NETCALL

13 October 2020

NETCALL PLC

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

Final Results for the Year Ended 30 June 2020

Double digit revenue growth

Netcall plc (AIM: NET), a leading provider of Low-code, customer engagement and contact center software, today announces its audited results for the year ended 30 June 2020.

Financial Highlights

- Revenue up 10% to £25.1m (FY19: £22.9m)
- Total annual contract value(1) (‘ACV’) at 30 June 2020 up 7% year over year to £16.8m (30 June 2019: £15.7m)
- Cloud services ACV at 30 June 2020 up 25% year over year to £7.5m (30 June 2019: £6.0m)
- Adjusted EBITDA(2) on an IFRS 16 basis up 29% to £4.41m (FY19: £3.41m on an IAS 17 basis). Adjusted EBITDA on an IAS17 basis increased by 21% to £4.12m
- Profit before tax of £0.50m (FY19: £0.75m)
- Cash generated from operations of £9.39m (FY19: £6.84m) including £2.21m of deferred VAT payments
- Group cash at 30 June 2020 was £12.7m (FY19: £7.77m) more than offsetting borrowings of £6.75m (FY19: £6.63m)
- Final ordinary dividend of 0.25p proposed, an increase of 25% (FY19: 0.20p)

Operational Highlights

- Solid trading in the financial year including strong demand in the final quarter despite COVID-19
- Continued high growth for cloud and Low-code solutions
- Organisation remained intact during the pandemic without requirement for furloughing, redundancies or pay-cuts
- Launched several releases to the Liberty platform including solutions catering for COVID-19 requirements
- Several large customer implementations went live during the year

Henrik Bang, CEO of Netcall, commented:*“Netcall performed excellently in the year, delivering double-digit revenue and cloud ACV growth. We experienced solid demand in our largest market segments of healthcare, government and financial services, where our cloud and Low-code business continued to grow significantly.*

“Following the outbreak of COVID-19, customer demand continued to be strong and the organisation remained firmly intact without furloughing, pay-cuts or redundancies. Throughout the challenging period,

the Netcall team has shown tremendous flexibility, creativity and resilience, providing support to our customers, especially those within the NHS, and I would like to thank everybody for their contribution.

"The new financial year has begun well, with the Group trading strongly and ahead of last year in the first three months. Notwithstanding the positive start to the year and the Group's significant recurring revenues, the Board is mindful of the current economic uncertainty and the impact it may have on customers, which we continue to monitor closely. The acceleration of organisations' digital transformation initiatives represents a significant long-term opportunity for Netcall and provides the Board with confidence in the future prospects of the Group."

(1) 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.

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

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About Netcall plc

Netcall's Liberty software platform with Low-code, customer engagement and contact centre solutions helps organisations transform their businesses faster and more efficiently, empowering them to create leaner, more customer-centric organisations.

Netcall's customers span enterprise, healthcare and government sectors. These include two-thirds of the NHS Acute Health Trusts and leading corporates, such as Legal and General, 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

Netcall delivered an excellent trading performance in the year, achieving double digit revenue and adjusted EBITDA growth, whilst reacting to the disruption caused by the global pandemic. Our team adapted fantastically to the changes and showed tremendous flexibility, resilience and creativity, quickly delivering innovative solutions to support our customers as they responded to the lockdown measures introduced.

Digital transformation is rapidly advancing across our customer base and key market segments. Solutions enabled by our Liberty platform touch many aspects of our daily lives, whether it be enabling house-buyers to apply for mortgages, to make insurance claims, providing businesses with easy means to apply for COVID-19 business support or enabling hospitals to safely manage socially distanced outpatient appointments. Our COVID-19 related apps and solutions which with traditional software development might previously have taken months, if not years, to be launched, were live within weeks, helping our customers to support their patients, customers and citizens. This demonstrates the power of our Liberty platform and the ability of our team to combine technology capabilities and business knowledge to create solutions which enable organisations to implement more lean and automated operations, delivering better experiences for their customers and employees.

As a result of solid demand throughout the financial year, cloud ACV grew by 25% to £7.5m (FY19: £6.0m) contributing to a 7% growth in total ACV to £16.8m. The growth in ACV came through new customer wins and cross-sales of our expanded product suite, combined with high customer retention and renewal rates. Low-code and cloud bookings continued to drive sales, while we also saw positive trading performance from product sales.

As a result, revenues increased by 10% to £25.1m which lifted the Group's adjusted EBITDA by 29% to £4.41m. Low-code subscription revenue grew 29% contributing to an overall growth in Low-code revenue of 17% to £8.99m (FY19: £7.66m), now representing 36% of Group revenues (FY19: 33%).

The business model is underpinned by our highly profitable and cash generative contact centre and communication revenue streams, which grew 9% in the year. The profits and cash generated from this business sector provide the means to invest in our Low-code and cloud operations, as we continue to capitalise on the rapidly expanding digital automation market opportunity.

Cash collection was particularly strong, resulting in cash generated from operations of £9.39m and Group cash at 30 June 2020 of £12.7m, (FY19: £7.77m) of which £2.21m was deferred VAT payments, resulting in a normalised cash position of £10.5m which exceeds borrowings of £6.75m (FY19: £6.63m).

Response to COVID-19

During February and March 2020, we tested our contingency plans to ensure the organisation was ready when we started working from home in March. The team adapted quickly to the changes which resulted in minimal disruption to the business, with no negative impact on productivity or ability to support and market to customers.

Due to the pandemic's impact on some of our customers, we adjusted our roadmap priorities to focus on the rapid development of new applications to support them, harnessing the tremendous speed and power of our Low-code platform. This included areas such as enabling home working for customers' employees, assisting hospitals in managing changes to outpatient processes and COVID-19 responses, as well as supporting councils in providing enhanced citizen and local business support. Today, we have multiple new solutions available, including in our AppShare, and more are in development.

These activities helped underpin continued good demand from our customers in the final quarter with the healthcare sector in particular performing strongly, where we had an increased uptake of Liberty Converse and Connect, both on premise and for the first time in the cloud, as well as our Low-code platform Liberty Create, through our Patient Hub. The strong performance in healthcare, public sector and financial services offset limited delays and cancellations in some smaller segments of our customer base, such as travel and transportation, where customers faced unprecedented challenges and we worked with them to help them though the initial stage of the crisis. This caused our exit ACV figure to be dampened slightly, but had minimal impact on reported revenue.

As a result of the overall good trading performance, the Group has not been required to introduce pay-cuts, furlough staff or make redundancies, although increased cash management measures, including the deferral of VAT, have been implemented and the Company retained its strong focus on operational efficiency.

Moving forward, the changes in society brought about by the pandemic, including the workplace, will continue to accelerate organisations' digital transformation initiatives, as they look for ways to better serve their customers, employees and citizens. These changes support long-term significant growth drivers for Netcall.

Current trading and outlook

The new financial year has begun well, with the Group trading strongly and ahead of the last fiscal period in the first three months. Notwithstanding the strong start to the current year and significant recurring revenues, the Board is mindful of the current economic disruptions and the impact it may have on customers, which we continue to monitor closely. The acceleration of organisations' digital transformation initiatives presents a significant long-term opportunity for Netcall and provides the Board with confidence in the future prospects of the Group.

Business Review

Netcall helps organisations transform their customer engagement activities and enables digital transformation faster and more efficiently, empowering them to improve customer experiences and operational efficiencies. We achieve this by delivering a market-leading software platform, Liberty, that addresses best-in-class customer experience and digital process automation.

The Liberty platform is today used by more than 600 organisations, across all sectors including financial services, local government and healthcare, making life easier for the people they serve.

The platform includes three core solutions; Liberty Create – a cloud based Low-code platform for digital process automation, Liberty Connect – a cloud based conversational messaging and chatbot platform and Liberty Converse – a complete omnichannel contact centre platform.

In harmony, these solutions empower business users and IT developers, at a wide-range of organisations including the likes of Hampshire Trust Bank and Dreams, to collaboratively deliver solutions that support leaner and more customer-centric organisations.

The Group's organic growth strategy for this large and growing market focuses on four core pillars:

- expansion of our customer base;
- growth through a land and expand model;
- continued innovation and enhancement of our platform; and
- growing our partner base.

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

Expansion of our customer base

We primarily target organisations with large numbers of customers and/ or employees and, in many cases, are subject to a high level of regulation. This mainly includes the financial services, healthcare and government sectors where we currently have a significant market presence, and which generated 84% of Group revenues in 2020. This has provided the Group with resilience during the COVID-19 pandemic, with limited exposure to those sectors more impacted by the lockdown.

Our marketing activities include the recent release of ‘LaunchPads’, which are groups of applications targeted for particular industry verticals, such as the water industry, which provide prospective customers with an easy entry point to Liberty Create.

New customer implementations include:

- A FTSE-100 financial services company used Liberty to streamline a number of complex insurance claims processes and manage the high volume of claims, as well as improving communication with customers while their claim was being processed. Through Liberty Create the financial services company has now automated processes and customer communications for various insurance products, replacing a legacy implementation.

- A global broadcaster has adopted Liberty to automate and streamline advert bookings across multiple products improving efficiency, management and reporting. The Liberty platform has replaced a legacy solution involving significant manual intervention.

Growth through Land and Expand

Many of our customers initially purchase an entry level solution with the objective of rolling out further applications over time and deploying the systems more widely to support their future customer engagement and digital transformation initiatives. This combined with continuous enhancements to our product portfolio and tighter integration between the various solutions, provides substantial cross and up-sale opportunities in three areas:

- Low-code solutions, which represent the largest opportunity as our existing customers digitise and modernise their operations enabling them to further leverage their existing Liberty estate. The ACV of a Low-code cross-sales is a significant uplift on the average customer spend which emphasises the potential value of Low-code sales into the existing customer base;

- evolution of transitioning our premise-based customers to cloud solutions. This opportunity is in its infancy where we see growing number of customers 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 stimulate cross-sales and fast-track implementations we are also providing several pre-built accelerators and modules via our AppShare which supplement the existing Liberty applications. The number of accelerators and modules have now increased to well over 100, several of which have been designed and uploaded by our customers and partners. From launch in September 2019, there are today more than 300 different organisations participating in the community with developers and business users benefiting from the apps, best practice sharing and previews of new functionality among other things.

This includes the module Citizen Hub, for local authorities, which is a suite of pre-built business processes and citizen portals that can be downloaded for Liberty Create and integrated with our customer engagement solutions. We have a number of live customers for Citizen Hub and an extensive roadmap of additional applications to be added.

For example, Croydon Council used Liberty Create to build and launch a business rates claim solution in just nine days following the outbreak of COVID-19. The solution included a business register which allowed applicants to follow their claim progress right the way through, enabling the office team to check and process the grants that the business owners desperately needed.

Continued innovation and enhancement of our platform

We continue to invest in the technical enhancement of our Liberty platform and innovations over the financial year included:

- The incorporation of Google Cloud's Artificial Intelligence services within our Low-code, Liberty Create solution, enabling the quick creation of intelligent enterprise applications. We also completed the development of our Low-code Monitor Studio which enables an organisation to automate the entirety of the software development lifecycle within the Liberty Create platform; deploying apps through the Controller; developing using Build/Code Studios; testing using test Studio and now monitoring using Monitor Studio; all on a single platform through a unified interface.

- Within our Contact Centre, Liberty Converse solution, the development of integrated workforce management which allows managers to plan shifts and monitor adherence in real-time, ensuring that Contact Centres are staffed correctly in order to meet customer demand. An integrated softphone for agents that allows calls to be handled directly within the app, means there is no need for separate handsets. Furthermore, we added the ability to queue back-office tasks (such as order processing, expenses, and HR activities) into appropriately skilled agents and thereby automatically distributing all kinds of work while providing visibility of workload and employee performance. This insight can help improve throughput, achieve SLAs and deliver an enhanced customer experience.

- Within our conversational messaging and bot platform, Liberty Connect, the launch of Web Messaging introduced a new communications channel, enabling consumers to engage in both inbound and proactive outbound messaging on customer websites. This is complemented by a natural language enabled bot designer for creating tailored conversation flows and intelligent FAQ answers that work seamlessly across web, social, and SMS channels. Moreover, customers can further increase their self-service and automation capabilities by integrating their back-end systems into their bots with the introduction of Connect's app developer framework.

COVID-19 related innovation

A number of innovations on our road-map have been fast-tracked as a result of the COVID-19 pandemic. The increased adoption of Microsoft Teams within our core customer base drove the development of an integration being made available for both Liberty Create and Liberty Converse. Native video was also added to Liberty Create to support virtual appointments within apps built on the Low-code platform. Patient Hub, our digital appointment management service built using Liberty Create, can now deliver COVID-19 results to patients, ask patients to confirm they do not have symptoms before attending appointments, and help hospitals manage patients waiting outside rather than in a waiting room using our 'I've Arrived' app.

Internally, we have also used our Liberty platform to drive digital transformation. This includes our new Liberty Create based CRM system, "Hive", our new support portal, "Nest", and our new help portal, "Docs", on our Liberty Create platform, just like our "Community" app is managed and driven by Liberty Create. In addition, we are using the latest version of our Liberty Converse, deployed in the Amazon cloud, AWS, to support customer enquiries.

Growing our partner base

Partners are an important additional route to market, providing the scope to access new markets and scale our business opportunity faster. The aim is to grow revenue via partners significantly by assisting them in creating new offerings and revenue streams from their customers. We are building an eco-system of partners with industry knowledge and delivery and support capabilities, focusing on large organisations with global footprints.

The year saw the launch of a new Managed Service Partner programme, building on the initial success of our partner programme last year. We now offer various packages, each including a mix of sales enablement, marketing support and technical training. The first partners have now signed up to the programme and initial customer wins have been secured. We will continue to grow this part of the business in the year ahead.

New partners include:

- CGI Group, among the largest independent IT and business consulting services firms' in the world, with approximately 77,500 consultants and professionals across the globe. CGI Group has developed its own solutions based on Liberty Create.

- Gobeyond, a leading provider of consulting, training, innovative technology and next generation managed services through whom we won an initial contract supplying Liberty Create to a financial services customer.

Financial Review

The Group's revenue comprises the following components:

- Cloud services: revenue subscription and usage fees for 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: software license sales with supporting hardware.

- Professional services: consultancy, implementation and training services.

The Group continues its transition to a digital cloud business, having reached an inflection point last year, with new Cloud services bookings continuing to exceed new Product and Product support contract sales.

Group revenue increased 10% to £25.1m (FY19: £22.9m) of which Low-code solutions now represent £8.99m (FY19: £7.66m) of Group revenues, increasing 17% in the year.

As a result of the change in sales mix towards recurring revenue models, total ACV at 30 June 2020 increased by 7% year over year to £16.8m, with Cloud services ACV up 25% year over year to £5.4m. ACV, as at 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. The table below sets out ACV at the end of the last three financial years:

£'m ACV	FY20	FY19	FY18
Low-code	5.4	4.5	3.3
Liberty cloud	2.1	1.5	1.5
Total cloud	**7.5**	**6.0**	**4.8**
Support contract	9.3	9.7	9.4
Total	**16.8**	**15.7**	**14.2**

The table below sets out revenue by component for the last three financial years:

£'m Revenue	FY20	FY19	FY18
Cloud services	6.6	5.7	4.3
Product support contracts	9.6	9.3	8.9
Total Cloud services & Product support contracts	**16.1**	**15.0**	**13.2**
Communication services	1.9	1.8	2.3
Product	3.1	2.3	3.1
Professional services	4.0	3.8	3.3
Total	**25.1**	**22.9**	**21.9**

Revenue from Cloud services increased by 14% to £6.55m (FY19: £5.74m) reflecting the higher year over year Cloud service ACV. The comparative period figure included a one-off termination fee of £0.5m which excluding this gives an underlying growth rate of 25%.

Product support contract revenue increased by 3% to £9.56m (FY19: £9.26m) as a result of the contribution of new product sales and price rises.

Cloud service and product support contract revenues, which are recurring in nature, total £16.1m (FY19: £15.0m) are 64% of overall revenues (FY19: 66%).

Communication services revenue increased by 7% to £1.93m (FY19: £1.81m) due to higher application driven messaging volumes and call-back usage.

Product revenue increased by 34% to £3.07m (FY19: £2.29m) due to higher sales to NHS and Public Sector organisations.

Professional services revenue increased 5% to £4.01m (FY19: £3.81m) due to demand for implementation services for Cloud service and Product solutions. The overall demand for our professional services is dependent on:

- the mix of direct and indirect sales of our solutions, in the latter case our partners provide the related services directly for the end customer; and

- whether a customer requires the support of a full application development service or support to enable their own development teams.

Gross profit margin was 88% (FY19: 90%) mainly due to an increase in outsourced and insourced consultants from partners to supplement our in-house teams in delivering professional services.

Administrative expenses, before depreciation, amortisation, impairment, share-based payments and acquisition related items increased to £17.8m (FY19: £17.1m) reflecting an underlying increase of 5%, a result of the previously announced investment programme into our business, offset by a reduction of £0.30m in operating lease payments following the Group's adoption of IFRS 16 'Leases' (see note 8 for further information).

Consequently, Group adjusted EBITDA on an IFRS 16 basis increased by 29% to £4.41m (FY19: £3.41m), a margin of 18% of revenue (FY19: 15%). Adjusted EBITDA on an IAS17 basis increased by 21% to £4.12m (see note 8 for further information).

Profit before tax was £0.50m (FY19: £0.75m) after accounting for acquisition related items and interest on borrowings taken out to fund the acquisition of MatsSoft in August 2017 and higher depreciation and amortisation of capitalised development.

The Group tax charge of £0.01m (FY19: £0.14m) represents an effective rate of tax of 1% (FY19: 10%) on adjusted profit before tax. The underlying effective rate of tax is lower than the headline rate of corporation tax principally due to deductions for R&D expenditure.

Basic earnings per share was 0.34 pence (FY19: 0.43 pence) and increased by 27% to 1.01 pence on an adjusted basis (FY19: 0.80 pence). Diluted earnings per share was 0.33 pence (FY19: 0.41 pence) and increased 28% to 0.97 pence on an adjusted basis (FY19: 0.76 pence).

Cash generated from operations increased by 37% to £9.39m (FY19: £6.84m), a conversion of 213% (FY19: 202%) of adjusted EBITDA. The normalised cash conversion rate was 163% when adjusted for £2.21m of VAT payments that were deferred due to COVID-19 until March 2021. In addition, the comparative including £0.30m of rental payments under IAS 17 Leases which are now accounted as lease liabilities under IFRS 16 Leases (see note 8).

Spending on research and development, including capitalised software development, was £3.59m (FY19: £3.21m) of which capitalised software expenditure was £1.71m (FY19: £1.53m).

Total capital expenditure was £1.86m (FY19: £2.96m); the balance after capitalised development, being £0.16m (FY19: £1.43m) was significantly lower as the comparative period included new office fit-out.

The Company acquired MatsSoft Limited in August 2017. The purchase agreement provided for potential further cash and shares to be paid dependent on achieving specified performance targets over various periods from completion of the acquisition. In October 2019, the fair value of the remaining contingent consideration was re-estimated at £1.76m resulting in £0.04m being debited to the income statement as a change in estimate of fair value. During the period the Company paid £1.76m comprising £1.68m in cash and £0.08m in shares under this arrangement, bringing the total consideration paid to £15.6m. No further payments are expected under this agreement.

To support the acquisition, the Company issued a £7m Loan Note. Interest payments under the Loan Note in the period totalled £0.48m (FY19: £0.59m). The Loan Note is unsecured and is repayable in six instalments from 30 September 2022 to 31 March 2025. See note 7 for further information.

The Group applied IFRS 16 Leases for the first time, whereby it recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. IFRS 16 was adopted using the modified retrospective approach and lease liabilities of £0.90m and a right-of-use asset £0.82m were recognised on 1 July 2019. See note 8 for further information.

As a result of these factors, net funds were £4.82m at 30 June 2020 (30 June 2019: £1.14m). See note 7 for further information.

Dividend

In line with the Company's dividend policy to pay-out 25% of adjusted earnings per share, the Board is proposing a final dividend for this financial year of 0.25p (FY19: 0.20p). If approved, the final dividend will be paid on 9 February 2021 to shareholders on the register at the close of business on 29 December 2020.

Audited consolidated income statement for the year ended 30 June 2020

	2020 £'000	2019 £'000
Revenue	**25,114**	22,903
Cost of sales	**(2,930)**	(2,329)
Gross profit	**22,184**	20,574
Administrative expenses	**(20,926)**	(19,058)
Other losses – net	**(24)**	(11)
Adjusted EBITDA	**4,413**	3,411
Depreciation	**(657)**	(310)
Net loss on disposal of property, plant and equipment	**-**	(2)
Amortisation of acquired intangible assets	**(483)**	(512)
Amortisation of other intangible assets	**(1,344)**	(1,120)
Change in fair value of contingent consideration (see note 4)	**(37)**	865
Post-completion services (see note 4)	**(33)**	(244)
Share-based payments	**(625)**	(583)
Operating profit	**1,234**	1,505
Finance income	**38**	41
Finance costs	**(775)**	(794)
Finance costs – net	**(737)**	(753)
Profit before tax	**497**	752
Tax charge	**(10)**	(142)
Profit for the year	**487**	610
Earnings per share – pence		
Basic	**0.34**	0.43
Diluted	**0.33**	0.41

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 2020

	2020 £'000	2019 £'000
Profit for the year	**487**	610
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**(14)**	(17)
Total other comprehensive income for the year	**(14)**	(17)
Total comprehensive income for the year	**473**	593

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

Audited consolidated balance sheet at 30 June 2020

	2020	2019
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	**960**	1,210
Right-of-use assets	**970**	-
Intangible assets	**29,078**	29,188
Deferred tax asset	**482**	501
Financial assets at fair value through other comprehensive income	**72**	72
Total non-current assets	**31,562**	30,971
Current assets		
Inventories	**139**	165
Other current assets	**1,392**	1,314
Contract assets	**585**	1,178
Trade receivables	**3,957**	3,864
Other financial assets at amortised cost	**4**	100
Cash and cash equivalents	**12,710**	7,769
Total current assets	**18,787**	14,390
Total assets	**50,349**	45,361
Liabilities		
Non-current liabilities		
Contract liabilities	**104**	207
Borrowings	**6,745**	6,632
Lease liabilities	**902**	-
Deferred tax liabilities	**842**	851
Provisions	**-**	77
Total non-current liabilities	**8,593**	7,767
Current liabilities		
Trade and other payables	**6,907**	5,265
Contract liabilities	**11,724**	10,395
Lease liabilities	**248**	-
Total current liabilities	**18,879**	15,660
Total liabilities	**27,472**	23,427
Net assets	**22,877**	21,934
Equity attributable to owners of Netcall plc		
Share capital	**7,312**	7,259
Share premium	**3,015**	3,015
Other equity	**4,900**	4,832
Other reserves	**3,996**	4,440
Retained earnings	**3,654**	2,388
Total equity	**22,877**	21,934

Audited consolidated statement of cash flows for the year ended 30 June 2020

	2020	2019
	£'000	£'000
Cash flows from operating activities		
Profit before income tax	**497**	752
Adjustments for:		
Depreciation and amortisation	**2,484**	1,942
Loss on disposal of property, plant and equipment	**-**	2
Share-based payments	**625**	583
Net finance costs	**737**	753
Other non-cash expenses	**1**	-
Changes in operating assets and liabilities, net of effects from purchasing of subsidiary undertaking:		
Decrease in inventories	**26**	51
(Increase)/ decrease in trade receivables	**(92)**	2,216
Decrease in contract assets	**589**	252
Decrease in other financial assets at amortised cost	**100**	24
Increase in other current assets	**(107)**	(257)
Increase/ (decrease) in trade and other payables	**3,334**	(242)
Increase in contract liabilities	**1,223**	862
Decrease in provisions	**(29)**	(95)
Cash flows from operations	**9,388**	6,843
Interest received	**38**	41
Interest paid	**(6)**	(4)
Net cash inflow from operating activities	**9,420**	6,880
Cash flows from investing activities		
Payment for acquisition of subsidiary, net of cash acquired	**(1,679)**	(591)
Payment for property, plant and equipment	**(146)**	(1,078)
Payment of software development costs	**(1,708)**	(1,532)
Payment for other intangible assets	**(9)**	(350)
Proceeds from sale of property, plant and equipment	**-**	1
Net cash outflow from investing activities	**(3,542)**	(3,550)
Cash flows from financing activities		
Proceeds from issues of ordinary shares	**39**	16
Interest paid on Loan Notes	**(478)**	(590)
Principle element of lease payments	**(199)**	-
Dividends paid to Company's shareholders	**(287)**	(758)
Net cash outflow from financing activities	**(925)**	(1,332)
Net increase in cash and cash equivalents	**4,953**	1,998
Cash and cash equivalents at beginning of the financial year	**7,769**	5,779
Effects of exchange rate on cash and cash equivalents	**(12)**	(8)
Cash and cash equivalents at end of financial year	**12,710**	7,769

Audited consolidated statement of changes in equity at 30 June 2020

	Share capital £'000	Share premium £'000	Other equity £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 30 June 2018	**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 paid	-	-	-	-	(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 as original presented	**7,259**	**3,015**	**4,832**	**4,440**	**2,388**	**21,934**
Change in accounting policy (note 8)	-	-	-	-	14	**14**
Restated balance at 30 June 2019	**7,259**	**3,015**	**4,832**	**4,440**	**2,402**	**21,948**
Issue of ordinary shares as consideration for an acquisition in a business combination	14	-	68	-	-	**82**
Proceeds from share issue	39	-	-	-	-	**39**
Increase in equity reserve in relation to options issued	-	-	-	622	-	**622**
Reclassification following exercise or lapse of options	-	-	-	(1,052)	1,052	**-**
Dividends paid	-	-	-	-	(287)	**(287)**
Transactions with owners	**53**	**-**	**68**	**(430)**	**765**	**456**
Profit for the year	-	-	-	-	487	**487**
Other comprehensive income for the year	-	-	-	(14)	-	**(14)**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**(14)**	**487**	**473**
Balance at 30 June 2020	**7,312**	**3,015**	**4,900**	**3,996**	**3,654**	**22,877**

Notes to the financial information for the year ended 30 June 2020

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 2020 as updated for new standards and interpretations effective from 1 July 2019. The Group has adopted IFRS 16 ‘Leases’ from 1 July 2019, replacing IAS 17 ‘Leases’, see note 8 for details. No other significant changes to accounting policies are expected for the year ending 30 June 2020.

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 2020 or 2019. Statutory accounts for the years ended 30 June 2020 and 30 June 2019 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 2019 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 June 2020 will be delivered to the Registrar in due course. Copies of the Annual Report 2020 will be posted to shareholders on or about 17 November 2020. 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.

	2020	2019
	£’000	£’000
Change in fair value of contingent consideration[1]	**(37)**	865
Post completion services expense[2]	**(33)**	(244)
	(80)	621

[1] The purchase agreement of MatsSoft Ltd provided for potential further cash and shares to be paid dependent on achieving specified performance targets over various periods from completion of the acquisition. In October 2019, the fair value of the remaining contingent consideration was re-estimated at £1.76m resulting in £0.04m being debited to the income statement as a change in estimate of fair value. During the period the Company paid £1.76m comprising £1.68m in cash and £0.08m in shares under this arrangement, bringing the total consideration paid to £15.6m. No further payments are expected under this agreement.

[2] 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 2020	30 June 2019
Net earnings attributable to ordinary shareholders (£'000)	487	610
Weighted average number of ordinary shares in issue (thousands)	143,588	143,038
Basic earnings per share (pence)	**0.34**	**0.43**

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 2020	30 June 2019
Weighted average number of ordinary shares in issue (thousands)	143,588	143,038
Adjustments for share options	5,839	6,085
Weighted average number of potential ordinary shares in issue (thousands)	149,427	149,123
Diluted earnings per share (pence)	**0.33**	**0.41**

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:

£'000	30 June 2020	30 June 2019
Profit used for calculation of basic and diluted EPS	**487**	**610**
Change in fair value of contingent consideration (see note 4)	37	(865)
Share-based payments	625	583
Post completion services (see note 4)	33	244
Amortisation of acquired intangible assets	483	512
Unwinding of discount – contingent consideration & borrowings	123	181
Tax effect of adjustments	(332)	(125)
Profit used for calculation of adjusted basic and diluted EPS	**1,456**	**1,140**

	30 June 2020	30 June 2019
Adjusted basic earnings per share (pence)	**1.01**	0.80
Adjusted diluted earnings per share (pence)	**0.97**	0.76

6. Dividends

Year to June 2020	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	June 2020 balance sheet (£'000)
Final ordinary dividend for the year to June 2019	5/2/20	0.20p	287	287	-
			287	**287**	**-**

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**	**-**

It is proposed that this year's final ordinary dividend of 0.25 pence per share will be paid to shareholders on 9 February 2021. Netcall plc shares will trade ex-dividend from 24 December 2020 and the record date will be 29 December 2020. The estimated amount payable is £0.36m. 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 reconciliation

£'000	30 June 2020	30 June 2019
Cash and cash equivalents	12,710	7,769
Borrowings – fixed interest and repayable after one year (1)	(6,745)	(6,632)
Lease liabilities	(1,150)	-
Net funds	**4,815**	**1,137**

(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.

8. IFRS 16 'Leases'

The Group has adopted IFRS 16 'Lease's retrospectively from 1 July 2019, but has not restated comparatives for the 30 June 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore not recognised in the opening balance sheet on 1 July 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.25%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and,
- using hindsight in determining the lease where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Measurement of lease liabilities

£'000	
Operating lease commitments at 30 June 2019	770
Add property lease dilapidations	227
Discounted using the incremental cost of borrowing at 1 July 2019	(93)
Lease liability recognised at 1 July 2019	**904**
Of which are:	
Current lease liabilities	179
Non-current lease liabilities	725
	904

Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

Adjustments recognised in the balance sheet on 1 July 2019
The change in accounting policy affected the following items in the balance sheet on 1 July 2019.

£'000	
Right-of-use assets	819
Prepayments	(15)
Accruals	37
Lease liabilities	(904)
Provisions – property lease dilapidations	77
Net impact on retained earnings	**14**

Impact of change on income statement
In order to show the impact of IFRS 16 and to facilitate a comparison of results with the prior year, a reconciliation is presented below for the year ended 30 June 2020 as reported on an IFRS 16 basis with the former IAS17 basis.

£'000	30 June 2020 (IFRS 16 basis)	IFRS 16 impact	30 June 2020 (IAS 17 basis)
Adjusted EBITDA	4,413	(297)(1)	4,116
Depreciation	(657)	261(2)	(396)
Amortisation of acquired intangible assets	(483)	-	(483)
Amortisation of other intangible assets	(1,344)	-	(1,344)
Change in fair value of contingent consideration	(37)	-	(37)
Post-completion services	(33)	-	(33)
Share-based payments	(625)	-	(625)
Finance costs – net	(737)	32(3)	(705)
Profit before tax	**497**	**(4)**	**493**

(1) reduced lease rental charge on IFRS 16 basis
(2) additional depreciation on right-of-use asset recognised under IFRS 16
(3) additional interest cost on leases recognised under IFRS 16