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

InterQuest Group plc (AIM: ITQ), the specialist recruitment business operating in the ‘new digital economy’, announces its unaudited interim results for the six months ended 30 June 2017.

Financial highlights

- Revenue down 6% to £69.1m (2016: £73.8m)
- Net Fee Income (“NFI”) increased 2% to £11.2m (2016: £11.0m)
- NFI from permanent placements increased 34% to £5.1m (2016: £3.8m)
- NFI from temporary contract placements decreased 15% to £6.0m (2016: £7.1m)
- Adjusted PBT* down 23% to £1.0m (2016: £1.3m)
- Like for like PBT* excluding Rees Draper Wright down 62% to £0.5m (2016: £1.3m)
- Net profit of £0.2m (2016 after goodwill impairment of £3.2m: £2.4m loss)
- Diluted adjusted earnings per share 2.2 pence (2016: 3.0 pence)
- Basic earnings per share of 0.5 pence (2016: 6.7 pence loss)
- Net cash generated in operating activities £3.0m (2016: net cash used £2.9m)
- Net debt, consisting of our working capital facility net of cash balances held, decreased during the period to £3.3m (2016: £9.9m)
- No interim dividend paid (2016: 0.5 pence)

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

Operational highlights

- The average permanent fee per placement, excluding the higher value fees earned from the executive search division, has increased by 7% to £7.3k (2016: £6.8k) through emphasizing the development and placement of senior relationships and roles.
- The Group has added a further significant client in the Solutions division. Net Fee Income earned through Solutions clients increased by 14% to £1.9m (2016: £1.6m).
- The Group increased its bank facility to £24m (2016: £20m) and reduced banking costs with a new banking arrangement agreed through HSBC.

Chris Eldridge, Chief Executive Officer, commented: “The Group has generated profit before tax, share based payments and non-recurring costs of £1m, a reduction from £1.3m in the same period in 2016. Like for like profit before tax, share based payments and non-recurring costs, excluding Rees Draper Wright acquired in August 2016, amounted to £0.5m a reduction of 62%. The Group continues its transformation programme at ECOM which has seen the division’s profits grow marginally in the period following a non-cash impairment charge of £3.2m in the prior year due to a significant reduction in profitability. The financial services, analytics, networks and public sector have seen a decline in demand compared to the prior period which has impacted our results for the year. We have added a further client to our Solutions business and we continue to develop our business geographically focusing on higher margin opportunities as evidenced by the fact that our contract recruitment margins and average permanent placement fees have increased during the period.

Gary Ashworth, Chairman, commented: "The Group's results for the first half of 2017 continue to reflect the challenging nature of the UK staffing business during the ongoing Brexit uncertainty and are below our expectations. Rees Draper Wright has given the Group a platform to expand into the US market and we have invested in that market by expanding the InterQuest offering into our New York office. A structural change in the senior management at the end of 2016 and early 2017 has meant further restructuring of certain divisions which will take some time to develop but which we estimate will contribute to profits in the medium and long term.

On behalf of the Board I would like to thank all of my colleagues across the Group for their contribution to the transformation and for their commitment to the future success of the Group."

This announcement contains inside information for the purposes of Regulation (EU) No 596/2014.

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Chief Executive's Review

Our customers continue to adapt to the transformative nature of the digital economy, willing to consider digital solutions in almost every aspect of their business process. Every industry has been affected and InterQuest is delivering solutions to staffing needs in mainstream and disruptive tech companies, as well as aviation and mining among many others that need permanent and contract recruitment in the areas of digital design, cyber security, digital networks, analytics, change management and other high end niche skills sets.

Market demand for these skills is increasing and continues to outstrip supply with the Group's resourcing talent specialising in finding and delivering skilled candidates for its customers. Key to resourcing these critical experienced individuals is the Group's award winning marketing function for candidates which generates information and encourages debate for customers and candidates alike.

The Group's contractor numbers were affected in 2016 and continued into 2017 by a reduction in demand in financial services post Brexit and also in the public sector which saw a further squeeze from the public purse. Action has been taken to refocus these businesses and gradual signs of recovery are already being seen in the public sector business. In 2017 the Group has engaged new senior management in additional areas affected by the lower contractor levels, namely analytics, telecommunications and other niche sectors.

The Group continues to invest in learning and development for our staff resulting in an improvement in retention rates.

During the first half of the year the Group has expanded the Rees Draper Wright office in New York to incorporate staff from InterQuest focused on opportunities in digital design, analytics, risk and cyber security. The Group also leased a new headquarters building in London with the ability to seat approximately 130 staff and staff from the three offices in London are gradually moving there as the refurbishment allows.

The non-recurring costs incurred by the Group in the defence of the bid by Chisbridge Limited amounted £0.5m.

On entering the second half of 2017 the business has become more heavily weighted towards fees from permanent placements with 46% of Net Fee Income being generated from permanent placement fees (2016: 35%). Permanent placement fees are, by their very nature, more volatile, particularly in the higher value search business.

Like for like average permanent recruitment fees were 7% higher in the first half of 2017, excluding the impact of the executive search division which has significantly higher than normal average permanent fees. Contract recruitment margins for professional recruitment deals (those at margins over 12%) increased from 17.6% in 2016 to 18.0% in 2017 although the volume decreased, with net fee income from these contractors declining by £1m compared to 2016. Contract recruitment margins on all deals (excluding payroll) decreased to 12.8% from 13.2%.

The Group's policy of not declaring a dividend until EBITDA is at least twice the net debt of the Group means that no interim dividend has been declared (2016: 0.5 pence).

The trading performance in the first half of 2017 was disappointing but masks further operational progress made across a number of our key developmental objectives including growing our managed service business, enhancing the Group's learning and development capability, improving retention, enabling increased levels of cross selling and preparing for international expansion. However, the Group is conscious of the continued economic uncertainty in the UK and continues to progress its plans keeping them sufficiently responsive to further changes in market conditions.

I thank all our colleagues across the InterQuest Group for their exemplary determination to meet the needs of our customers and those of the Group.

Chris Eldridge, Chief Executive Officer

22 September 2017

Unaudited condensed consolidated interim statement of comprehensive income

	Note	6 months to 30 June 2017	6 months to 30 June 2016	12 months to 31 December 2016
		Unaudited	**Unaudited**	**Audited**
	Note	£'000	**£'000**	£'000
Revenue		**69,079**	73,770	143,610
Cost of sales		**(57,901)**	(62,816)	(121,863)
Gross profit		**11,178**	10,954	21,747
Amortisation		**(202)**	(172)	(345)
Other administration costs		**(9,827)**	(9,341)	(18,154)
Total administrative expenses		**(10,029)**	(9,513)	(18,498)
Operating profit before non-recurring items		**1,149**	1,441	**3,249**
Impairment	**8**	**-**	(3,152)	(3,152)
Acquisition costs		**-**	-	(28)
Share based payment charge		**(35)**	(272)	(212)
Other non-recurring items	**5**	**(580)**	(34)	(284)
Operating profit/(loss)		**534**	(2,017)	(427)
Finance costs		**(130)**	(178)	(312)
Profit/(loss) before tax		**404**	(2,195)	(739)
Income tax expense	**6**	**(206)**	(214)	(505)
Profit/(loss) for the period/year		**198**	(2,409)	(1,244)
Profit/(loss) and total comprehensive income/(expense) for the period/year		**198**	(2,409)	(1,244)
Attributable to:				
Owners of the parent		**188**	(2,436)	(1,297)
Non-controlling interests		**10**	27	53
Total comprehensive income/(expense) for the period/year		**198**	(2,409)	(1,244)
Earnings per share:				
		Pence	Pence	Pence
Basic earnings/(loss) per share		**0.5**	(6.7)	3.4
Diluted earnings/(loss) per share		**0.5**	(6.5)	3.3

All results for the Group are derived from continuing operations in the current and prior periods.

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

Unaudited condensed consolidated interim statement of financial position

	Note	30 June 2017 Unaudited £'000	30 June 2016 Unaudited £'000	31 December 2016 Audited £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**402**	533	480
Investments		**-**	-	60
Goodwill		**16,596**	15,715	16,596
Other intangible assets		**685**	827	887
Total non-current assets		**17,683**	17,075	18,023
Current assets				
Trade and other receivables		**25,519**	31,967	25,978
Cash and cash equivalents		**1,622**	807	1,541
Total current assets		**27,141**	32,774	27,519
Total assets		**44,824**	49,849	45,542
LIABILITIES				
Current liabilities				
Trade and other payables		**(17,158)**	(17,293)	(14,828)
Borrowings	**9**	**(4,950)**	(10,752)	(7,094)
Current tax payable		**(455)**	(1,030)	(1,218)
Total current liabilities		**(22,563)**	(29,075)	(23,140)
Non-current liabilities				
Deferred income tax liability		**(296)**	(205)	(296)
Total non-current liabilities		**(296)**	(205)	(296)
Total liabilities		**(22,859)**	(29,280)	(23,436)
Net assets		**21,965**	20,569	22,106
EQUITY				
Share capital		**376**	363	374
Share premium account		**11,338**	10,646	11,338
Capital redemption reserve		**12**	12	12
Retained earnings		**8,361**	7,666	8,549
Share based payment reserve		**2,446**	2,471	2,411
Share buy back reserve		**(666)**	(666)	(666)
Total issued share capital and reserves attributable to the owners of the parent		**21,867**	20,492	22,018
Non-controlling interests		**98**	77	88
Total equity		**21,965**	20,569	22,106

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

Unaudited condensed interim statement of changes in equity

	Share capital	Share premium account	Capital redemption reserve	Retained earnings	Share based payment reserve	Share buy back reserve	Non controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016 - Audited	**359**	**10,632**	**12**	**10,829**	**2,199**	**(666)**	**50**	**23,415**
Comprehensive income								
Profit for the period	-	-	-	(2,436)	-	-	27	(2,409)
Total comprehensive income for the period	**-**	**-**	**-**	**(2,436)**	**-**	**-**	**27**	**(2,409)**
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	272	-	-	272
Issue of share capital	4	14	-	-	-	-	-	18
Dividends	-	-	-	(727)	-	-	-	(727)
Total transactions with owners	**4**	**14**	**-**	**(727)**	**272**	**-**	**-**	**(437)**
Balance at 30 June 2016 - Unaudited	**363**	**10,646**	**12**	**7,666**	**2,471**	**(666)**	**77**	**20,569**
Balance at 1 July 2016	**363**	**10,646**	**12**	**7,666**	**2,471**	**(666)**	**77**	**20,569**
Comprehensive income								
Profit for the period	-	-	-	1,139	-	-	26	1,165
Total comprehensive income for the period	**-**	**-**	**-**	**1,139**	**-**	**-**	**26**	**1,165**
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	(60)	-	-	(60)
Issue of share capital	11	692	-	-	-	-	-	703
Deferred tax credit	-	-	-	(103)	-	-	-	(103)
Dividends	-	-	-	(168)	-	-	-	(168)
RDW step acquisition MI acquired	-	-	-	15	-	-	(15)	-
Total transactions with owners	**11**	**692**	**-**	**(256)**	**(60)**	**-**	**(15)**	**372**
Balance at 31 December 2016 - Audited	**374**	**11,338**	**12**	**8,549**	**2,411**	**(666)**	**88**	**22,106**
Balance at 1 January 2017	**374**	**11,338**	**12**	**8,549**	**2,411**	**(666)**	**88**	**22,106**
Comprehensive income								
Profit for the period	-	-	-	188	-	-	10	198
Total comprehensive income for the period	**-**	**-**	**-**	**188**	**-**	**-**	**10**	**198**
Transactions with owners								
Movement in share based payment reserve	-	-	-		35	-	-	35
Issue of share capital	2	-	-	-	-	-	-	2
Dividends	-	-	-	(376)	-	-	-	(376)
Total transactions with owners	**2**	**-**	**-**	**(376)**	**35**	**-**	**-**	**(339)**
Balance at 30 June 2017 - Unaudited	**376**	**11,338**	**12**	**8,361**	**2,446**	**(666)**	**98**	**21,965**

Unaudited condensed consolidated interim statement of cash flows

	6 months to 30 June 2017	6 months to 30 June 2016	12 months to 31 December 2016
	Unaudited	**Unaudited**	**Audited**
	£'000	£'000	£'000
Cash flows from operating activities			
Profit/(loss) after taxation	**198**	(2,409)	(1,244)
Adjustments for:			
Depreciation	**381**	221	411
Share-based payment charge	**35**	272	212
Finance costs	**130**	178	312
Unrealised gain on investment	**(2)**	-	-
Amortisation	**202**	172	345
Impairment	**-**	3,152	3,152
Income tax expense	**206**	214	505
Increase in trade and other receivables	**459**	(4,550)	1,439
Reclassification of investments held in current assets	**62**	-	-
Increase in trade and other payables	**2,330**	594	(1,870)
Cash generated from/(used in) operations	**4,001**	(2,156)	3,262
Income taxes paid	**(969)**	(759)	(755)
Net cash generated from/(used in) operating activities	**3,032**	(2,915)	2,507
Cash flows from investing activities			
Purchase of property, plant and equipment	**(303)**	(144)	(279)
Acquisition of subsidiaries, net of cash acquired	**-**	-	(1,503)
Investment income	**3**	-	-
Net cash used in from investing activities	**(300)**	(144)	(1,782)
Cash flows from financing activities			
Proceeds from issue of share capital	**2**	18	721
Net (decrease) / increase in discounting facility	**(2,144)**	3,572	(86)
Interest paid	**(133)**	(178)	(312)
Dividends paid	**(376)**	(727)	(923)
Net cash (used in) / received from financing activities	**(2,651)**	2,685	(600)
Net increase in cash and cash equivalents	**95**	(374)	125
Effects of currency translation on cash and cash equivalents	**(14)**	-	235
Cash and cash equivalents at beginning of period/year	**1,541**	1,181	1,181
Cash and cash equivalents at end of period/year	**1,622**	807	1,541

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 technology recruitment business. The Group focuses on both permanent and contract recruitment across a range of sectors, specifically in high growth functions including digital, information security, analytics, telecommunications, change management and other high value niche markets. This is underpinned by an expanding capability in recruitment process outsourcing, helping our clients procure resources in a highly effective manner.

The Group's strategy is to continue to focus on those markets that are experiencing growth due to high demand for transformational technologies. We are witnessing acute skill shortages for technologies that will enable our clients to either augment or transform their operating model to capitalise on the new digital economy. This demand is having an upward impact on salaries as well as permanent and contract recruitment margins.

The unaudited condensed consolidated interim report has been approved for issue by the Board of Directors on 22 September 2017.

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 financial information for the year ended 31 December 2016 is based on the statutory accounts for the year then ended which 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 (2) or (3) of the Companies Act 2006.

2 Basis of preparation

The unaudited condensed consolidated interim report is for the six months ended 30 June 2017 and has been prepared in accordance with the accounting policies expected to be used in the annual financial statements for the year ended 31 December 2017. The unaudited condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 2016.

Notes to the unaudited condensed consolidated interim report

4 Revenue and segmental reporting

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

1. Niche – comprising specialist recruitment practices focused on Analytics, Business Intelligence, Cyber Security, Internet of Things, Telecommunications, Business Change, 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 our Recruitment Process Outsourcing services together with legacy client relationships with significant customers in the financial services and retail sectors;
4. Public sector – focussed on the public sector and not for profit markets; and
5. Other – including the group sales function.

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 2017

	Niche	**ECOM**	**Enterprise**	**Public Sector**	**RDW**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	20,022	6,588	28,041	11,039	1,817	1,572	69,079
Gross profit	3,833	1,930	2,107	1,196	1,695	417	11,178
Divisional EBITA	1,128	233	1,085	721	540	(2,356)	1,351

Reconciling items to amounts reported in the interim statement of comprehensive income:	
Amortisation	(202)
Share based payment charge	(35)
Non-recurring items	(580)
IFRS operating profit	534
Finance costs	(130)
Profit before tax	404

Notes to the unaudited condensed consolidated interim report

4 Revenue and segmental reporting (continued)

Six months to 30 June 2016

	Niche	ECOM	Enterprise	Public Sector	RDW	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	27,675	6,137	25,749	12,434	-	1,775	73,770
Gross profit	5,374	1,621	2,292	1,041	-	626	10,954
Divisional EBITA	1,713	153	794	517	-	(1,564)	1,613
Reconciling items to amounts reported in the interim statement of comprehensive income:							
Amortisation							(172)
Impairment							(3,152)
Share based payment charge							(272)
Non-recurring items							(34)
IFRS operating profit							(2,017)
Finance costs							(178)
Profit before tax							(2,195)

There are no external customers who individually represent more than 10% of the entity's external revenues during the six month period ended 30 June 2017 and 30 June 2016.

	Revenue		Gross profit	
	Six month period to 30 June 2017	Six month period to 30 June 2016	**Six month period to 30 June 2017**	Six month period to 30 June 2016
	£'000	£'000	**£'000**	£'000
Permanent	**5,135**	3,833	**5,135**	3,833
Contract	**63,944**	69,937	**6,043**	7,121
	69,079	73,770	**11,178**	10,954

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

Notes to the unaudited condensed consolidated interim report

5 Other non-recurring items

	6 months to 30 June 2017	6 months to 30 June 2016	12 months to 31 December 2016
	£'000	**£'000**	£'000
Professional adviser and legal fees in defence of the bid by Chisbridge Limited	**(453)**	-	-
Redundancy and loss of office costs	**(127)**	(34)	(284)
Total non-recurring items	**(580)**	(34)	(284)

6 Income tax expense

	6 months to 30 June 2017	6 months to 30 June 2016	12 months to 31 December 2016
	£'000	**£'000**	£'000
Current tax			
Corporation tax on profits for the period/year	**206**	222	503
Adjustment in respect of prior periods	-	-	(90)
Total current tax	**206**	222	413
Deferred tax			
Origination and reversal of temporary difference	-	(8)	115
Adjustment in respect of prior periods		-	(23)
Total deferred tax	**-**	(8)	92
Total income tax expense	**206**	214	505

Notes to the unaudited condensed consolidated interim report

7 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 to 30 June 2017	**6 months to 30 June 2016**	**12 months to 31 December 2016**
	Note	**£'000**	**£'000**	£'000
Profit/(loss) for the year attributable to the owners of the parent		**188**	(2,436)	(1,282)
Adjustments to basic earnings				
Intangible assets amortisation		**202**	172	345
Tax on intangible asset amortisation		**(40)**	(34)	(69)
Impairment		**-**	3,152	3,152
Deferred tax credit on impairment of goodwill		**-**	-	(630)
Share based payment charge		**35**	272	212
Deferred tax credit on share based payment		**(7)**	(54)	(42)
Non-recurring professional fees		**453**	-	-
Tax credit on non-recurring professional fees		**(91)**	-	-
Fees related to acquisition of RDW-RD Limited		**-**	-	28
Redundancy and loss of office costs		**127**	34	284
Tax on loss of office costs		**(25)**	(7)	(57)
Adjusted earnings		**842**	1,099	1,941
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings per share		37,574,926	36,204,457	36,401,381
Weighted average number of ordinary shares for the purposes of diluted earnings per share		38,672,290	37,213,139	37,831,536
Earnings per share		**Pence**	Pence	Pence
Basic earnings/(loss) per share		**0.5**	(6.7)	3.4
Diluted earnings per share		**0.5**	(6.5)	3.3
Adjusted earnings per share				
Basic earnings/(loss) per share		**2.2**	3.0	7.2
Diluted earnings per share		**2.2**	3.0	7.0

Notes to the unaudited condensed consolidated interim report

8 Impairment of goodwill

On 26 November 2013, the Group acquired 100% of the share capital of ECOM Recruitment Limited ("ECOM"), the UK's leading digital technology recruitment business for a total consideration of up to £7.04 million.

At 30 June 2016 the Board conducted a review of the carrying value of the intangibles and goodwill associated with the business of ECOM and as a result of that review the goodwill was impaired by £3,152k which was treated as a non-recurring item in the prior period. The carrying value of the goodwill at 30 June 2016 was £1,710k.

No further impairment is considered necessary in the period ended 30 June 2017.

9 Borrowings

The Group continues to finance its activities through borrowings using a confidential trade receivables finance facility. During the period the Group has replaced its lead bank with new banking arrangements from HSBC with an increased facility limit of £24m (2016: £20m) with a decreased interest rate and annual fee. The facility has a three month rolling notice period following the expiry of an initial term ending in March 2018. The Group cannot utilise invoices if they remain unpaid 120 days from the end of the month in which they were issued.

10 Subsequent events

On 18 May 2017, Chisbridge Limited announced its intention to make a cash offer, with a loan note alternative, for the whole of the issued and to be issued share capital of InterQuest. The full terms of, and conditions to, the Offer and the procedures for acceptance were set out in the Offer Document published by Chisbridge on 1 June 2017.

On 25 July 2017, Chisbridge received valid acceptances from InterQuest shareholders in respect of 19,552,500 InterQuest Shares, representing 50.58% of the issued ordinary share capital of InterQuest, which Chisbridge counted towards the satisfaction of the acceptance condition of the Offer set out in the Offer Document, declaring the Offer unconditional in all respects.

On 8 August 2017, the closing date of the offer, Chisbridge received valid acceptances from InterQuest shareholders in respect of 22,544,070 InterQuest Shares, representing 58.32% of the issued ordinary share capital of InterQuest.

During July 2017, following the announcement of the bid by Chisbridge, several members of staff exercised their share options. The total number of share options exercised in July amounted to 921,229 shares.

11 Interim report

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