

Tialis Essential IT plc
(“Tialis”, the “Group” or the “Company”)

10 September 2024

Unaudited Interim Results, Related Party Loan and Board Changes

Tialis Essential IT plc, the mid-market IT managed services provider, today announces its unaudited results for the six months ended 30 June 2024.

Highlights

- Revenue of £10.7 million (H1 2023: £11.6 million).
- Gross profit of £3.0 million (H1 2023: £3.6 million).
- Adjusted EBITDA* profit of £0.9 million (H1 2023: £1.2 million).
- Significant year on year increase in cash generation.
- The revenue drop was largely due to the fall in project revenue of £1.3m from our largest Partner, together with some run-off contracts we acquired from Allvotec, which offset new business wins.
- Positive start to 2024 with eight new end-user customer contract awards, adding four new channel partners, with a current pipeline of £22.9m across 15 partners, only two of which resulted from the Allvotec acquisition. However, we have continued to be frustrated by delays in new contract awards.
- Lifecycle revenue in the first six months increased by 37% to £2.0m. As we pivot from traditional engineering services, this is the strategic service we provide to the majority of our Partners, and continue to see significant opportunities in this space, both in end-user devices and increasingly in mobile.
- We have a cash-generative business and a profitable business at an adjusted EBITDA level.
- Andy Parker, the Executive Chairman, has stepped down today and Nicolas Bedford, current Non-Executive Director, has been appointed Non-Executive Chairman.

Financing

- We are pleased to announce that we have agreed a £4m Revolving Credit Facility (“RCF”) with Santander. The RCF carries an interest rate of SONIA + 3.75 per cent. and is for a term of 3 years. The RCF will be used for early repayment of the loan notes of £4.2m which are due for repayment in January and December 2025.
- In addition to the RCF, MXC Capital (“MXC”) has agreed to provide a convertible loan note of £300k to bridge the small shortfall between the RCF and the outstanding balance of the loan notes plus associated costs of setting up the RCF and to provide a small amount of working capital. See further details below.

Related party loan

The loan with MXC is an unsecured convertible loan for £300,000 which has an annual compound interest rate of 15%. The convertible is for a term of five years. However, the Company expects to repay the loan by 31 March 2025. MXC has the option to convert the loan to new ordinary shares at a fixed price of 40 pence.

MXC is deemed to be a related party of the Company pursuant to the AIM Rules for Companies (the “AIM Rules”) as they are a substantial shareholder and because Ian Smith, CEO of MXC is Executive Director of Tialis.

Nicolas Bedford and Matt Riley, being the independent directors of Tialis for these purposes consider, having consulted with the Company’s nominated adviser, Cavendish Capital Markets Limited, that the terms of the related party transaction are fair and reasonable insofar as the shareholders of the Company are concerned.

Board changes

Andy Parker, Executive Chairman, has today stepped down following six years with the Company as both Non-Executive and Executive Chairman. Nicolas Bedford, current Non-Executive Director replaces Andy as Non-Executive Chairman.

Ian Smith, Executive Director, commented: “On behalf of the board I thank Andy for his valuable input. Under his

leadership as Chairman the Company has made considerable progress and I am grateful for the support and guidance he has given me and the Board over the past six years. Andy leaves the Company with our best wishes.

The Board are delighted that Nick has accepted the offer to become Non-Executive Chairman. We look forward to continuing to work with him and benefitting from his expertise.”

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, non-underlying items, loss on disposal of fixed assets and share-based payment

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Financial Review

Results for the six months to 30 June 2024

Revenue from continuing operations for the six months to 30 June 2024 from operations was £10.7 million (H1 2023: £11.6 million).

Gross profit from continuing operations for the six months to 30 June 2024 was £3.0 million (H1 2023: £3.6 million), representing an overall decline in gross margin of 2 percentage points, compared to the prior period. The change in gross profit in the six months to 30 June 2024 was due to a change in product mix with less Lifecycle project work.

At an Adjusted EBITDA* level for continuing operations the Group generated a profit of £0.9 million (H1 2023: £1.2 million).

Exceptional costs amounted to £0.2 million (H1 2023: £0.4 million) and related predominantly to an aborted acquisition. Going forward, we expect exceptional costs to decrease.

Net financial costs were £0.3 million (H1 2023: £0.3 million), which include £0.25 million of interest on the loan notes issued which is payable at the end of their term.

The loss after tax for the period was £0.9 million (H1 2023: loss of £0.9 million).

Loss per share was 3.82p (H1 2023: loss per share 0.18p).

Cashflow and Net Debt

The Group's cash generated from operating activities in the period was £1.4 million (H1 2023: £0.2 million), reflecting positive underlying performance and careful management of working capital. The second half is expected to be stronger, with further improvements in working capital and a continued reduction in exceptionals. The Group invested £0.02 million in fixed assets. There were no new borrowings, but repayment of lease liabilities consumed £0.1 million (H1 2023: £0.1 million). The net result is that as at 30 June 2024 there were no bank borrowings or overdraft debt and the cash balance was £0.6 million (H1 2023: £0.5 million). Net debt as at 30 June 2024 was £4.4 million (H1 2023: £4.1 million).

Consolidated Statement of Comprehensive Income

		Unaudited Six months ended 30 June 2024 £000	Unaudited Six months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Continuing Operations				
	Note			
Revenue	2	10,740	11,592	22,412
Cost of sales		(7,728)	(8,013)	(15,762)
Gross profit		3,012	3,579	6,650
Administrative expenses		(3,723)	(3,976)	(7,866)
Operating loss		(711)	(397)	(1,216)
<i>Analysed as:</i>				
Adjusted EBITDA*		936	1,203	1,985
Non underlying items	3	(155)	(355)	(713)
Depreciation		(176)	(145)	(312)
Amortisation and impairment		(1,140)	(1,032)	(2,187)
Loss on the disposal of fixed assets		-	(1)	-
Fair value loss on deferred consideration		-	(67)	22
Charges for share-based payments		(176)	-	(11)
Net financial costs		(280)	(256)	(556)
Loss before taxation		(991)	(653)	(1,772)
Income tax		63	(292)	227
Loss for the period after taxation		(928)	(945)	(1,545)
Discontinued operations:				
Profit on discontinued operations		-	9	9
Loss for the period and total comprehensive income attributable to equity holders of the parent		(928)	(936)	(1,536)
Basic and diluted loss per share – continuing operations	4			
Basic and diluted per share		(3.82) p	(0.18) p	(6.45) p
Basic and diluted loss per share – discontinued operations				
Basic and diluted share		-	-	0.04 p
Total basic and diluted loss per share		(3.82) p	(0.18) p	(6.41) p

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, non-underlying items, loss on disposal of fixed assets and share-based payment

Consolidated Statement of Financial Position

	Note	Unaudited 30 June 2024 £000	Unaudited 30 June 2023 £000	Audited 31 December 2023 £000
Non-current assets				
Property, plant and equipment		839	970	943
Intangible assets		5,957	8,179	7,097
Deferred tax asset		3,398	2,816	3,335
Trade and other receivables		100	100	100
		10,294	12,065	11,475
Current assets				
Trade and other receivables		4,357	5,468	5,020
Cash and cash equivalents		613	473	274
		4,970	5,941	5,294
Total assets		15,264	18,006	16,769
Current liabilities				
Trade and other payables		3,100	4,740	4,389
Contract liabilities		845	924	676
Borrowings	5	4,025	210	259
		7,970	5,874	5,324
Non-current liabilities				
Trade and other payables		-	174	-
Borrowings	5	964	4,371	4,561
Convertible loan notes	6	-	149	-
Provisions		406	266	301
		1,370	4,960	4,862
Total liabilities		9,340	10,834	10,186
Net assets		5,924	7,172	6,583
Equity attributable to equity holders of the parent				
Share capital		12,611	12,610	12,610
Share premium		52,957	52,865	52,865
Equity reserves		58	58	58
Share-based payment reserves		187	-	11
Retained earnings		(59,889)	(58,361)	(58,961)
Total equity		5,924	7,172	6,583

Consolidated Statement of Changes in Equity

	Share capital (a)	Share premium (b)	Equity Reserve (c)	Share-based payment reserve (d)	Retained earnings (e)	Total
	£000	£000	£000	£000	£000	£000
At 31 December 2022 (Audited)	12,586	50,754	58	-	(57,425)	5,973
<i>Total comprehensive income for the period</i>						
Shares issued for the acquisition of Allvotec and in lieu of bonus to an employee	24	2,111	-	-	-	2,315
Loss for the financial year and total comprehensive income	-	-	-	-	(936)	(936)
At 30 June 2023 (unaudited)	12,610	52,865	58	-	(58,361)	7,172
<i>Total comprehensive income for the period</i>						
Loss for the financial year and total comprehensive income	-	-	-	-	(600)	(600)
<i>Transactions with owners recorded directly in equity</i>						
Share-based payments charge	-	-	-	11	-	(11)
At 31 December 2023 (Audited)	12,610	52,865	58	11	(58,961)	6,583
At 1 January 2024	12,610	52,865	58	11	(58,961)	6,583
<i>Total comprehensive income for the period</i>						
Shares issued in lieu of bonus to an employee	1	92	-	-	-	93
Loss for the financial year and total comprehensive income	-	-	-	-	(928)	(928)
<i>Transactions with owners recorded directly in equity</i>						
Share-based payments charge	-	-	-	176	-	176
At 30 June 2024 (unaudited)	12,611	52,957	58	187	(59,889)	5,924

(a) Share capital represents the nominal value of equity shares and deferred shares

(b) Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue

(c) The equity reserve consists of the equity component of convertible loan notes that were issued as part of the fundraising in August 2018 less the equity component of instruments converted or settled. The fair value of the equity component of convertible loan notes issued is the residual value after deduction of the fair value of the debt component of the instrument from the face value of the loan note.

(d) Share-based payments reserve represents the accumulated costs of the share options in issue

(e) Retained earnings represents retained profits and accumulated losses

Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June 2024 £000	Unaudited Six months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Cash flows from operating activities			
Loss from continuing operations	(991)	(653)	(1,772)
Loss from discontinuing operations	-	9	9
Total loss before tax for the period	(991)	(653)	(1,763)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	176	145	312
Amortisation of intangible assets	1,140	1,032	2,187
Fair value loss on deferred consideration	-	67	-
Net financial costs	280	256	556
Share based payments	176	-	11
Loss on disposal of fixed assets	-	1	-
Decrease / (increase) in trade and other receivables	663	(1,806)	(1,359)
(Decrease) / increase in trade and other payables and contract liabilities	(129)	1,161	658
Increase in provisions	106	21	56
Net cash flows generated from operating activities	1,421	233	658
Cash flow from investing activities			
Acquisition of property, plant and equipment	(20)	(40)	(75)
Net cash used in investing activities	(20)	(40)	(75)
Cash flows from financing activities			
Interest received	13	9	19
Interest paid	(41)	(39)	(84)
Supplier finance repaid	(900)	-	(281)
Convertible loan notes repaid	-	-	(152)
Repayment of lease liabilities	(134)	(105)	(225)
Net cash absorbed by financing activities	(1,062)	(135)	(723)
Net increase/ (decrease) in cash and cash equivalents	339	58	(140)
Cash and cash equivalents at beginning of period	274	414	414
Cash and cash equivalents at end of period	613	472	274
Cash and cash equivalents comprise:			
Cash at bank	613	472	274

Notes to the half-yearly financial information

1. Basis of preparation

The condensed consolidated interim financial information for the six-month periods ended 30 June 2024 and 30 June 2023 is unaudited. This statement has not been reviewed by the Company's auditor. This condensed consolidated interim financial information was approved by the Board of Directors and authorised for issue on 10 September 2024. A copy of this half-yearly financial report is available on the Company's website at www.tialis.com.

The comparative figures for the financial year ended 31 December 2023 are extracted from but do not comprise the Group's consolidated financial statements for that year.

The Company is a public limited liability company incorporated and domiciled in Scotland. The address of its registered office is 24 Dublin Street, Edinburgh EH1 3PP. The Company is listed on the AIM market of the London Stock Exchange.

Tialis and its subsidiaries have not applied IAS 34, 'Interim Financial Reporting' as adopted by the United Kingdom, which is not mandatory for UK AIM listed companies, in the preparation of this half-yearly financial report.

This condensed consolidated interim financial information for the six-month period ended 30 June 2024 therefore does not comply with all the requirements of IAS 34, 'Interim Financial Reporting' as adopted by the United Kingdom. The consolidated interim financial information should be read in conjunction with the annual financial statements of the Company as at and for the year ended 31 December 2023, which were prepared in accordance with IFRS as adopted by the United Kingdom.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2023 were approved by the Board of Directors on 9 May 2024 and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Accounting policies

The accounting policies used in the preparation of the condensed consolidated interim financial information for the six months ended 30 June 2024 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the United Kingdom and are consistent with those that will be adopted in the annual statutory financial statements for the year ended 31 December 2024.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of IFRS, as adopted by the United Kingdom, these financial statements do not contain sufficient information to comply with IFRSs. The accounting policies adopted in the interim financial statements are consistent with those adopted in the financial statements for the year ended 31 December 2023.

Non-underlying items

It is the policy of the Group to identify certain costs, which are material either because of their size or nature, separately on the face of the Income Statement in order that the underlying profitability of the business can be clearly understood. These costs are identified as non-underlying items, and comprise:

- a) Professional fees incurred in sourcing and completing acquisitions and disposals including legal expenses
- b) Professional fees incurred in restructuring and refinancing acquisitions
- c) Integration costs which are incurred by the Group when integrating one trading business into another, including rebranding of acquired businesses
- d) Redundancy costs, including employment related costs of staff made redundant up to the date of their leaving as a consequence of integration
- e) Property costs such as lease termination penalties and vacant property provisions and third-party advisor fee

For further details, please refer to note 3.

Going concern

The condensed consolidated interim financial information has been prepared on a going concern basis.

The Directors have produced detailed trading and cashflow forecasts. In reaching their conclusion on the going concern basis of accounting, the Directors note and rely on the improved trading performance, the positive cash generation that the business is now experiencing and the current signed order book. A reverse stress test of the model has been run to determine at what level of shortfall in revenues the Group would run out of cash. Given the committed orders already obtained and the visibility of future revenues, the directors do not consider it likely that revenues could drop to such an extent that the Group would run out of cash.

They have also considered the impact of any delayed customer payments and have developed plans to mitigate any such delays to ensure that the group can continue to settle its liabilities as they fall due and operate as a going concern. The directors therefore have an expectation that the Group and Company have adequate resources available to them to continue in operational existence for the foreseeable basis. For this reason, the Directors consider that the adoption of the going concern basis is appropriate.

2. Segment reporting

The Group has only one operating segment, the Manage Business.

3. Non-underlying costs

In accordance with the Group's policy in respect of non-underlying costs, the following charges were incurred for the period in relation to continuing operations:

	Unaudited Six months ended 30 June 2024 £000	Unaudited Six months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Allvotec acquisition expense	-	144	242
Due diligence on potential acquisitions in the period	-	25	25
Aborted acquisition costs	101	-	-
Employee share option plan set-up expense	-	-	49
One-off legal fees	-	-	9
Rebranding as Tialis from IDE Group	-	33	35
Restructuring and reorganisation costs	54	153	353
	155	355	713

Restructuring and reorganisation costs in the period relate to costs incurred on the restructure of the Group, predominantly redundancy costs. Other integration costs relate to the costs incurred in integrating the Allvotec acquisition. The redundancy costs include employment related costs of staff made redundant because of restructuring post the Allvotec acquisition.

The legal and rebranding expenses were non-recurring expenses incurred during the year.

4. Earnings per share from continuing operations

The calculation of basic and diluted loss per share is based on results from continuing operations attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares for the purpose of calculating the basic and diluted measures in the reporting periods is the same. This is because the outstanding options would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33. Basic and diluted unaudited loss per share from continuing operations are calculated as follows:

	Unaudited Six months ended 30 June 2024 £000	Unaudited Six months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Loss for the period after taxation	(928)	(945)	(1,545)
Weighted average number of shares	24,246,744	520,408,748	23,973,027
Diluted weighted average number of shares	24,246,744	520,408,748	23,973,027
Basic loss per share (pence)	(3.82) p	(0.18) p	(6.45) p
Diluted loss per share (pence)	(3.82) p	(0.18) p	(6.45) p

5. Borrowings

	Unaudited Six months ended 30 June 2024 £000	Unaudited Six months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Non-Current			
Lease liabilities	477	660	596
Loan Notes	487	3,711	3,965
	964	4,371	4,561
Current			
Lease liabilities	295	210	259
Loan Notes	3,730	-	-
	4,025	210	259

The carrying value is not materially different to the fair value of these liabilities.

In January 2019 the Company issued £5.3 million of secured loan notes with a six-year term and a 12% coupon which is compounded, rolled up and payable at the end of the term ("Loan Notes"). In February and March 2019, a further £4.7 million in total of secured Loan Notes were issued. The Loan Notes carry an arrangement fee of 2.5 per cent., payable at the end of the term, and an exit fee of 2.5 per cent, also payable at the end of the term. The security comprises a debenture over all the assets of the Group.

In December 2019 the Company issued an additional £1.5 million of Loan Notes (with the same terms as those issued in the first quarter of the year).

The Loan Notes are held at amortised cost using the effective interest rate method. The effective interest rate for the Loan Notes has been calculated to be 18%.

The Company issued a further loan note ("Loan Note 2025") net of expenses for proceeds of £1m on 1 December 2021. The terms of the loan were that the rate of interest is 1.5% per month if repaid by 31 January 2022, 2.5% per month if repaid by 28 February 2022 and 3% per month if repaid by 31 March 2022. If not repaid by 31 March 2022 the amount due at that date including fees (£1.1875m) is then subject to interest at 20.4% per annum compound. The maturity date is 23 December 2025. The Loan Note 2025 was included in the 2 November 2022 conversion. On 2 November 2022 the members meeting at the Annual General Meeting, and then at the General Meeting that followed, voted to convert £25.5 million of loan notes (including fees and interest) into share capital.

6. Convertible Loan Notes

	Unaudited Six months ended 30 June 2024 £000	Unaudited Six months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Balance at the beginning of the period	-	143	143
Interest unwound	-	6	9
Loan repaid August 2023	-	-	(152)
Balance at the end of the period	-	149	-

The Group had issued £2.55 million of unsecured loan notes, which had a term of 5 years and a zero per cent coupon ("CLNs").

On 21 August 2023 the CLNs were repaid.

7. Related Party Transactions

MXC has provided an unsecured convertible loan for £300,000, which has an annual compound interest rate of 15%. The Company expects to repay the loan by the 31 March 2025, MXC also has the option to convert the Loan to ordinary shares.