**19 September 2016**

**7digital Group plc**

**(“7digital”, “the Group” or “the Company”)**

**Half year results for the period ended 30 June 2016**

7digital Group plc (AIM: 7DIG), the digital music and radio services company, today announces its results for the half year ended 30 June 2016.

**Highlights**

* Improving sales momentum: Q2 materially stronger than Q1
* annualised exit monthly recurring revenue (“MRR”) for the period increased by 10%
* high-margin licensing revenues in June rose by 17% compared with 2015
* Shift of client base continues to major, tier one corporates, increasing the scale of our customers and improving the quality of our business
* Contracts signed during the first half with a cumulative lifetime deal value of £4.7m, compared to £4.2m for the whole of 2015
* Major new customer launches this period including Musical.ly in 30 territories. 600m music streams delivered to more than 15m people to date in 2016, compared to 72.6m streams to approximately 3m people for the whole of 2015
* Acquisition of Snowite, the leading French digital streaming music provider completed in this period. Integration of technology platform is on track with greater than anticipated overhead savings. Major new French client launch of Cdiscount streamed music service next week.
* Management team materially strengthened by new Chief Financial Officer, Chief Technology Officer and Chief Commercial Officer; benefits already being realised
* Strong focus on cost base, with approximately £1m of annualised savings anticipated by the year end (including £0.5m overhead synergies from the Snowite acquisition); of this amount a £0.3m saving will benefit the second half of 2016
* Half year revenues of £5.2m (H1 2015: £5.1m); adjusted LBITDA of £2.8m (H1 2015: £1.3m), after £0.7m provision for bad debt at customer Guvera, costs relating to the move to a cloud based IT systems and reflecting the timing of R & D tax credit; the statutory loss for the period was £3.2m (H1 2015: statutory loss of £6.6m)

* Cash at period end of £1.1m

**Simon Cole, Chief Executive of 7digital, said:**

“We have continued to improve the quality of our revenue base, remain confident of our commitment to achieve profitability by the year-end and expect the Group to be profitable for the full year 2017.

It is disappointing that, despite this accelerating progress, the provision for revenues owed to us by Guvera and slower revenue growth than expected in the first half overall will result in a larger loss this year than we had anticipated. We continue to expect to be broadly EBITDA breakeven in the final quarter of the year.

Our Snowite acquisition was completed in this period and has brought greater than the anticipated cost savings, which will reflect in a £1m reduction in anticipated overhead for next year. It has also brought new revenues and clients; next week we will launch a major new streamed music service in France for Cdiscount, adding to existing retail clients Fnac and E.Leclerc.

The sales pipeline is strong for the second half of the year with a number of significant contracts in the final stages of negotiation”.

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

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**7digital Group plc**

**Chief Executive’s Review**

7digital is a B2B digital music and radio services company. The core of our business is the provision of robust and scalable technical infrastructure and extensive global music rights used to create music streaming and radio services for a diverse range of customers – including consumer brands, mobile carriers, broadcasters, automotive systems, record labels and retailers. 7digital also offers radio production and music curation services, editorial strategy and content management expertise.

Our strategy is to grow revenues, profitability and shareholder returns through:

* Increasing the number and quality of customers we serve
* Improving the financial quality and predictability of our business by driving recurring revenues
* Expanding our geographic coverage
* Continued investment in market leading technology to meet shifting technology trends and customer needs
* Maintaining strict control of our cost base to ensure that revenue growth is quickly reflected in improved overall Group profitability

**Summary**

We have made further encouraging progress in the first six months of this year, with growth coming from both new business and existing or prior customers to whom 7digital is providing additional services. During the first half of the year we signed contracts with a cumulative lifetime deal value of £4.7m, compared to £4.2m for the whole of 2015.

We have continued to improve the quality and mix of our revenues, with total monthly recurring revenues (“MRR”) for the first half rising by 3% against the comparative period last year. Improving sales momentum during the period saw the annualized exit MRR for the period rise by 10% and high-margin licensing revenues in June rose by 17% compared with 2015. Turnover was broadly unchanged at £5.2m (H1 2015 £5.1m), in part reflecting the inclusion in the comparable period last year of termination payments from the legacy BlackBerry contract. Performance in the second quarter was significantly stronger that the first quarter and revenues have continued to build post the period end.

Primarily reflecting bad debt provisions, our move to cloud based IT system and the timing of our R&D tax credit, adjusted LBITDA increased to £2.8m (2015: £1.3m). We have focussed strongly on our cost base during the period and by the close of the year we anticipate that we will have achieved annualised cost savings of £1m, including the previously indicated £0.5m overhead synergies from the Snowite acquisition; of these annualised savings, approximately £300,000 will benefit the second half of 2016.

As previously highlighted, in June this year Guvera, a customer of 7digital, announced a group restructure and put one of its subsidiaries into administration. Prior to the administration, we worked with Guvera to restructure the debt owed to the Company within the Guvera group and to agree a repayment plan. We have received some monies under this plan, but, after careful consideration and extensive negotiation with Guvera, we believe that receipt of further payments is now in doubt and have therefore made a provision against the full outstanding balance of £733,000. While this is clearly very disappointing, it does not undermine our strategy going forward or our commitment to achieving profitability by this year end, and highlights the importance of our deliberate strengthening of the quality of our client base going forward.

We were delighted in April to complete the acquisition of Snowite, the leading French digital streaming music provider. Snowite, now renamed 7digital France, brought contracted annualised monthly recurring revenues on acquisition of over £0.85m, major French clients across the retail, mobile entertainment and media sectors and a strong technology and platform. The integration of Snowite has progressed well and the acquisition accelerates 7digital’s international expansion and path to profitability.

The first half of 2016 has seen several key developments in the global digital music market, which includes the closure of Omnifone, one of our key competitors. This, in addition to our market leading technology, broad music rights and deep industry relationships, has further strengthened 7digital’s position within our marketplace and the barriers to entry for others who may wish to enter it. We are increasingly well placed as the supplier of choice to enable a growing number of current and potential customers who are looking to strengthen their consumer offer by delivering music and radio streaming services.

**Licensing**

Licensing is the core of our business, providing the platform and rights management expertise through which our B2B customers can create their own streamed music services offerings, either standalone or bundled into their own device or product offering. Typically, customers pay an initial set-up fee and then a fixed monthly licence fee for using our platform; in addition, we may also take a share of user related revenues generated by the service, including transaction and subscription revenues.

Licensing revenues were broadly flat at £3.0m (2015: £3.1m). Excluding Guvera, against whose revenue we have now made a full provision given its non-payment of outstanding fees, and the BlackBerry termination payment in 2015, licensing revenues grew by 13% against the first half last year.

Annualised exit MRR, which includes streaming and other platform licensing revenues, for June 2016 grew to £5.4m, an increase of 10% against June 2015 (£4.9m). Licensing fees included £0.7m of initial set up fees paid by new customers, who we would expect to contribute to increasing MRR in the remainder of 2016 and beyond.

During the first half we delivered 206m music streams to over 12.6m people, which by year to date had increased to 600m streams delivered to more than 15m people. This compares to 72.6m streams delivered to approximately 3m people for the whole of 2015, illustrating the rapid growth in reach and usage of our platforms.

The first half of the year has seen the Company’s client base continue to shift to major, tier one corporates, increasing the scale of our customers and continuing to improve the quality and predictability of our business and revenues. The Company signed a contract with Cdiscount, the leading e-commerce retailer in France, which will see the launch of a new streamed music service next week. Cdiscount generated profits last year of €1.765bn on a turnover of €2.741bn and enjoys a 34.4% total share of e-commerce in France (source: GfK).

We also signed an agreement with musical.ly, the fast-growing global social media platform based around video and music with a strong and growing global footprint of over 100m users and we expect monthly revenues from this agreement to increase over time. This agreement and our partnership with will.i.am, who launched his Dial wearable “smartcuff” device during the period, are examples of how we can leverage our capabilities to enable and participate in disruptive new business models and product categories.

In line with a strategic emphasis on further developing commercial relationships with rights holders, 7digital has reached new agreements with two of the world’s major music labels. In addition to continuing to license and provide access to their catalogues for its customers, 7digital will also now provide new services to the labels, which will contribute to the Company’s revenues for 2016. One contract, negotiated by the new business development team in Paris, will see 7digital power a new mobile music service in 4 markets. 7digital will provide a package of services and infrastructure that includes access to the catalogue, front-end and back-end development, reporting, and tools for curation. A second contract, secured by the London business development team, will see 7digital build a new tool for the label relating to streaming.

The merging of radio and music streaming has continued in 2016 and 7digital, with a pedigree in the production of high-quality content for broadcast and extensive experience in streaming, is well positioned to take advantage of this growing trend. During the period we signed a contract with Global Radio to provide back-end technology and access to the 7digital licensed catalogue of 50 million tracks, and also signed an agreement with German national classical music broadcaster Klassik Radio to provide the catalogue and mobile app for a new integrated live radio and streamed music service. These wins demonstrate how we can help businesses to take advantage of radio streaming service models to expand reach outside their original country of activity to a potential global audience.

We have also seen strong progress in the provision of high resolution audio in the first half of the year, signing our first contract using the high resolution audio technology, MQA. The contract will see us develop desktop and mobile applications and handle rights holder reporting, end user management and payment processing for a customer which, it is hoped, will launch an MQA service later this year. 7digital will also now be providing the high resolution downloads for Neil Young’s PonoMusic platform, following the administration of leading competitor, Omnifone.

High resolution audio is an important growth segment within digital music and these contracts, along with others in our pipeline, build upon 7digital’s early implementation of MQA download stores in January 2016.

**Creative**

Our Creative division is engaged in the creation of award winning audio and video programming for broadcasters, receiving commissions from BBC’s national radio networks, commercial radio stations and other broadcasters such as Sky Television. It is a profitable business that brings a number of synergistic benefits to our licensing operations, in particular the ability to offer clients complementary knowledge and skillsets such as playlist curation and video or audio production.

Reflecting an expected second half weighting this year, Creative revenues in the first half were £0.8m (H1 2015: £0.9m).

The division has continued to win new business throughout the first six months of this year, benefiting from our broad capabilities and deep industry relationships. We have been contracted to produce content for Audible, an Amazon company, and have signed a deal with Sky Arts to produce TV coverage of the Cambridge Folk Festival for the fourth time. Continuing our long relationship with the BBC, we have secured a number of contracts in 2016, including retention of the popular Sunday Morning show and winning the high-profile Jazz Now series commission (both BBC Radio 3). Taken together, content produced by 7digital’s Creative team reaches over 10m listeners every week (RAJARs Q2 2016).

**Content**

Content includes legacy sales of digital music downloads by the Group direct to consumers; while we remain alert to higher margin opportunities that sit comfortably within our business strategy, this is an activity which we are deliberately decreasing as it is a low margin and non-core to the Group.

Content revenues in the first half were £1.4m (2015: £1.1m), benefitting from a contract with a major label to use 7digital’s platform for the sales of music downloads direct from an artist’s own web-site. In addition Hi-Res continued to increase as a proportion of Content sales.

**Strengthened Management**

7digital has continued to strengthen its management team in 2016, most recently with the permanent appointment of Matt Honey as Chief Financial Officer. The Company also announced the appointment of Philippe Decottignies to the position of Chief Technology Officer following the acquisition of Snowite, and Edward Kershaw to the role of Chief Commercial Officer. Pete Downton, previously Chief Commercial Officer, has also been promoted to a newly-created Deputy CEO role. All bring significant skills and sector experience and will help drive and manage the Group’s sustained growth. The Group has already seen material benefits from these appointments.

**Outlook**

I am encouraged by the progress we have made and the momentum we have generated in the first half of 2016. The Group continues to expand its customer base across an increasing range of geographies and to grow monthly repeat revenues, improving the quality of its business.

The Company has a healthy sales pipeline for the second half of the year and the Board remains confident of its commitment to achieve profitability by the year end and expects the Group to be profitable for the full year 2017.

It is disappointing that, despite this accelerating progress, the provision for revenues owed to us by Guvera and slower revenue growth than expected in the first half overall will result in a larger loss this year than we had anticipated. We continue to expect to be broadly EBITDA breakeven in the final quarter of the year.

**7digital Group plc**

**Financial review**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Results for the six months ending 30 June** | **2016 £’000** | **2015 £’000** |  | **Change** | **%** |
|  |  |  |  |  |  |
| Revenue | 5,247 | 5,153 |  | 94 | 2% |
| Cost of Sales | (1,923) | (1,836) |  | (87) | -5% |
| **Gross profit** | **3,324** | **3,317** |  | **7** | **0%** |
| Other operating income | 250 | 455 |  | (205) | -45% |
| Other administration expenses | (6,398) | (5,093) |  | (1,305) | -26% |
| **Adjusted LBITDA** | **(2,824)** | **(1,321)** |  | **(1,503)** | **-114%** |
| Depreciation | (451) | (381) |  | (70) | -18% |
| **Adjusted operating loss** | **(3,275)** | **(1,702)** |  | **(1,573)** | **-92%** |
| Share based payments | 16 | (73) |  | 89 | 122% |
| Exceptional items | (116) | (66) |  | (50) | -76% |
| **Operating loss** | **(3,375)** | **(1,841)** |  | **(1,534)** | **-83%** |
| Other gains and losses | - | (4,757) |  | 4,757 | 100% |
| Taxation on continuing operations | (46) | (10) |  | (36) | -360% |
| Finance gain/(cost) | 201 | (24) |  | 225 | -938% |
| **Loss for the period** | **(3,220)** | **(6,632)** |  | **3,412** | **51%** |

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

**Revenue**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2016 £’000** | **2015 £’000** |  | **Change** | **%** |
| Monthly recurring revenue | 2,316 | 2,251 |  | 65 | 3% |
| Set-up fees | 727 | 883 |  | (156) | -18% |
| **Licensing revenue** | **3,043** | **3,134** |  | **(91)** | **-3%** |
| Content | 1,367 | 1,099 |  | 268 | 24% |
| Creative | 837 | 920 |  | (83) | -9% |
| **Total Revenues** | **5,247** | **5,153** |  | **94** | **2%** |

Licensing revenue, which forms the core of the business, has remained broadly flat at £3.0m (2015: £3.1m). MRR was up by 3%; this low increase reflects the inclusion last year of revenues from a large contract not present in 2016. New contracts have more than replaced these revenues going forward and, given their timing, will benefit the Group in full in the second half and beyond. The total annualised MRR rate in June 2016 was £5.4m, an increase of 10% from June 2015 (£4.9m).

Content revenue increased due to an exclusivity deal for a major artist. Excluding this, content revenue has remained broadly flat.

Creative revenue (formerly labelled production) has fallen slightly due to the movement of some large productions to later in 2016 compared to 2015.

Gross profit remains unchanged at £3.3m, and achieved a steady gross margin, which is 63% (2015: 64%).

The impact of foreign exchange translation was a slight tailwind of £0.2m. With over 50% of 2016 revenues expected to be denominated in foreign currencies (predominantly US$), the effect of currency fluctuations is expected to benefit the Company in the second half of the year.

**Adjusted LBITDA and operating loss**

In the six months to 30 June 2016, the Company increased its adjusted LBITDA from £1.32m to £2.82m (an increase of 114%) primarily reflecting the bad debt provision, a small increase in overheads as the company moves from physical servers to ‘the Cloud’ and the timing of R&D tax credits. The Company’s adjusted operating loss increased from £1.70m to £3.28m.

**Operating loss**

The operating loss has increased, from £1.84m to £3.38m.

**Other gains and losses**

In 2015, there was an impairment loss as a result of the Group disposing of its remaining interest in Audioboom for £1.9m. This resulted in an impairment loss of £4.8m during 2015. There were no other gains and losses in 2016

**Statutory loss**

Statutory loss for the period has decreased by 51% as a result of the impairment loss incurred in 2015. The Company benefitted from the weakening of the pound in June 2016 and recorded a foreign exchange gain of £200k.

## Cash flow & cash position

In the six months to 30 June 2016, the Company had a cash outflow from operating activities of £0.64m (H1 2015: £2.31m). At 30 June 2016, cash in bank was £1.11m (30 June 2015: £2.47m).

**Loss per share**

In the six months to 30 June 2016 the Company reported a basic and diluted loss per share of 2.87 pence.

**7digital Group plc**

**Condensed consolidated statement of comprehensive income**

**Six months ended 30 June 2016 (unaudited)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Unaudited six months ended**  **30 June 2016** |  | **Unaudited six months ended 30 June 2015** |  | **Audited full year ended 31 Dec 2015** |
|  | Notes | **£'000** |  | **£'000** |  | **£'000** |
| **Continuing operations** |  |  |  |  |  |  |
| Revenue | 2 | **5,247** |  | 5,153 |  | 10,365 |
| Cost of sales |  | **(1,923)** |  | (1,836) |  | (3,308) |
| **Gross profit** |  | **3,324** |  | 3,317 |  | 7,056 |
|  |  |  |  |  |  |  |
| Other income | 3 | **250** |  | 455 |  | 1,040 |
| Administrative expenses |  | **(6,949)** |  | (5,613) |  | (11,251) |
|  |  |  |  |  |  |  |
| Adjusted operating loss |  | **(3,274)** |  | (1,681) |  | (2,890) |
| - Share based payments |  | **16** |  | (73) |  | (137) |
| - Exceptional items | 5 | **(116)** |  | (86) |  | (128) |
|  |  |  |  |  |  |  |
| **Operating loss** | 4 | **(3,375)** |  | (1,841) |  | (3,154) |
|  |  |  |  |  |  |  |
| Other gains and loss | 8 | **-** |  | (4,757) |  | (4,767) |
| Finance Income |  | **6** |  | 10 |  | 11 |
| Finance cost |  | **(1)** |  | - |  | (1) |
| **Loss before tax** |  | **(3,370)** |  | (6,587) |  | (7,910) |
|  |  |  |  |  |  |  |
| Taxation on continuing operations |  | **(46)** |  | (10) |  | (3) |
| **Loss from operations attributable to owners of the parent company** |  | **(3,416)** |  | (6,597) |  | (7,913) |
|  |  |  |  |  |  |  |
| Fair value (loss)/gain on investment |  | **-** |  | - |  | - |
| Foreign exchange |  | **196** |  | (36) |  | 27 |
|  |  |  |  |  |  |  |
| **Total comprehensive income attributable to owners of the parent company** |  | **(3,220)** |  | (6,632) |  | (7,886) |
|  |  |  |  |  |  |  |
| **Loss per share (pence)** |  |  |  |  |  |  |
| Basic and diluted |  | **(2.87)** |  | (6.13) |  | (7.31) |

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**7digital Group plc**

**Condensed consolidated statement of financial position**

**As at 30 June 2016 (unaudited)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Unaudited 30 Jun 2016** |  | **Unaudited 30 June 2015** |  | **Audited 31 Dec 2015** |
|  | Notes | **£'000** |  | **£'000** |  | **£'000** |
| **Assets** |  |  |  |  |  |  |
| **Non-current assets** |  |  |  |  |  |  |
| Intangible assets | 6, 7 | **2,025** |  | 369 |  | 416 |
| Property, plant and equipment |  | **619** |  | 803 |  | 704 |
| Investments in associate | 8 | **-** |  | 1,868 |  | - |
|  |  | **2,644** |  | 3,041 |  | 1,120 |
| **Current assets** |  |  |  |  |  |  |
| Inventory: work-in-progress |  | **172** |  | 41 |  | 62 |
| Trade and other receivables |  | **4,730** |  | 4,392 |  | 4,502 |
| Cash and cash equivalents |  | **1,108** |  | 2,471 |  | 1,656 |
|  |  | **6,010** |  | 6,903 |  | 6,219 |
| **Total assets** |  | **8,654** |  | 9,944 |  | 7,339 |
| **Current liabilities** |  |  |  |  |  |  |
| Trade and other payables |  | **(6,532)** |  | (5,495) |  | (3,804) |
| Provisions for liabilities and charges - current |  | **(10)** |  | - |  | (170) |
|  |  | **(6,541)** |  | (5,495) |  | (3,974) |
| Net current assets |  | **(532)** |  | 1,408 |  | 2,245 |
|  |  |  |  |  |  |  |
| **Non-current liabilities** |  |  |  |  |  |  |
| Bank loan |  | **(941)** |  | - |  | - |
| Other long term liabilities |  | **(381)** |  | - |  | - |
|  |  | **(1,322)** |  | - |  | - |
| **Total liabilities** |  | **(7,863)** |  | (5,495) |  | (3,974) |
| **Net assets** |  | **790** |  | 4,449 |  | 3,365 |
|  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |
| Share capital |  | **11,575** |  | 10,843 |  | 10,843 |
| Share premium account |  | **17,278** |  | 17,278 |  | 17,278 |
| Treasury reserve |  | **(5)** |  | (74) |  | (42) |
| Reverse acquisition reserve |  | **(4,430)** |  | (4,430) |  | (4,430) |
| Foreign exchange reserve |  | **(100)** |  | 20 |  | (118) |
| Retained earnings |  | **(23,528)** |  | (19,189) |  | (20,167) |
| **Total Equity** |  | **790** |  | 4,449 |  | 3,365 |

**7digital Group plc**

**Condensed consolidated cash flow statement**

**Six months ended 30 June 2016 (unaudited)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Notes | **Unaudited six months ended 30 June 2016** |  | **Unaudited six months ended 30 June 2015** |  | **Audited full year ended 31 Dec 2015** |
|  |  | **£'000** |  | **£'000** |  | **£'000** |
|  |  |  |  |  |  |  |
| **Loss for the period** |  | **(3,220)** |  | (6,632) |  | (7,913) |
| Adjustments for: |  |  |  |  |  |  |
| Taxation |  | **46** |  | 10 |  | 3 |
| Interest |  | **(6)** |  | (10) |  | (11) |
| Foreign Exchange |  | **(196)** |  | 36 |  | - |
| Amortisation of intangible assets |  | **314** |  | 125 |  | 277 |
| Depreciation of fixed assets |  | **189** |  | 256 |  | 484 |
| Loss on sale of asset | 8 | **-** |  | 4,757 |  | 4,767 |
| Share option valuation adjustment |  | **(16)** |  | 73 |  | 137 |
| Decrease in provisions |  | **(160)** |  | (188) |  | (18) |
| Increase/(decrease) in accruals and deferred income |  | **868** |  | 348 |  | (263) |
| Decrease in inventories |  | **(110)** |  | 3 |  | (18) |
| (Increase)/decrease in trade and other receivables | | **110** |  | (1,296) |  | (1,407) |
| Increase/(decrease) in trade and other payables |  | **1,582** |  | 211 |  | (730) |
| **Cash flows from operating activities** |  | **(598)** |  | (2,308) |  | (4,691) |
| Taxation |  | **(46)** |  | (10) |  | (3) |
| Net interest |  | **6** |  | 10 |  | 11 |
| **Net cash used in operating activities** |  | **(639)** |  | (2,308) |  | (4,683) |
| **Investing activities** |  |  |  |  |  |  |
| Disposal of investment | 8 | **-** |  | - |  | 1,828 |
| Purchase of property, plant and equipment |  | **(28)** |  | (310) |  | (496) |
| Acquisition of subsidiary |  | **109** |  | - |  | - |
| Purchase of intangible asset |  | **(186)** |  | (188) |  | (352) |
| **Net cash (used) / generated from in investing activities** |  | **(105)** |  | (498) |  | 980 |
| **Net decrease in cash and cash equivalents** |  | **(744)** |  | (2,806) |  | (3,703) |
| Cash and cash equivalents at beginning of period |  | **1,656** |  | 5,312 |  | 5,312 |
| Effect of foreign exchange rate changes |  | **196** |  | (36) |  | 46 |
| **Cash and cash equivalents at end of period** |  | **1,108** |  | 2,471 |  | 1,656 |

**7digital Group plc**

**Condensed consolidated statement of changes in equity**

**Six months ended 30 June 2016 (unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Share capital |  | Share premium account |  | Treasury reserves |  | Other reserves |  | Retained earnings |  | **Total** |
|  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | **£'000** |
| **At 1 January 2015** | 10,833 |  | 17,278 |  | (215) |  | (1,456) |  | (15,311) |  | **11,128** |
| Loss for the period | - |  | - |  | - |  | - |  | (6,597) |  | **(6,597)** |
| Other comprehensive income for the period | - |  | - |  | - |  | (2,953) |  | 2,814 |  | **(139)** |
| Share based payment | 11 |  | - |  | 142 |  | - |  | (95) |  | **58** |
| **At 30 June 2015** | 10,843 |  | 17,278 |  | (73) |  | (4,410) |  | (19,189) |  | **4,450** |
| Loss for the period | - |  | - |  | - |  | - |  | (1,316) |  | **(1,280)** |
| Other comprehensive income for the period | - |  | - |  | - |  | (138) |  | 313 |  | **175** |
| Share based payment | - |  | - |  | 31 |  | - |  | 24 |  | **55** |
| **At 1 January 2016** | 10,843 |  | 17,278 |  | (42) |  | (4,548) |  | (20,167) |  | **3,365** |
| Loss for the period | - |  | - |  | - |  | - |  | (3,416) |  | **(3,416)** |
| Other comprehensive income for the period | - |  | - |  | - |  | 18 |  | 108 |  | **125** |
| Acquisition of subsidiary | 732 |  | - |  | - |  | - |  | - |  | **732** |
| Share based payment |  |  |  |  | 37 |  | - |  | (53) |  | **(16)** |
| **At 30 June 2016** | **11,575** |  | **17,278** |  | **(5)** |  | **(4,530)** |  | **(23,528)** |  | **790** |

**7digital Group plc**

**Notes to the financial statements**

**Six months ended 30 June 2016 (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 2016.

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 2015, with the exception of the application of new accounting standards.

The information for the six months ended 30 June 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The information for the year ending 31 December 2015 is taken from the Annual Reports and Financial Statements 2015 of 7digital Group plc.

**Going concern**

The condensed financial statements have been prepared on a going concern basis. At the period end, the Group had cash and cash equivalents of £1.1m. The directors are satisfied that there are sufficient resources available for the Group to continue for the foreseeable future. As such the condensed and consolidated financial statements have been prepared on a going concern basis.

**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 2015.

**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.

## 2. Business and geographical segments

**Business segments**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Unaudited six months to 30 Jun 2016** |  | Unaudited six months to 30 Jun 2015 |  | Audited full year ended 31 Dec 2015 |
|  | **£'000** |  | £'000 |  | £'000 |
| **Revenue** |  |  |  |  |  |
| Licensing | **3,043** |  | 3,131 |  | 6,508 |
| Content | **1,367** |  | 1,101 |  | 2,012 |
| Creative | **837** |  | 920 |  | 1,844 |
| **Total** | **5,247** |  | 5,153 |  | 10,365 |
|  |  |  |  |  |  |
| **Operating profit/(loss)** |  |  |  |  |  |
| Licensing | **2,771** |  | 2,798 |  | 5,923 |
| Content | **127** |  | 49 |  | 215 |
| Creative | **423** |  | 469 |  | 918 |
| Other income | **250** |  | 455 |  | 1,040 |
| Unallocated | **(6,946)** |  | (5,613) |  | (11,251) |
| **Total** | **(3,375)** |  | (1,841) |  | (3,154) |
|  |  |  |  |  |  |
| Other gains and losses | **-** |  | - |  | (4,767) |
| Net finance costs | **201** |  | (25) |  | 38 |
| Taxation | **(46)** |  | (10) |  | (3) |
| **Loss for the year** | **(3,220)** |  | (6,632) |  | (7,886) |

**Geographical information**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Revenue | | |  | Non-current assets | | |
| Unaudited six months to 30 June | **2016** |  | 2015 |  | **2016** |  | 2015 |
| **Continuing Operations** | **£'000** |  | £'000 |  | **£'000** |  | £'000 |
| United Kingdom | **1,473** |  | 1,990 |  | **970** |  | 1,173 |
| Europe | **859** |  | 792 |  | **919** |  | - |
| Rest of World | **2,914** |  | 2,372 |  | **-** |  | - |
|  | **5,247** |  | 5,153 |  | **1,889** |  | 1,173 |

## 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 2016** |  | Unaudited six months ended  30 Jun 2015 |  | Audited full year ended 31 Dec 2015 |
|  | **£'000** |  | £'000 |  | £'000 |
| Amortisation of intangible | **172** |  | 125 |  | 277 |
| Depreciation of property, plant & equipment | **201** |  | 221 |  | 482 |
| Loss on disposal of investment | **-** |  | - |  | 4,767 |
| Bad debt provisions and write offs | **818** |  | 88 |  | 249 |
| Share based payment expense | **(16)** |  | 73 |  | 137 |
| Staff costs | **3,800** |  | 3,635 |  | 6,727 |

During the period, Guvera Australia Pty Ltd, a customer of the Group, went into administration. Prior to the administration the Group negotiated a move of the existing debt at the time to another company within the remaining Guvera group and agreed a payment plan to recover the debt. The payment plan has not been adhered to so the directors deem it prudent to now fully provide for this debt. The total provision in relation to Guvera is £733k (2015: nil).

## 5. Exceptional items

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Unaudited six months ended 30 June 2016** |  | Unaudited six months ended 30 June 2015 |  | Audited full year ended 31 Dec 2015 |
|  | **£'000** |  | £'000 |  | £'000 |
| Acquisition costs | **(24)** |  | 20 |  | (16) |
| Restructuring costs | **(92)** |  | (86) |  | (112) |
|  | **(116)** |  | (66) |  | (128) |

**6. Acquisition**

## On 08 April 2016, 7digital Group plc acquired a French software company Snowite SAS out of administration. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 31 Mar 2016 |  | Fair Value Adjustment |  | **Adjusted at**  **30 Jun 2016** |
|  | £’000 |  | £’000 |  | **£’000** |
| Goodwill | 64 |  | (64) |  | **-** |
| Capitalised development costs | 831 |  | (831) |  | **-** |
| Property plant and equipment | 40 |  | - |  | **40** |
| Financial assets | 36 |  | - |  | **36** |
| Trade and other receivables | 421 |  | - |  | **421** |
| Cash and cash equivalents | 109 |  | - |  | **109** |
| Bank loans | (898) |  | - |  | **(898)** |
| Trade and other payables | (713) |  | - |  | **(713)** |
|  | (110) |  | (895) |  | **(1,005)** |
| Intangible assets |  |  |  |  | **1,737** |
| Total consideration |  |  |  |  | **732** |

The transaction was satisfied by a share swap of 7,320,000 ordinary shares at a value of £0.10 per share in 7digital Group plc for 100% of the shareholding in Snowite SAS. The primary reason for the acquisition was to acquire Snowite’s software and IP. The difference between the adjusted fair value of the net assets and the consideration have been classified as intangible assets and will be amortised over a 3 year period in line with the Group policy on bespoke software.

As part of the purchase, the Group has negotiated with the French Commercial Courts a slight reduction in the amount of the debt existing at the time of the purchase within Snowite and to be repaid by the Group, from €1.8m to €1.7m. The terms of repayment agreed are over 8 years (following a 1 year moratorium), payable in equal instalments with no interest.

**7. Intangible assets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Bespoke applications |  | Intellectual  Property |  | **Intangible**  **assets** |
|  | £'000 |  | £'000 |  | **£'000** |
| **Cost** |  |  |  |  |  |
| At 31 December 2015 | 1,051 |  | - |  | **1,051** |
| Additions | 186 |  | 1,737 |  | **1,923** |
| **At 30 June 2016** | **1,236** |  | **1,737** |  | **2,974** |
|  |  |  |  |  |  |
| **Depreciation** |  |  |  |  |  |
| At 31 December 2015 | 635 |  | - |  | **635** |
| Charge for period | 174 |  | 139 |  | **314** |
| **At 30 June 2016** | **809** |  | **139** |  | **949** |
|  |  |  |  |  |  |
| **Net book value** |  |  |  |  |  |
| At 31 December 2015 | 416 |  | - |  | 416 |
| **At 30 June 2016** | **427** |  | **1,598** |  | **2.025** |

## 8. Disposal of investment in Audioboom Group plc

On 7 September 2015 the Group disposed of the whole of its interest in Audioboom Group plc, an AIM listed company, raising cash proceeds of approximately £1.87 million. The interest in Audioboom was originally acquired as part of the reverse acquisition of UBC Media Group plc in June 2014.

**9. Post balance sheet event**

On 07 July 2016 the Group received approval from the High Court for a capital reduction that has resulted in the cancellation of the share premium account. Following the capital reduction, the equity of the Group and Parent is:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Group  (Consolidated) |  | Parent  (Entity) |
| **Equity** | **£** |  | **£** |
| Share capital | **11,575** |  | **11,575** |
| Share premium account | **-** |  | **-** |
| Treasury reserve | **(5)** |  | **(5)** |
| Reverse acquisition reserve | **(4,430)** |  | **-** |
| Foreign exchange reserve | **(100)** |  | **-** |
| Retained earnings | **(6,249)** |  | **3,496** |
| **Total Equity** | **790** |  | **15,066** |