

InterQuest Group plc
(“InterQuest” or “the Group”)
Interim Results

InterQuest Group plc (AIM: ITQ), the specialist recruitment business operating in high growth areas in the ‘new digital economy’, is pleased to announce its unaudited interim results for the six months ended 30 June 2015.

Financial highlights

- Adjusted EBITA* on a constant currency basis up 17% to £2.8m (2014: £2.4m)
- Adjusted EBITA* up 13% to £2.7m (2014: £2.4m)
- Adjusted PBT* up 14% to £2.5m (2014: £2.2m)
- Profit for the period increased by 33% to £1.6m (2014: £1.2m)
- Net Fee Income (“NFI”) up 6% to £12.1m (2014: £11.4m)
- Improved EBITA / NFI ratio of 22.2% up 110-bps from 21.1% in 2014
- Revenue up 11% to £81.2m (2014: £73.0m)
- Diluted adjusted earnings per share up 20% to 5.5 pence (2014: 4.6 pence)
- Basic earnings per share up 47% to 4.7 pence (2014: 3.2 pence)
- Basic adjusted earnings per share up 16% to 5.7 pence (2014: 4.9 pence)
- Net cash generated from operating activities £2.8m (2014: £3.4m)
- Net debt, consisting of our working capital facility, which we use to finance fluctuations in contractor levels, and cash was reduced during the period to £6.9m (2014: £7.1m)
- Interim dividend doubled to 1.0 pence per share to be paid on 16 November 2015

**Adjusted for share based payment charge, amortisation and non-recurring items*

Operational highlights

- Continued organic growth and improved profitability across the Group demonstrating the success of the strategy implemented at the beginning of 2013
- The Group continues to strengthen its market position in important niche segments servicing the growing demand for high-value skills in the new digital economy
- Winning three new managed service customers and significantly expanding the relationship with two others including the recently announced Dixons Carphone agreement, which provides evidence of the Group’s ability to capitalise on incremental value add services

Chief Executive Officer, Mark Braund, commented: “We are delighted with the strong results delivered during the first half of 2015, building on the foundations put in place at InterQuest over the last three years. Our focus on specialist disciplines in key niche

recruitment sectors providing some of the market's most in-demand skill sets, augmented by a growing managed service capability is delivering significant benefits to the Group and its clients. InterQuest operates at the leading edge of the analytics and digital technology revolution in areas that are enjoying significant structural growth which leads to increased demand for our specialist services. As a result, InterQuest is well positioned to deliver further growth during the remainder of 2015 and into 2016. Our results and market position are made possible by the tremendous people that make up the InterQuest Group; to them, on behalf of the Board we say a heartfelt 'thank you'.

Enquiries:

InterQuest Group plc

Gary Ashworth, Executive Chairman
+44 (0) 7909 912 800

Karri Vouri, Mark Taylor, Panmure Gordon
(UK) Limited (Nomad and Broker)
+44 (0) 207 886 2500

Media:
Andy Donald, Maitland
+44 (0) 207 379 5151

Executive Chairman's Review

Our strategy is to provide employers with fast and effective access to the best talent in the market, focusing on specialist disciplines in key niche areas in the new digital economy. We develop networks of talented individuals in high-demand, high-growth markets; this is a valuable asset that our clients are able to access to enable them to fill critical roles in developing their big data projects.

In addition, new markets are emerging that provide fertile ground for further investment to maintain growth in both value and margins. As the Group matures, the opportunity for our customers to make use of each of the specialist recruitment practices within the Group through a single account management structure is also growing rapidly as too is the demand for our value-add approach to managed services. Consequently, we are delivering material improvement in our customer retention and cross-selling performance, which in turn is leading to increases in average customer spend and our share of wallet.

We recognise that today's niche skill sets will become commoditised as more people respond to demand, develop these skills and enter the job market. To address this we have put in place a business model that enables us to move the servicing of specific skill sets through the various stages of demand to what becomes, in relative terms, a low cost operating model thereby ensuring we derive benefit from our talent network on a sustainable long-term basis.

We have seen strong performance in both our contract and permanent recruitment business in the first half of 2015. As a result, the operational mix of our business between contract and permanent recruitment activities has remained fairly constant at one third permanent recruitment; two thirds contract recruitment. This provides a robust and resilient business mix.

It is, however, our continued strength in developing specialist niche markets that drives growth and as the Group benefits from the operational leverage inherent in the business our financial performance during the period has further improved:

- Adjusted EBITA* increased by 13% to £2.7m;
- Adjusted PBT* increased by 14% to £2.5m;
- Contract recruitment margin on professional recruitment deals (those at margins over 12%) increased from 16.5% in 2014 to 16.7% in 2015 and contract recruitment margin on all deals (excluding payroll) slightly reduced at 12.3% from 12.5%
- Permanent recruitment fees 8% higher at £4.0m (2014: £3.7m)
- Adjusted net operating margin (adjusted EBITA/NFI) improved by 110-bps from 21.1% to 22.2%; and
- Profit for the period increased by 33% to £1.6m.

**Adjusted for share based payment charge, amortisation and non-recurring items.*

The Group is strongly cash generative, reporting a net cash inflow from operations of £2.8m in the first half of the year. There were cash outflows during the period in respect of dividends of £0.5m, capital expenditure of £0.1m and finance costs of £0.2m. In addition, the Group paid £0.6m to acquire minority interests in two subsidiaries. The resulting net utilisation of working capital facility and cash is £6.8m at 30 June 2015 compared to £8.3m at 31 December 2014.

With the business performing well and the outlook positive we are delighted to double the interim dividend to 1.0 pence (2014: 0.5 pence), this will be paid on 16 November 2015 to shareholders on the register on 23 October 2015. The ex-dividend date is 22 October 2015.

Recently we announced that Mark Braund and Michael Joyce have both decided to move on from InterQuest. Mark and Michael have been with InterQuest for 4 and 11 years respectively and have been instrumental in the success we have enjoyed. I would like to pay tribute to them both for their efforts, support and dedication.

Following these announcements I have assumed the role of Executive Chairman while we undertake a full search for permanent replacements, which is currently underway.

We are also delighted that Mark is remaining with InterQuest as a non-executive director once his role as Chief Executive concludes.

We enter the second half of 2015 with positive momentum, positioned well to capitalise on the opportunities in the second half of the year and beyond.

InterQuest remains a 'people business', relying on the development and quality of our own talent to succeed. Consequently, we would like to thank all of our colleagues at InterQuest Group for their continued passion and commitment to deliver the very best service for our candidates and customers.

Gary Ashworth

Executive Chairman

8 September 2015

Unaudited condensed consolidated interim statement of comprehensive income

		6 months to 30 June 2015 £'000	6 months to 30 June 2014 £'000	12 months to 31 December 2014 £'000
	Note			
Revenue		81,196	72,998	150,647
Cost of sales		(69,091)	(61,599)	(127,398)
Gross profit		12,105	11,399	23,249
Amortisation		(172)	(172)	(345)
Other administration costs		(9,567)	(9,345)	(19,189)
Total administrative expenses		(9,739)	(9,517)	(19,534)
Operating profit before non-recurring items		2,366	1,882	3,715
Non-recurring items		(174)	(84)	(358)
Operating profit		2,192	1,798	3,357
Acquisition costs		-	-	(50)
Finance costs		(172)	(214)	(411)
Profit before tax		2,020	1,584	2,896
Income tax expense	7	(396)	(405)	(580)
Profit for the period/year		1,624	1,179	2,316
Profit and total comprehensive income for the period/year		1,624	1,179	2,316
Attributable to:				
Owners of the parent		1,617	1,083	2,002
Non-controlling interests		7	96	314
Total comprehensive income for the period/year		1,624	1,179	2,316
Earnings per share from both total and continuing operations:				
		Pence	Pence	Pence
Basic earnings per share	8	4.7	3.2	5.9
Diluted earnings per share	8	4.4	3.0	5.5

All results for the Group are derived from continuing operations in the current period.

The accompanying notes form an integral part of this unaudited condensed consolidated interim report.

Unaudited condensed consolidated interim statement of financial position

	30 June 2015 £'000	30 June 2014 £'000	31 December 2014 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	777	829	941
Goodwill	18,867	18,884	18,867
Other intangible assets	1,173	1,518	1,345
Deferred income tax assets	149	44	149
Total non-current assets	20,966	21,275	21,302
Current assets			
Trade and other receivables	28,621	26,060	26,366
Cash and cash equivalents	1,444	1,358	1,279
Total current assets	30,065	27,418	27,645
Total assets	51,031	48,693	48,947
LIABILITIES			
Current liabilities			
Trade and other payables	(18,972)	(17,732)	(15,122)
Borrowings	(8,302)	(8,477)	(9,612)
Current tax payable	(1,142)	(1,198)	(1,439)
Total current liabilities	(28,416)	(27,407)	(26,173)
Total liabilities	(28,416)	(27,407)	(26,173)
Net assets	22,615	21,286	22,774
EQUITY			
Share capital	353	341	344
Share premium account	10,592	10,415	10,468
Capital redemption reserve	12	12	12
Retained earnings	10,067	9,604	10,322
Share based payment reserve	2,150	1,510	2,006
Share buy back reserve	(666)	(666)	(666)
Total issued share capital and reserves attributable to the owners of the parent	22,508	21,216	22,486
Non-controlling interests	107	70	288
Total equity	22,615	21,286	22,774

The accompanying notes form an integral part of this unaudited condensed consolidated interim report.

Unaudited condensed interim statement of changes in equity

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Share based payment reserve £'000	Share buy back reserve £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2014	340	10,364	12	9,194	1,154	(666)	(17)	20,381
Comprehensive income								
Profit for the period	-	-	-	1,083	-	-	96	1,179
Total comprehensive income for the period	-	-	-	1,083	-	-	96	1,179
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	356	-	-	356
Issue of share capital	1	51	-	-	-	-	-	52
Dividends	-	-	-	(681)	-	-	(9)	(690)
Movement on reserves of foreign subsidiary	-	-	-	8	-	-	-	8
Total contributions by and distributions to owners	1	51	-	(673)	356	-	(9)	(274)
Balance at 30 June 2014	341	10,415	12	9,604	1,510	(666)	70	21,286
Balance at 1 July 2014	341	10,415	12	9,604	1,510	(666)	70	21,286
Comprehensive income								
Loss for the period	-	-	-	919	-	-	218	1,137
Total comprehensive expense for the period	-	-	-	919	-	-	218	1,137
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	496	-	-	496
Issue of share capital	3	53	-	-	-	-	-	56
Deferred tax charge	-	-	-	27	-	-	-	27
Current tax credit on share based payments	-	-	-	12	-	-	-	12
Dividends	-	-	-	(171)	-	-	-	(171)
Movement on reserves of foreign subsidiary	-	-	-	(69)	-	-	-	(69)
Total contributions by and distributions to owners	3	53	-	(213)	496	-	-	339
Balance at 31 December 2014	344	10,468	12	10,322	2,006	(666)	288	22,774

Unaudited condensed interim statement of changes in equity (continued)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Share based payment reserve £'000	Share buy back reserve £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2015	344	10,468	12	10,322	2,006	(666)	288	22,774
Comprehensive income								
Profit for the period	-	-	-	1,617	-	-	7	1,624
Total comprehensive income for the period	-	-	-	1,617	-	-	7	1,624
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	144	-	-	144
Issue of share capital	9	124	-	-	-	-	-	133
Dividends	-	-	-	(515)	-	-	-	(515)
Elimination of reserves on acquisition of IQ Telecom NCI	-	-	-	-	-	-	(242)	(242)
Elimination of deficit on acquisition of Korus Group NCI	-	-	-	-	-	-	70	70
Adjustment to IQ Telecom NCI	-	-	-	(1,037)	-	-	(16)	(1,053)
Adjustment to Korus Group NCI	-	-	-	(320)	-	-	-	(320)
Total contributions by and distributions to owners	9	124	-	(1,872)	144	-	(188)	(1,783)
Balance at 30 June 2015	353	10,592	12	10,067	2,150	(666)	107	22,615

Unaudited condensed consolidated interim statement of cash flows

	6 months to 30 June 2015 £'000	6 months to 30 June 2014 £'000	12 months to 31 December 2014 £'000
Cash flows from operating activities			
Profit after taxation	1,624	1,179	2,316
Adjustments for:			
Depreciation	232	179	393
Share based payment charge	144	356	852
Finance costs	240	214	411
Amortisation	172	172	345
Income tax expense	396	405	580
(Increase) / decrease in trade and other receivables	(2,252)	(1,925)	(2,232)
Increase / (decrease) in trade and other payables	2,690	3,256	3,205
Cash generated from / (used in) operations	3,246	3,836	5,870
Income taxes paid	(488)	(462)	(463)
Net cash generated from / (used in) operating activities	2,758	3,374	5,407
Cash flows from investing activities			
Purchase of property, plant and equipment	(76)	(139)	(465)
Acquisition of subsidiaries, net of cash acquired	-	-	(21)
Acquisition of non-controlling interest in subsidiaries	(563)	-	-
Loan notes paid	-	-	(1,687)
Deferred consideration paid	-	(500)	(1,340)
Net cash (used in)/ received from investing activities	(639)	(639)	(3,513)
Cash flows from financing activities			
Proceeds from issue of share capital	111	52	108
Net (decrease) / increase in discounting facility	(1,310)	(1,588)	(453)
Interest paid	(172)	(214)	(411)
Dividends paid	(515)	(690)	(861)
Net cash (used in) / received from financing activities	(1,886)	(2,440)	(1,617)
Net increase in cash and cash equivalents	233	295	277
Effects of currency translation on cash and cash equivalents	(68)	-	(61)
Cash, cash equivalents and overdrafts at beginning of period/year	1,279	1,063	1,063
Cash, cash equivalents and overdrafts at end of period/year	1,444	1,358	1,279

The accompanying notes form an integral part of this unaudited condensed consolidated interim report.

Notes to the unaudited condensed consolidated interim report

1 Nature of operations and general information

The InterQuest Group is a specialist recruitment business. The Group works across permanent and contract recruitment in markets that are growing fast and will keep growing, including information security, data analytics, telecommunications, change management and digital skills. In each of these areas the Group operates as a distinct niche recruitment practice, integrated under the strong IQ brand.

The strategy is to provide an efficient and reliable source of talent to organisations that rely on analytics and digital technologies in the new digital economy. We develop networks of candidates in high-demand, high-growth markets – this is a valuable asset as there is a clear shortage of skilled staff in the areas in which InterQuest works and companies trust and rely on the Group to help them fill important roles. As a result, the Group's interests are aligned with customers where quality and speed of access are much more valued than quantity. InterQuest is therefore operating in recruitment markets where our services derive higher than industry average margins.

The Group's unaudited condensed consolidated interim report is presented in Pounds Sterling (£'000).

The unaudited condensed consolidated interim report has been approved for issue by the Board of Directors on 8 September 2015.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2013 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

2 Basis of preparation

The unaudited condensed consolidated interim report is for the six months ended 30 June 2015 and has been prepared in accordance with the accounting policies as set out in the annual financial statements for the year ended 31 December 2014. The unaudited condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRSs as adopted by the European Union (EU).

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of the unaudited condensed consolidated interim report.

3 Summary of significant accounting policies

The same accounting policies, presentation and methods of computation are followed in this unaudited condensed consolidated interim report as were applied in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

4 Revenue and segmental reporting

For management reporting purposes the Group is organised into the following six divisions:-

1. Niche – comprising specialist recruitment practices focused on Analytics, Business Intelligence, Cyber Security, Internet of Things, Telecommunications, Risk and Compliance which provide access to talent in some of the most critical areas of demand in the modern economy;
2. ECOM Recruitment Limited – the UK’s leading recruiter in the digital market space which the Group acquired in November 2013;
3. Enterprise – comprising legacy client relationships with significant customers in the financial services and retail sectors;
4. Public sector;
5. Mint Recruitment Solutions – a candidate centric “spot” business providing the Group with an alternative route to market; and
6. Other – including central costs.

All business units provide contract and permanent recruitment services and have similar economic characteristics and are considered to meet the aggregation criteria of IFRS.

Information regarding segment assets is not provided to the Group’s chief operating decision maker. This is because the Group considers net fee income (gross profit) and profitability for the purpose of making decisions about allocation of resources.

Six month period to 30 June 2015

	Niche £’000	ECOM £’000	Enterprise £’000	Public Sector £’000	Mint £’000	Other £’000	Total £’000
Revenue	22,414	8,898	24,324	17,824	6,650	1,086	81,196
Gross profit	4,526	2,152	1,796	1,763	1,515	353	12,105
Divisional EBITA	1,852	587	717	988	403	46	4,593
Unallocated central overheads							(1,911)
EBITA per management accounts							2,682
Reconciling items to amounts reported in the interim statement of comprehensive income:							
Share based payment							(144)
Amortisation							(172)
Non-recurring items							(174)
IFRS operating profit							2,192
Finance costs							(172)
Profit before tax							2,020

There are no external customers who individually represent more than 10% of the entity's external revenues during the period.

Six months to 30 June 2014

	Niche £'000	ECOM £'000	Enterprise £'000	Public Sector £'000	Mint £'000	Other £'000	Total £'000
Revenue	17,253	10,331	23,570	12,449	6,549	2,846	72,998
Gross profit	3,457	2,330	2,122	1,399	1,292	799	11,399
Divisional EBITA	1,267	800	925	678	252	108	4,030
Unallocated central overheads							(1,620)
EBITA per management accounts							2,410
Reconciling items to amounts reported in the interim statement of comprehensive income:							
Share based payment							(356)
Amortisation							(172)
Non-recurring items							(84)
IFRS operating profit							1,798
Finance costs							(214)
Profit before tax							1,584

There are no external customers who individually represent more than 10% of the entity's external revenues during the period.

	Revenue		Gross profit	
	Six month period to 30 June 2015 £'000	Six month period to 30 June 2014 £'000	Six month period to 30 June 2015 £'000	Six month period to 30 June 2014 £'000
Permanent	3,993	3,703	3,993	3,703
Contract	77,203	69,295	8,112	7,696
	81,196	72,998	12,105	11,399

The Group does not report items below EBITA by segment in its internal management reporting.

5 Acquisition of non-controlling interest in InterQuest Telecom Limited

At 1 January 2015 the Group held 313 of the total 501 share capital of InterQuest Telecom Limited (previously known as Fulcrum Telecom Limited), a subsidiary of the Group.

On 3 March the Group transferred 12 shares to Steve Woodward, director of InterQuest Telecom Limited.

On 4 March the Group acquired the total non-controlling interest in this subsidiary, amounting to 200 shares for total consideration of £0.5m in cash and £0.8m in loan notes, with the associated value of the non-controlling interest in the Group balance sheet at the date of transaction of £0.2m.

6 Acquisition of share capital in Korus Group Limited

At 1 January 2015 the Group held 100,201 of the total 200,001 share capital of Korus Recruitment Group Limited, a subsidiary of the Group, and parent company of the following entities; Korus IT Recruitment (South) Limited; Korus IT Recruitment (NW) Limited; Korus IT Recruitment (London) Limited.

On 28 April the Group acquired the total non-controlling interest in Korus Recruitment Group Limited, amounting to 99,800 shares, for total consideration of £0.2m in cash with the associated value of the non-controlling interest in the Group balance sheet at the date of transaction of £0.1m deficit.

Subsequent to this acquisition the Group now owns 100% of the share capital of Korus IT Recruitment Group Limited, Korus IT Recruitment (NW) Limited, Korus IT Recruitment (London) Limited, and 80% of the share capital of Korus IT Recruitment (South) Limited.

7 Income tax expense

	6 months to 30 June 2015 £'000	6 months to 30 June 2014 £'000	12 months to 31 December 2014 £'000
Current tax			
Corporation tax on profits for the period/year	433	456	929
Adjustment in respect of prior periods	-	-	(158)
Adjustment in respect of non-recurring items	(37)	(17)	(79)
Total current tax	396	439	692
Deferred tax			
Origination and reversal of temporary difference	-	(34)	(170)
Adjustment in respect of prior periods	-	-	58
Total deferred tax	-	(34)	(112)
Total income tax expense	396	405	580

8 Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period/year.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	6 months ended 30 June 2015 £'000	6 months ended 30 June 2014 £'000	12 months to ended 31 December 2014 £'000
Profit for the year attributable to the owners of the company	1,617	1,083	2,002
Adjustments to basic earnings			
Intangible assets amortisation	172	172	345
Tax on intangible asset amortisation	(36)	4	(69)
Share based payment charge	144	356	852
Deferred tax (credit) on share based payment	(30)	-	(183)
Restructuring items	153	45	132
Tax on restructuring items	(32)	(10)	(30)
Finance relocation	-	32	127
Tax on finance relocation	-	(7)	(28)
Formal sale process	-	-	99
Tax on formal sale process	-	-	(21)
Fees related to acquisition of ECOM Recruitment Limited	-	7	50
Fees related to acquisition of non-controlling interest in subsidiary	20	-	-
Tax on acquisition fees	(4)	-	-
Adjusted earnings	2,004	1,682	3,276

8 Earnings per share (continued)

Number of shares

Weighted average number of ordinary shares for the purposes of basic earnings per share	34,732,097	34,084,763	34,211,021
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Weighted average number of ordinary shares for the purposes of diluted earnings per share	36,410,815	36,559,977	36,534,663
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Earnings per share

	Pence	Pence	Pence
Basic earnings per share	4.7	3.2	5.9
Diluted earnings per share	4.4	3.0	5.5

Adjusted earnings per share

Basic earnings per share	5.7	4.9	9.6
Diluted earnings per share	5.5	4.6	9.0

9 Interim report

This report will also be available from the Company's registered office and on Company's website www.interquestgroup.com.