation in the trend of sales of new products recording substantial growth, as they gain further adoption by our clients. The headwind in the short term will continue as older products reach the end of their life cycle and we phase them out completely. At the end of 2017 all of the company's products and services will be on an upgrade path. This is quite an achievement in itself.

People

Ultimately our people and our culture will set us apart. Two years ago, when I looked around the business it was the passion of everyone I now work with that was a deciding factor for me; they collectively give us every chance to make Touchstar the business it can be.

Conclusion.

The short term remains difficult to predict accurately, underneath the reporting of historical financial performance there are numerous moving parts, many of which are showing very positive signs. I remain realistic to the current challenges but optimistic to the potential I can see. The question is how best to take that opportunity. I cannot guarantee success, we can however commit to giving it our best shot.

I Martin
Executive Chairman
28 September 2017

Unaudited consolidated income statement for the six months ended 30 June 2017

	Six months ended 30 June		Year ended 31 December
	2017	2016	2016
	£'000	£'000	£'000
Revenue	3,981	4,146	7,624

Operating profit before exceptional items	39	219	223
Exceptional costs	(128)	-	-
Operating (loss)/profit	(89)	219	223
Finance costs	(6)	(3)	(10)
(Loss)/profit before income tax	(95)	216	213
Income tax credit	100	80	262
Profit for the period attributable to the owners of the parent	5	296	475

Earnings per ordinary share (pence) attributable to owners of the parent during the period:

	Pence per share	Pence per share	Pence per share
Adjusted	2.11p	4.69p	7.53p
Basic	0.08p	4.69p	7.53p

Unaudited consolidated statement of changes in equity

for the six months ended 30 June 2017

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
For the six months ended 30 June 2017					
Balance at 1 January 2017	315	-	-	5,441	5,756
Profit for the period	-	-	-	5	5
Balance at 30 June 2017	315	-	-	5,446	5,761
For the six months ended 30 June 2016					
Balance at 1 January 2016	5,047	2,932	2,100	(4,761)	5,318
Profit for the period	-	-	-	296	296
Balance at 30 June 2016	5,047	2,932	2,100	(4,465)	5,614
For the year ended 31 December 2016					
Balance at 1 January 2016	5,047	2,932	2,100	(4,761)	5,318
Capital reduction	(4,732)	(2,932)	(2,100)	9,764	-
Cost of capital reduction	-	-	-	(37)	(37)
Profit for the year	-	-	-	475	475
Balance at 31 December 2016	315	-	-	5,441	5,756

Unaudited consolidated statement of financial position

at 30 June 2017

30 June 2017	30 June 2016	31 December 2016
	* Restated	
£'000	£'000	£'000

Non-current assets

Goodwill	3,824	3,824	3,824
Development expenditure	1,042	872	989
Total intangible assets	4,866	4,696	4,813
Property, plant and equipment EQUIPMENTEQUIPMENTEQUIPMENT EQUIPMENTequipment	224	192	236
Deferred tax assets	67	67	67
	5,157	4,955	5,116
Current assets			
Inventories	1,265	1,211	1,259
Trade and other receivables	1,950	2,192	2,026
Current tax recoverable	72	257	203
Cash and cash equivalents	2,398	1,925	2,206
	5,685	5,585	5,694
Total assets	10,842	10,540	10,810
Current liabilities			
Trade and other payables	2,309	2,649	2,295
Borrowings	2,566	2,126	2,535
	4,875	4,775	4,830
Non-current liabilities			
Deferred tax liabilities	75	75	75
Deferred income	131	76	149
Total liabilities	5,081	4,926	5,054

* Please see note 3.

Unaudited consolidated statement of financial position at 30 June 2017 (continued)

	30 June 2017	30 June 2016	31 December 2016
	£'000	£'000	£'000
Capital and reserves attributable to owners of the parent			
Share capital	315	5,047	315
Share premium account	-	2,932	-
Capital redemption reserve	-	2,100	-
Profit and loss account	5,446	(4,465)	5,441
Total equity	5,761	5,614	5,756
Total equity and liabilities	10,842	10,540	10,810

* Please see note 3.

Consolidated cash flow statement for the six months ended 30 June 2017

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Cash flows from operating activities			
Operating (loss)/profit	(89)	219	223
Depreciation	41	44	100
Amortisation	196	181	370
Movement in:			
Inventories	(6)	278	231
Trade and other receivables	76	174	341
Trade and other payables	(4)	(1,041)	(1,322)
Cash generated from/ (used in) operating activities	214	(145)	(57)
Interest paid	(6)	(3)	(10)
Corporation tax received	231	-	234
Net cash generated from/ (used in) operating activities	439	(148)	167
Cash flows from investing activities			
Purchase of intangible assets	(249)	(233)	(539)
Purchase of property, plant and equipment	(29)	(54)	(154)
Net cash used in investing activities	(278)	(287)	(693)
Cash flows from financing activities			
Repayments of finance lease contracts	-	(8)	(8)
Cost of capital restructure	-	-	(37)
Net cash used in financing activities	-	(8)	(45)
Net increase/ (decrease) in cash and cash equivalents	161	(443)	(571)
Cash and cash equivalents at start of the year	(329)	242	242
Cash and cash equivalents at end of the year	(168)	(201)	(329)

Notes to the interim report and accounts for the six months ended 30 June 2017

1. General information

Touchstar plc is a public company limited by share capital incorporated and domiciled in the United Kingdom. The Company has its listing on AIM. The address of its registered office is 1 George Square, Glasgow, G2 1AL.

2. Status of interim report and accounts

The financial information comprises the condensed consolidated interim balance sheet as at 30 June 2017, 30 June 2016 and the year ended 31 December 2016 along with related consolidated interim statements of income and cash flows for the six months to 30 June 2017 and 30 June 2016 and year ended 31 December 2016 of Touchstar plc (hereinafter referred to as 'financial information').

This financial information for the half year ended 30 June 2017 has neither been audited nor reviewed and does not comprise statutory accounts within the meaning of the section 434 of the Companies Act 2006. This financial information was approved by the Board on 27 September 2017.

The figures for the year ended 31 December 2016 have been extracted from the audited annual report and accounts that have been delivered to the Registrar of Companies. The auditors, PricewaterhouseCoopers LLP, reported on those accounts under section 495 of the Companies Act 2006. Their report was unqualified and did not contain a statement under section 498 of that Act.

3. Basis of preparation

The interim report and accounts have been prepared using accounting policies to be applied in the annual report and accounts for the year ended 31 December 2017. These are consistent with those included in the previously published annual report and accounts for the year ended 31 December 2016, which have been prepared in accordance with IFRS as adopted by the European Union.

The directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future, and for this reason they have adopted the going concern basis of preparation in the consolidated interim financial statements. The financial statements may be obtained from Touchstar plc, 7 Commerce Way, Trafford Park, Manchester, M17 1HW or online at www.touchstarplc.com.

Non - GAAP financial measures

For the purposes of this interim announcement and annual report and accounts, the Group uses alternative non-Generally Accepted Accounting Practice ('non-GAAP') financial measures which are not defined within IFRS. The Directors use the measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures.

The following non-GAAP measure referred to in the interim announcement relates to Trading profit.

'Trading profit' is separately disclosed, being defined as operating profit adjusted to exclude restructuring costs and compensation for loss of office along with other non-recurring costs such as onerous leases and associated costs on the early vacation of two properties. These exceptional costs related to items which the management believe did not accurately reflect the underlying trading performance of the business in the period. The Directors believe that the trading profit is an important measure of the underlying performance of the Group.

Restatement

The Group operates a composite banking arrangement, under which the Group and its bankers have a legal right to offset certain balances which may be in a cash or overdraft position. Previously, the Group offset these cash and overdraft balances in determining cash and short-term deposits as presented on the Group Balance Sheet.

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts resulting in £2,566,000 of bank overdrafts being reported in borrowings, with a corresponding increase in cash and short-term deposits. Comparatives at 30 June 2016 have also been restated with an additional £2,126,000 of bank overdrafts being reported in borrowings with a corresponding increase in cash and short-term deposits.

4. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows.

A detailed impairment review will be carried out at the year end.

(b) Development expenditure

The Group recognises costs incurred on development projects as an intangible asset which satisfy the requirements of IAS 38. The calculation of the costs incurred includes the percentage of time spent by certain employees on the development project. The decision whether to capitalise and how to determine the period of economic benefit of a development project requires an assessment of the commercial viability of the project and the prospect of selling the project to new or existing customers.

5. Income tax credit

	Six months ended 30 June		Year ended 31 December
	2017	2016	2016
	£'000	£'000	
Corporation Tax			
Current tax	(70)	(80)	(201)
Adjustments in respect of prior years	(30)	-	(61)
Total current tax	(100)	(80)	(262)

6. Earnings per share

Earnings per ordinary share (pence) attributable to owners of the parent during the period:

	Six months ended 30 June		Year ended 31 December
	2017	2016	2016
Basic	0.08 p	4.69 p	7.53 p
Adjusted	2.11 p	4.69 p	7.53 p

Reconciliations of the earnings and weighted average number of shares used in the calculation are set out below:

For six-month period	30 June 2016		30 June 2016	
	Earnings £'000	Weighted average number of shares (in thousands)	Earnings £'000	Weighted average number of shares (in thousands) Restated
Basic EPS				
Earnings attributable to owners of the parent	5	6,309	296	6,309
Exceptional items comprising of the following:				
Restructuring costs and onerous leases	128		-	

Exceptional costs relate to extra costs incurred on onerous lease contracts and further restructuring costs.

For year ended	31 December 2016	
	Earnings £'000	Weighted average number of shares (in thousands)
Basic EPS		
Earnings attributable to owners of the parent	475	6,309

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The calculation of adjusted earnings per share excludes exceptional costs of £128,000 (2016: £nil)

This information is provided by RNS
The company news service from the London Stock Exchange

END

IR EAKNXAADXEFF