

29 May 2018

Idox plc

('Idox' or 'the Group' or 'the Company')

Half Year Trading Update

Idox plc (AIM: IDOX), a leading supplier of specialist information management solutions and services, today issues a trading update for the six months ended 30 April 2018, ahead of its half year results, which are expected to be announced at the end of July. The Group has announced separately today the appointment of a new Chief Executive, David Meaden, subject to completion of the customary regulatory procedures.

Overview

A wide ranging operational and financial review of the business has taken place in recent weeks in particular in relation to the Digital division. The Board has taken the actions necessary to resolve the Group's issues and provide a strong base for future growth and it expects these changes will enable the business to deliver improving profitability combined with better cash generation and improving levels of recurring revenue.

These actions principally relate to the closure of the Group's lossmaking Digital division, as well as the ongoing alterations to the Engineering division's business model, and the adoption of revised contractual terms in various long term contracts as part of the Group's move to the adoption of IFRS15 for the financial year commencing 1 November 2018 (which governs accounting for revenue from contracts with customers). In addition, the Board has also substantially reorganised divisional reporting lines to both improve accountability and the ability to cross sell the Group's products.

The Board therefore now expects the Group's full year Adjusted EBITDA* to be in the range of £13-15m, including the impact of a c.£5m EBITDA reduction in Digital, compared to current market expectations of around £22.8m. However, the underlying performance excluding the discontinued Digital division is expected to be in the range £18-20m (prior to the effect of cost savings). The majority of these impacts have been incurred in the first half, which will result in Adjusted EBITDA* of c.£1m (H1 2017: £10.3m) for the period.

Underlying operating performance in the majority of the Group, including Public Sector and Health, has been as expected with good delivery of the cost savings identified and previously reported, and solid order intake. With the closure of Digital, the reduction to the cost base is now expected to be in excess of £10m on annualised basis (compared to £7m announced in the AGM Trading Update on 19 April 2018).

In summary, in future years the Group's financial performance is expected to benefit from a reduced cost base, the rationalisation of Digital, and a stronger commercial focus on recurring revenues and cash conversion.

** Adjusted EBITDA is defined as earnings before amortisation, depreciation, restructuring, acquisition, corporate finance and share option costs.*

Chief Executive

The Group has announced separately today the appointment of David Meaden as Chief Executive. David will join Idox on 1 June 2018 subject to completion of the customary regulatory procedure. This is a significant appointment for the Group following the uncertainty over the Group's leadership in the last six months. David's 22 year experience with Northgate Information Solutions where he held Board level leadership roles is especially relevant.

Richard Kellett-Clarke, who has been acting as Chief Executive on an interim basis since December 2017 will hand over responsibilities to David Meaden in June and revert to his previous role as a non-executive director at that time. The Board expresses its thanks to Richard who stepped into the role at very short notice and has played an important part in stabilising the business and leading the various business reviews.

Digital

It is expected that the continued underperformance and losses of the division combined with anticipated closure costs will depress Adjusted EBITDA* for the year by c.£5m (as stated above). The strongest elements of this business which are focussed on digital delivery of the Group's core local government solutions have been integrated into the Public Sector business. The weaker part which had been focused on lower margin and highly competitive contracts in the private sector is being closed. Digital reported revenues of £14.7m and an adjusted operating loss of £1.5m in the last financial year.

Engineering

As previously reported, the Engineering business has been transitioning to a SaaS based model which will result in higher quality, recurring revenue over the longer term. This transition has resulted in short term changes in revenue recognition as a result of an acceleration in the sales of SaaS-based over licensed solutions which have adversely impacted reported financial performance in the division in the first half. As a result, the Group expects revenues in the division for the year to be

approximately £1.5 million lower than its prior expectations, but expects higher levels of recurring revenue to be reported in future financial years.

Auditor

The Board is pleased to announce that it intends to appoint Deloitte LLP as the Group's new auditors, subject to completion of contracts. They will undertake the review of the Group's half year results, which are expected to be issued later than usual due to this change, in the latter part of July 2018.

Cash conversion

The Board has resolved that it is a priority for the Group to improve its cash conversion which has been consistently poor, in part reflecting a large balance of accrued income due to a commercial focus on licence sales rather than long term recurring revenues. Accordingly, the Board has set an annual target of around 100% cash conversion (defined as cash generated from operating activities before tax as a percentage of Adjusted EBITDA). It is expected that significant progress towards this objective will be made in the remainder of this and the next financial year.

Financial position

Group net debt at the half year stood at £25.5m (30 April 2017: £28.2m; 31 October 2017: £32.1m).

Interim dividend

In light of the lowered expectations for the year and the cash costs incurred in the first half, the Board has decided to suspend the interim dividend. The Board's expects to declare a final dividend for the full year.

Outlook

Following the actions taken, an improved performance in the Group's second half is anticipated, with trading in May and June consistent with this. Since the Company's AGM statement in April new contracts have been won with a number of councils (Bexley, Angus, Lichfield, Scottish Borders, Southport & Ormskirk) and NHS trusts (George Eliot, St George's, Abertawe).

Overall, the Board remains confident that the actions taken will strengthen the Group's position and will deliver an improved performance in future years, supported by its high level of recurring and repeating revenues and improving cash conversion.

David Meaden said:

"I am delighted to be joining Idox at this very important point in its development. I have known Idox for many years as a leading player in the public sector solutions and services market and am confident that it has both attractive products and talented people. I look forward to starting work in June and continuing the transformation of the business."

Laurence Vaughan, Chairman of Idox said:

"The major review and actions taken reflect our commitment to deal decisively with the issues faced by the Group during the last year. Despite the impact on our financial performance this year, this necessary programme of change has positioned the group to deliver an improved performance in future financial years.

"I believe that the Group has good growth opportunities through its continued focus on digital transformation and high quality governance solutions for the public sector. With new leadership in place we can look forward to the future with renewed confidence."

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

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