15 September 2015

Synety Group plc

(the "Group" or the "Company")

Interim Results

For the six month period ended 30 June 2015

Synety announces its interim results for the six month period ended 30 June 2015 ("the Period").

- Placing and open offer to raise approximately £3.3m (before expenses) in the period
- Updated strategy implemented, focusing on larger customers, cash generation and the route to breakeven
- User base up 104% compared to the same point last year and 28% since the year-end
- Revenue up 130% vs the same period last year
- Operating expenses tracking in line with the Board's expectations
- Annualised monthly cash absorbed by operations decreasing
- Recurring Revenue per User ("RRPU") up 24% compared to the same point last year, and up 7% since the year-end

Simon Cleaver, Executive Chairman, commented:

"The first half of 2015 has been transformational for Synety. Following the placing and open offer in April 2015 which raised £3.3m (before expenses), the Group announced a change in its strategy, targeting larger customers, and the need to focus on cash-burn and reaching break-even whilst delivering sustainable and lasting growth.

I am pleased to report that the early signs of this new strategy are encouraging. Already we are seeing a positive financial impact from our more consultative sales and on-boarding approach and increased focus on larger customers.

Whilst the Group's change in strategy did have an impact on new orders received in April and May whilst staff were retrained and internal systems amended, I'm pleased to report that the Group has witnessed a strong recovery, with June and July being the strongest months to date for new sales. The Group's sales teams on both side of the Atlantic are now building strong pipelines, which is encouraging for the remainder of the year.

This work is likely to continue well into the second half, but already our customers are experiencing a more tailored and improved pre-sales, sales and on-boarding journey.

Whilst the new strategy is still in its infancy, the Board are pleased with the progress made to date and believe the early indications are encouraging. The Directors remain confident and excited about the Group's future.

The Company has cash and cash equivalents of just over £3m at the end of this reporting period, which the Board believes will, on the current trajectory, be sufficient to reach cash break-even."

Financial Overview

	Unaudited Six Months to 30 June 2015 £000	Unaudited Six Months to 30 June 2014 £000	Audited Year ended 31 December 2014 £000
Revenue	**1,403**	608	1,629
Operating Loss (before non-recurring item)	**(2,511)**	(2,244)	(5,351)
Cash and Cash Equivalents	**3,034**	4,919	2,359
Total Equity Attributable to Shareholders	**3,746**	4,366	2,268

The results for the period ended 30 June 2015 show revenues increasing 130% to £1.40m from £0.61m (period to 30 June 2014). The Group saw operating losses before non-recurring items climb to £2.51m from £2.24m (period to 30 June 2014). This slightly increased loss for the period to 30 June 2015 was in line with the Board's expectations, and reflects the continuing investments being made to deliver a high quality customer experience and position the Group for future growth.

Period-end cash and cash equivalents at 30 June 2015 were £3.03m. Operating cash outflows of £2.36m (£1.86m for the period to 30 June 2014) were offset by net cash inflows from financing activities (see below) of £3.08m.

The Group's annualised monthly cash absorbed by operations declined by 21% from January to June 2015. This is consistent with increasing revenues and stable operating expenditure. The Group considers an annualised monthly cash flow figure to be a better measure than straight cash burn as the timing of some of its key supplier contract renewals skews cash-outflow into the first half of the year.

On 7 April 2015 shareholders approved the issue of 3,697,836 new ordinary shares in the Company, pursuant to a placing and open offer at a price of 90 pence each to raise a total of £3.33m before fees and expenses.

As part of the acquisition of Synety Limited, deferred contingent consideration of up to 740,861 shares in the Company is expected to become due on 25 September 2015, subject to the business meeting certain growth targets. The Board considers it likely that these targets will be met. In the Group's accounts, deferred contingent consideration is valued at the current share price. The share price movement from 190 pence on 31 December 2014 to 87.5 pence on 30 June 2015 has therefore resulted in an exceptional credit of £0.76m in the income statement (whereas the corresponding period's movement from 163.5 pence on 31 December 2013 to 272 pence on 30 June 2014 gave rise to a £0.80m charge for the period to 30 June 2014).

Furthermore, the acquisition of Synety Limited also provides for a Management Incentive Plan ("MIP") of up to 633,214 shares in the Company subject to the business meeting certain growth targets on 25 September 2015. The Board also considers it likely that these targets will be met.

Key Performance Indicators

	Unaudited Six Months to 30 June 2015	Unaudited Six Months to 30 June 2014	Audited Year ended 31 December 2014
No Of Users	9,881	4,834	7,705
Average New Users per month	363	359	419
Average Users Per Customer	13.7	11.8	11.7
Annualised Recurring Revenue	£3,878,555	£1,720,000	£3,022,501
Recurring Revenue Per User	£32.71	£26.31	£30.48

Annualised Recurring Revenue (ARR) – this forward looking measure captures the future visible recurring revenue expected from existing customers and signed orders over the coming 12 months, and has grown from £3.0m at the end of 2014, to £3.9m at the end of June 2015.

Number of End Users – up 104% compared to the same point last year and 28% over the first half of 2015.

Recurring Revenue Per User – has increased from £30.48 at the end of 2014, to £32.71 at the end of the period ended 30 June 2015 – an increase of 7%, which highlights the continuing benefit of product development driving greater feature uptake by our larger customers.

Average New Users per Month – average monthly user acquisition across the first half of 2015 is up by 1% compared to the same period in 2014, but down slightly from the figure reported for 2014 overall which was impacted by a large sale at the end of the year.

Av Users Per Customer – continuing the upward trend from 11.7 at the end of 2014 to 13.7 at the end of the period ended 30 June 2015, showing the continuing evolution of the customer base towards larger companies.

Further information

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1. Chairman's Statement

Following the placing and open offer in April 2015 to raise £3.3m (before expenses), the Company announced a change in its strategy, focusing on larger customers, cash generation and reaching break-even whilst delivering sustainable and lasting growth.

The Company's revised strategy had four primary strands:

(i) Focusing on existing Integrated Customer Relationship Management systems ("CRMs")

To help prioritise near-term profitability and reduce software development and maintenance overhead, the Company is not currently investing in building new bespoke CRM integrations and has rationalised the number of smaller CRMs with bespoke integrations that it is actively promoting.

Since the Company's CloudCall Chrome and CloudCall Sync technology stack can now provide similar and in some cases, enhanced functionality to some of its bespoke integrations, the Board expects this rationalisation and streamlining of codebases to continue as other smaller CRM platforms move across to the Chrome / Sync platform. Indeed, this was one of the primary drivers for developing the technology.

We will continue to welcome new CRM partners where we can utilise our existing code bases, and the Company has recently announced the addition of three new CRMs to its partner community; JobScience, Bond Adapt and Desk.com.

All three of these are large and dynamic CRM systems, with integrations that have been built using one of our multi-platform codebases. Desk.com and Bond Adapt have been integrated using the Chrome / Sync codebase and JobScience, being built on Salesforce's Force.com platform, makes use of our existing Salesforce.com integration.

(ii) Increased Consultation and On-boarding Fees

As CloudCall's functionality grows so does its flexibility, and ability to configure the service to match a customer's exact requirements.

As part of the change in strategy, the Group has modified its sales and on-boarding processes to be more consultative and with increased emphasis on the bespoke nature of any install. We have also added greater weight to customer training, network discovery and some professional services.

The combined effect of these changes is to increase the Group's on-boarding income, allowing investment in further delivery resources which in turn directly improves the customer on-boarding experience.

Whilst it is still early days, the Directors believe that this strategy is generating positive results. Since April, on-boarding and training income have increased by over two and a half times and customers are benefiting from a more tailored and personal service. This consultative on-boarding process continues to be developed and the Board expects to see the rise in on-boarding income continue.

(iii) Increased Emphasis on larger Customers

Analysis of the Company's customer base, whilst still young, shows that the overall customer base benefits from what is called 'negative churn' - whereby customer upsells outweigh any customer losses, whether caused by service reduction or customer account closure.

Deeper analysis and segmentation of the Company's customer base demonstrates that the larger the customer, the greater their propensity to exhibit this negative churn.

With larger customers the Company also benefits from a lower marginal cost of maintenance and a greater income from their requirements for consultative on-boarding configuration and training.

However, these benefits must be set against an anticipation of lengthier decision making processes requiring a more consultative sales approach. Whilst the Group's change in strategy did have an impact on new orders received in April and May whilst staff were retrained and internal systems altered, the Group is pleased to report that it has witnessed a strong recovery, with June and July being the strongest months to date for new sales. The Group's sales teams on both side of the Atlantic are now building strong pipelines, which is encouraging for the remainder of the year.

(iv) Reduction in Overheads

CloudCall is a true multi-tenanted platform. The Group therefore has a relatively fixed level of overhead for developing and running this platform, with additional customers only having a marginal impact on these running costs. This this is why cloud platforms tend to be more efficient at scale.

To help streamline the business, the Group operates on a 'hub and spoke' basis. The central 'hub' (based in the UK), responsible for product development and running the platform, combines with UK and US 'spokes' which are responsible for customer acquisitions, customer account and partner management and the primary customer facing elements of the on-boarding process.

Since the overhead review carried out as part of the change in strategy, the 'hub' costs are now relatively static and are falling on a % of revenue basis as the customer base grows.

The Group's UK 'spoke' is now adjusted EBITDA and cash positive and, since early 2015 has been making a financial contribution towards the cost of the 'hub'.

Although earlier than the UK in terms of its life-cycle, the performance of the US 'spoke' had been following a similar path to that of the UK, and also moving towards becoming cash positive.

Combined Effects and Outlook

As set out above, the Company's change in strategy has led to a number of significant and, what the Directors believe to be, positive changes.

Amongst other things, consultation and on-boarding fees have increased and overheads have been reduced.

Annualised monthly cash absorbed by operations continues to reduce in line with our expectations, falling by 21% between January and June.

The Company has cash and cash equivalents of just over £3m at the end of this reporting period, which the Board believes will, on its current trajectory, be sufficient to reach cash break-even.

Whilst the new strategy is still in its infancy, the Board are pleased with the progress made to date and believe the early indications are encouraging. The Directors remain confident and excited about the Group's future.

Simon Cleaver
Executive Chairman

2. Consolidated Income Statement and Statement of Comprehensive Income

	Notes	Unaudited Six months to June 30 2015 (Before non-recurring item) £000	Unaudited Six months to June 30 2015 (non-recurring item) (Note 5) £000	Unaudited Six months to June 30 2015 (After non-recurring item) £000	Unaudited Six months to June 30 2014 (After non-recurring item) £000	Audited Year ended 31 December 2014 (After non-recurring item) £000
Revenue		**1,403**	-	**1,403**	608	1,629
Cost Of Sales		**(325)**	-	**(325)**	(156)	(445)
Gross Profit		**1,078**	-	**1,078**	452	1,184
Sales and marketing expenses		**(828)**	-	**(828)**	(556)	(1,505)
Administrative expenses	5	**(1,996)**	**763**	**(1,233)**	(2,376)	(3,931)
Share based payments		**(126)**	-	**(126)**	(120)	(269)
Total administrative expenses		**(2,122)**	**763**	**(1,359)**	(2,496)	(4,200)
Research & development expenses		**(639)**	-	**(639)**	(448)	(1,026)
Operating loss		**(2,511)**	**763**	**(1,748)**	(3,048)	(5,547)
Net financing income		**11**	-	**11**	5	25
Loss before tax		**(2,500)**	**763**	**(1,737)**	(3,043)	(5,522)
Taxation	3	**11**	-	**11**	32	257
Loss from the period attributable to owners of the parent		**(2,489)**	**763**	**(1,726)**	(3,011)	(5,265)
Other comprehensive income						
Foreign exchange translation differences		**1**	-	**1**	4	-
Other comprehensive income		**1**	**-**	**1**	4	-
Total comprehensive loss for the period attributable to owners of the parent		**(2,488)**	**763**	**(1,725)**	(3,007)	(5,265)
Loss per share (£)						
Basic & fully diluted loss per share	**4**	**(0.25)**	**0.08**	**(0.17)**	(0.41)	(0.67)

3. Consolidated Statement of Financial Position

	Notes	Unaudited Six months to 30 June 2015 £000	Unaudited Six Month to 30 June 2014 £000	Audited Year Ended 31 December 2014 £000
Non-current assets				
Property, plant and equipment		**580**	614	646
Goodwill		**339**	339	339
Other intangible assets		**656**	957	801
		1,575	1,910	1,786
Current assets				
Inventories		**52**	40	70
Trade and other receivables		**489**	370	480
Research & Development tax credit receivable		**-**	-	194
Cash and cash equivalents		**3,034**	4,919	2,359
		3,575	5,329	3,103
Total assets		**5,150**	7,239	4,889
Current Liabilities				
Trade and other payables		**(616)**	(651)	(1,038)
Contingent consideration	**5**	**(645)**	-	(1,407)
		(1,261)	(651)	(2,445)
Non-current Liabilities				
Deferred tax liabilities		**(143)**	(207)	(176)
Contingent consideration		-	(2,015)	-
Total Liabilities		**(1,404)**	(2,873)	(2,621)
Net assets		**3,746**	4,366	2,268
Equity attributable to shareholders				
Share capital		**2,426**	1,684	1,686
Share premium		**59,097**	56,751	56,761
Translation reserve		**1**	4	-
Warrant reserve		**29**	30	29
Retained loss		**(57,807)**	(54,103)	(56,208)
Total equity attributable to owners of the parent		**3,746**	4,366	2,268

4. Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Translation reserve	Warrant reserve	Retained Earnings	Total equity attributable to owners of the parent
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2014	1,266	52,288	-	33	(51,216)	2,371
Loss For the Period	-	-	-	-	(3,007)	(3,007)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	4	-	-	4
Total comprehensive income for the period	-	-	4	-	(3,007)	(3,003)
Equity settled share based payments transactions	-	-	-	(3)	120	117
Issue of equity shares	418	4,463	-	-	-	4,881
Balance at 30 June 2014	1,684	56,751	4	30	(54,103)	4,366
Balance at 1 July 2014	1,684	56,751	4	30	(54,103)	4,366
Loss For the Period	-	-	-	-	(2,258)	(2,258)
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	-	-	(4)	-	-	(4)
Total comprehensive income for the period	-	-	(4)	-	(2,258)	(2,262)
Equity settled share based payments transactions	-	-	-	(1)	153	152
Issue of equity shares	2	10		-	-	12
Balance at 31 December 2014	1,686	56,761	-	29	(56,208)	2,268
Balance at 1 January 2015	**1,686**	**56,761**	**-**	**29**	**(56,208)**	**2,268**
Loss For the Period	**-**	**-**	**-**	**-**	**(1,725)**	**(1,725)**
Other Comprehensive Income						
Foreign exchange differences on translation of foreign operations	**-**	**-**	**1**	**-**	**-**	**1**
Total comprehensive income for the period	**-**	**-**	**1**	**-**	**(1,725)**	**(1,724)**
Equity settled share based payments transactions	**-**	**-**	**-**	**-**	**126**	**126**
Issue of equity shares	**740**	**2,336**		**-**	**-**	**3,076**
Balance at 30 June 2015	**2,426**	**59,097**	**1**	**29**	**(57,807)**	**(3,746)**

5. Consolidated Cash-flow Statement

	Unaudited Six months to 30 June 2015 £000	Unaudited Six month to 30 June 2014 £000	Audited Year Ended 31 December 2014 £000
Cash flows from operating activities			
Loss for the period	**(1,725)**	(3,007)	(5,265)
Adjustments for:			
Depreciation and amortisation	**260**	215	474
Fair value of contingent consideration	**(763)**	804	196
Loss on disposal of property, plant and equipment	**-**	-	2
Financial income	**(11)**	(5)	(25)
Financial expenses	**-**	-	-
Equity settled share-based payment expenses	**126**	117	269
Taxation	**(20)**	(32)	(257)
Operating cashflow before changes in working capital and provisions	**(2,133)**	(1,908)	(4,606)
(Increase) in trade and other receivables	**(10)**	(215)	(325)
(Increase)/decrease in Inventory	**17**	(17)	(47)
Increase/(decrease) in trade and other payables	**(421)**	184	571
Cash absorbed by operations	**(2,547)**	(1,956)	(4,407)
Tax received	**181**	95	95
Net cash absorbed by operating activities	**(2,366)**	(1,861)	(4,312)
Cash flows from investing activities			
Interest received	**12**	5	25
Acquisition of property, plant and equipment	**(48)**	(410)	(547)
Net cash absorbed by investing activities	**(36)**	(405)	(522)
Cash flows from financing activities			
Proceeds from the issue of share capital	**3,076**	4,881	4,893
Net cash from financing activities	**3,076**	4,881	4,893
Net increase in cash and cash equivalents	**674**	2,615	59
Cash and cash equivalents at start of period	**2,359**	2,300	2,300
Effect of exchange rate fluctuations in cash held	**1**	4	-
Cash and cash equivalents at end of period	**3,034**	4,919	2,359

Notes

1. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with the presentation, recognition and measurement requirements of applicable International Financial Reporting Standards adopted by the European Union ('IFRS') except that the Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups listed on AIM, in the preparation of the condensed consolidated interim financial information.

The financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2014 which are prepared in accordance with International Financial Reporting Standards and International Reporting Interpretations Committee pronouncements as adopted by the European Union.

The accounting policies used in the preparation of condensed consolidated interim financial information for the six months ended 30 June 2015 are in accordance with the presentation, recognition and measurement criteria of IFRS and are consistent with those which are expected to be adopted in the annual statutory financial statements for the year ending 31 December 2015.

There are no new IFRSs and Interpretations that have been endorsed by the EU that will apply for the first time in the period to 30 June 2015.

The Group's 2014 annual report provides full details of significant judgements and estimates used in the application of the Group's accounting policies. There have been no significant changes to these judgements and estimates during the period.

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2014 are the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Going Concern

The Group made a loss of £1,725,000 after non-recurring items for the six months ended 30 June 2015. As at 30 June 2015, the Group had cash reserves of £3,034,000, and an average monthly cash absorbed by operations for the half-year to date of £400,000 (net of fund raising proceeds).

In addition to actual cash absorbed by operations, the Group also prepares and monitors the annualised monthly cash absorbed by operations, which adjusts for the impact of timing differences that arise from the prepayment of goods and services received.

The Directors have prepared trading and cash flow forecasts which indicate that, on the current trajectory, the Group will have sufficient funding in order to meet its growth targets and reach cash break-even. They have prepared contingency plans to enable cost savings to be made as necessary in order to ensure that the Group can continue to meet its liabilities as they fall due for the next 12 months. Considering the downward trajectory of the annualised monthly cash absorbed by operations, and taking all other factors into account, the directors remain comfortable that the Group can continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these results.

For these reasons, the Directors have adopted the going concern basis in preparing these interim financial statements.

3. Taxation

	Unaudited six months to 30 June 2015 000's	Unaudited Six Months to 30 June 2014 000's	Audited Year ended 31 December 2014 000's
Adjustments prior period – R&D tax credit	**11**	-	194
Origination and reversal of temporary differences	-	32	63
Total tax income	**11**	32	257

4. Loss per Share

	Unaudited Six Months to 30 June 2015 000's	Unaudited Six Months to 30 June 2014 000's	Audited Year ended 31 December 2014 000's
Issued ordinary shares at start of period	**8,431**	6,330	6,330
1:20 Share Consolidation	-	-	-
Placing	**-**	-	-
Share options exercised	**2**	1	3
Shares issued for cash	**1,675**	906	1,463
Share issued in settlement of fees	**-**	80	83
Weighted average number of ordinary shares	**10,108**	7,317	7,879
	£000	£000	£000
Loss attributable to ordinary shareholders (£000)	**(1,725)**	(3,011)	(5,265)
	£	£	£
Earnings/(loss) per share (£)			
Basic and fully diluted loss per share	**(0.17)**	(0.41)	(0.67)

5. Contingent Consideration

Contingent consideration for the issued share capital of Synety Ltd, acquired on 25 September 2012, of up to 740,861 ordinary shares will be due on 25 September 2015 dependent upon the number of user licences contracted to Synety Ltd at that time. The maximum contingent consideration will be due if more than 25,000 user licences are contracted and none will be due if less than 10,000 user licences are contracted at that date. A sliding scale applies between 10,000 and 25,000 user licences contracted. The fair value of the contingent consideration, which is included in financial liabilities, is £645,000 (2014: £1,407,000) calculated at 740,861 ordinary shares to be issued at 87.0 pence and based on sensitised projections of the numbers of user licences projected to be in place in September 2015.

6. Share Capital

The issued, called up and fully paid share capital of the Company at 30 June 2015 was as follows:

	Unaudited Six Months to 30 June 2015 000's	**Audited year ended 31 December 2014 000's**	**Unaudited Six Months to 30 June 2015 £000's**	**Audited Year ended 31 December 2014 £000's**
Allotted, called up and fully paid Ordinary shares of £0.20 each	**12,131**	8,431	**2,426**	1,686
Shares Classified in Equity	**12,131**	8,431	**2,426**	1,686

Number of Shares	**Ordinary Shares (000)**
In issue at 31 December 2013 – fully paid	6,330
Issued in lieu of bonuses	86
Issued in consideration for additional shares placed	2,001
Issues in respect of share options	10
Issued in respect of warrants	4
In issue at 31 December 2014 – fully paid	**8,431**
Issued in consideration for additional shares placed	**3,698**
Issues in respect of share options	**2**
In issue at 30 June 2015 – fully paid	**12,131**