

ILX Group PLC

Unaudited Interim Results for the six months ended 30 September 2012

Summary:

- New Executive Chairman and board restructuring
- Investment of £1.2 million by Praxis Trustees
- Net debt reduced to £0.6 million (£2.3 million at 31 March 2012)
- Revenue lifted to £6.0 million (6 months to 30 September 2011: £5.9 million)
- Gross profit restated to reflect a 43% margin of £2.6 million (6 months to 30 September 2011 restated: 50% gross profit margin of £2.9 million)
- Adjusted loss before tax £0.3 million (6 months to 30 September 2011: profit of £0.2 million) (Note 4)
- Adjusted diluted loss per share 0.86p (6 months to 30 September 2011: earnings of 0.46p) (Note 4)
- Restructuring charge of £1.9 million (of which £1.1 million is non cash: refer to Note 5)
- Total comprehensive loss £2.2 million (6 months to 30 September 2011: income of £0.1 million)
- Corporate wide business review and restructure

Wayne Bos, Executive Chairman, ILX Group plc, commented:

"We have initiated a number of changes within the group. Revenue has increased slightly during the period and ILX has maintained its market leading position. However, the bottom line has not reflected this and is being addressed as a matter of urgency.

ILX's digital learning solutions and technology platform continue to be improved and provide a highly efficient and cost effective solution. Demand for project and programme management training remains high.

The potential of the current ILX business remains strong. There is an excellent range of digital learning solutions as well as a talented industry team. We expect the business will continue to develop organically but we will be looking to restructure the cost base and to also expand through acquisition."

4 December 2012

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Chairman's statement

For Unaudited Interim Results for the six months ended 30 September 2012

Introduction

I joined the business in August this year because I saw potential in the existing ILX business as well as the opportunity to build scale in the group through acquisitions.

The existing ILX business has a wealth of experience in the industry, an extraordinary customer base, and an extensive range of market leading digital products. Over the last 18 months it has struggled to translate growth into increased profitability, and this is being addressed through a review of operations, costs and subsequent restructure.

The investment made by Praxis at the time of my appointment has reduced the Group's debt and prepared the business for continued success. It has also begun a new chapter in the history of ILX including the review of the operations, processes, costs and overall performance. To this end these interim results will be made available on the group's website but will not be printed and mailed to shareholders; one of the actions we are undertaking to reduce costs.

Board Changes

The board is also being restructured to ensure the right team are focused on the right areas. As announced on 28 November, Ken Scott, CEO, decided to leave the Company, stepping down from the Board with effect from 27 November, 2012 and I have assumed the role of Interim CEO. As announced last month, Paul Virik and Damien Lane, both non-executive directors, have now stepped down. Eddie Kilkelly, our Chief Operating Officer, remains in the business but no longer as a board member. Jon Pickles, CFO, previously announced his intention to resign from the business and has now also stepped down from the board. He will depart early in the New Year having completed a handover to his successor. Paul Lever remains an independent non-executive Director.

Restructuring

Recently the performance of the business has been disappointing and has resulted in a loss for the previous six months. Therefore, we have engaged in a business review and restructure to ensure costs are proportionate to income. Accordingly, we have acted swiftly to achieve cost reductions, both in business processes and in staffing levels and have appointed an experienced interim CFO for this purpose.

Financial Results and Funding

As part of the restructuring, we have undertaken a thorough internal review of group finances. As a result of this review it has been necessary to recalculate gross profit as presented in the Preliminary Results announced on 25 June and subsequently in the Annual Report. The effect of this has been to move certain costs, including administrative staff costs, technical staff costs, and shipping costs, from administrative and distribution expenses to cost of sales. It has also been necessary to undertake a post-balance sheet review, which has resulted in a non-cash £1.1 million impairment of intangible assets and a provision of £0.6 million for restructuring costs in addition to £0.1 million of costs already incurred. Details appear hereunder. Clearly these calculations alter the historic performance of the company, and will have an effect on the funding requirements of the company as it progresses. Consequently, the group will consider its options in relation to additional funding.

The group delivered a small increase in revenue to £6.0 million (six months to 30 September 2011: £5.9 million). Our Australian and New Zealand businesses have driven this growth with revenues up by 17% to £1.6 million (six months to 30 September 2011: £1.2 million). UK revenues have declined by 10% and revenues elsewhere in the world have increased by 3%.

Operating loss for the period was £0.25 million (six months to 30 September 2011: profit of £0.26 million). Cash generated from continuing operating activities was £1.09 million (six months to 30 September 2011: £0.62 million).

Our interest cost for the period was £0.06 million (six months to 30 September 2011: £0.15 million), reflecting the substantially cheaper cost of debt following the refinancing completed in the last financial year.

As in previous years we expect the group to remain strong in the second half, with software sales in particular having shown a long-term consistent bias towards year end customer purchasing.

Net Debt and Facilities

The group repaid £1.9 million of bank debt during the period, from both positive cash flow from operations and the proceeds of Praxis' investment. At the balance sheet date the group's debt comprised £1.0 million in term debt, with £0.7 million falling due within one year.

In addition to the term debt the group has a revolving credit facility of £1.1 million which was undrawn at the balance sheet date. Adding back cash, net debt at the balance sheet date was £0.6 million, compared with £2.3 million at 31 March 2012 and £1.7 million at 30 September 2011.

The operating performance and the restructuring costs will put pressure on the group's working capital. We are therefore planning a further cash injection to fund additional working capital and ensure the appropriate reorganisation changes are carried out. The group remains within the terms of all its banking covenants.

Summary

ILX is entering a new chapter in its development. I look forward to the restructure of the current business delivering a positive impact and to reviewing potential acquisition opportunities.

Wayne Bos, Executive Chairman

4 December 2012

Unaudited Consolidated Statement of Comprehensive Income
For the six months ended 30 September 2012

	Notes	Six months ended 30.9.2012 Unaudited £'000	Six months ended 30.9.2011 Unaudited [restated] £'000	Year ended 31.3.2012 Unaudited [restated] £'000
Revenue		6,013	5,906	13,473
Cost of sales		(3,432)	(2,974)	(6,811)
Gross profit		2,581	2,932	6,662
Administrative and distribution expenses		(2,784)	(2,633)	(5,517)
(Loss) / earnings before interest, tax and depreciation		(203)	299	1,145
Depreciation		(45)	(37)	(137)
Operating (loss) / profit		(248)	262	1,008
Finance income		-	-	4
Finance costs		(63)	(147)	(365)
(Loss) / profit before tax from continuing operations		(311)	115	647
Tax expense		(1)	-	(101)
(Loss) / profit for the year from continuing operations		(312)	115	546
Restructuring costs	6	(1,917)	-	-
Total comprehensive (loss) / income		(2,229)	115	546
(Loss) / earnings per share	4			
From continuing operations:				
Basic		(7.27p)	0.43p	2.00p
Diluted		(7.13p)	0.41p	1.94p

Unaudited Consolidated Statement of Financial Position
As at 30 September 2012

	Notes	As at 30.9.2012 Unaudited £'000	As at 30.9.2011 Unaudited £'000	As at 31.3.2012 Unaudited £'000
Assets				
Non-current assets				
Property, plant and equipment		171	163	194
Intangible assets		8,819	9,799	9,804
Total non-current assets		8,990	9,962	9,998
Current assets				
Trade and other receivables		2,178	2,176	3,266
Cash and cash equivalents		384	379	638
Total current assets		2,562	2,555	3,904
Total assets		11,552	12,517	13,902
Current liabilities				
Trade and other payables		(3,658)	(2,880)	(3,410)
Contingent consideration		-	(35)	(28)
Provisions		(546)	-	-
Tax liabilities		(630)	(773)	(860)
Bank loans and overdrafts		(676)	(800)	(2,888)
Total current liabilities		(5,510)	(4,488)	(7,186)
Non-current liabilities				
Derivative financial instruments		-	(10)	-
Contingent consideration		-	(280)	(28)
Bank loans		(341)	(1,301)	-
Total non-current liabilities		(341)	(1,591)	(28)
Total liabilities		(5,851)	(6,079)	(7,214)
Net assets		5,701	6,438	6,688
Equity				
Issued share capital		3,993	2,697	2,759
Share premium		71	-	114
Own shares in trust	7	(1,775)	(1,852)	(1,881)
Share option reserve		444	375	427
Retained earnings		2,978	5,231	5,288
Exchange differences arising on consolidation		(10)	(13)	(19)
Total equity		5,701	6,438	6,688

The financial statements were approved by the board of directors and authorised for issue on 4 December 2012.

Unaudited Consolidated Cash Flow Statement For the six months ended 30 September 2012

	Six months ended 30.9.2012 Unaudited £'000	Six months ended 30.9.2011 Unaudited £'000	Year ended 31.3.2012 Unaudited £'000
(Loss) / profit from continuing operations	(248)	262	1,008
Adjustments for:			
Depreciation	45	37	137
Share option charge	42	57	113
Movement in trade and other receivables	1,103	749	(461)
Movement in trade and other payables	135	(502)	358
Exchange difference on consolidation	8	15	9
Cash generated from continuing operating activities	1,085	618	1,164
Tax paid	(115)	(3)	(342)
Net cash generated from continuing operating activities	970	615	822
Restructuring costs	(222)	-	-
Net cash used by discontinued operating activities	-	(24)	(23)
Net cash generated from operating activities	748	591	799
Investing activities			
Interest received	-	-	4
Purchases of property and equipment	(21)	(106)	(178)
Expenditure on product development	(166)	(189)	(489)
Acquisition of subsidiaries (net of cash acquired)	(53)	-	(23)
Net cash used by investing activities	(240)	(295)	(686)
Financing activities			
Decrease in borrowings	(1,871)	(1,050)	(263)
Net proceeds of share issue	1,191	-	-
Interest and refinancing costs paid	(82)	(132)	(245)
Dividend paid	-	-	(232)
Net cash used by financing activities	(762)	(1,182)	(740)
Net change in cash and cash equivalents	(254)	(886)	(627)
<i>Cash and cash equivalents at start of period</i>	638	1,265	1,265
<i>Cash and cash equivalents at end of period</i>	384	379	638

Unaudited Consolidated Statement of Changes in Equity
For the six months ended 30 September 2012

	Six months ended 30.9.2012 Unaudited £'000	Six months ended 30.9.2011 Unaudited £'000	Year ended 31.3.2012 Unaudited £'000
<i>Balance at start of period</i>	6,688	6,250	6,250
Comprehensive (loss) / income	(2,229)	115	546
Transactions with owners			
Dividend paid	-	-	(406)
Exchange differences on consolidation	9	15	9
Options granted	42	58	113
Sale of shares from MTIP Trust	106	-	-
Loss on sale of shares from MTIP trust	(91)	-	-
Options exercised	(15)	-	-
Share issue	1,234	-	-
Scrip issue	-	-	176
Costs relating to share issue	(43)	-	-
<i>Balance at end of period</i>	<u>5,701</u>	<u>6,438</u>	<u>6,688</u>

Notes to the Unaudited Interim Report For the six months ended 30 September 2012

1. The financial information contained in the Interim Report does not constitute statutory accounts as defined by the Companies Act 2006. The comparative unaudited figures for the year ended 31 March 2012 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies.

It should be noted that accounting estimates and assumptions are used in preparation of the interim financial information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim financial information, are set out in note 2 to the interim financial information.

2. The key estimates and judgements made by management are detailed below:

Goodwill

Goodwill is determined by comparing the amount paid, including the full undiscounted value of any deferred and contingent consideration, on the acquisition of a subsidiary or associated undertaking and the group's share of the aggregate fair value of its separable net assets. It is considered to have an indefinite useful economic life as there are no legal, regulatory, contractual, or other limitations on its life. Goodwill is therefore capitalised and is subject to annual impairment reviews in accordance with applicable accounting standards.

Research and development

Research expenditure is written off to the statement of comprehensive income in the year in which it is incurred. Costs incurred on product development relating to the design and development of new or enhanced products are capitalised as intangible assets when it is probable that the development will provide economic benefits, considering its commercial and technological feasibility and the resources available for the completion and marketing of the development, and where the costs can be measured reliably. The expenditures capitalised are the direct labour costs, which are managed and controlled centrally. Other development costs are recognised as an expense as incurred. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised product development expenditure is considered to have an indefinite economic life and is subject to regular impairment reviews, based on the continued sales and profitability of the products developed. It is stated at cost less any accumulated impairment losses. Any permanent impairment taken during the year is shown under amortisation on the statement of comprehensive income. These assets have been reviewed for indications of impairment at the balance sheet date.

3. The interim financial statements have been prepared on the basis of the accounting policies set out in the March 2012 financial statements of ILX Group Plc.
4. Earnings per share is calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue during the year.

Diluted earnings per share is adjusted for outstanding share options.

	Six months ended 30.9.2012 Unaudited £'000	Six months ended 30.9.2011 Unaudited £'000	Year ended 31.3.2012 Unaudited £'000
(Loss) / profit for the year attributable to equity shareholders	(2,229)	115	546
Weighted average shares	30,639,255	26,972,580	27,260,017
Outstanding share options	606,685	884,049	1,234,705
Weighted average shares for diluted earnings per share	31,245,940	27,856,629	28,494,722
Basic (loss) / earnings per share	(7.27p)	0.43p	2.00p

Diluted (loss) / earnings per share	(7.13p)	0.41p	1.94p
	Six months ended 30.9.2012	Six months ended 30.9.2011	Year ended 31.3.2012
	£'000	£'000	£'000
Adjusted (loss) / profit before tax (see note 5)	(269)	172	959
less notional tax at 26%	-	(45)	(249)
Adjusted (loss) / profit after tax	(269)	127	710
Adjusted (loss) / earnings per share	(0.88p)	0.47p	2.60p
Adjusted diluted (loss) / earnings per share	(0.86p)	0.46p	2.49p

5. The group presents as exceptional restructuring costs those material items of expenditure and other charges which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation. This allows a better understanding of trading performance for the period.

During the period, the group incurred exceptional restructuring costs totalling £1.9 million (6 months to 30 September 2011: nil). These costs are shown separately on the face of the consolidated statement of comprehensive income.

A breakdown of these costs is as follows:

	Six months ended 30.9.2012 Unaudited £'000	Six months ended 30.9.2011 Unaudited £'000	Year ended 31.3.2012 Unaudited £'000
Restructuring costs incurred	143	-	-
Provision for further restructuring costs	625	-	-
Impairment of intangibles	1,149	-	-
	1,917	-	-

6. At the balance sheet date the company held 1,918,235 of its own ordinary shares in a trust, administered by Investec Trust Jersey Ltd. The shares are held in trust and represent 4.8% of the total called up share capital. They will be utilised as required to satisfy share options granted to directors and other senior management on vesting and exercise.
7. The group has a related party relationship with its subsidiaries, its directors, and other employees of the group with management responsibility. There were no transactions with these parties during the period outside the usual course of business. There were no transactions with any other related parties.

Copies of these interim results will available from the group's website, www.ilxgroup.com, where this announcement is also reproduced.