Touchstar plc

Preliminary results for the year ended 31 December 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 final results for the year ended 31 December 2017.

Key Financials:

	31 December 2017	31 December 2016
• Revenues	£7,868,000	£7,624,000
• 'Trading profit' after tax before exceptional costs	£381,000	£475,000
• Adjusted earnings per share	6.02p	7.53p
• Exceptional costs	£141,000	£nil
• Goodwill impairment	£3,824,000	£nil
• Operating (loss)/profit	£(3,854,000)	£223,000
• (Loss)/profit after tax	£(3,585,000)	£475,000
• Basic earnings per share	(56.83)p	7.53p

Commenting today, Ian Martin, Chairman of Touchstar, said:

"The Group needed to change to have a vibrant future and, as we move to scale the business, we have arrived at the point where there is no turning back. Whilst this may seem a little scary it is very exciting.

Touchstar has what we believe to be a real opportunity. The success of the fund raising at the start of the current year gives us the financial ability to execute our full plan. Whether we succeed or not is down to us, we have to be braver and more ambitious, the upside if we get this right could be considerable. We are focused upon making this happen."

This announcement contains 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 Regulations.

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

CHAIRMAN'S STATEMENT 2017

It is pleasing to be able to report another positive set of trading figures for the Group which comprises Touchstar Technologies Limited and Touchstar ATC Limited. However, the results for the year ended 31 December 2017 in no way reflect the rapid pace of change and progress we are achieving in the Group as we transform it from its historic hardware roots to become a high-quality solutions provider and a business that enables critical business data to be captured, moved and accessed across various platforms.

The Group needed to change to have a vibrant future and, as we move to scale the business, we have arrived at the point where there is no turning back. Whilst this may seem a little scary it is very exciting.

The Touchstar of today acts and thinks differently compared to only 18 months ago. We have successfully designed complete end-to-end solutions for our markets, taking them from concept to client. We are now building users rapidly, albeit from a small base, and it feels like real momentum. As part of this focus on the future we have also decided to eliminate the legacy goodwill remaining on the balance sheet. This had originally arisen many years ago when the Group was quite a different animal.

Our objective was always to create a scalable business; every change we made had that in mind. Investment continues in solution development, building a front end capable of delivering a greater rate of growth and a structure that gives excellent customer experience.

We have learnt much over the past year, which builds our own confidence that we understand better what is needed to complete our transition. Having good customers, relevance and standing in our markets helps, having the right products now gives the real prospect we can turn these key assets into revenue growth.

Group Operating Results

Revenue for the year ending 31 December 2017 rose 3% to £7,868,000. (2016: £7,624,000) This comprised of a relatively weak first half to the year, combined with a stronger second half to 2017, one in which we recorded sales growth of 12% over the comparable period in 2016.

Margins fell slightly due to product mix and increased spending as we move towards a more growth-orientated phase. Trading profit for the year, ended 31 December 2017 fell by £91,000 to £380,000 (2016: £475k). Trading profit is defined as profit after tax prior exceptional items (note 7).

The Group's underlying cash generative characteristics resulted in only a very small rise in net debt to £336,000 at the yearend (2016: £329,000 net debt) even after the considerable investment made in development, and the cash outflow associated with the restructuring. The write off of goodwill of course has no cash impact.

Overall the Group's financial position remained robust, a position we take pride in.

The Group has decided to write down the full carrying value of goodwill due to the changing balance from its hardware routes towards a software solutions business. This one-off action ends the debate and is in line with our financially conservative philosophy.

This impairment charge of £3,824,000 for the financial year 31 December 2017 when added to other exceptional costs of £141,000 results in the Group reporting a loss attributable to shareholders for the year of £3,585,000 compared to a profit of £475,000 in 2016.

Other exceptional costs above relate to redundancy costs and onerous leases as a result of the restructuring of the business in the year in order to streamline the operational structure (note 4).

The basic earnings per share for the year declined to (56.83)p (2016: 7.53p). This reflects the lower margin and exceptional costs of £3,965,000 (2016: NIL).

Adjusted earnings per share before exceptional items are down slightly to 6.02p per share (2016: 7.53p) (note 7).

Solution Development

During the last two years, in broad terms, the development of new products included mobile hardware devices, android applications for mobile devices and back office software control systems in both the Airline and Transport sectors.

The migration to devices running Android operating systems in the digital marketplace, and thus applications, has been rapid. Over the past two to three years, our customers have spoken of the need to manage and process data outside their generic ERP systems, and this has led to Touchstar developing sophisticated middleware systems. These generate solid recurring licence revenues for the business and the ability to support the customers' business data processing needs effectively.

The back-office Enterprise business control systems in the airline and transport sectors are hosted on the Microsoft Azure Cloud platform which provides rich mobile functionality and scalability as our customer base grows, which in turn give us the processing power required to deliver powerful business solutions. Cloud hosting has many advantages for both parties; facilitating faster deployment of solution, reduction of set up costs, removal of capital costs associated with hosting software on an inhouse server, eliminating server setup and support costs while improving reliability.

Touchstar has a number of customers now using the Transport back office solution, PODStar. This system has been supplied into the generic transport sector, a new and extensive opportunity for us, as well as two new customers adopting the package in the fuel logistics sector, where traditionally we are strong. We now have 7 customers (2016: nil) with over 200 vehicles (2016: nil) operating on the platform.

Touchstar recently deployed an integrated back office and Mobile point of sale system for an international 'flag carrier' airline. The project from kick off to going live took around 3 months. Faster deployment afforded by the cloud-based system resulted in much reduced demand on resource when compared with an on-premise system and in turn putting both companies in a position to realise revenue earlier. We now have 3 airlines (2016: 1) using the 'NOVOStar' back office system.

We have launched several Android mobile devices to address the growing demand and early indications show that the products have been well received. The Application software development teams in all divisions of the group have undertaken a complete migration of all business applications to run on the latest Android operating systems.

As a business we believe we have a comprehensive offering. We can offer the fundamental elements of the software and data capturing capability, and a choice of up to date, robust hardware for the areas that we specialise in. It is important to recognise that we are no longer a hardware design and manufacturing business as our new and latest software solutions are developed in Android and thus can function with most hardware in the market place, thereby giving the customer's choice where they require it – we are a flexible true solutions provider.

Post Year Event

In the last quarter of 2017, the board completed a strategic review of how best to build value for shareholders. We concluded a more aggressive strategy to scale Touchstar would probably create the best outcome for all stakeholders. For this to happen we need to bring forward investment in recruitment, solution development and delivery capability. All of this will increase the cost base and negatively impact the financial results in the short term as we invest prior to the anticipated revenue generation.

To enable this strategy to be followed, whilst maintaining a solid balance sheet, the Group announced a capital fund raising on the 17 January 2018, which was successfully concluded on the 13 February 2018.

The Group raised £1,300,000 before expenses by issuing 2,166,327 new shares at 60p per share. This consisted of a firm placing of 630,840 new shares, conditional placing of 639,158 shares and a further 896,329 shares under an open offer. Of these new shares, Directors bought 407,999.

This completes the funding required under the current plan. Together with the natural underlying cash generation of the business, we can accelerate development in sales and marketing to drive top line growth, improve our ability to deliver solutions and bring forward investment to complete our solution upgrade cycle. Throughout the remainder of this year these building blocks will be put in place, the benefits however will take until 2019 to materialise.

IFRS 15

For the new financial year, ending 31 December 2018 Touchstar will adopt IFRS 15, Revenue from Contracts with Customers. This standard (not Touchstar specific) affects the revenue recognition policies of the Group with the adoption mainly affecting the timing and deferral of revenue from software licences. It is expected that sales and profit of £99,000 and £91,000 respectively, currently recognised in 2017 only, will be restated as sales and profit in the financial statements for year ending 31 December 2018.

The Board has always maintained a conservative approach in the way it manages its financial statements, this will continue as we move into 2018 and adopt IFRS 15 from 1st January 2018. Touchstar is moving towards being a pure solutions provider which will result in a higher percentage of group revenues being generated from sales of software. Under IFRS 15 such revenue should be recognised over the licence period rather than when cash is received. This results in revenue generated by the sale of software licences to be recognised later than under the previous accounting policy; the move to IFRS 15 will have a material negative impact on the top and bottom line of the financial results for 2018 as we adopt this new policy, however thereafter it should have less overall impact as the recurring revenues grow. This has no effect on the underlying cash generation which has been historically strong.

Thank You

I would like to give my personal thanks to all involved at Touchstar - to our shareholders for believing in what the business could be and to everyone I work with in the business whose dedication and enthusiasm has created this opportunity.

2018 and Beyond

From the first day I spent at Touchstar I was struck by a very customer focussed business, it cared, and its customers trusted the company. What was missing then was energy, an excitement that comes from introducing modern solutions, seeing customers' positive reaction and forward momentum. That positivity is now taking hold within the business. The investment (and sweat) we have given gives Touchstar an opportunity which we must now take advantage of.

I ask (again) for shareholders to be patient in 2018 – we are working hard to scale the business, this requires time and investment. In the short term, there will be additional costs ahead of profit – 2018 will be somewhat of "an act of faith" period – harder evidence will only begin to emerge later.

Touchstar has what we believe to be a real opportunity. The success of the fund raising at the start of the year gives us the financial ability to execute our full plan. Whether we succeed or not is down to us, we have to be braver and more ambitious, the upside if we get this right could be considerable. We are focussed upon making this happen.

I Martin
Executive Chairman
26 April 2017

Consolidated income statement for the year ended 31 December 2017

Continuing operations	2017 £'000	2016 £'000
Revenue	**7,868**	7,624
Cost of sales	**(3,977)**	(3,523)
Gross profit	**3,891**	4,101
Distribution costs	**(79)**	(72)
Administration expenses	**(7,666)**	(3,806)
Operating profit before exceptional items	**111**	223
Exceptional costs included in administration expenses	**(141)**	-
Goodwill impairment included in administration expenses	**(3,824)**	-
Operating (loss)/profit	**(3,854)**	223
Finance costs	**(11)**	(10)
(Loss)/profit before income tax	**(3,865)**	213
Income tax credit	**280**	262
(Loss)/profit for the year attributable to the owners of the parent	**(3,585)**	475

Earnings/(loss) per ordinary share (pence) attributable to owners of the parent during the year:

	2017	2016
Basic	**(56.83)p**	7.53p
Adjusted	**6.02p**	7.53p

There is no other comprehensive income or expense in the current year or prior year and consequently no statement of other comprehensive income or expense has been presented.

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital	Share premium account	Capital redemption reserve	Retained earnings/ (accumulated losses)	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	5,047	2,932	2,100	(4,761)	5,318
Capital reduction	(4,732)	(2,932)	(2,100)	9,764	-
Costs of capital reduction	-	-	-	(37)	(37)
Profit for the year	-	-	-	475	475
At 31 December 2016	**315**	**-**	**-**	**5,441**	**5,756**
Loss for the year	**-**	**-**	**-**	**(3,585)**	**(3,585)**
At 31 December 2017	**315**	**-**	**-**	**1,856**	**2,171**

Consolidated statement of financial position as at 31 December 2017

	2017	2016
	£’000	£’000
Non-current assets		
Goodwill	**-**	3,824
Development expenditure	**1,136**	989
Total intangible assets	**1,136**	4,813
Property, plant and equipment	**237**	236
Deferred tax assets	**168**	67
	1,541	5,116
Current assets		
Inventories	**1,387**	1,259
Trade and other receivables	**2,256**	2,026
Current tax recoverable	**272**	203
Cash and cash equivalents	**2,159**	2,206
	6,074	5,694
Total assets	**7,615**	10,810
Current liabilities		
Trade and other payables	**2,619**	2,295
Borrowings	**2,495**	2,535
	5,114	4,830
Non-current liabilities		
Deferred tax liabilities	**179**	75
Trade and other payables	**151**	149
Total liabilities	**5,444**	5,054
Capital and reserves attributable to owners of the parent		
Share capital	**315**	315
Profit and loss account	**1,856**	5,441
Total equity	**2,171**	5,756
Total equity and liabilities	**7,615**	10,810

Consolidated cash flow statement for the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Operating profit/(loss)	**(3,854)**	223
Depreciation	**91**	100
Amortisation	**400**	370
Goodwill impairment	**3,824**	-
Movement in:		
Inventories	**(128)**	231
Trade and other receivables	**(248)**	341
Trade and other payables	**326**	(1,322)
Cash (used in)/generated from operations	**411**	(57)
Interest paid	**(11)**	(10)
Corporation tax received	**231**	234
Net cash generated from operating activities	**631**	167
Cash flows from investing activities		
Purchase of intangible assets	**(547)**	(539)
Purchase of property, plant and equipment	**(91)**	(154)
Net cash used in investing activities	**(638)**	(693)
Cash flows from financing activities		
Repayments of finance lease contracts	**-**	(8)
Cost of capital restructure	**-**	(37)
Net cash used in financing activities	**-**	(45)
Net decrease in cash and cash equivalents	**(7)**	(571)
Cash and cash equivalents at start of the year	**(329)**	242
Cash and cash equivalents at end of the year	**(336)**	(329)

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. Basis of preparation

The preliminary results for the year ended 31 December 2017 have been prepared in accordance with the accounting policies set out in the annual report and the accounts for the year ended 31 December 2016.

There have been no changes in accounting policies in the year.

The Group Financial Statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs and the AIM Rules for Companies. The Group Financial Statements have been prepared under the historical cost convention.

While the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies used in preparation of this preliminary announcement have remained unchanged from those set out in the Group's 2016 statutory financial statements. They are also consistent with those in the Group's statutory financial statements for the year ended 31 December 2017 which have yet to be published. The preliminary results for the year ended 31 December 2017 were approved by the Board of Directors on 10 April 2018.

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2017 but is derived from those financial statements which were approved by the Board of Directors on 10 April 2018. The Auditors have reported on the Group's statutory financial statements and the report was unqualified and did not contain a statement under section 498(2) or 498(3) Companies Act 2006. The statutory financial statements for the year ended 31 December 2017 have not yet been delivered to the Registrar of Companies and will be delivered following the Company's Annual General Meeting.

The comparative figures are derived from the Group's statutory financial statements for the year ended 31 December 2016 which carried an unqualified audit report, did not contain a statement under section 498(2) or 498(3) Companies Act 2006 and have been filed with the Registrar of Companies.

<u>Non – GAAP financial measures</u>

For the purposes of the annual report and financial statements, 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 Chairman's statement relates to Trading profit.

'Trading profit' is separately disclosed, being defined as profit after tax adjusted to exclude exceptional items. These exceptional items are goodwill impairment and restructuring costs. These exceptional costs relate to items which the management believe do 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.

3. 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.

Following a review of goodwill valued in the Group the decision was taken to fully impair the carrying value to nil because of the change in the balance of the Groups product set.

This loss has been deemed an exceptional cost and included in administrative expenses in the income statement.

(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.

4. Exceptional costs

	2017	2016
	£'000	£'000
Restructuring expenses:		
Redundancy costs	**77**	-
Onerous lease costs	**64**	-
Goodwill impairment (note 8)	**3,824**	-
	3,965	-

5. Income tax credit

	2017	2016
	£'000	£'000
Corporation tax:		
Current tax	**(254)**	(201)
Deferred tax	**3**	-
Adjustments in respect of prior years	**(29)**	(61)
Income tax credit	**(280)**	(262)

Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year. This is the weighted average tax rate applicable for the year.

6. Factors affecting the tax charge for the year

The tax credit for the year is different (2016: different) from the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017	2016
	£'000	£'000
(Loss)/profit before income tax	**(3,865)**	213
Multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	**(744)**	42
Effects of:		
Items not deductible for tax purposes	**738**	76
Enhanced research and development deduction	**(261)**	(359)
Adjustments in respect of prior years	**(29)**	(61)
Capitalised expense allowable for tax purposes	**-**	(13)
Losses surrendered through R&D tax credit	**95**	76
Recognition of unrelieved tax losses	**(131)**	-
Capital allowances claimed in year less than/(in excess of) depreciation	**56**	(23)
Adjustment to deferred tax arising from changes in tax rate	**(4)**	-
Tax credit for the year	**(280)**	(262)

7. (Losses)/earnings per share

	2017	2016
Basic	**(56.83)p**	7.53p
Adjusted	**6.02p**	7.53p

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 £3,965,000 (2016: £nil) (note 4).

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

	2017		2016	
	Earnings £'000	**Weighted average number of shares (in thousands)**	Earnings £'000	Weighted average number of shares (in thousands)
Basic EPS				
(Loss)/earnings attributable to owners of the parent	**(3,585)**	**6,308**	475	6,308
Exceptional costs (note 4)	**3,965**		-	
Adjusted EPS				
Earnings attributable to owners of the parent before exceptional items	**381**	**6,308**	475	6,308

8. Intangible assets

	Goodwill £'000	Development expenditure £'000	Total £'000
Cost			
At 1 January 2016	9,904	2,472	12,376
Additions	-	539	539
At 31 December 2016	9,904	3,011	12,915
Additions	-	547	547
At 31 December 2017	**9,904**	**3,558**	**13,462**
Accumulated amortisation			
At 1 January 2016	6,080	1,652	7,732
Amortisation charge	-	370	370
At 31 December 2016	6,080	2,022	8,102
Impairment	3,824	-	3,824
Amortisation charge	-	400	400
At 31 December 2017	**9,904**	**2,422**	**12,326**
Net book value			
At 1 January 2016	3,824	820	4,644
At 31 December 2016	3,824	989	4,813
At 31 December 2017	**-**	**1,136**	**1,136**

Amortisation of £400,000 (2016: £370,000) is included within administrative expenses in the income statement.

(a) Impairment tests for goodwill
Goodwill arose in relation to the Group's acquisition of Touchstar Technologies Limited and Touchstar ATC Limited who are considered to be the two cash generating units (CGU) of the Group. Following a review of goodwill valued in the Group the decision was taken to fully impair the carrying value to nil because of the change in the balance of the Groups product set.

This loss has been deemed an exceptional cost and included in administrative expenses in the income statement.

(b) Development expenditure
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.

Management determined budgeted sales growth based on historic performance and its expectations of market development. The discount rates are pre-tax and reflect the specific risks relating to the business.

These calculations did not result in impairment. The following sensitivity analysis was performed:

- Increase the discount rate by 1.5%; and
- Reduce the growth rate by 1% beyond the first five years.

In each of these scenarios no impairment was identified.

9. Events after the reporting date

On 17 January 2018 the Group announced the terms of a fundraising by WH Ireland Limited, acting as its Nominated Adviser and Broker, to raise a total of up to approximately £1,300,000 (before expenses) by way of a firm placing, a conditional placing and an open offer.

In each case of new ordinary shares of 5 pence each ("Ordinary Shares") were issued at a price of 60 pence per share.

The issue price of 60 pence per new Ordinary Share ("Issue Price") represented a discount of 24 per cent against the mid-market price of 79 pence per share at which the Ordinary Shares were quoted on AIM as at close of trading on 16 January 2018, the last trading day prior to announcement of the Fundraising.

The firm placing comprised of 630,840 new Ordinary Shares (the "Firm Placing Shares") at the Issue Price (the "Firm Placing"). A total of £378,504 (before expenses) has been raised by way of the Firm Placing utilising the existing share authorities granted at the 2017 AGM. The Firm Placing was conditional only upon compliance by the Company in all material respects with its obligations under the Placing Agreement and the admission of the Firm Placing Shares to trading on AIM.

The conditional placing comprised of 639,158 new Ordinary Shares (the "Conditional Placing Shares") at the Issue Price (the "Conditional Placing"). The Conditional Placing raised £383,495 (before expenses). The Conditional Placing was conditional, inter alia, upon Shareholders approving Resolution 1 at the General Meeting, compliance by the Company in all material respects of its obligations under the Placing Agreement and the occurrence of First Admission and Second Admission which took place on 13 February 2018.

The Open Offer comprised of 901,250 new Ordinary Shares to Qualifying Shareholders pursuant to the Open Offer at the Issue Price. The Open Offer was conditional, inter alia, upon Shareholders approving Resolution 2 at the General Meeting, compliance by the Company in all material respects of its obligations under the Placing Agreement and the occurrence of First Admission and Second Admission which took place on 13 February 2018.