27 February 2020

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

Interim results for the six months ended 31 December 2019
Low-code solutions driving growth

Netcall plc (AIM: NET), the leading provider of Low-code and customer engagement software, today announces its unaudited interim results for the six months ended 31 December 2019.

Financial highlights

- Revenue up 8% to £12.3m (H1-FY19: £11.4m)
- Total annual contract value(1) (‘ACV’) at 31 December 2019 up 10% to £16.6m (H1-FY19: £15.1m) - Low-code ACV of £5.1m up 21% year over year
- Adjusted EBITDA(2) up 5% to £2.12m (H1-FY19: £2.02m)
- Profit before tax of £0.14m (H1-FY19: £0.42m)
- Cash generated from operations of £1.57m (H1-FY19: £1.85m)
- Group cash at 31 December 2019 was £6.50m offsetting debt of £6.69m

Operational highlights

- Low-code business increased 22% and now represents 33% of Group revenues as a result of continued new customer acquisition and cross-sales into the existing customer base
- Recurring revenue from Low-code cross-sales generally three times higher than the current average support contract
- Launched Liberty Connect conversational messaging and bot platform providing new cloud revenue opportunities with first orders received
- Increased professional service and product revenue
- High levels of customer renewals contributing to growing support revenue
- New releases of our Low-code and contact centre platforms

Henrik Bang, Chief Executive, said:

“The first half of Netcall’s financial year showed strong growth in Low-code solutions and ACV contributing to the increase in revenue and adjusted EBITDA. Low-code ACV increased 21% to £5.1m which underpinned 42% growth in Low-code cloud revenues. We continued to benefit from our transition to a recurring revenue model with total revenue increasing by 8% to £12.3m supported by ACV growth of 10% to £16.6m.

“Our market leading Low-code solution and customer engagement offerings address a rapidly growing market, as organisations face pressure to implement digital solutions to modernise their operations. We expect that the technology macro drivers will support future growth as we bring innovative solutions to market, expanding our digital cloud business.

“Trading in the first half was in line with the Board’s expectations. The high level of recurring revenue and a healthy sales pipeline, combined with our comprehensive product offering, reinforces the Board’s confidence in the prospects of Netcall.”

[1] 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.

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

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About Netcall:

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.

For further information, please go to www.netcall.com.

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.

Strategic overview

Netcall delivered a good trading performance, with continued growth in our key metrics and progress against each of our four strategic pillars.

Our investments are facilitating the transition towards a digital cloud business, resulting in improved quality of earnings, a differentiated product offering and an expanding market opportunity in a rapidly growing market.

Total ACV grew 10% in the period to £16.6m, with Low-code ACV up 21% year on year. 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 cloud bookings continued to drive sales, and we also saw positive trading performances from product sales and professional services.

As a result, recognised revenues increased by 8% to £12.3m which lifted the Group's adjusted EBITDA by 5% to £2.12m. The comparable prior period included a one-off termination fee of £0.5m. The underlying growth rate of the business excluding this was 13% in revenue and 14% in adjusted EBITDA. Revenue from Low-code solutions grew 22% in the period and now represent 33% of Group revenues corresponding to £4.14m (H1-FY19: £3.38m).

The business model is underpinned by our highly profitable and cash generative product and support revenue streams, which also both grew in the period. The profits and cash generated from this business sector provides the means to invest in our Low-code and cloud operations, as we look to capitalise on the rapidly expanding Low-code market opportunity.

Current trading and outlook

The Group has traded in line with the Board's expectations for the year to date and the forward visibility of revenue continues to grow. The Board noted an increase in business confidence towards the end of the period and it continues to monitor the trading environment with regards to the timing of sales contracts. We have entered the second half of the year with a healthy sales pipeline, which combined with our financial position and continuing investment in our business and people, provide the Board with confidence in the 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 that addresses best-in-class customer experience and digital process automation.

Our industry leading Liberty platform is an integrated customer experience suite of solutions. The platform includes three core solutions; a cloud based Low-code platform for digital process automation, a cloud based conversational messaging and chatbot platform and a complete contact centre suite.

The platform empowers business users and IT developers, at organisations such as Hampshire Trust Bank and Dreams, as described below, to collaboratively deliver solutions that support leaner and more customer-centric organisations.

The addressable market opportunity is large and industry analysts expect it to grow 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.

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 over time and deploying the solutions more widely to support their future customer engagement and digital transformation initiatives. This combined with continuous enhancements to our product portfolio, 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;

- evolution 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.

An example of customer upsell in the period was Hampshire Trust Bank, an existing Low-code customer who upgraded from an entry level licence to an enterprise licence, having delivered a project four months earlier than planned at less than a third of the anticipated cost, through the use of Liberty Create.

To stimulate 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, 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 have secured several new sales at the start of the second half of the year.

From launch in September 2019, there are today more than 500 registered users of the community, developers and business users benefiting from apps, best practise sharing and previews of new functionality among other things.

Expansion of our customer base

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

New customers secured in the period included Dreams, who purchased all three Liberty solutions, replacing its siloed customer engagement solutions with a single integrated solution to deliver a seamless experience to customers across all its service channels. Our all-in-one customer experience platform will enable the retailer to make transformational changes quickly and improve agent performance by weaving all channels into a single customer conversation. Liberty Create will be used to improve processes and build better customer journeys. Liberty Converse and Connect will deliver voice, email and web chat capabilities to improve agent performance in the contact centre.

Continued innovation

We continue to invest in innovation to strengthen our Liberty platform with a focus on creating new solutions for our customers that will drive revenue growth.

Our Liberty suite covers three integrated solution areas:

- Liberty Create: A low-code software solution which enables the creation of apps that drives workflows and business processes with integration to our communication services as well as back-end systems.

- Liberty Converse: A complete omnichannel contact centre solution for customer engagement which also includes solutions such as speech bots, switchboard and auto attendant.

- Liberty Connect: A cloud messaging and bot platform enabling customers to extend their reach using digital channels like Facebook Messenger and Twitter as well as benefit from bots and automation, launched in September.

In addition to the strong sales of Liberty Create, the period saw the launch and initial sales of Liberty Connect and higher sales of Liberty Converse.

In the period we also released new versions of both Create and Converse with substantial new enhancements and functionality and further releases are scheduled for the beginning of 2020.

For example, Liberty Create was enhanced to include an industry first integrated Test Studio for recording and automation of app testing. This can replace third party testing tools which are costly and complicated to integrate and it enables citizen developers quickly to automate app-testing rather than having to rely on scarce Quality Assurance resources.

Releases planned for the second half of the year include AI integrations and the introduction of bots, including a series of pre-built bot solutions and an easy to use bot-designer that will enable users to build automated bot work-flows that will work across all Connect communication channels.

Growing our partner base

Partners are an important additional route to market, providing the opportunity 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. An example of this is Panasonic, which recently announced that its range of SIP Communication Solutions are now fully integrated with Liberty Converse.

The period 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.

Financial Review

The Group’s revenue comprises the following components:

- Cloud services: 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: 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 8% to £12.3m of which Low-code solutions now represent £4.14m (H1-FY19: £3.38m) of Group revenues, increasing 22% in the period.

As a result of the change in sales mix towards recurring revenue models, total ACV at 31 December 2019 increased by 10% year over year to £16.6m, with Low-code ACV up 21% year over year to £5.1m. 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 last three interim periods:

£'m ACV	H1-FY20	H1-FY19	H1-FY18
Low-code	5.1	4.2	3.0
Liberty cloud	1.6	1.3	1.3
Total cloud	**6.7**	**5.5**	**4.3**
Support contract	9.9	9.6	9.5
Total	**16.6**	**15.1**	**13.8**

The table below sets out revenue by component for the last three interim periods:

£'m Revenue	H1-FY20	H1-FY19	H1-FY18
Cloud services	3.2	3.0	2.0
Product support contracts	4.7	4.6	4.4
Total Cloud services & Product support contracts	**7.9**	**7.6**	**6.5**
Communication services	1.1	0.9	1.1
Product	1.2	1.0	1.8
Professional services	2.1	1.8	1.3
Total	**12.3**	**11.4**	**10.7**

Revenue from Cloud services increased by 5% to £3.16m (H1-FY19: £3.01m) 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 26%.

Product support contract revenue increased by 2% to £4.72m (H1-FY19: £4.63m) as a result of high contract retention combined with the contribution of new product sales and price rises.

Communication services revenue increased by 18% to £1.11m (H1-FY19: £0.94m) due to higher application driven messaging volumes and call-back usage.

Product revenue increased by 21% to £1.19m (H1-FY19: £0.98m) due to higher sales to NHS and Public Sector organisations.

Professional services revenue increased 16% to £2.08m (H1-FY19: £1.80m) 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% (H1-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, share-based payments and acquisition related items, increased to £8.61m (H1-FY19: £8.23m) reflecting an underling increase of 5%, a result of the previously announced investment programme into our organisation, offset by a reduction of £0.14m in operating lease payments following the Group's adoption of IFRS 16 'Leases' (see note 7 for further information).

Consequently, the Group’s adjusted EBITDA was £2.12m (H1-FY19: £2.02m), a margin of 17% of revenue (H1-FY19: 18%).

Profit before tax was £0.14m (H1-FY19: £0.42m) 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 £0.10m (H1 FY19: £0.12m) represents an underlying effective rate of tax of 13% (H1 FY19: 13%) on adjusted profit before tax. The underlying effective rate of tax benefited from additional deductions for R&D expenditure and utilisation of previously unrecognised losses brought forward.

Basic earnings per share was 0.03 pence (H1-FY19: 0.20 pence) and 0.48 pence on an adjusted basis (H1-FY19: 0.61 pence). Diluted earnings per share was 0.02 pence (H1-FY19: 0.20 pence) and 0.46 pence on an adjusted basis (H1-FY19: 0.60 pence).

Cash generated from operations was £1.57m (H1-FY19: £1.85m) a conversion of 74% (H1-FY19: 92%) of adjusted EBITDA. Cash conversion is typically weighted to the second half of the financial year due to the timing of Cloud service and support contract annual billings. In addition, the comparative period included the benefit of a positive unwinding of a timing difference from 2017.

Spending on research and development, including capitalised software development, increased to £1.67m (H1-FY19: £1.45m) of which capitalised software expenditure was £0.74m (H1-FY19: £0.71m).

Total capital expenditure was £0.81m (H1-FY19: £1.07m); the balance after capitalised development, being £0.07m (H1-FY19: £0.36m) relating to IT and office assets.

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 due under this agreement.

To support the acquisition in 2017, the Company issued a £7m Loan Note (see note 6). Loan Note interest payments in the period totalled £0.30m (H1-FY19: £0.29m).

As a result of these factors, net debt was £0.19m at 31 December 2019 (31 December 2018: £0.77m).

Unaudited consolidated income statement for the six months to 31 December 2019

£'000	Unaudited Six months to 31 December 2019	Unaudited Six months to 31 December 2018	Audited 12 months to 30 June 2019
Revenue	**12,267**	**11,354**	**22,903**
Cost of sales	(1,510)	(1,121)	(2,329)
Gross profit	**10,757**	**10,233**	**20,574**
Administrative expenses	(10,218)	(9,450)	(19,058)
Other gains/ (losses) – net	(35)	15	(11)
Adjusted EBITDA	**2,115**	**2,015**	**3,411**
Depreciation	(332)	(143)	(310)
Net loss on disposal of property, plant and equipment	(1)	-	(2)
Amortisation of acquired intangible assets	(248)	(259)	(512)
Amortisation of other intangible assets	(633)	(509)	(1,120)
Change in fair value of contingent consideration	(37)	121	865
Post-completion services	(33)	(147)	(244)
Share-based payments	(327)	(280)	(583)
Operating profit	**504**	**798**	**1,505**
Finance income	23	20	41
Finance costs	(391)	(403)	(794)
Finance costs – net	**(368)**	**(383)**	**(753)**
Profit before tax	**136**	**415**	752
Tax charge	(99)	(124)	(142)
Profit for the period	**37**	**291**	**610**
Earnings per share – pence			
Basic	0.03	0.20	0.43
Diluted	0.02	0.20	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.

Unaudited statement of comprehensive income for the six months to 31 December 2019

£'000	Unaudited Six months to 31 December 2019	Unaudited Six months to 31 December 2018	Audited 12 months to 30 June 2019
Profit for the period	**37**	**291**	**610**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences arising on translation of foreign operations	11	(19)	**(17)**
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	-	-	-
Total comprehensive income for the period	**48**	**272**	**593**

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

Unaudited consolidated balance sheet at 31 December 2019

£'000	Unaudited 31 December 2019	Unaudited 31 December 2018	Audited 30 June 2019
Assets			
Non-current assets			
Property, plant and equipment	1,071	627	1,210
Right-of-use assets	690	-	-
Intangible assets	29,054	28,913	29,188
Deferred tax asset	423	473	501
Financial assets at fair value through other comprehensive income	72	72	72
Total non-current assets	**31,311**	**30,085**	**30,971**
Current assets			
Inventories	63	186	165
Other current assets	1,232	1,186	1,314
Contract assets	1,232	1,765	1,178
Trade receivables	3,311	5,028	3,864
Other financial assets at amortised cost	145	176	100
Cash and cash equivalents	6,502	5,808	7,769
Total current assets	**12,485**	**14,149**	**14,390**
Total assets	**43,796**	**44,234**	**45,361**
Liabilities			
Non-current liabilities			
Other payables	-	-	-
Contract liabilities	171	271	207
Borrowings	6,689	6,576	6,632
Lease liabilities	635	-	-
Deferred tax liabilities	869	786	851
Provisions	-	57	77
Total non-current liabilities	**8,364**	**7,690**	**7,767**
Current liabilities			
Trade and other payables	3,527	5,512	5,265
Dividend payable	287	758	-
Contract liabilities	9,316	8,788	10,395
Current tax liabilities	-	18	-
Lease liabilities	198	-	-
Provisions	-	128	-
Total current liabilities	**13,328**	**15,204**	**15,660**
Total liabilities	**21,692**	**22,894**	**23,427**
Net assets	**22,104**	**21,340**	**21,934**
Equity attributable to the owners of the parent			
Share capital	7,275	7,242	7,259
Share premium	3,015	3,015	3,015
Other equity	4,900	4,832	4,832
Other reserves	3,900	4,231	4,440
Retained earnings	3,014	2,020	2,388
Total equity	**22,104**	**21,340**	**21,934**

Unaudited consolidated statement of changes in equity at 31 December 2019

£'000	Share capital	Share premium	Other equity	Other reserves	Retained earnings	Total equity
Balance at 1 July 2018	**7,242**	**3,015**	**4,832**	**3,917**	**2,482**	**21,488**
Share-based payments	-	-	-	376	-	**376**
Reclassification following exercise or lapse of share options	-	-	-	(5)	5	**-**
Tax debit relating to share options	-	-	-	(38)	-	**(38)**
Dividends to equity holders of the company	-	-	-	-	(758)	**(758)**
Transactions with owners	-	**-**	-	**333**	**(753)**	**(420)**
Profit for the period	-	-	-	-	291	**291**
Other comprehensive income for the period	-	-	-	(19)	-	**(19)**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**(19)**	**291**	**272**
Balance at 31 December 2018	**7,242**	**3,015**	**4,832**	**4,231**	**2,020**	**21,340**
Proceeds from share issue	16	-	-	-	-	16
Share-based payments	-	-	-	257	-	257
Reclassification following exercise or lapse of share options	1	-	-	(50)	49	-
Transactions with owners	**-**	**-**	**-**	**207**	**49**	**273**
Profit for the period	-	-	-	-	319	319
Other comprehensive income for the period	-	-	-	2	-	2
Profit and total comprehensive income for the period	**-**	**-**	**-**	**2**	**319**	**321**
Balance at 30 June 2019 as originally presented	**7,259**	**3,015**	**4,832**	**4,440**	**2,388**	**21,934**
Change in accounting policy (note 7)	-	-	-	-	17	17
Restated balance at 30 June 2019	**7,259**	**3,015**	**4,832**	**4,440**	**2,405**	**21,951**
Issue of ordinary shares as consideration for acquisition in a business combination	14	-	68	-	-	82
Proceeds from share issue	2	-	-	-	-	2
Share-based payments	-	-	-	307	-	307
Reclassification following exercise or lapse of share options	-	-	-	(859)	859	-
Tax debit relating to share options	-	-	-	1	-	1
Dividends to equity holders of the company	-	-	-	-	(287)	(287)
Transactions with owners	**16**	**-**	**68**	**(551)**	**572**	**105**
Profit for the period	-	-	-	-	37	37
Other comprehensive income for the period	-	-	-	11	-	11
Profit and total comprehensive income for the period	**-**	**-**	**-**	**11**	**37**	**48**
Balance at 31 December 2019	**7,275**	**3,015**	**4,900**	**3,900**	**3,014**	**22,104**

Unaudited consolidated cash flow statement for the six months to 31 December 2019

£'000	Unaudited Six months to 31 December 2019	Unaudited Six months to 31 December 2018	Audited 12 months to 30 June 2019
Cash flows from operating activities			
Profit before tax	137	414	752
Adjustments for:			
Depreciation and amortisation	1,213	911	1,942
Loss on disposal of fixed assets	1	4	2
Share-based payments	327	280	583
Net finance costs	368	383	753
Changes in working capital:			
Decrease in inventories	102	30	51
Decrease/ (increase) in trade receivables	550	1,052	2,216
Decrease/ (increase) in contract assets	(81)	(330)	252
(Increase)/ decrease in other financial assets at amortised cost	(16)	(57)	24
Decrease/ (increase) in other current assets	59	(124)	(257)
Decrease in trade and other payables	(20)	(49)	(242)
(Decrease)/ increase in contract liabilities	(1,066)	(679)	862
Increase/ (decrease) in provisions	-	12	(95)
Cash generated from operations	**1,574**	**1,847**	**6,843**
Interest received	23	20	41
Interest paid	(2)	(2)	(4)
Net cash inflow from operating activities	**1,595**	**1,865**	**6,880**
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	(1,679)	(462)	**(591)**
Purchases of property, plant and equipment	(64)	(327)	**(1,078)**
Payment of software development costs	(737)	(709)	**(1,532)**
Purchases of other intangible assets	(9)	(34)	**(350)**
Proceeds from sale of property, plant and equipment	-	-	**1**
Net cash outflow from investing activities	**(2,489)**	**(1,532)**	**(3,550)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	3	-	16
Interest paid on Loan Notes	(298)	(292)	(590)
Principal element of lease payments	(86)	-	-
Dividends paid to Company's shareholders	-	-	(758)
Net cash outflow from financing activities	**(381)**	**(292)**	**(1,332)**
Net (decrease)/ increase in cash and cash equivalents	**(1,275)**	**41**	**1,998**
Cash and cash equivalents at beginning of period	7,769	5,779	5,779
Effects of exchange rate changes on cash and cash equivalents	8	(12)	(8)
Cash and cash equivalents at end of period	**6,502**	**5,808**	**7,769**

Notes to the financial information for the six months ended 31 December 2019

1. General information
Netcall plc (AIM: "NET", "Netcall", "Group" or the "Company") is a leading provider of Low-code and 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 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 interim results consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The principal trading subsidiaries of Netcall are Netcall Technology Limited and Netcall Systems Limited (formerly Netcall Telecom Limited and MatsSoft Limited respectively).

These condensed half year financial statements for the half year ended 31 December 2019 have been prepared in accordance with the AIM Rules for Companies, comply with IAS 34 Interim Financial Reporting as adopted by the European Union and should be read in conjunction with the annual financial statements for the year ended 30 June 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

This results announcement is unaudited and 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 2019 has been derived from the full Group accounts published in the Annual Report and Accounts 2019, 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 2019 statutory accounts. The Group has adopted IFRS 16 'Leases' from 1 July 2019, replacing IAS 17 'Leases', see note 7 for details. No other significant changes to accounting policies are expected for the year ending 30 June 2020.

The results for the six months ended 31 December 2019 were approved by the Board on 26 February 2020. A copy of these interim results will be available on the Company's web site www.netcall.com from 27 February 2020.

The principal risks and uncertainties faced by the Group have not changed from those set out on page 9 of the annual report for the year ended 30 June 2019. The Group continues to monitor the impact of the UK leaving the European Union in January 2020 and the succeeding transition period on the ability of the Group's clients to do business.

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, a reconciliation of 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 2019	Six months to 31 December 2018	12 months to 30 June 2019
Net earnings attributable to ordinary shareholders (£'000s)	37	291	610
Weighted average number of ordinary shares in issue (000s)	143,455	142,978	143,038
Basic earnings per share (pence)	**0.03**	**0.20**	**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 period, adjusted for potentially dilutive shares that are not anti-dilutive.

	Six months to 31 December 2019	Six months to 31 December 2018	12 months to 30 June 2019
Weighted average number of ordinary shares in issue (000s)	143,455	142,978	143,038
Adjustments for share options (000s)	5,666	2,561	6,085
Weighted average number of potential ordinary shares in issue (000s)	149,121	145,539	149,123
Diluted earnings per share (pence)	**0.02**	**0.20**	**0.41**

Adjusted basic and diluted 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 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 2019	Six months to 31 December 2018	12 months to 30 June 2019
Profit used for calculation of basic and diluted EPS	**37**	**291**	**610**
Amortisation of acquired intangible assets	248	259	512
Change in fair value of contingent consideration	37	(121)	(865)
Post-completion services	33	147	244
Share-based payments	327	280	583
Unwinding of discount - contingent consideration & borrowings	67	95	181
Tax adjustment	(58)	(81)	(125)
Profit used for calculation of adjusted basic and diluted EPS	**691**	**870**	**1,140**

Pence	Six months to 31 December 2019	Six months to 31 December 2018	12 months to 30 June 2019
Adjusted basic earnings per share	**0.48**	0.61	0.80
Adjusted diluted earnings per share	**0.46**	0.60	0.76

5. Dividends

Dividends paid or declared during the period were as follows:

Six months to December 2019	Paid	Pence per share	Cash flow statement (£'000)	Statement of changes in equity (£'000)	December 2019 balance sheet (£'000)
Final ordinary dividend for year to June 2019[(1)]	5/2/20	0.20p	-	287	287
			-	**287**	**287**

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

[(1)] The final ordinary dividend for the year ended 30 June 2019 was approved at the Annual General Meeting held on 21 November 2019.

6. Net debt reconciliation

£'000	31 December 2019	31 December 2018	30 June 2019
Cash and cash equivalents	6,502	5,808	7,769
Borrowings – repayable after one year[(1)]	(6,689)	(6,576)	(6,632)

Net debt/ (funds)	**(187)**	**(768)**	**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.

7. 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
Deferred tax assets	3
Prepayments	(15)
Accruals	37
Lease liabilities	(904)
Provisions – property lease dilapidations	77
Net impact on retained earnings	**17**

Impact of change on income statement

Under IFRS 16, the Group now recognises depreciation and interest costs, instead of an operating lease expense as set out in the table below.

£'000	31 December 2019	31 December 2018	30 June 2019
Operating lease expense	-	138	297
Depreciation	129	-	-
Interest	14	-	-
Total	**143**	**138**	**297**