25 September 2019

NETCALL PLC

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

Final Results for the Year Ended 30 June 2019

Strong growth in Cloud services

Netcall plc (AIM: NET), a leading provider of Low-code and customer engagement software, today announces its audited results for the year ended 30 June 2019.

Financial Highlights

- Revenue up 5% to £22.9m (2018: £21.9m)
- Cloud and product bookings(1) increased by 62% year over year to £10.5m (2018: £6.5m)
- Total annual contract value(2) (‘ACV’) at 30 June 2019 up 10% year over year to £15.7m (30 June 2018: £14.2m)
- Adjusted EBITDA(3) of £3.41m (2018: £5.42m) after increased spending on growth investment
- Profit before tax increased to £0.75m (2018: £0.05m)
- Cash generated from operations of £6.84m (2018: £2.66m)
- Group cash at 30 June 2019 was £7.77m more than offsetting debt of £6.63m

Operational Highlights

- Low-code solution main driver of customer acquisition and cross-selling with Cloud orders 260% higher at £5.8m
- Strong growth in commercial, healthcare and government sectors including two NYSE quoted professional service firms and Network Rail
- Unlocking the value of our customer base, with Low-code cross-sales to date being three times higher ACV than the current average
- Strong momentum in transition to cloud, with cloud bookings exceeding product bookings for the first annual period

Henrik Bang, CEO of Netcall, commented,

“Netcall continued the transition to a cloud business delivering a strong performance in our key financial metrics of Cloud services and product bookings and Annual Contract Value. This was led by significant growth in Low-code order bookings and revenues, which contributed £7.1m of Group revenues, increasing 35% in the year.

“We have now reached an inflection point, with Cloud services bookings exceeding product bookings for the first full annual period. The strategy remains to invest in our Cloud offering underpinned by a highly profitable, cash generative core business.

"The Group enters the new year in a healthy financial position, combining growing recurring revenues with a compelling proposition in a significant growth market."

(1) Cloud services and product bookings are the total of all new orders received classified as cloud subscription and support, product and support contract revenues.

(2) ACV, as of a given date, is the total of the value of each cloud and support contract divided by the total number of years of the contract.

(3) Profit before interest, tax, depreciation and amortisation adjusted to exclude the effects of share-based payments, acquisition, impairment, contingent consideration and non-recurring transaction costs.

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About Netcall plc

Netcall helps organisations transform their customer engagement activities and enable digital transformation faster and more efficiently, empowering them to improve customer experiences and operational efficiencies.

We achieve this by delivering powerful and intuitive software that addresses the core elements of best-in-class customer experience and digital process automation. Our industry leading Liberty platform is a suite of Low-code, customer engagement and contact centre solutions which empowers business users and IT developers to collaboratively develop products and systems that create a leaner, more customer-centric organisation.

Netcall's customers span enterprise, healthcare and government sectors. These include two-thirds of the NHS Acute Health Trusts, major telecoms operators such as BT, and leading corporates including Lloyds Banking Group, ITV and Nationwide Building Society.

Prior to publication the information communicated in this announcement was deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No 596/2014 ('MAR') With the publication of this announcement, this information is now considered to be in the public domain.

Introduction

We continued the transition to a high growth digital cloud operation, delivering a strong performance in our key financial metrics of Cloud services bookings and Annual Contract Value (‘ACV’). In particular Low-code cloud bookings performed strongly and as a result we reached an inflection point with Cloud services bookings exceeding product bookings for the first time on an annual basis.

The addition of a Low-code offering has raised the profile of Netcall and given us access to new substantial corporate opportunities and added significant opportunity for cross-sales to our existing customers. Overall, Group performance was driven by the momentum in cloud sales and the transition to a recurring revenue model. The growth in bookings and ACV came through a combination of new customer wins and cross-sales of our expanded product suite. Low-code cloud bookings were derived from a broad range of orders, including two new cloud contracts worth a combined £2.8m with a three and four year duration respectively. In the year, our Low-code solutions represented £7.1m of Group revenues, increasing 35% in the year (2018: £5.2m).

The business model is underpinned by our highly profitable and cash generative premise-based business. In the year we continued to see growth in our maintenance and support revenues despite a decline in product sales as customers increasingly adopt recurring models. The profits and cash generation provided us with the ability to accelerate investment to benefit from the growing demand we are experiencing and provide a more compelling and differentiated proposition.

Current trading and outlook

We have entered the new financial year with a strong sales pipeline, growing recurring revenue base and have secured significant new customer wins. The Board continues to monitor the potential impact of the political environment and business confidence on the timing of larger enterprise and product sale contracts. With a healthy financial position and continuing investment in our business and people, the Board remains confident in the prospects of the Group.

Business Review

The ongoing shifts in consumer demand and expectations when interacting with organisations significantly changes the requirements on how organisations are expected to engage with their customers. At the same time technological advances enable an unprecedented digitalisation of business operations. Together these megatrends pose both great opportunities and risks for businesses.

Many enterprises are struggling to address these changes. They are challenged by inflexible legacy systems which are disruptive and expensive to change; undocumented and shadow processes; and a lack of resources. This leads to IT teams maintaining key existing systems and not addressing the chronic problems of poor customer experience or being able to capitalise on the improvements and savings from digitalisation.

Our purpose is to help organisations transform their customer engagement activities and enable digital transformation faster and more efficiently, empowering them to improve customer experiences and operational efficiencies.

We achieve this by delivering powerful and intuitive software that addresses the core elements of best-in-class customer experience and digital process automation. Our industry leading Liberty platform is a suite of Low-code, customer engagement and contact centre solutions, which empowers business users and IT developers to collaboratively develop products and systems that create a leaner, more customer-centric organisation.

The addressable market opportunity for these solutions is large and growing rapidly.

The Group’s organic growth strategy focuses on four pillars:

- growth through a land and expand model;

- expansion of our customer base;
- continued innovation and enhancement of our platform; and,
- growing our partner base.

During the year we invested approximately £2m across the organisation to support our strategies. The strategic focus resulted in substantial booking growth in commercial, healthcare and government market sectors.

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

Growth through a land and expand model

Many of our customers initially purchase an entry level solution with the objective of rolling out further applications and deploying the solutions more widely to support their future customer engagement and digital transformation initiatives. This combined with continuously enhancing our product portfolio, provides significant cross- and up-sale opportunities in three areas:

- Low-code solutions represent the largest opportunity as our existing customers digitise and modernise their operations enabling them to further leverage their existing Liberty estate;
- transition of our premise-based customers to cloud. This opportunity is in its infancy where we see a small and growing number of customers considering transitioning their Liberty estate to a cloud model; and,
- on-going upgrades and addition of modules to the Liberty platform as customers expand the use of the platform and we release new features and modules.

To facilitate cross-sales and accelerate implementations we are also providing several pre-built applications and modules via our AppShare which supplement the existing Liberty applications used by our customers. This includes Citizen Hub which is a suite of local government business processes and citizen portals that integrate with our customer engagement solutions.

The average annual contract value of the initial Low-code cross-sales has to date been approximately three times higher than the historic average of the Netcall customer base. This gives an early indication of the potential value of Low-code sales into the existing customer base.

Cloud and product bookings from existing customers increased by 30% to £6.3m (2018: £4.8m) driven by cross-sales of Low-code and Cloud contact centre solutions. Wins include orders worth approximately £1.4m from healthcare and government customers for our new cloud patient communication and Citizen Hub solutions.

Cumbria County Council – digital transformation programme

Cumbria County Council, a user of our contact centre solution, is also using our Low-code based Citizen Hub framework to transform services and deliver better outcomes for citizens. The council has created a team of internal builders who are developing for the council and have several live apps including Waste Permits, Blue Badge and Skips & Scaffolding permits. The full end to end Waste Permits application took four weeks to launch. The complete Blue Badge application, including integrations, was launched after fourteen weeks. The council is one of several customers who are active in our Community and use AppShare to up- and download content, achieving results faster and helping others.

Expansion of our customer base

We target organisations with large numbers of customers or employees and, in many cases, subject to a high level of regulations. This includes financial services, healthcare and government sectors where we currently have a strong market presence.

Cloud and product bookings from new customers increased by 157% to £4.2m (2018: £1.6m) driven by sales of Low-code solutions.

Network Rail: Accelerating change using Low-code

One of the new Low-code customers secured in the year was a contract with Network Rail to help drive digital transformation faster across the organisation. The key three business challenges that Network Rail faced were scalability of people and skills, business demand pressure, and poor experience versus the cost of updating or replacing legacy IT. Key criteria for Network Rail were proof that the IT could actually deliver results and that the technology could stand up in such a safety critical organisation. In just a few months, a number of business problems had been automated and driven forward by the business users affected. Rather than becoming a problem for IT to solve, they solved the problems themselves, quickly, using Low-code.

Continued innovation and enhancement of our platform

We continue to invest in strengthening our Liberty platform. The main focus is on expanding the functionality available to our customers and enhancing integration of our solutions.

Our Liberty suite covers three integrated solution areas:

- Low-code which enables the creation of apps that drives workflows and business processes with integration to our communication services as well as back-end systems.

- Omnichannel contact center for customer engagement which also includes solutions like speech bots, switchboard and auto attendant.

- Conversational messaging platform enabling customers to extend their reach using digital channels like Facebook Messenger and Twitter as well as benefit from bots and automation.

Digital business processes implemented on the Group's Low-code platform can seamlessly drive customer journeys with integrated customer interactions such as Facebook, Twitter, bots, chat, SMS or contact centre. With the platform's rich API capabilities these journeys can integrate with other systems, holding information required to deliver a smooth experience for customers and thereby retrieving or updating data critical for record management and back-end systems.

Growing our partner base

During the year, we have increased our engagement with several partners including global organisations that provide opportunity to access to new markets and scale our business opportunity faster. The objective is to develop an eco-system of partners who bring a combination of industry specific subject matter expertise together with service delivery and support capabilities. In addition to supporting our delivery of customer projects, partners support new customer acquisition by leveraging their capabilities and relationships. This will scale our ability to deliver solutions and generate additional license revenue as partners support customers. Partners can also gain significant advantages by using the speed and flexibility of our Low-code platform by rapidly building solutions for their customers and thereby creating new revenues for their businesses.

We have seen expansion of our partner network in the year, who combined now employ more trained Low-code builders than we have within our own organisation.

Partner development of regulated process application within pharma industry

One example is an international life science consultancy which is using a Low-code based business process solution to manage regulatory submissions on behalf of its global customer. The solution is being built by an India-based partner and will deliver a specialised business process application integrated with the healthcare provider's pharma CRM system. The solution, built in less than twelve weeks, streamlines and automates a complex and highly regulated business process providing higher visibility and cost savings for both organisations. The partner believes the application can be replicated for other opportunities within the pharma sector.

Financial Review

Group revenue increased 5% to £22.9m (FY18: £21.9m) of which Low-code solutions now represent £7.1m of Group revenues, increasing 35% in the year.

The Group's revenue comprises the following components, reflecting the movement of the business towards primarily a provider of Cloud based software and services:

- Cloud services: revenue subscription and usage fees of our cloud-based offerings.
- Product support contracts: provision of software updates, system monitoring and technical support services for our products.
- Communications services: fees for telephony and messaging services.
- Product revenues: predominantly software license sales with supporting hardware.
- Professional services: consultancy, implementation and training services.

As set out in this year's Interim Report, the Board has, for a number of years, measured trading performance using indicators such as: revenue, EBITDA, and operating cash flow. In addition, the Group also reports Cloud and product bookings and ACV. These metrics measure sales momentum and give a leading indicator on future revenue.

Cloud and product bookings (the total of all new orders received classified as cloud services subscription and support, product and support contract revenues) increased by 62% year over year to £10.5m, of which Low-code rose 272% to £6.0m.

As a result, revenue from Cloud services, which are a key strategic focus, have grown strongly and increased by 34% to £5.74m (FY18: £4.29m).

Total Low-code ACV as at 30 June 2019 increased by 36% year over year to £4.5m (30 June 18: £3.3m). In the two years of acquisition of the Low-code platform the Group has increased the Low-code ACV by 59%.

Total ACV increased by 10% year over year to £15.7m (30 June 2018: £14.2m). ACV, as of a given date, is the total of the value of each cloud and support contract divided by the total number of years of the contract.

Product support contract revenue increased by 4% to £9.25m (FY18: £8.93m) reflecting high contract retention combined with the contribution of new product sales and price rises.

Communications services revenue was £1.81m (FY18: £2.27m) due to lower usage of call-back services in the period by a partner.

Product sales, whilst improved over the first half of the year, were impacted by purchasing delays within the NHS coupled with public sector customers ordering the Group's newly launched Low-code cloud offerings. As a result, product revenue was lower at £2.29m (FY18: £3.06m).

Professional services revenues increased 15% to £3.82m (FY18: £3.33m) due to implementation services increasing in line with new sales of cloud solutions.

Gross profit margin was maintained at 90% (FY18: 90%).

Administrative expenses, before depreciation, amortisation, impairment, share-based payments and acquisition related items increased to £17.1m (FY18: £14.3m) which is in line with expectations following the previously announced investment programme. Investments have mainly been made in expanding sales and marketing and professional services teams to deliver implementation services for the growing cloud solutions and our own digital business operation to support a larger and growing organisation.

Consequently, the Group adjusted EBITDA was £3.41m (FY18: £5.42m), a margin of 15% of revenue (FY18: 25%).

Profit before tax increased to £0.75m (FY18: £0.05m) after taking into account acquisition related items and interest on borrowings taken out to fund the acquisition of MatsSoft in August 2017.

The Group tax charge of £0.14m (FY18: £0.09m credit) represents an underlying effective rate of tax of 10% (FY18: 3% credit) on adjusted profit before tax. The underlying effective rate of tax is lower than the headline rate of corporation tax due to deductions for R&D expenditure.

Diluted earnings per share increased by 355% to 0.41 pence (FY18: 0.09 pence) and was 0.76 pence on an adjusted basis (FY18: 2.04 pence).

Cash generated from operations before non-recurring transaction cost payments increased by 100% to £6.84m (FY18: £3.42m), a conversion of 200% (FY18: 63%) of adjusted EBITDA. The increase is primarily due to the timing of credit sales and significant MatsSoft contract renewals falling in the period before acquisition which created large receivables in the prior year paid in the current year.

Spending on research and development, including capitalised software development, was £3.21m (FY18: £3.66m) of which capitalised software expenditure was £1.53m (FY18: £1.76m).

Total capital expenditure was £2.96m (FY18: £2.07m); the balance after capitalised development, being £1.43m (FY18: £0.31m) was mainly office fit out, IT equipment and software.

The Company acquired MatsSoft Limited in August 2017. The purchase agreement provided for potential further cash and share to be paid dependent on achieving specified performance targets over various periods from completion of the acquisition. During the period the Company paid £0.59m in cash under this arrangement. At 30 June 2019 the fair value of the remaining contingent consideration was re-estimated at a lower amount of £1.68m resulting in £0.87m being credited to the income statement as a change in estimate.

To support the acquisition, the Company issued a £7m Loan Note. Loan Note interest payments in the period totalled £0.59m (FY18: £0.36m). See note 7 for further information.

As a result of these factors, net cash was £1.14m at 30 June 2019 (30 June 2018: £0.74m net debt).

Dividend policy

In line with the Company’s dividend policy to pay-out 25% of adjusted earnings per share, the Board intends to declare a final dividend for this financial year of 0.20p.

Audited consolidated income statement for the year ended 30 June 2019

	2019 £000	2018 £000
Revenue	**22,903**	21,875
Cost of sales	**(2,329)**	(2,143)
Gross profit	**20,574**	19,732
Administrative expenses	**(19,058)**	(18,961)
Other income	**-**	23
Other gains/(losses) – net	**(11)**	(12)
Adjusted EBITDA	**3,411**	5,421
Depreciation	**(310)**	(252)
Net loss on disposal of property, plant and equipment	**(2)**	-
Impairment charge on intangible assets (see note 4)	**-**	(792)
Amortisation of acquired intangible assets	**(512)**	(547)
Amortisation of other intangible assets	**(1,120)**	(1,119)
Non-recurring transaction costs (see note 4)	**-**	(464)
Change in fair value of contingent consideration (see note 4)	**865**	-
Post-completion services (see note 4)	**(244)**	(464)
Share-based payments	**(583)**	(1,001)
Operating profit	**1,505**	782
Finance income	**41**	29
Finance costs	**(794)**	(766)
Finance costs/ (income) – net	**(753)**	(737)
Profit before tax	**752**	45
Tax (charge)/ credit	**(142)**	91
Profit for the year	**610**	136
Earnings per share – pence		
Basic	**0.43**	0.10
Diluted	**0.41**	0.09

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.

Audited consolidated statement of comprehensive income for the year ended 30 June 2019

	2019 £000	2018 Restated £000
Profit for the year	**610**	136
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**(17)**	(5)
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**-**	(216)
Total other comprehensive income for the year	**(17)**	(221)
Total comprehensive income for the year	**593**	(85)

All of the comprehensive income for the year is attributable to the shareholders of Netcall plc.

Audited consolidated balance sheet at 30 June 2019

	2019	2018 Restated	2017 Restated
	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	**1,210**	445	473
Intangible assets	**29,188**	28,938	11,444
Deferred tax asset	**501**	584	505
Financial assets at fair value through other comprehensive income	**72**	72	288
Total non-current assets	**30,971**	30,039	12,710
Current assets			
Inventories	**165**	215	334
Other current assets	**1,314**	1,077	787
Contract assets	**1,178**	1,437	1,055
Trade receivables	**3,864**	6,078	2,561
Other financial assets at amortised cost	**100**	117	28
Current tax asset	**-**	-	11
Cash and cash equivalents	**7,769**	5,779	12,724
Total current assets	**14,390**	14,703	17,500
Total assets	**45,361**	44,742	44,958
Liabilities			
Non-current liabilities			
Other payables	**-**	925	-
Contract liabilities	**207**	488	114
Borrowings	**6,632**	6,518	-
Deferred tax liabilities	**851**	754	294
Provisions	**77**	44	112
Total non-current liabilities	**7,767**	8,729	530
Current liabilities			
Trade and other payables	**5,265**	5,095	2,508
Contract liabilities	**10,395**	9,302	6,166
Provisions	**-**	128	-
Total current liabilities	**15,660**	14,525	8,674
Total liabilities	**23,427**	23,254	9,204
Net assets	**21,934**	21,488	21,006
Equity attributable to owners of the Parent Company			
Share capital	**7,259**	7,242	7,054
Share premium	**3,015**	3,015	3,015
Other equity	**4,832**	4,832	2,697
Other reserves	**4,440**	3,917	2,854
Retained earnings	**2,388**	2,482	4,386
Total equity	**21,934**	21,488	21,006

Audited consolidated statement of cash flows for the year ended 30 June 2019

	2019	2018
	£000	£000
Cash flows from operating activities		
Profit before income tax	**752**	45
Adjustments for:		
Depreciation and amortisation	**1,942**	1,918
Impairment of intangible assets	**-**	792
Loss on disposal of property, plant and equipment	**2**	-
Share-based payments	**583**	1,001
Net finance costs/ (income) – net	**753**	737
Changes in operating assets and liabilities, net of effects from purchasing of subsidiary undertaking:		
Decrease in inventories	**51**	118
Decrease/ (increase) in trade receivables	**2,216**	(2,575)
Decrease/ (increase) in contract assets	**252**	(377)
Increase in other financial assets at amortised cost	**24**	74
Increase in other current assets	**(257)**	(194)
Decrease in trade and other payables	**(242)**	(900)
Increase in contract liabilities	**862**	1,675
(Decrease)/ increase in provisions	**(95)**	341
Cash flows from operations	**6,843**	2,655
Analysed as:		
Cash generated from operations before payment of non-recurring transaction costs	**6,843**	3,420
Non-recurring transaction costs payment	**-**	(765)
Interest received	**41**	29
Interest paid	**(4)**	(7)
Income tax refunded	**-**	11
Net cash inflow from operating activities	**6,880**	2,688
Cash flows from investing activities		
Payment for acquisition of subsidiary, net of cash acquired	**(591)**	(10,974)
Purchase of property, plant and equipment	**(1,078)**	(171)
Payment of software development costs	**(1,532)**	(1,764)
Purchase of other intangible assets	**(350)**	(137)
Proceeds from sale of property, plant and equipment	**1**	-
Net cash (outflow) from investing activities	**(3,550)**	(13,046)
Cash flows from financing activities		
Proceeds from issues of ordinary shares	**16**	9
Proceeds from borrowings	**-**	7,000
Interest paid on Loan Notes	**(590)**	(471)
Dividends paid to Company's shareholders	**(758)**	(3,117)
Net cash (outflow)/ inflow from financing activities	**(1,332)**	3,421
Net increase/ (decrease) in cash and cash equivalents	**1,998**	(6,937)
Cash and cash equivalents at beginning of the period	**5,779**	12,724
Effects of exchange rate on cash and cash equivalents	**(8)**	(8)
Cash and cash equivalents at end of period	**7,769**	5,779

Audited consolidated statement of changes in equity at 30 June 2019

	Share capital £000	Share premium £000	Other equity £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 30 June 2017	**7,054**	**3,015**	**2,697**	**2,854**	**5,386**	**21,006**
Issue of ordinary shares as consideration for acquisition of a business combination	175	-	2,135	-	-	2,310
Proceeds from share issue	9	-	-	-	-	9
Increase in equity reserve in relation to options issued	-	-	-	1,364	-	1,364
Tax debit relating to share options	-	-	-	1	-	1
Reclassification following exercise or lapse of options	4	-	-	(81)	77	-
Dividends to equity holders of the Company	-	-	-	-	(3,117)	(3,117)
Transactions with owners	**188**	**-**	**2,135**	**1,284**	**(3,040)**	**567**
Profit for the year	-	-	-	-	**136**	**136**
Other comprehensive income for the year – restated	-	-	-	**(221)**	**-**	**(221)**
Profit and total comprehensive income for the year – restated	**-**	**-**	**-**	**(221)**	**136**	**(85)**
Balance at 30 June 2018 - restated	**7,242**	**3,015**	**4,832**	**3,917**	**2,482**	**21,488**
Proceeds from share issue	16	-	-	-	-	16
Increase in equity reserve in relation to options issued	-	-	-	633	-	633
Tax debit relating to share options	-	-	-	(38)	-	(38)
Reclassification following exercise or lapse of options	1	-	-	(55)	54	-
Dividends to equity holders of the Company	-	-	-	-	(758)	(758)
Transactions with owners	**17**	**-**	**-**	**540**	**(704)**	**(147)**
Profit for the year	-	-	-	-	610	**610**
Other comprehensive income for the year	-	-	-	(17)	-	**(17)**
Profit and total comprehensive income for the year	-	-	-	**(17)**	**610**	**593**
Balance at 30 June 2019	**7,259**	**3,015**	**4,832**	**4,440**	**2,388**	**21,934**

Notes to the financial information for the year ended 30 June 2019

1. General information
Netcall plc (AIM: "NET", "Netcall", or the "Company"), is a leading provider of customer engagement software, is a limited liability company and is quoted on AIM (a market of the London Stock Exchange). The Company's registered address is 1st Floor, Building 2, Peoplebuilding Estate, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 4NW and the Company's registered number is 01812912.

2. Basis of preparation
The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

The financial information set out in these preliminary results has been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The accounting policies adopted in this results announcement have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the period ended 30 June 2019 as updated for new standards and interpretations effective from 1 July 2018. The Group has applied IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time. Details on each are set out below:

IFRS 9 Financial Instruments
The Group has adopted IFRS 9 Financial Instruments with a date of initial application of 1 July 2018. IFRS 9 replaces IAS 39 and impacts upon the classification and measurement of financial instruments and requires certain additional disclosures. The only change on adoption of IFRS 9 was to record a change in the fair value of the Group's investment in Macranet through other comprehensive income in 2018 as further described below. The following areas were identified as the main items of interest to the Group:

- Credit losses: IFRS 9 replaced the existing incurred loss model with a forward looking expected credit loss model. The expected credit losses on these trade receivable and contract assets are estimated using a single-loss rate based on the Group's historical credit loss experience, adjusted for management judgement concerning factors that are specific to the receivables, general economic conditions and assessment of the current as well as the forecast direction of conditions at the reporting date based on reasonable and supportable information that is available, without undue cost or effort to obtain. Due to the exemption in IFRS 9, there is no requirement to restate comparative periods in the year of initial application and as a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 July 2018. The change from an incurred loss model under IAS 39 to an expected loss model has not had a material impact and no adjustment is required at 1 July 2018.

- Available-for-sale financial assets: The classification of financial assets as 'available-for-sale' no longer exists under IFRS 9. In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term. The Group has irrevocably elected to reclassify equity securities, which are not held for trading, as financial assets at fair value through other comprehensive income. The investment is in Macranet Ltd (a provider of social media engagement solutions) which had a historic cost of £0.29m. The fair value measurement is classified as level 3 in the hierarchy as there is no observable market data. The Company is a minority investor alongside Draper Esprit VCT plc a quoted venture capital trust. They have established fair value using the Private Equity and Venture Capital Guidelines. In line with this valuation the Company has recognised a change in the fair value of the investment of £0.22m in the prior year through other comprehensive income.

IFRS 15 Revenue from Contracts with Customers
The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 July 2018 on a retrospective basis. IFRS 15 replaced all existing revenue recognition requirements in IFRS and sets out a comprehensive framework for determining whether, when and how much revenue to recognise. The Group has completed its assessment of IFRS 15 and has not identified any material differences between the requirements of IFRS 15 and the Group's previous revenue recognition policy. Accordingly no financial restatement has been made. Revenue is only recognised when (or as) control of goods or services passes to the customer, in accordance with when distinct performance obligations are met, and at the amount to which the Group expects to be entitled. The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 including the comparative amounts:

- Contract assets were previously presented as part of trade and other receivables (£1.44m as at 30 June 2018; £1.06m as at 1 July 2017).

- Contract liabilities previously included in deferred income (£9.79m as at 30 June 2018; £6.28m as at 1 July 2017).

The consolidated financial information is presented in sterling (£), which is the company's functional and the Group's presentation currency.

The financial information set out in these results does not constitute the company's statutory accounts for 2019 or 2018. Statutory accounts for the years ended 30 June 2019 and 30 June 2018 have been reported on by the Independent Auditors; their report was (i) unqualified; (ii) did not draw attention to any matters by way of emphasis; and (iii) did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 30 June 2018 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 June 2018 will be delivered to the Registrar in due course. Copies of the Annual Report 2019 will be posted to shareholders on or about 25 October 2019. Further copies of this announcement can be downloaded from the website www.netcall.com.

3. Segmental analysis

Management consider 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, share-based payments, non-recurring transaction costs, which is set out on the consolidated income statement.

4. Material profit or loss items

The Group identified a number of items which are material due to the significance of their nature and/or their amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

	2019	2018
	£000	£000
Impairment charge on intangible assets[(1)]	**-**	(792)
Non-recurring transaction costs[(2)]	**-**	(464)
Change in fair value of contingent consideration[(3)]	**865**	-
Post completion services expense[(4)]	**(244)**	(464)
	621	(1,720)

[(1)] Following the acquisition of MatsSoft Limited in August 2017 management undertook a review of its enlarged product portfolio. The review concluded that the Group would market Citizen Hub, built on MatsSoft's Low-cloud platform instead of its CXM product. As a result of this decision the carrying value of £0.79m of internally generated software assets relating to CXM, included within intangible assets, was written down to £nil in the prior period. The impairment charge was included in 'administrative expenses' in the income statement.

[(2)] In 2017 the Company incurred professional advisor fees £0.46m in connection with the acquisition of MatsSoft Ltd. These costs are included in 'administrative expenses'. The Company paid £0.76m in 2018 in relation to these expenses and related amounts included in trade and other payables on 1 July 2017.

[(3)] The purchase of MatsSoft Ltd included a contingent consideration arrangement based on certain performance obligations. These were initially recorded at fair value, which is the present value of the expected payments. At the year-end the estimates of achieving the performance obligations were reassessed. This resulted in a reduction in the fair value of the contingent consideration liability with a corresponding credit to the income statement of £0.87m.

[(4)] A number of former owners of MatsSoft Ltd continued to work in the business following its acquisition and in accordance with IFRS 3 a proportion of the contingent consideration arrangement is treated as remuneration and expensed in the income statement

5. 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.

	30 June 2019	30 June 2018
Net earnings attributable to ordinary shareholders (£000)	610	136
Weighted average number of ordinary shares in issue (thousands)	143,038	142,460
Basic earnings per share (pence)	**0.43**	**0.10**

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.

	30 June 2019	30 June 2018
Weighted average number of ordinary shares in issue (thousands)	143,038	142,460
Adjustments for share options	6,085	4,901
Weighted average number of potential ordinary shares in issue (thousands)	149,123	147,361
Diluted earnings per share (pence)	**0.41**	**0.09**

Adjusted earnings per share have been calculated to exclude the effect of acquisition, contingent consideration and reorganisation costs, share-based payment charges, amortisation of acquired intangible assets and with a normalised rate of tax. The Board believes this gives a better view of on-going 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	30 June 2019	30 June 2018
Profit used for calculation of basic and diluted EPS	**610**	**136**
Non-recurring transaction costs (see note 4)	-	464
Change in fair value of contingent consideration (see note 4)	(865)	-
Share-based payments	583	1,001
Post completion services (see note 4)	244	464
Amortisation of acquired intangible assets	512	547
Impairment charge on intangible fixed assets (see note 4)	-	792
Unwinding of discount – contingent consideration & borrowings	181	208
Tax effect of adjustments	(125)	(613)
Profit used for calculation of adjusted basic and diluted EPS	**1,140**	**2,999**

	30 June 2019	30 June 2018
Adjusted basic earnings per share (pence)	**0.80**	2.11
Adjusted diluted earnings per share (pence)	**0.76**	2.04

6. Dividends

Year to June 2019	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	June 2019 balance sheet (£'000)
Final ordinary dividend for the year to June 2018	6/2/19	0.53p	758	758	-
			758	**758**	**-**

Year to June 2018	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	June 2018 balance sheet (£'000)
Interim enhanced dividend for year to June 2017	27/7/17	1.05p	1,461	1,461	-
Final ordinary dividend for the year to June 2017	12/1/18	1.16p	1,656	1,656	-
			3,117	**3,117**	**-**

It is intended that this year's final ordinary dividend of 0.20 pence per share will be paid to shareholders on 5 February 2020. Netcall plc shares will trade ex-dividend from 19 December 2019 and the record date will be 20 December 2019. The estimated amount payable is £0.29 million. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

7. Net funds/ (debt) reconciliation

	30 June 2019	30 June 2018
Cash and cash equivalents	7,769	5,779
Borrowings – fixed interest and repayable after one year (1)	(6,632)	(6,518)
Net funds/ (debt)	**1,137**	**(739)**

(1) To support the acquisition of MatsSoft Limited in August 2017, the Company issued a £7m Loan Note with options over 4.8m new ordinary shares of 5p each priced at 58p. The Loan Note is unsecured, 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 Loan Note was initially allocated a fair value of £6.42m and the share option a fair value of £0.58m. The discount on the carrying value of the Loan Note is being amortised via the profit and loss account over the expected option life of five years.