7 March 2018

NETCALL PLC
(“Netcall”, the “Company”, or the “Group”)

Interim results for the six months ended 31 December 2017

Entry into the low-code market marks next phase of growth for Netcall

Netcall plc (AIM: NET), a leading provider of low-code and customer engagement software, today announces its unaudited interim results for the six months ended 31 December 2017.

Operational Highlights

- Entry into the high growth, low-code software market via the acquisition of MatsSoft, enhancing the Group’s product portfolio and increasing its addressable market
- Significant growth in cloud business including new international customer wins
- Continued high level of up-sales and customer retention, now enhanced with the initial low-code cross-sales
- Significant low-code pipeline from new and existing customers
- Continued product development including the release of:
    - Liberty 4, a powerful new version of our customer engagement platform; and
    - a significantly enhanced new version of our low-code platform
- MatsSoft recognised as a leader by Forrester in its 2017 Low-Code Platforms for Business Developers report

Financial Highlights

- Revenue increased 32% to £10.7m (H1 2017: £8.09m)
- Recurring revenue strengthened to 71% (H1 FY17 69%)
- Annualised recurring revenues(1) increased by 39% to £15.7m (H1 2017: £11.3m)
- Adjusted EBITDA(2) increased by 22% to £2.69m (H1 FY17: £2.21m)
- Adjusted diluted earnings per share increased by 5% to 1.03p (H1 FY17: 0.98p)
- Profit before tax was £0.28m (H1 F17: £ 0.92m) after acquisition related expenses
- Diluted earnings per share was 0.12p (H1 FY17: 0.58p) after acquisition related expenses
- Net debt of £0.8m (31 December 2016: cash £14.6m) after acquisition consideration and dividend payments

1) *annualised revenue from cloud services and support contracts as at 31 December 2017*
2) *profit before interest, taxation, depreciation, amortisation, non-recurring transaction expenses and share-based charges*

Henrik Bang, CEO of Netcall, commented:

“Customers, who today expect new levels of service, are at the forefront of businesses’ technology priorities. Organisations across industries are digitally transforming their operations, leveraging software to enhance customer experiences, drive competitive differentiation and automate processes.

“The combination of our powerful low-code and Liberty customer engagement platforms creates a unique offering and significantly increases our addressable market. Low-code is accelerating digital transformation by putting the power of software creation into the hands of business users so that they,

without traditional coding, can rapidly implement the business applications they need to improve and automate their customer engagement activities.

"Our Liberty business continues its successful transition to the cloud, delivering good growth in revenues and profits and we enter the second half with a considerably increased sales pipeline and much excitement for the accelerated growth opportunity available."

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About Netcall plc

Netcall is a UK company quoted on the AIM market of the London Stock Exchange. Netcall helps organisations transform their customer engagement activities and enable digital transformation faster and more efficiently, thereby improving customer experiences and operational efficiencies. Netcall's software product portfolio comprises Liberty, a customer engagement platform, incorporating omnichannel contact centre and workforce optimisation, and a leading low-code platform MATS.

Netcall has over 700 customers in both the private and public sectors. These include two-thirds of the NHS Acute Health Trusts, major telecoms operators such as BT and Vodafone, and leading organisations including Interflora, Lloyds Banking Group, ITV and Nationwide Building Society.

For further information, please consult the Netcall website: www.netcall.com.

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Introduction

We are delighted to report on one of the most exciting periods in the evolution of Netcall. In August 2017 we successfully completed the acquisition of MatsSoft, a cloud-based low-code software provider, which has transformed the Netcall proposition and expanded our addressable opportunity in a high growth market.

Servicing customers is at the forefront of business priorities, and technologies which enhance customer experiences, drive competitive differentiation and automate operations is vital. Organisations need to be able to create and implement new applications in a matter of days and weeks, not months or years. MatsSoft's powerful drag and drop low-code development platform ('MATS') brings the power of rapid software creation into the hands of business users. This capability combined with our Liberty customer engagement platform means that we are able to more fully support businesses with their digital transformation programmes.

We have developed our first new low-code solutions for the public sector, Patient Hub and Citizen Hub, aimed at expanding the uptake of the low-code platform within new and existing customers. In addition to new customer acquisitions we have secured our first cross-sales of MATS into our existing Liberty customer base and have entered the second half of the year with an increased sales pipeline.

The business has performed strongly, reporting Group revenue 32% higher at £10.7m (H1 FY17: £8.09m), with underlying organic revenue growth of 5%. Recurring revenue increased 35% to £7.57m (H1 FY17: £5.60m) which equates to 71% (H1 FY17: 69%) of revenues with strong growth in the cloud revenue stream. As at 31 December 2017, the annualised run rate of such revenues increased 39% to £15.7m (H1 FY17: £11.3m) providing a strong foundation for future growth.

Low-code software market

Digital transformation is creating an increasing gap between the demand for software which is rising sharply and the supply of people capable of making it which is relatively flat. Low-code platforms can accelerate developer speed significantly which enables organisations to close this gap and deliver new, modern software to win, serve, and retain customers.

MATS, with its intuitive graphical drag and drop interface, which does not require traditional coding, puts the power of software development into the hands of the business users who deal with the day to day operational challenges. This expansion of the number of resources together with the speed of development can deliver applications six to 20 times faster than traditional methods. This also allows users with a detailed understanding of the business needs to prototype and experiment rapidly without relying on IT support.

Therefore, low-code is considered fundamental to digital transformation and there is a rapidly growing market adoption of this type of solution.

Strategy

Netcall's purpose is to help organisations transform their customer engagement activities and enable digital transformation faster and more efficiently, empowering them to get a return by driving improved customer experiences and operational efficiencies.

We achieve this by delivering intuitive software which is powerful, easy to use and functional. Our customer engagement capabilities are delivered via our Liberty platform and MATS, our industry leading low-code platform.

The acquisition of MatsSoft will enhance organisations' ability to benefit from Liberty solutions. By gaining access to the powerful capabilities of the low-code platform, customers and partners are able to develop enterprise business applications, with ease and speed, which can integrate or supplement the Liberty solutions. In addition, the low-code platform can be used as a stand-alone solution throughout the organisation to support other business functions, as is the case today, where it is used for a wide range of applications including mortgage applications processing, customer onboarding and customer notifications.

The Board's strategy is to incorporate Liberty functionality into the low-code platform creating a low-code enabled customer engagement suite. The first examples of this are the recently launched Citizen Hub and Patient Hub. These applications together with apps created by customers and partners can be made available via new channels including the MatsSoft App-store, thereby enhancing the distribution and breadth of the platform capabilities.

The Group’s key drivers for organic growth include taking advantage of the cloud and low-code market opportunity. The addition of low-code will enable the business to unlock the huge potential from Netcall’s large existing customer base with up- and cross-sales.

Furthermore, the MatsSoft addition to the Group opens up the opportunity for faster geographical expansion and international customer acquisition. The MATS platform is a pure cloud-based platform, and has already been implemented internationally via Amazon Web Services.

In addition, the Board continues to look for selective acquisitions with complementary proprietary software and/or additional customers in our target markets.

Business Review

Customer wins

Netcall continues to experience strong demand for its product suite both from existing and new customers including:

- A new three-year contract with a global sales & marketing consultancy delivering a low-code SaaS solution to support its digital transformation strategy, initially for 1,000 users located in the United States and India.
- A new three-year contract for a low-code SaaS solution with an existing London Borough council customer of Liberty.
- A two-year low-code SaaS contract with a top-3 Spanish mobile operator via an IT-services partner, assisting more than 700 users with order processing.
- A five-year contract for three councils delivering an advanced automated speech recognition platform for several thousand users.

Product development

During the period, the Group continued its investment in its MATS low-code and Liberty platforms. This has resulted in continued significant advancement of our capabilities over the period.

Liberty 4

We have released a powerful new version of Liberty which includes modules such as Contact Management, to further enhance visibility of previous customer contacts across all channels, and Agent Evaluation, an integrated offering to our workforce optimisation solution.

Patient and Citizen Hubs

We have used the MATS platform to develop two new offerings designed to unlock the cross-sale potential from within our large existing customer base; the Patient and Citizen Hubs.

Patient Hub is a self-service portal that transforms the way patients and clinicians manage their appointments, whilst reducing overheads for the NHS by automating and digitising letters, printed correspondence and the delivery of questionnaires to patients.

Citizen Hub is a collection of low-code enabled applications and modules that allow local government customers to manage their citizens and processes as well as provide self-service portals and mobile apps.

Version 10 of the MATS platform

Version 10 of the MATS platform has been launched, with a new, responsive and slick user interface to make it even easier to create effective business applications. This provides a new custom code API that allows the platform to be extended and the initial integration with Liberty 4 enabling customer service operators to seamlessly use MATS low-code applications while operating the Liberty 4 contact centre application.

Financial Review

Group revenue increased 32% to £10.7m (H1 FY17: £8.09m). Organic revenue growth was 5%. MatsSoft contributed £2.20m of revenue during the period following the acquisition in August 2017.

Revenue, which is considered to be recurring in nature, derived from cloud and support contracts, increased 35% to £7.57m (H1 FY17: £5.60m) which equates to 71% (H1 FY17: 69%) of revenues with strong growth in the cloud revenue stream. As at 31 December 2017, the annualised run rate of such revenues increased 39% to £15.7m (H1 FY17: £11.3m).

Revenue from product and professional service sales increased 26% to £3.13m (H1 FY17: £2.49m) due to higher Liberty license revenues and a first time contribution of MatsSoft professional services.

The aggregate value, at 31 December 2017, of contracted minimum income that is to be recognised as core revenue in future financial periods increased by 7% to £17.3m (H1 FY17: £16.6m).

Gross profit margin was 90% (H1 FY17: 91%).

Administrative expenses, before depreciation, amortisation, acquisition and contingent consideration expenses and share-based charges, increased to £6.98m (H1 FY17: £5.19m) resulting from the enlarged Group following the acquisition of MatsSoft.

Consequently, the Group adjusted EBITDA increased 22% to £2.69m (H1 FY17: £2.21m), a margin of 25% of revenue (H1 FY17: 27%).

Profit before tax was £0.28m (H1 FY17: £0.92m) after taking into account acquisition related expenses and interest on borrowings taken out to fund the acquisition of MatsSoft.

The Group tax charge was £0.10m (H1 FY17: £0.09m) an underlying effective rate of tax of 5% (H1 FY17: 5%) on adjusted profit before tax. The underlying effective rate of tax benefited from enhanced R&D relief and utilisation of previously unrecognised losses brought forward.

Reported diluted earnings per share was 0.12 pence (H1 FY17: 0.58 pence). Adjusted diluted earnings per share was 1.03 pence (H1 FY17: 0.98 pence).

Cash generated from operations before non-recurring transaction cost payments incurred in the last financial year was £0.30m (H1 FY17: £2.47m) as a result of the unwinding of positive working capital timing differences reported at the last year-end together with the expected result of the consolidation of the MatsSoft business. Cash conversion of profits is expected to return to Group norms in the second-half.

Spending on research and development, including capitalised software development increased by 42% to £1.44m (H1 FY17: £1.05m) of which capitalised software expenditure was £0.83m (H1 FY17: £0.68m).

Total capital expenditure was £1.07m (H1 FY17: £0.77m); the balance after capitalised development, being £0.24m (H1 FY17: £0.09m) relating to IT equipment and software.

On 4 August 2017, the Company acquired 100% of the issued share capital of MatsSoft for an initial consideration of £11.0m and the issue of 3.5m new ordinary shares of 5p each. Potential further amounts of up to £2.3m cash and 9.5m new ordinary shares are also payable dependent on achieving specified performance targets achieved over various periods from completion of the acquisition. See note 6 for further details.

Immediately prior to the acquisition of MatsSoft, the Company entered into an agreement with Business Growth Fund for a £7.0m investment. The agreement comprises the issue of a £7.0m Loan Note and the award of options over 4,827,586 new ordinary shares of 5p each at a price of 58p per share. See note 6 for further details.

As a result of these factors, net debt was £0.81m at 31 December 2017 (30 June 2017: net cash £12.7m).

On 27 July 2017 the final enhanced dividend of 1.05 pence per share, amounting to a total of £1.46m, was paid.

On 12 January 2018, post period end, the Company paid a final ordinary dividend of 1.16 pence per share in respect of the year ended 30 June 2017 amounting to a total of £1.66m.

Outlook

The first few months of the second half of the financial year have started very well. We have experienced strong trading and have received significant low-code orders from both new and existing customers, alongside continued demand for our Liberty platform.

The acquisition of MatsSoft has significantly increased our addressable market which, combined with a rapidly growing market for cloud solutions, places Netcall in an advantageous position.

Our underlying business continues its successful transition to the cloud, delivering good growth in revenues and profits and we enter the second half with a considerably increased sales pipeline and much excitement for the accelerated growth opportunity available. With high levels of revenue visibility, a robust balance sheet combined with a healthy sales pipeline and expanded market opportunity, the Board therefore remains confident in the ongoing success of the business.

Unaudited consolidated income statement for the six months to 31 December 2017

£'000	Unaudited Six months to 31 December 2017	Unaudited Six months to 31 December 2016	Audited 12 months to 30 June 2017
Revenue	**10,712**	**8,093**	**16,151**
Cost of sales	(1,046)	(701)	(1,333)
Gross profit	**9,666**	**7,392**	**14,818**
Administrative expenses	(9,093)	(6,520)	(13,209)
Other income	12	-	-
Other gains/ (losses) – net	(15)	9	8
Adjusted EBITDA	**2,688**	**2,207**	**4,487**
Non-recurring transaction costs	(456)	-	(320)
Share-based payments	(522)	(660)	(1,171)
Contingent consideration - post completion services	(236)	-	-
Depreciation	(127)	(108)	(212)
Amortisation of acquired intangible assets	(323)	(171)	(319)
Amortisation of other intangible assets	(454)	(387)	(848)
Operating profit	**570**	**881**	**1,617**
Finance income	12	43	74
Finance costs	(304)	(3)	(5)
Finance (costs)/ income – net	**(292)**	**40**	**69**
Profit before tax	**278**	**921**	**1,686**
Tax	(97)	(88)	(211)
Profit for the period	**181**	**833**	**1,475**
Earnings per share – pence			
Basic	0.13	0.60	1.06
Diluted	0.12	0.58	1.03

All activities of the Group in the current and prior periods are classed as continuing. All of the profit for the period is attributable to the shareholders of Netcall plc.

Statement of comprehensive income for the six months to 31 December 2017

£'000	Unaudited Six months to 31 December 2017	Unaudited Six months to 31 December 2016	Audited 12 months to 30 June 2017
Profit for the period	181	833	1,475
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	5	-	-
Total comprehensive income for the period	**186**	**833**	**1,475**

Unaudited consolidated balance sheet at 31 December 2017

£'000	Unaudited 31 December 2017	Unaudited 31 December 2016	Audited 30 June 2017
Assets			
Non-current assets			
Property, plant and equipment	453	509	473
Intangible assets	29,968	11,162	11,444
Investments	346	288	288
Deferred income tax asset	425	721	505
Total non-current assets	**31,192**	**12,680**	**12,710**
Current assets			
Inventories	214	200	334
Trade and other receivables	6,235	3,623	4,431
Current income tax asset	-	15	11
Cash and cash equivalents	5,650	14,569	12,724
Total current assets	**12,099**	**18,407**	**17,500**
Total assets	**43,291**	**31,087**	**30,210**
Equity and liabilities			
Equity attributable to the owners of the parent			
Share capital	7,229	7,054	7,054
Share premium	3,015	3,015	3,015
Other equity	4,413	2,278	2,278
Other reserves	4,211	2,820	3,273
Retained earnings	2,456	4,731	5,386
Total equity	**21,324**	**19,898**	**21,006**
Liabilities			
Non-current liabilities			
Borrowings	6,462	-	-
Deferred income tax liabilities	1,177	392	294
Provisions	1,110	316	122
Total non-current liabilities	**8,749**	**708**	**416**
Current liabilities			
Trade and other payables	2,422	2,508	2,508
Dividend payable	1,656	2,843	-
Current income tax liabilities	-	-	-
Deferred income	7,355	5,130	6,280
Provisions	1,785	-	-
Total current liabilities	**13,218**	**10,481**	**8,788**
Total liabilities	**21,967**	**11,189**	**9,204**
Total equity and liabilities	**43,291**	**31,087**	**30,210**

Unaudited consolidated statement of changes in equity at 31 December 2017

£'000	Share capital	Share premium	Other equity	Other reserves	Retained earnings	Total equity
Balance at 1 July 2016	**7,027**	**3,015**	**2,278**	**2,300**	**7,996**	**22,616**
Proceeds from share issue	27	-	-	-	-	27
Increase in equity in relation to options issued	-	-	-	581		581
Tax credit relating to share options	-	-	-	1	-	1
Reclassification following exercise or lapse of share options	-	-	-	(62)	62	-
Dividends to equity holders of the company	-	-	-	-	(4,160)	(4,160)
Transactions with owners	**27**	**-**	**-**	**520**	**(4,098)**	**(3,551)**
Profit and total comprehensive income for the period	-	-	-	-	833	833
Balance at 31 December 2016	**7,054**	**3,015**	**2,278**	**2,820**	**4,731**	**19,898**
Balance at 1 January 2017	**7,054**	**3,015**	**2,278**	**2,820**	**4,731**	**19,898**
Increase in equity reserve in relation to options issued	-	-	-	466	-	466
Reclassification following exercise or lapse of share options	-	-	-	(13)	13	-
Transactions with owners	**-**	**-**	**-**	**453**	**13**	**466**
Profit and total comprehensive income for the period	-	-	-	-	642	642
Balance at 30 June 2017	**7,054**	**3,015**	**2,278**	**3,273**	**5,386**	**21,006**
Balance at 1 July 2017	**7,054**	**3,015**	**2,278**	**3,273**	**5,386**	**21,006**
Proceeds from share issue	-	-	-	-	-	-
Issue of ordinary shares as consideration for acquisition for a business combination	175	-	2,135	-	-	2,310
Increase in equity in relation to options issued	-	-	-	975	-	975
Tax charge relating to share options	-	-	-	(36)	-	(36)
Reclassification following exercise or lapse of share options	-	-	-	(6)	6	-
Dividends to equity holders of the company	-	-	-	-	(3,117)	(3,117)
Transactions with owners	**175**	**-**	**2,135**	**933**	**(3,111)**	**132**
Profit for the period	-	-	-	-	181	**181**
Other comprehensive income for the period	-	-	-	5	-	**5**
Total comprehensive income for the period	**-**	**-**	**-**	**5**	**181**	**186**
Balance at 31 December 2017	**7,229**	**3,015**	**4,413**	**4,211**	**2,456**	**21,324**

Unaudited consolidated cash flow statement for the six months to 31 December 2017

£'000	Unaudited Six months to 31 December 2017	Unaudited Six months to 31 December 2016	Audited 12 months to 30 June 2017
Cash flows from operating activities			
Profit before income tax	278	921	1,686
Adjustments for:			
Depreciation	127	108	212
Amortisation	776	558	1,167
Loss on disposal of intangible assets	-	-	8
Share-based payments	521	660	1,171
Net finance (costs)/ income	292	(40)	(69)
Changes in working capital			
Inventories	120	26	(108)
Trade and other receivables	(591)	1,547	699
Trade and other payables	(1,970)	(1,313)	(399)
Cash (used)/ generated from operations	**(447)**	**2,467**	**4,367**
Analysed as:			
Cash generated from operations before payment of non-recurring transaction costs	**298**	**2,467**	**4,367**
Non-recurring transaction cost payments	(745)	-	-
Interest paid	(207)	(3)	(5)
Income tax refund/ (paid)	11	(4)	(4)
Net cash (used)/ generated from operating activities	**(643)**	**2,460**	**4,358**
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	(10,974)	-	-
Purchases of property, plant and equipment	(54)	(52)	(121)
Development expenditure	(830)	(676)	(1,331)
Purchases of other intangible assets	(123)	(38)	(283)
Interest received	12	43	112
Net cash used in investing activities	**(11,969)**	**(723)**	**(1,623)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	-	27	27
Proceeds from borrowings	7,000	-	-
Dividends paid to Company's shareholders	(1,461)	(1,317)	(4,160)
Net cash used in financing activities	**5,539**	**(1,290)**	**(4,133)**
Net (decrease)/ increase in cash and cash equivalents	**(7,073)**	**447**	**(1,398)**
Cash and cash equivalents at beginning of period	12,724	14,122	14,122
Effects of exchange rate changes on cash and cash equivalents	(1)	-	-
Cash and cash equivalents at end of period	**5,650**	**14,569**	**12,724**

Notes to the financial information for the six months ended 31 December 2017

1. General information
Netcall plc (AIM: "NET", "Netcall", or the "Company") is a leading provider of customer engagement software. It is a public limited company which is quoted on AIM (a market of the London Stock Exchange). The Company's registered address is 3rd Floor, Hamilton House, 111 Marlowes, Hemel Hempstead, HP1 1BB and the Company's registered number is 01812912.

2. Basis of preparation
The Group interim results consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The principal trading subsidiaries of Netcall are Netcall Telecom Ltd and MatsSoft Ltd.

These consolidated interim financial statements (the 'results') have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (February 2017). This results announcement does not constitute statutory accounts of the Group within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 (the 'Act'). The balance sheet at 30 June 2017 has been derived from the full Group accounts published in the Annual Report and Accounts 2016, which has been delivered to the Registrar of Companies and on which the report of the independent auditors was unqualified and did not contain a statement under either section 498(2) or section 498(3) of the Act.

The results have been prepared in accordance with the accounting policies set out in the Group's 30 June 2017 statutory accounts, which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union ("EU"). No changes to accounting policies are expected for the year ending 30 June 2018.

The results for the six months ended 31 December 2017 were approved by the Board on 6 March 2018. A copy of these interim results will be available on the Company's web site www.netcall.com from 8 March 2018.

The principal risks and uncertainties faced by the Group have not changed from those set out on page 7 of the annual report for the year ended 30 June 2017.

3. Segmental analysis
The Board considers that there is one operating business segment being the design, development, sale and support of software products and services, which is consistent with the information reviewed by the Board when making strategic decisions. Resources are reviewed on the basis of the whole of the business performance.

The key segmental measure is adjusted EBITDA which is profit before interest, tax, depreciation, amortisation, acquisition and reorganisation expenses and share-based payments, which is set out on the consolidated income statement.

4. Earnings per share
The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding those held in treasury:

	Six months to 31 December 2017	Six months to 31 December 2016	12 months to 30 June 2017
Net earnings attributable to ordinary shareholders (£'000s)	181	833	1,475
Weighted average number of ordinary shares in issue (000s)	142,134	138,702	138,950
Basic earnings per share (pence)	**0.13**	**0.60**	**1.06**

The diluted earnings per share has been calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of shares in issue during the year, adjusted for potentially dilutive shares that are not anti-dilutive.

	Six months to 31 December 2017	Six months to 31 December 2016	12 months to 30 June 2017
Weighted average number of ordinary shares in issue (000s)	142,134	138,702	138,950
Adjustments for share options (000s)	4,922	4,807	4,904
Weighted average number of potential ordinary shares in issue (000s)	147,056	143,509	143,854
Diluted earnings per share (pence)	**0.12**	**0.58**	**1.03**

Adjusted basic and diluted earnings per share has been calculated to exclude the effect of acquisition, contingent consideration and reorganisation costs, share-based payment charges, amortisation of acquired intangible assets and utilisation of historic tax losses. The Board believes this gives a better view of ongoing maintainable earnings. The table below sets out a reconciliation of the earnings used for the calculation of earnings per share to that used in the calculation of adjusted earnings per share:

£'000s	Six months to 31 December 2017	Six months to 31 December 2016	12 months to 30 June 2017
Profit used for calculation of basic and diluted EPS	**182**	**833**	**1,475**
Non-recurring transaction costs	456	-	320
Share-based payments	521	660	1,171
Amortisation of acquired intangible assets	323	171	319
Contingent consideration - post-completion services	235	-	-
Unwinding of discount - contingent consideration provisions	52	-	-
Tax adjustment	(258)	(262)	(479)
Profit used for calculation of adjusted basic and diluted EPS	**1,511**	**1,402**	**2,806**

Pence	Six months to 31 December 2017	Six months to 31 December 2016	12 months to 30 June 2017
Adjusted basic earnings per share	**1.06**	1.01	2.02
Adjusted diluted earnings per share	**1.03**	0.98	1.95

5. Dividends

Dividends paid or declared during the period were as follows:

Six months to December 2017	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	December 2017 balance sheet (£'000)
Interim enhanced dividend for year to June 2017	27/7/17	1.05p	1,461	1,461	-
Final ordinary dividend for year to June 2017	12/1/18	1.16p	-	1,656	1,656
			1,461	**3,117**	**1,656**

Six months to December 2016	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	December 2016 balance sheet (£'000)
Interim enhanced dividend for year to June 2016	27/7/16	0.95p	1,317	1,317	-
Final ordinary dividend for year to June 2016	11/1/17	1.10p	-	1,526	1,526
Enhanced dividend for year to June 2016	11/1/17	0.95p	-	1,317	1,317
			1,317	4,160	2,843

An interim enhanced dividend of 1.05 pence per share, amounting to a total of £1.46 million, was paid to shareholders whose names appeared on the register at the close of business on 14 July 2017 on 27 July 2017.

A final ordinary dividend of 1.16 pence per share in respect of the year ended 30 June 2017 amounting to a total of £1.66m was approved at the Annual General Meeting held on 23 November 2017. This dividend was paid on 12 January 2018.

6. Acquisitions & Financing

(a) Acquisition of MatsSoft Limited
On 4 August 2017 the Company acquired 100% of the issued share capital of MatsSoft Limited ('MatsSoft'), a cloud-based low-code software provider. The acquisition is expected to add to the Group's cloud business and provided it with access to the fast-growing low-code market.

The fair value of consideration is £15.4m comprising:

	£'000
Cash consideration	10,974
Shares issued(1)	2,310
Contingent cash consideration(2)	1,489
Contingent share consideration – share price target(3)	582
Contingent share consideration – potential new contract(4)	73
	15,428

(1) the Company issued 3,499,864 new ordinary shares of 5p each at an issue price of 66p per share.

(2) the contingent cash consideration arrangement requires the Company to pay the former owners of MatsSoft up to a maximum undiscounted amount of £2.31m subject to MatsSoft achieving certain financial hurdles post-acquisition to 4 August 2019. A number of the former owners of MatsSoft continue to work in the business and in accordance with IFRS 3 a proportion of the contingent consideration is treated as remuneration and expensed in the income statement. The fair value of the contingent cash consideration arrangement of £1.49m has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 9% and an allocation of 35% of the contingent cash consideration to post-completion service remuneration.

(3) the contingent share consideration – share price target arrangement requires the Company to issue the former owners of MatsSoft up to 5,599,783 new ordinary shares of 5p each subject to the Company's share price reaching certain price hurdles up to £1.20 per share by 4 August 2019. The fair value of this contingent consideration of £0.89m has been determined using the Monte Carlo valuation model. The significant inputs into the model were the mid-market share price of 66.5p at the acquisition date, volatility of 25%, dividend yield of 1.85%, an expected option life of 4 years, an annual risk-free interest rate of 0.203%, and an allocation of 35% of the contingent share consideration to post-completion service remuneration.

(4) the contingent share consideration – potential new contract arrangement requires the Company to issue the former owners of MatsSoft up to 3,948,851 new ordinary shares of 5p each subject to MatsSoft achieving certain new revenues from a potential new contract post-acquisition to 31 December 2019. The fair value of this contingent consideration arrangement of £0.07m has been estimated by calculating the present value of the future expected shares to be awarded. The estimates are based on a discount rate of 9%, a value per share of £0.66 and an allocation of 35% of the contingent share consideration to post-completion service remuneration.

The total contingent consideration expensed as post-completion services remuneration in the period was £0.24m (H1-FY17 £nil).

The assets and liabilities recognised as a result of the acquisition are as follows:

	£'000
Intangible assets: proprietary software	2,662
Intangible assets: order backlog	14
Intangible assets: trade name	245
Property, plant & equipment	53
Deferred income tax asset	2
Trade & other receivables	1,108
Cash & cash equivalents	-
Deferred income tax liabilities	(832)
Trade & other payables	(1,492)
Deferred income	(1,817)
Net identifiable liabilities acquired	(57)
Add: goodwill	15,484
Net assets acquired	**15,428**

The goodwill is attributable to the workforce and the value projected to be generated through future new business and the expected benefits from integrating MatsSoft into Netcall.

The cash outflow as a result of the acquisition is as follows:

	£'000
Cash consideration	10,974
Less: cash acquired	-
Net cash out flow – investing activities	**10,974**

(b) Acquisition related costs
The Company incurred professional advisor fees of £0.46m (2017: £0.32) in connection with the acquisition of MatsSoft Ltd and in the prior period an alternative potential acquisition which was not progressed. These costs are included in 'other expenses'.

(c) Loan Note
Immediately prior to the acquisition of MatsSoft on 4 August 2017 the Company entered into a subscription agreement with Business Growth Fund ('BGF') for a £7.0m investment. The investment comprises the issue of a £7.0m Loan Note and the award of options over 4,827,586 new ordinary shares of 5p each at a price of 58p per share. The Loan Note has an annual interest rate of 8.5% payable quarterly in arrears and is repayable in six instalments from 30 September 2022 to 31 March 2025.

The £7.0m investment has been allocated to the fair value of the Loan Note, £6.42m, and the fair value of the share options granted, £0.58m. The fair value of the share options was determined using the Binomial valuation method. The significant inputs into the model were the mid-market share price of 66.5p at the grant date, volatility of 25%, dividend yield of 1.85%, an expected option life of 5 years, and an annual risk-free interest rate of 0.267%. The total expense relating to the fair value of the share options is being charged to the income statement over the 5-year option life. The total share-based payment charge in the period relating to these options is £0.05m (H1-FY17 £nil).

7. Net debt reconciliation

	31 December 2017	31 December 2016	30 June 2017
Cash and cash equivalents	5,650	14,569	12,724
Borrowings – repayable after one year	(6,462)	-	-
Net debt	**(812)**	**14,569**	**12,724**