

FINANCIAL RESULTS

for the year ended 31 December 2018



Contents

Key summary

Consolidated Income Statement

Underlying business results

Central costs

Exceptional and other non-underlying items

Profit after tax bridge from 2017 to 2018

Cash Flow

Analysis of Balance sheet:

Business segment net asset bridge from 2017 to 2018

Provisions

Assets/liabilities by proximity to cash

Ongoing actions and plans



Key summary

- Revenues of £38.0m (2017: £44.9m)
- Underlying central costs reduced to £3.5m (2017: £5.6m)
- Underlying EBITDA loss of £4.6m (2017: £3.6m)
- Group operating loss of £20.5m (2017: £7.4m)
- Total loss after tax of £18.9m (2017: £2.6m)
- Group net assets of £46.8m representing approximately 101 pence per share (2017: 144 pence per share)
- Group cash and term deposits at 31 December 2018 of £50.1m (£43.9m as at 26th April 2019)
- Successful resolution of a number of legacy tax matters and other obligations resulting in the release of provisions of £1.9m (2017: £10.3m)

Consolidated Income Statement

for the year ended 31 December	2018	2018	2018	2017	2017	2017
	Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Revenue	38.0	-	38.0	44.9	-	44.9
Cost of sales	(21.1)	-	(21.1)	(24.6)	-	(24.6)
Gross profit	16.9	-	16.9	20.3	-	20.3
Administrative expenses	(23.2)	(14.1)	(37.4)	(25.0)	(2.7)	(27.7)
Group operating loss	(6.3)	(14.1)	(20.5)	(4.7)	(2.7)	(7.4)
Net finance income	0.3	-	0.3	0.2	2.3	2.5
Loss before taxation	(6.0)	(14.1)	(20.1)	(4.4)	(0.5)	(5.0)
Taxation	0.2	-	0.2	0.8	-	0.8
Loss after taxation for the year from continuing operations	(5.8)	(14.1)	(19.9)	(3.7)	(0.5)	(4.2)
Net gain on disposal of discontinued operations	-	0.6	0.6	-	4.9	4.9
Profit/(loss) for the year from discontinued operations	-	0.5	0.5	-	(3.4)	(3.4)
(Loss)/profit after taxation for the year	(5.8)	(13.1)	(18.9)	(3.7)	1.1	(2.6)

NOTES

- Underlying split from Non-underlying
- Underlying comprises: Healthcare, ingenie and Central
- Discontinued during the year:
 - Hubio sold or closed
- Non-underlying includes exceptional and other non-recurring items as well as discontinued business
- Underlying EBITDA loss of £4.7m (see next slide)
- Roundings have been left uncorrected throughout

Underlying business results

for the year ended 31 December	ingenie £'m	Healthcare £'m	Central £'m	Total £'m
2018				
Revenue	7.8	30.2	-	38.0
Cost of sales	(4.4)	(16.8)	-	(21.1)
Gross profit	3.5	13.4	-	16.9
Administrative expenses excluding depreciation and amortisation	(5.4)	(12.6)	(3.5)	(21.5)
Underlying EBITDA	(1.9)	0.9	(3.5)	(4.6)
Depreciation and amortisation				(1.8)
Underlying group operating loss				(6.3)
2017				
Revenue	14.4	30.5	-	44.9
Cost of sales	(8.0)	(16.6)	-	(24.6)
Gross profit	6.4	13.9	-	20.3
Administrative expenses excluding depreciation and amortisation	(5.1)	(13.1)	(5.6)	(23.9)
Underlying EBITDA	1.3	0.7	(5.6)	(3.6)
Depreciation and amortisation				(1.1)
Underlying group operating loss				(4.7)

Central costs

for the year ended 31 December	2018	2017
	£'m	£'m
Total underlying	3.5	5.6
Non-underlying	1.1	1.3
Total	4.6	6.9

NOTES

- Central costs reduced during 2017 as scope and complexity of Group reduced
- Significant further reduction executed at the end of December 2017
- Non-underlying costs typically external fees in relation to resolution of legacy matters

Exceptional and other non-underlying items

Year ended 31 December	2018 £'m	2017 £'m
Non-underlying gross profit	-	-
Net finance expense	-	(0.1)
Amortisation of acquired intangibles	(1.0)	(1.4)
Other non-underlying expenses (inc admin expenses of closed businesses not classified as discontinued)	-	(1.1)
Exceptional items:		
Legal and regulatory expenses	(5.7)	(2.9)
Legal settlements	0.2	(0.6)
Tax related matters	1.6	9.0
Net Impairments	(9.1)	(5.6)
Restructuring and other	(0.1)	(0.1)
Finance income	-	2.4
Total non-underlying loss before tax	(14.1)	(0.5)

NOTES

- Legal and regulatory expenses are legal fees whether Watchstone or counterparty
- Legal settlements:
 - Income £1.3m
 - Cost £1.2m
- Net impairment includes ingenie goodwill of £9.1m (2017: £5.6m)

Profit after tax bridge from 2017 to 2018

	£'m	£'m
2017 loss after tax		(2.6)
<hr/>		
Continuing operations		
Underlying business loss after tax increased	(2.1)	
Non-underlying loss after tax increased	(13.6)	(15.7)
<hr/>		
Discontinued operations		
Profit on sale less	(4.4)	
Removal of losses for the year	3.8	(0.5)
<hr/>		
2018 loss after tax		(18.9)

Cash Flow

for the year ended 31 December	2018	2017
	£m	£m
Net cash used by operating activities	(8.5)	(15.9)
Net cash used in investing activities	(1.8)	(4.7)
Net cash used in financing activities	(2.5)	(0.1)
Net decrease in cash and cash equivalents	(12.7)	(20.8)
Cash and cash equivalents at the end of the year	10.1	22.8
Term deposits	40.0	40.0
Cash including term deposits	50.1	62.8

NOTE

- Net cash used in investing activities in 2017 included an additional £2.5m placed on rolling term deposits. This was nil in 2018.

Analysis of Balance Sheet

Bridge from 2017 to 2018 by business segment

as at 31 December	Central	Healthcare	ingenie	Discontinued and Non- underlying	Total
	£'m	£'m	£'m	£'m	£'m
2017	44.5	8.9	13.2	(0.5)	66.1
Underlying EBITDA	(3.5)	0.9	(1.9)	-	(4.6)
Exceptional items	(3.4)	(0.3)	(9.4)	1.1	(12.0)
Other income statement	0.4	(2.0)	(0.7)	-	(2.3)
Funding of preference share redemptions	(2.5)	2.5	-	-	-
Balance sheet movements including exchange in reserves	0.2	-	(0.6)	-	(0.4)
2018	35.6	9.9	0.6	0.6	46.8

Intercompany balances are excluded from the above analysis

Provisions

£'m	Tax related matters	Legal disputes	Onerous contracts	Other	Total
At 1 January 2018	3.2	7.4	0.5	2.0	13.1
Additional provisions	-	3.8	-	0.4	4.2
Unused amounts released	(1.5)	(0.1)	(0.2)	(0.2)	(1.9)
Used during the year	-	(2.9)	(0.3)	(0.8)	(4.0)
At 31 December 2018	1.7	8.2	0.1	1.4	11.4

Analysis of Balance Sheet

Assets/liabilities by proximity to cash

as at 31 December	2018	2017
	£'m	£'m
Cash including term deposits	50.1	62.8
PSD escrow balance (<i>gross £50.2m less impairment £50.2m</i>)	-	-
Other net current liabilities/assets	(15.8)	(19.6)
Creditors, loans and provisions over one year	(1.4)	(4.0)
Non-current assets	13.9	26.8
Net assets	46.8	66.1

NOTES

- Included in liabilities are legal, taxation and other provisions of £11.4m.
- Non current assets include:
 - Goodwill £8.2m
 - Intangibles £3.1m
 - PPE £1.9m
- ptHealth preference shares total £3.5m (2017: £6.0m) across current and long term liabilities



Ongoing actions and plans

- Support management teams in growing businesses for future disposal
- Resolve and mitigate legacy matters principally at the plc level
- Manage cash and other assets with care and prudence
- Defend litigation and optimise returns from NIHL assets
- Operate with strong corporate governance

Watchstone.