Watchstone Group plc
("Watchstone" or the "Company" or the "Group")

Preliminary results for the year ended 31 December 2019

Watchstone (AIM:WTG.L) today announces its results for the year ended 31 December 2019.

- Revenues of £7.3m (2018: £7.8m).
- Total profit after tax £30.9m (2018: Loss of £18.9m)
- Underlying[2] EBITDA[3] loss of £5.5m (2018: £5.4m)
- Group operating loss of £6.8m (2018: £19.0m)
- Group net assets of £77.7m representing approximately 169 pence per share (2018: 101 pence per share)
- Underlying central costs[1] reduced to £2.9m (2018: £3.5m)
- Group cash and term deposits at 31 December 2019 of £71.6m (31 December 2018: £50.1m)
- Group cash and term deposits at 30 April 2020 of £89.0m

[1]*A reconciliation of underlying central costs to statutory measures can be found in the Financial Statements.*
[2]*Underlying comprises ingenie and Central.*
[3]*EBITDA is Earnings Before Interest Tax Depreciation and Amortisation. A reconciliation of statutory measures to alternative measures can be found in the Financial Statements.*

The Annual Report and Accounts for the year ended 31 December 2019 will be released by 31 May 2019 and posted to registered shareholders. Once published, the Annual Report and Accounts will be available at www.watchstonegroup.com/investors.

The 2020 AGM will be held on 24 June 2020 in London. Notice of the Annual General Meeting ("AGM") will be posted to registered shareholders in due course. The evolving COVID-19 situation and the related Government restrictions will likely impact the ability of shareholders to attend the AGM in person. The situation regarding COVID-19 is evolving rapidly and the Company is following the health advice of the UK Government and Public Health England. Shareholders are encouraged to monitor the Company's website for any further updates in relation to arrangements for the AGM.

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Chris Hardie Lydia Zychowska	

Chairman's Report

2019 was an important year for the Group as we continue along the path of resolving the outstanding legacy issues of the Group and the divesting of our operating businesses. Once again, we reduced costs and the size of our central overhead with Board changes, the closure of our central office and further reduction of other such costs.

A huge amount of work was required by us to defend the serious but unmerited claims made by Slater & Gordon (UK) 1 Limited ("S&G") which we ultimately settled shortly before the commencement of the trial in October 2019. During the course of the S&G litigation we identified claims against other third parties which we are pursuing.

After the year end, on 27 April 2020, the Serious Fraud Office ("SFO") informed us that the Company will not be prosecuted for criminal offences in respect of those matters which were the subject of the investigation. We are pleased with this outcome which came after full co-operation and engagement with the SFO.

We remain on track with the execution of our plan to prepare our businesses for future disposal and to do so when appropriate. In September 2019, an agreement was reached to dispose of our Canadian physiotherapy clinic and technology business, ptHealth, and the transaction completed in February 2020 after regulatory approval. We believe this represents good value for our shareholders and I would like to thank the Healthcare Services team for their hard work during the Group's ownership of the business. We wish them well under their new ownership.

These events have left the Group with significant cash reserves and we are taking steps to return the majority of this to shareholders in a tax efficient manner, being mindful of the continuing legal matters in the Group. As announced in April 2020, notwithstanding the COVID-19 situation, we hope to complete this further cash return of £50.5m before the end of June 2020. The shareholders approved this return of cash on 27 April 2020, and if approved by the Court, this would bring the total cash returned to shareholders to approximately £465 million in aggregate. As we continue to resolve the remaining legacy issues, we hope to return more cash to shareholders as soon as practicable.

We continue to address these historical matters and to manage our remaining trading business, ingenie, to maximise future value for shareholders.

ingenie's business has been on a journey of development and recovery for some time but has inevitably been impacted by the COVID-19 restrictions and its board has taken the steps necessary to protect the business for when the situation resolves.

There is still much work to be done, both at the Group level and within ingenie, and I would like to thank our colleagues for their commitment. I would also like to thank our shareholders who have been patient and maintained support for the Company as the intense work to maximise value from all our assets has continued. As always, the Board remains confident that we will go on to reward that support.

Richard Rose
Non-executive Chairman

Group Chief Executive's Update

When I became Group Chief Executive Officer in January 2018, I used an analogy that we were trying to land a number of planes concurrently circling overhead to describe the complex task in hand. Our aim has been to land as many of the planes as quickly, safely and efficiently as possible. With the matters completed in 2019 and since year end we are now well advanced on that plan.

Having resolved the S&G litigation and disposed of our Healthcare Services business we will be distributing the majority of our excess cash to shareholders (subject to Court approval) before the half year. On 27 April 2020, we were notified by the SFO that, whilst the investigation being undertaken by it into historical matters continues, the Company is no longer a suspect and will not be liable to prosecution. This was another major development towards our ultimate aims of resolving all of our remaining legacy matters and generating as much value as we can from our remaining assets.

Business review: ingenie

In March 2019, ingenie completed a transformational move of its policy administration to a new provider. This significant development allows ingenie’s consumer business to better control its proposition and whilst ingenie's retail business continued to face difficult market conditions in 2019, changes are now bearing fruit with new policy sales at their highest levels for a number of years. The programme supporting our external customer in the Netherlands, ANWB, continues to perform well and the contract was extended during the year. Furthermore, ingenie recently signed a deal with a leading insurance brand to provide their telematics offering. This will also add incremental revenues to both the retail and SaaS/B2B sides of the business. ingenie’s business has been inevitably impacted by the COVID-19 restrictions and its board has taken the steps necessary to protect the business for when the situation resolves.

Update on outstanding legacy matters

We will continue to cooperate with the continuing SFO investigation but the Company itself is no longer a suspect and will not be prosecuted in respect of it.

Whilst we understand that the previously threatened class action litigation first announced in September 2015 has been abandoned, a firm purporting to act for a group of twelve individuals (some of whom participated in the original threatened litigation) submitted a "Notice of intended claim" to the Company in November 2019. However, it provides no information to support the validity or valuation of the individual prospective claimants' claims, which they would be required to prove in due course in any litigation. We responded fully to this correspondence, outlining our view that the purported claim had no legal merit, because the legal tests for bringing a claim of this sort were not satisfied. The Company will vigorously defend all such claims if so brought.

We continue to pursue a number of contingent but valuable assets including potential legal claims.

2020 outlook

We will look to dispose of our remaining trading business when we believe the optimal return for shareholders can be achieved and will manage the business prudently until this time whilst continuing to support development of its leading market offering and technology. Central costs will be carefully managed at reduced levels consistent the needs of the organisation.

Stefan Borson
Group Chief Executive Officer

Consolidated Income Statement

for the year ended 31 December 2019

	2019 Underlying £'000	2019 Non-underlying* £'000	2019 Total £'000	2018 Underlying £'000	2018 Non-underlying* £'000	2018 Total £'000
Revenue	**7,342**	**-**	**7,342**	7,841	-	7,841
Cost of sales	**(5,366)**	**-**	**(5,366)**	(4,375)	-	(4,375)
Gross profit	**1,976**	**-**	**1,976**	3,466	-	3,466
Administrative expenses	**(8,084)**	**(651)**	**(8,735)**	(9,112)	(13,338)	(22,450)
Group operating loss	**(6,108)**	**(651)**	**(6,759)**	(5,646)	(13,338)	(18,984)
Finance income	**389**	**-**	**389**	355	-	355
Finance expense	**(259)**	**-**	**(259)**	19	-	19
Loss before taxation	**(5,978)**	**(651)**	**(6,629)**	(5,272)	(13,338)	(18,610)
Taxation	**178**	**3**	**181**	167	-	167
Loss after taxation for the year from continuing operations	**(5,800)**	**(648)**	**(6,448)**	(5,105)	(13,338)	(18,443)
Net gain on disposal of discontinued operations	**-**	**-**	**-**	-	558	558
Profit/(loss) for the year from discontinued operations, net of taxation	**-**	**37,342**	**37,342**	-	(1,019)	(1,019)
Profit/(loss) after taxation for the year	**(5,800)**	**36,694**	**30,894**	(5,105)	(13,799)	(18,904)
Attributable to:						
Equity holders of the parent	**(5,800)**	**36,669**	**30,869**	(5,105)	(13,799)	(18,904)
Non-controlling interests	**-**	**25**	**25**	-	-	-
	(5,800)	**36,694**	**30,894**	(5,105)	(13,799)	(18,904)
Earnings/(loss) per share (pence):						
Basic	**(12.6)**		**67.1**	(11.1)		(41.1)
Diluted	**(12.6)**		**67.1**	(11.1)		(41.1)
Loss per share from continuing operations (pence):						
Basic			**(14.0)**			(40.1)
Diluted			**(14.0)**			(40.1)

*Non-underlying results have been presented separately to give a better guide to underlying business performance.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit/(loss) after taxation	**30,894**	(18,904)
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(6)**	(365)
Total comprehensive income/(loss) for the year	**30,888**	(19,269)
Attributable to:		
Equity holders of the parent	**30,856**	(19,234)
Non-controlling interest	**32**	(35)
	30,888	(19,269)

Consolidated Statement of Financial Position

as at 31 December 2019

	2019 £'000	2018 £'000
Non-current assets		
Goodwill	**-**	8,157
Other intangible assets	**819**	3,144
Property, plant and equipment	**646**	1,854
Other receivables	**260**	759
	1,725	13,914
Current assets		
Inventories	**435**	760
Corporation tax	**178**	-
Trade and other receivables	**2,777**	5,110
Term deposits	**15,000**	40,000
Cash	**56,611**	10,113
	75,001	55,983
Assets of disposal group classified as held for sale	**27,601**	-
Total current assets	**102,602**	55,983
Total assets	**104,327**	69,897
Current liabilities		
Cumulative redeemable preference shares	**-**	(2,209)
Trade and other payables	**(4,719)**	(8,201)
Provisions	**(4,147)**	(11,319)
	(8,866)	(21,729)
Liabilities of disposal group classified as held for sale	**(17,749)**	-
Total current liabilities	**(26,615)**	(21,729)
Non-current liabilities		
Cumulative redeemable preference shares	**-**	(1,278)
Provisions	**(19)**	(85)
Deferred tax liabilities	**(1)**	(1)
	(20)	(1,364)
Total liabilities	**(26,635)**	(23,093)
Net assets	**77,692**	46,804
Equity		
Share capital	**4,604**	4,604
Other reserves	**137,486**	137,827
Retained earnings	**(64,905)**	(96,288)
Equity attributable to equity holders of the parent	**77,185**	46,143
Non-controlling interests	**507**	661
Total equity	**77,692**	46,804

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Cash used in operations before exceptional costs, net finance expense and tax	**(1,639)**	(1,672)
Non underlying cash in/(out) flows excluding discontinued operations	**32,616**	(6,834)
Cash generated by/(used in) operations before net finance expense and tax	**30,977**	(8,506)
Net cash generated by/(used by) operating activities	**30,977**	(8,506)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(5,732)**	(1,411)
Purchase of intangible fixed assets	**(693)**	(1,057)
Disposal of subsidiaries net of cash foregone	**-**	87
Investment in term deposits	**(75,000)**	(100,000)
Maturity of term deposits	**100,000**	100,000
Interest income	**333**	349
Recovery of fully impaired investment	**-**	250
Net cash generated by/(used in) investing activities	**18,908**	(1,782)
Cash flows from financing activities		
Finance expense paid	**(1,052)**	-
Finance income received	**56**	-
Redemption of preference shares	**(1,832)**	(2,454)
Finance lease repayments	**-**	(4)
Net cash used in financing activities	**(2,828)**	(2,458)
Net increase/(decrease) in cash and cash equivalents	**47,057**	(12,746)
Cash and cash equivalents at the beginning of the year	**10,113**	22,808
Exchange gains on cash and cash equivalents	**6**	51
Cash and cash equivalents at the end of the year	**57,176**	10,113

The above Consolidated Cash Flow Statement includes cash flows from both continuing and discontinued operations.

As at 31 December 2019, the Group had cash and cash equivalents of £57,176,000 (2018: £10,113,000) of which £565,000 (2018: £nil) is included within assets held for sale. The Group also has term deposits of £15,000,000 (2018: £40,000,000).

Notes:

1. Results announcement

The Financial Statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations adopted by the European Union (EU) (adopted IFRS). However, this announcement does not contain sufficient information to comply with adopted IFRS. The Group will publish its Annual Report and Financial Statements by 31 May 2020 and these will appear on the Group's website at www.watchstonegroup.com and be posted to shareholders. The auditors have reported on those accounts; their report was (i) unqualified; and (ii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2019. Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies and those for the year ended 31 December 2019 will be delivered following the AGM. This preliminary announcement was approved by the Board of Directors on 12 May 2020 and these preliminary results have been extracted from the audited results for the year ended 31 December 2019.

2. Consolidated Income Statement presentation

The Income Statement is presented in three columns. This presentation is intended to give a better guide to underlying business performance by separately identifying adjustments to Group results which are considered to either be exceptional in size, nature or incidence, relate to businesses which do not form part of the continuing business of the Group, or have potential significant variability year on year in non-cash items which might mask underlying trading performance. The columns extend down the Income Statement to allow the tax and earnings per share impacts of these transactions to be disclosed. Equivalent elements of the Group results arising in different years, including increases in or reversals of items recorded, are disclosed in a consistent manner.

3. Business segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the Board). The Group historically operated two segments, being Healthcare Services and ingenie.

During the year ended 31 December 2019, Healthcare Services was classified as discontinued and therefore no longer forms a reportable segment. The continuing business at 31 December 2019 consequently represents a single division, ingenie supported by a Group cost centre ("Central" below). The principal activities of ingenie is telematics based insurance broking and technology solutions provider. Central is a cost centre carrying the administrative expenses of running the Group.

Segment information about these businesses is presented below.

	ingenie £'000	Central £'000	Total £'000
Year ended 31 December 2019			
Underlying revenue	**7,342**	**-**	**7,342**
Underlying cost of sales	**(5,366)**	**-**	**(5,366)**

Underlying gross profit	**1,976**	**-**	**1,976**
Underlying administrative expenses excluding depreciation and amortisation*	**(4,566)**	**(2,911)**	**(7,477)**
Underlying EBITDA	**(2,590)**	**(2,911)**	**(5,501)**
Depreciation and amortisation*			**(607)**
Underlying Group operating loss			**(6,108)**
Net finance income			**130**
Underlying Group loss before tax			**(5,978)**
Non-underlying adjustments			**(651)**
Total Group loss before tax from continuing operations			**(6,629)**

	ingenie £'000	Central £'000	Total £'000
Year ended 31 December 2018			
Underlying revenue	7,841	-	7,841
Underlying cost of sales	(4,375)	-	(4,375)
Underlying gross profit	3,466	-	3,466
Underlying administrative expenses excluding depreciation and amortisation*	(5,391)	(3,514)	(8,905)
Underlying EBITDA	(1,925)	(3,514)	(5,439)
Depreciation and amortisation*			(207)
Underlying Group operating loss			(5,646)
Net finance income			374
Underlying Group loss before tax			(5,272)
Non-underlying adjustments			(13,338)
Total Group loss before tax from continuing operations			(18,610)

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £782,000 (2018: £1,497,000) which is included within cost of sales. The depreciation of telematics devices is included within cost of sales since they directly generate revenue for the business and are therefore included in gross margin.

4. Non-underlying results

Non-underlying administrative expenses are analysed as follows:

Year ended 31 December	**2019 £'000**	2018 £'000
Exceptional items:		
- Legal expenses	**1,554**	5,688
- Legal settlements	**(1,026)**	(160)
- Tax related matters	**-**	(1,612)
- Net impairments of non-cash assets	**-**	9,148
- Restructuring	**123**	(251)
Total exceptional items	**651**	12,813
Other adjustments:		
- Amortisation of acquired intangibles	**-**	525
Total other adjustments	**-**	525
Total non-underlying administrative expenses	**651**	13,338

Amortisation represents a non-cash charge relating to acquisition accounting and is not taken into account by management when reviewing operational performance of the Group.

The legal expense includes £3,701,000 of additional legal fee provisions in respect of legal claims, £3,412,000 of which was utilised during the year in achieving settlement with S&G. The settlement resulted in £2,797,000 of provision releases which are netted off of the expense.

The legal settlement credit of £1,026,000 relates to a settlement with former management.

The credit for the period ended 31 December 2018 of £160,000 includes credits of £1,328,000, being two settlements with former management. This is partially offset by an expense of £1,168,000, also relating to a settlement with former management.

Tax related matters in 2018 mainly comprises the release of unused provisions which were created in previous periods.

The restructuring expense of £123,000 is stated after taking into account the release of unused provisions of £211,000.

Net impairments of non-cash assets above relates to:

Year ended 31 December	**2019** **£'000**	2018 £'000
Goodwill	-	9,081
Other intangible assets	-	317
Investments	-	(250)
	-	9,148

5. Goodwill

The movement in goodwill is as follows:

	Goodwill **£'000**
Cost	
At 1 January 2018	96,989
Exchange differences	(926)
At 1 January 2019	**96,063**
Exchange differences	**415**
Transfer to assets held for sale	**(37,328)**
At 31 December 2019	**59,150**
Impairment	
At 1 January 2018	79,546
Charge	9,081
Exchange differences	(721)
At 1 January 2019	**87,906**
Exchange differences	**323**
Transfer to assets held for sale	**(29,079)**
At 31 December 2019	**59,150**
Net book value	

31 December 2019	**-**
31 December 2018	8,157

At 31 December 2019, goodwill relating to Healthcare Services was included within assets held for sale. This was assessed as being fully recoverable based upon the pending disposal of the business at a surplus over the carrying value of the net assets. The disposal was subsequently completed in February 2020.

The goodwill of ingenie was fully impaired at 31 December 2018.

6. Provisions

	Tax related matters £'000	**Legal disputes £'000**	**Onerous contracts £'000**	**Other £'000**	**Total £'000**
At 1 January 2018	3,193	7,442	492	1,984	13,111
Additional provisions	-	3,752	-	430	4,182
Unused amounts released	(1,493)	(96)	(156)	(167)	(1,912)
Used during the year	-	(2,891)	(272)	(836)	(3,999)
Exchange movements	-	-	23	(1)	22
At 1 January 2019	**1,700**	**8,207**	**87**	**1,410**	**11,404**
Additional provisions	**-**	**3,701**	**47**	**409**	**4,157**
Unused amounts released	**(1,700)**	**(127)**	**-**	**(1,010)**	**(2,837)**
Used during the year	**-**	**(7,978)**	**(48)**	**(534)**	**(8,560)**
Exchange movements	**-**	**-**	**2**	**-**	**2**
At 31 December 2019	**-**	**3,803**	**88**	**275**	**4,166**
Split:					
Non-current	-	-	19	-	19
Current	-	3,803	69	275	4,147

Tax related matters

A provision for tax-related matters had been established in previous years with respect to judgemental tax positions primarily in relation to historical PAYE and VAT issues. During the year ended 31 December 2018, the outstanding PAYE issues were resolved and resulted in £693,000 of provision being released to the income statement. Further information also become available during the year allowing an improved estimate to be made of the liability, resulting in £800,000 of the provision being released to the income statement.

As part of the settlement announced on 19 October 2019 with S&G, S&G assumed the liability for historical disputed VAT amounts against which S&G had previously been indemnified for by the Group in respect of the disposal of the PSD. Consequently, the remaining provision was reversed.

Legal disputes and regulatory matters

In legal cases where the Group is (or would be) the defendant, defence costs are provided as the Group is committed to defending the actions. Such costs are provided for at the mid-range of possible eventualities given the uncertainty of the outcome, this range is reassessed on a continuous basis. If the Group is successful in defending such actions, then the final costs may be lower than the total provision recognised above. Additional provisions and amounts used during the year in the table above primarily relate to higher than expected legal costs in the defence of the claim from S&G settled during the year.

The remaining provision at 31 December 2019 represents the costs of additional legal fees in respect of the Group's defence against any proposed class action and in respect of the ongoing investigation by the SFO (albeit the Company has been informed it will not be prosecuted and is not a suspect in the investigation). The provisions will be utilised further as the matters progress.

In legal cases where the Group is the claimant (or counter claimant), costs are not provided as there is no obligation to proceed and the Group is not contractually committed to incur costs.

Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. At 31 December 2018 the provision related exclusively to the maximum exposure remaining under a single onerous property lease, the timing of which may be reliably determined. During the year ended 31 December 2019 a further, non-property contract has been identified as onerous and has been provided for in full. The latter item is expected to be resolved during the next twelve months.

Other

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. These primarily relate to policy cancellations which are based upon historic experience within the business and is limited to one year from policy inception. Additional amounts relate to commission clawback within non-underlying businesses and warranties provided by the Group. Unused amounts reversed and amounts used represents the result of legal settlements for less than the amount provided at 31 December 2018. The majority of the remaining balance relating to non-underlying businesses at 31 December 2019 was settled in January 2020.

7. SFO investigation

On 5 August 2015, the SFO informed the Group that it had opened an investigation, which relates to past business and accounting practices at the Group. At 31 December 2019 the Group was unable to reliably estimate the amount or timing of any potential penalty or settlement and therefore, having taken external advice, had not established a provision. The Group had however established a provision for legal costs associated with the ongoing investigation.

On 27 April 2020, the SFO informed the Company of its decision not proceed to prosecute the Company for criminal offences in respect of those matters which were the subject of the investigation. The investigation continues and the Group continues to co-operate fully.