

28 September 2018

7digital Group plc
(“7digital”, “the Group” or “the Company”)
Interim Results

7digital Group plc (AIM: 7DIG), the global leader in B2B digital music solutions, today announces its interim results for the six months ended 30 June 2018.

Highlights

- Strong progress in bolstering position as the world’s leading business-to-business platform in streamed music and radio services
- Accelerating high-margin revenue growth:
 - Total revenues up 52% to £9.3m (H1 2017: £6.1m)
 - Licensing revenues up 49% to £6.0m (H1 2017: £4.0m)
 - Content revenues up 84% to £2.1m (H1 2017: £1.1m)
 - Monthly Recurring Revenues up 36% to £4.3m (H1 2017: £3.2m)
- Gross Profit up 48% to £6.6m (H1 2017: £4.4m)
- Strengthening partnerships with broad-based, international clients including all the major music labels, media companies, auto manufacturers and mobile operators
- New proprietary digital music services launched for Europe’s largest retailer of consumer electronics and entertainment MediaMarktSaturn in Germany and the Netherlands, with Spain to follow in the coming months
- Building sales momentum - contract wins include US streaming service 8tracks, music video platform Triller (29 million users, across 14 countries and five continents), live music specialist PEEEX, and a global leader in provision of music to the retail and hospitality industry
- Advancing other high-growth opportunities across a broader service offering including radio production and music curation services, editorial strategy and content management expertise
- On track to consolidate acquired businesses and technology platforms H2 2018 leading to annual overhead savings estimated at £5m
- Focused on achieving operating profit and positive cash flow by the end of this financial year

Chief Executive, Simon Cole, commented: *“Both our timing and positioning in the buoyant streamed music market couldn’t have been better, as demonstrated by these excellent half-year results showing revenues up 52% to £9.3m. With expected annual cost savings of circa £5m following the consolidation of the two businesses acquired last year, our target to realise operating profit and positive cash flow is highly achievable. We are excited about the future given the increasing interest from key international, cross-industry blue-chips and look forward to maintaining the current sales momentum.”*

Chief Executive's Statement

This has been a strong period for 7digital as the Company continues to bolster its position as the leading business-to-business platform in streamed music and radio services, further building sales momentum and strengthening its international profile. Revenues have risen 52% in the period to £9.3m (H1 2017: £6.1m) showing clearly the benefit of our acquisition in 2017 of the 24-7 Entertainment business and the launch of new services from our customers.

The Company now has an unmatched combination of proprietary market-leading technology, relationships with all the major music labels, established partnerships with a range of international media companies, auto manufacturers and mobile operators, and a highly experienced team of music, media and technology professionals, all of which contribute to its leading market position and ability to deliver growth.

Our core business remains focussed on providing a platform that allows companies to create new digital music services, allowing our B2B customers to create their own streamed music services, either standalone or bundled into their device or product offering. The streamed music market in which we operate remains buoyant with billions of people listening to music every day. We are the premier business-to-business offering, with our focus on companies that want to use streaming digital music as part of their broader offering - those that "bundle" music with devices, loyalty schemes and tariffs, creating customer loyalty and enabling the collection of data on user behaviour. This principle works across many industries including consumer brands, mobile carriers, broadcasters, automotive systems, record labels and retailers. By utilising our technology platform and offering, businesses have more engagement with their clients, can protect and manage their brand integrity, and not rely on having to sub-contract through established third-party streaming players.

Our sector exposure is broad-based and growing. Scandinavian mobile network, TDC, is one example of a customer which is now bundling its own music service utilising our platform. In retail, our leading customer is MediaMarktSaturn, Europe's largest retailer of consumer electronics and entertainment, for whom we are working to build its "Juke" digital music service in 15 countries. During the period, we successfully launched new Juke services in Germany and the Netherlands, and we expect Juke Spain to launch in the coming months. In the area of live music, we announced a contract win in April to work with PEEX, whose offering allows concert-goers to experience enhanced audio both during performances and by downloading tracks from concerts after the performance. 8tracks, a popular US digital music service focused on music discovery through crowd-curated playlists, is another recent addition to the Company's client roster. A significant contract announcement during the period related to a market leader in the provision of music to the retail and hospitality industry, who cannot be named for reasons of commercial confidentiality. Since the period-end we have also been able to share more detail on a contract originally announced in April with Triller, an AI-powered music video platform with considerable reach globally.

As a company providing services to the digital music sector, 7digital's core offering is licensing, where high-margin revenue growth is accelerating. Our licensing revenues grew 49% in the period to £6m (2017: £4m), with the key monthly recurring revenues – those which we would expect to continue into future periods – rising by 36%. These licensing revenues utilise our core fixed-cost technology platform and, therefore, typically attract margins of up to 90%, leading to an overall Gross Margin of 70%. Importantly, Gross Profit has risen 48% to £6.6m (H1 2017: £4.4m).

Having completed two acquisitions last year, we have been busy consolidating the technology platforms and aim to

operate the whole company on a single platform by the end of October 2018. This is an inflection point as it not only enhances our offering but, importantly, will take significant annual costs from the business. The Board expects the Company to make £2m of staff cost savings and another £3m of other overhead savings, which we envisage will lead to operating profit and positive cash flow.

The Content division includes revenue from the lower margin legacy sales of digital music downloads direct to consumers and higher margin one-off projects from record labels and partners where we handle content. In H1 2018, Content revenues grew by 84% to £2.1m (H1 2017: £1.1m). The rise in revenues can be attributed to an increase in usage of content through the 7digital platform and sales of high-quality (Hi-Res) audio in our own stores – the latter of which account for more than half of content revenues.

7digital's Creative division is engaged in the creation of award-winning audio, video and multimedia programming, which includes producing audio or video content for leading record labels, audio technology brands, and broadcasters (such as the BBC). We are winning contracts with a broader client base to produce bespoke content – one example is a project currently underway with a major label to produce video content for them. Creative revenues increased against the same period in the previous year, up 28% to £1.3m (H1 2017: £1.0m), with the division continuing to win and retain business as a result of our broad capabilities and deep industry relationships.

Outlook

7digital is ideally positioned to lead innovation at the intersection of digital music and next-generation radio services, and to take advantage of the global acceleration of music streaming, expected to be worth \$11bn globally by 2020. With a strong pipeline of international new business opportunities, given our profile as the supplier of choice for companies looking to strengthen their consumer offering by delivering music and radio streaming services, we remain focused on becoming profitable at a pre-tax level during the second half of 2018 with enhanced revenue against a fixed cost base. With this background, I believe that 7digital has a bright future and I look forward to updating shareholders regularly on our progress.

I would like to take this opportunity to thank both our shareholders for their support and our dedicated and talented teams for their hard work over the period.

Simon Cole

Chief Executive

28 September 2018

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

For further information please visit <http://about.7digital.com/> or contact:

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7digital Group plc

Financial review

Results for the six months ending 30 June	2017		Change £'000	%
	2018 £'000	(Restated) £'000		
Revenue	9,339	6,135	3,204	52%
Cost of Sales	(2,765)	(1,702)	(1,063)	62%
Gross profit	6,574	4,433	2,141	48%
Other operating income	243	298	(55)	-18%
Other administration expenses	(7,611)	(5,727)	(1,884)	33%
Adjusted LBITDA	(794)	(996)	202	-20%
Depreciation & Amortisation	(1,769)	(709)	(1,060)	150%
Adjusted operating loss	(2,563)	(1,705)	(858)	50%
Share based payments	(30)	(15)	(15)	100%
Exceptional items	-	(626)	626	-100%
Operating loss	(2,593)	(2,346)	(247)	11%
Taxation on continuing operations	(13)	(1)	(12)	1182%
Finance charges	(10)	-	(10)	-
Loss for the period	(2,616)	(2,347)	(269)	11%

This review covers the consolidated results of 7digital Group plc.

Revenue breakdown

Revenue	2017		Change £'000	%
	2018 £'000	(Restated) £'000		
Monthly recurring revenue	4,323	3,188	1,135	36%
Set-up fees	1,702	848	854	101%
Licensing revenue	6,025	4,036	1,989	49%
Content	2,057	1,117	940	84%
Creative	1,257	982	275	28%
Total Revenues	9,339	6,135	3,204	52%

Revenue

Total Group turnover increased 52% to £9.3m (H1 2017: £6.1m). Within this, total licensing revenues rose by 49% to £6.0m (H1 2017: £4.0m)

Content revenues increased by 84% in the first half to £2.1m (H1 2017: £1.1m) with the increase coming from 7digital Denmark (formerly known as 24-7 Entertainment).

7digital Creative revenues grew 28% on last year to £1.3m (H1 2017: £1.0m) with the division continuing to win and retain business as a result of our broad capabilities and deep industry relationships.

Gross profit has increased by 48% to £6.6m (2017: £4.4m). The gross margin for the period has slightly decreased to 70% (2017: 72%).

7digital Group plc

Adjusted LBITDA and operating loss

In the six months to 30 June 2018, the Group decreased its adjusted LBITDA to £0.8m (2017: LBITDA £1.0m). The Group's adjusted operating loss increased to £2.6m (H1 2017: £1.7m) due to the increase in amortization of intangible assets.

Operating loss

The operating loss increased to £2.6m from £2.3m.

Statutory loss

The Statutory loss for the period has increased by 11% to £2.6m from £2.3m.

Cash flow & cash position

In the six months to 30 June 2018, the Group had a cash outflow from operating activities of £3.0m (H1 2017: £1.6m). At 30 June 2018 cash in bank was £0.7m (H1 2017: £0.9m).

Loss per share

In the six months to 30 June 2018 the Company reported a basic and diluted loss per share of 0.66 pence.

7digital Group plc

Condensed consolidated statement of comprehensive income

Six months ended 30 June 2018 (unaudited)

	Notes	Unaudited six months ended 30 June 2018 £'000	Unaudite d six months ended 30 June 2017 (Restated) £'000	Audited full year ended 31 Dec 2017 £'000
Continuing operations				
Revenue	2	9,339	6,135	16,801
Cost of sales		(2,765)	(1,702)	(4,766)
Gross profit		6,574	4,433	12,035
Other income	3	243	298	509
Administrative expenses		(9,410)	(7,077)	(17,515)
Adjusted operating loss		(2,593)	(1,705)	(3,761)
- Share based payments		(30)	(15)	(86)
- Foreign Exchange		(95)	(198)	(417)
- Exceptional items	5	-	(626)	(707)
Operating loss	4	(2,593)	(2,346)	(4,971)
Finance Income		1	-	1
Finance cost		(11)	-	(56)
Loss before tax		(2,603)	(2,346)	(5,026)
Taxation on continuing operations		(13)	(1)	380
Total comprehensive income attributable to owners of the parent company		(2,616)	(2,347)	(4,646)
Loss per share (pence)				
Basic and diluted		(0.66)	(1.68)	(2.74)

7digital Group plc
Condensed consolidated statement of financial position
At 30 June 2018 (unaudited)

	Notes	Unaudited 30 Jun 2018 £'000	Unaudited 30 Jun 2017 (Restated) £'000	Audited 31 Dec 2017 £'000
Assets				
Non-current assets				
Intangible assets	6	7,612	3,726	6,157
Property, plant and equipment		291	529	324
		<u>7,903</u>	<u>4,255</u>	<u>6,481</u>
Current assets				
Trade and other receivables		7,025	7,349	7,002
Cash and cash equivalents		682	910	6,978
		<u>7,707</u>	<u>8,259</u>	<u>13,980</u>
Total assets		<u>15,610</u>	<u>12,514</u>	<u>20,461</u>
Current liabilities				
Trade and other payables		(9,492)	(9,618)	(11,917)
Provisions for liabilities and charges - current		(116)	(423)	(34)
		<u>(9,608)</u>	<u>(10,041)</u>	<u>(11,951)</u>
Net current assets		<u>(1,901)</u>	<u>(1,782)</u>	<u>2,029</u>
Non-current liabilities				
Deferred tax liabilities		-	-	(308)
Other payables		(1,754)	(1,481)	(1,367)
Provision for Liabilities and charges		(432)	(227)	(403)
		<u>(2,186)</u>	<u>(1,708)</u>	<u>(2,078)</u>
Total liabilities		<u>(11,794)</u>	<u>(11,749)</u>	<u>(14,029)</u>
Net assets		<u>3,816</u>	<u>765</u>	<u>6,432</u>
Equity				
Share capital		14,404	12,248	14,404
Share premium account		8,232	3,372	8,232
Treasury reserve		-	(5)	-
Other reserves		(3,367)	(4,301)	(3,367)
Retained earnings		(15,453)	(10,549)	(12,837)
Total Equity		<u>3,816</u>	<u>765</u>	<u>6,432</u>

7digital Group plc
Condensed consolidated cash flow statement
Six months ended 30 June 2018 (unaudited)

Notes	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017 (Restated)	Audited full year ended 31 Dec 2017
	£'000	£'000	£'000
Loss for the period	(2,616)	(2,347)	(4,646)
Adjustments for:			
Taxation	13	1	(380)
Interest	10	-	55
Foreign Exchange	95	198	417
Amortisation of intangible assets	1,689	533	1,738
Depreciation of fixed assets	80	176	415
Share based payments	30	-	86
Share option valuation adjustment	-	15	-
Increase/Decrease in provisions	(196)	(38)	294
Increase/(decrease) in accruals and deferred income	(229)	2,895	4,393
Decrease in inventories		(82)	-
(Increase)/decrease in trade and other receivables	(23)	(3,210)	(2,742)
Increase/(decrease) in trade and other payables	(2,016)	121	222
Cash flows from operating activities	(3,163)	(1,738)	(148)
Taxation	(13)	(1)	-
Net interest	(10)	-	(55)
Net cash used in operating activities	(3,186)	(1,739)	(203)
Investing activities			
Purchase of property, p&m and intangible assets	(2,985)	(825)	(4,575)
Acquisition of cash from subsidiary	0	1,143	297
Acquisition of subsidiary	0	(888)	-
Purchase of intangible asset	0	(288)	-
Net cash (used) / generated from investing activities	(2,985)	(858)	(4,278)
Financing activities			
Proceeds from issue of ordinary share capital	-	2,867	10,599
Net cash generated from in financing activities	-	2,867	10,599
Net increase/(decrease) in cash and cash equivalents	(6,171)	270	6,118
Cash and cash equivalents at beginning of period	6,978	838	838
Effect of foreign exchange rate changes	(125)	(198)	22
Cash and cash equivalents at end of period	682	910	6,978

7digital Group plc

Condensed consolidated statement of changes in equity

Six months ended 30 June 2018 (unaudited)

	Share capital	Share premium account	Treasury reserves	Other reserves	Retained earnings (restated)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	11,575	-	(5)	(4,301)	(8,209)	(940)
Loss for the period	-	-	-	-	(2,347)	(2,347)
Other comprehensive income for the period	-	-	-	-	7	7
Capital raise	673	3,372	-	-	-	4,045
Share based payment	-	-	-	-	-	-
At 30 June 2017	12,248	3,372	(5)	(4,301)	(10,549)	765
Loss for the period	-	-	-	-	(2,299)	(2,299)
Other comprehensive income for the period	-	-	-	43	(7)	36
Capital Reduction	-	-	-	-	-	-
Cost of capital raise	-	(678)	-	-	-	(678)
Other	-	-	-	-	(2)	(2)
Capital raise	2,156	5,538	5	875	(20)	8,554
Transfer from treasury	-	-	-	(10)	10	-
Acquisition of subsidiary	-	-	-	-	-	-
Share based payment	-	-	-	26	30	56
At 1 January 2018	14,404	8,232	-	(3,367)	(12,837)	6,432
Loss for the period	-	-	-	-	(2,616)	(2,616)
Other comprehensive income for the period	-	-	-	-	-	-
Capital raise	-	-	-	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-
At 30 June 2018	14,404	8,232	-	(3,367)	(15,453)	3,816

7digital Group plc

Condensed consolidated statement of changes in equity

Six months ended 30 June 2018 (unaudited)

1. Presentation of financial information and accounting policies

Basis of preparation

The condensed consolidated financial statements are for the six months to 30 June 2018.

The combined financial information has been prepared in accordance with 7digital Group plc accounting policies. 7digital Group plc accounting policies are in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and as issued by the International Accounting Standards Board, and are set out in the 7Digital Group plc Annual Reports and Financial Statements 2017, with the exception of the application of new accounting standards.

The information for the six months ended 30 June 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The information for the year ending 31 December 2017 is taken from the Annual Reports and Financial Statements 2017 of 7digital Group plc. The financial information for the six months ended 30 June 2017 is extracted from the financial statements for that year. A copy of the statutory accounts has been delivered to the Registrar of Companies. The auditor’s report on those financial statements was unqualified and did not contain any statement under section 498(2) and (3) of the Companies Act 2006.

Liquidity and going concern

These financial statements have been prepared on a going concern basis. The directors have reviewed 7digital's going concern position taking account of its current business activities, budgeted performance and the factors likely to affect its future development, including the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risks. As detailed in the Company's Preliminary Results announcement on August 15th, the Group has secured non-binding undertakings from two major shareholders who have indicated conditional support on standard market terms should extra working capital be required.

The directors have prepared cashflow forecasts and a funding plan through to profitability, covering a period of at least 12 months from the date of these financial statements.

As such, the directors believe that the Group can continue to operate as a going concern.

Estimates and judgments

The preparation of a condensed set of financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities at each period end. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

In preparing these condensed set of consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were principally the same as those applied to the Group's consolidated financial statements for the year ended 31 December 2017.

Valuation of intangible assets on acquisition

On acquiring a business the Group is required to consider the existence or otherwise of intangible assets. On identification of these assets, the Group compares the consideration paid with the fair value of the assets acquired. Amortisation is calculated using the straight-line method over the expected useful life of the intangible. For Bespoke Software and Intellectual Property contained within software the expected useful life is estimated at three years.

7digital Group plc

Condensed consolidated statement of changes in equity

Six months ended 30 June 2018 (unaudited)

2. Business and geographical segments

Business segments

	Unaudited six months to 30 Jun 2018	Unaudited six months to 30 Jun 2017 (Restated)	Audited full year ended 31 Dec 2017
	£'000	£'000	£'000
Revenue			
Licensing	6,025	4,036	11,616
Content	2,057	1,117	3,167
Production	1,257	982	2,018
Total	9,339	6,135	16,801
Operating profit/(loss)			
Licensing	5,908	3,526	9,436
Content	34	31	1,939
Production	632	546	660
Unallocated	(9,410)	(6,591)	(17,515)
Total	(2,836)	(2,488)	(5,480)
Other income	243	298	509
Other gains and losses	1	-	-
Net finance costs	(11)	(156)	(55)
Taxation	(13)	(1)	380
Loss for the year	(2,616)	(2,347)	(4,646)

Geographical information

Unaudited six months to 30 June	Revenue		Non-current assets	
	2018	2017 (Restated)	2018	2017 (Restated)
	£'000	£'000	£'000	£'000
Continuing Operations				
United Kingdom	1,598	2,651	6,842	3,123
Europe	5,262	1,076	1,000	1,132
Rest of World	2,479	2,408	61	-
	9,339	6,135	7,903	4,255

7digital Group plc

Condensed consolidated statement of changes in equity

Six months ended 30 June 2018 (unaudited)

3. Other income

Other income relates to research and development tax credits which are receivable from HMRC at the end of the period.

4. Operating loss for the year

Operating loss for the year has been arrived at after charging:

	Unaudited six months ended 30 Jun 2018	Unaudited six months ended 30 Jun 2017	Audited full year ended 31 Dec 2017
	£'000	£'000	£'000
Amortisation of intangible	1,689	533	1,738
Depreciation of property, plant & equipment	80	176	415
Bad debt provisions and write offs	84	213	1,943
Share based payment expense	30	15	86
Staff costs	4,296	3,168	8,160

5. Exceptional Items

Operating loss for the year has been arrived at after charging:

	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Audited full year ended 31 Dec 2017
	£'000	£'000	£'000
Acquisition costs	-	(318)	(268)
Capital Reduction	-	0	0
Cash Raise Fees	-	(267)	-
Exceptional Legal Fees	-	(8)	(80)
Restructuring costs	-	(33)	(359)
	-	(626)	(707)

7digital Group plc

Condensed consolidated statement of changes in equity

Six months ended 30 June 2018 (unaudited)

6. Intangible assets

	Bespoke applications	Customer List	Goodwill	Intangible assets
	£'000	£'000	£'000	£'000
Cost				
At 31 December 2017	8,215	509	688	9,412
Additions	3,144	-	-	3,144
At 30 June 2018	<u>11,359</u>	<u>509</u>	<u>688</u>	<u>12,556</u>
Depreciation				
At 31 December 2017	3,167	88	-	3,255
Charge for period	1,561	44	84	1,689
At 30 June 2018	<u>4,728</u>	<u>132</u>	<u>84</u>	<u>4,944</u>
Net book value				
At 31 December 2017	5,048	421	688	6,157
At 30 June 2018	<u>6,631</u>	<u>377</u>	<u>604</u>	<u>7,612</u>

7. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed within the financial statements or related notes.

8. Post balance sheet event

There have been no material events post 30 June 2018.