InterQuest Group plc
("InterQuest" or "the Group")
Interim Results

InterQuest Group plc (AIM: ITQ), the specialist recruitment business operating in the 'new digital economy', is pleased to announce its unaudited interim results for the six months ended 30 June 2016.

Financial highlights

- Revenue down 9% to £73.8m (2015: £81.2m)
- Net Fee Income ("NFI") down 10% to £11.0m (2015: £12.1m)
- Adjusted PBT* down 44% to £1.4m (2015: £2.5m)
- Net loss (after goodwill impairment of £3.2m) of £2.4m (2015: £1.6m profit)
- Diluted adjusted earnings per share down 46% to 3.0 pence (2015: 5.5 pence)
- Basic loss per share of 6.7 pence (2015: 4.7 pence earnings)
- Net cash used in operating activities £2.9m (2015: net cash generated £2.8m)
- Net debt, consisting of our working capital facility which we use to finance fluctuations in contractor levels, and cash increased during the period to £9.9m (2015: £6.9m)
- Interim dividend of 0.5 pence per share to be paid on 16 November 2016 (2015: 1.0 pence)
- Professional contract recruitment margins were up 90 bps to 17.6% (2015: 16.7%).
- Contract recruitment margins on all deals (excluding payroll) increased 90 bps to 13.2% (2015: 12.3%)

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

Operational highlights

- The average permanent fee per placement has increased by 4% to £6.8k (£2015: £6.5k) through developing a focus on senior roles and supporting our clients at the management and leadership level.
- The Group has grown the Net Fee Income earned across the divisions through its Solutions clients by 42% to £1.6m (2015: £1.1m) through expanding on the previous services offered to our managed service clients and adding a further client taking the total to six.
- The Group continues to focus on supporting our clients to overcome the staffing challenges presented by the digital economy and has made significant progress in developing innovative solutions for our clients.

Chris Eldridge, Chief Executive Officer, commented: "A root and branch reform has been necessary at our ECOM digital recruitment subsidiary which was acquired three years ago, requiring a non-cash impairment charge of £3.2m resulting in a total loss of £2.4m for the Group although before exceptional items the Group reported Adjusted PBT of £1.4m. We have now put the ECOM business on a firmer footing and I am confident it will make a significant contribution to the Group in the future. We are also encouraged by the progress we have made in our Solutions business and can take satisfaction from the fact that our contract recruitment margins and average permanent placement fees have increased which is evidence of the new initiatives we have been putting in place during the period.

Gary Ashworth, Chairman, commented: "The Group's results for the first half of 2016 are below our expectations at the start of the year, particularly in the ECOM brand and the Public Sector division, and were impacted by uncertainty in the UK market leading up to the EU referendum. Following a period of change, the new management team is in place and focused on progressing the Group strategy of expanding our reach in the digital economy and the further development of the Group's Solutions business. We have refocused or removed non profitable elements of the business which we believe will help profits in the medium / long term.

The recent acquisition of Rees Draper Wright on 3 August 2016 will also extend our geographic reach further into the strong markets of the US and Europe. On behalf of the Board I would like to thank all of my colleagues across the Group for their hard work and commitment through these times of change."

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

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Chief Executive's Review

The challenges that digitisation cause industry show no signs of abating; in fact they are becoming progressively more challenging to overcome. InterQuest is uniquely positioned to support the recruitment demands of all businesses seeking to re-define their business model and how they take their services to a global market.

Through our ability to identify and build networks with professionals who possess scarce technical and leadership skills, InterQuest is able to provide a solution to our customers' most pressing issues.

During the first half of 2016 the Group's contractor numbers were affected at ECOM by a reduction in demand resulting from changes in buying behaviour and sector. Action has been taken to refocus the business and reverse the decline. In early 2015 the Group also benefited from a spike in demand from the Public Sector which, following the General Election, was not replicated in the first half of 2016.

During the first half of the year the business implemented a number of initiatives to drive the business further into the digital market and ensure that our clients are being offered a collaborative recruitment solution encompassing the breadth of the Group's specialisations. As part of this process the Group reviewed the markets being addressed and as a result focused on the sectors and disciplines that are seeing wage inflation and increasing levels of demand. The Group has looked to reduce levels of lower value business and aspire to move further up the value chain.

The Group continues to invest in market leading learning and development and has seen improvements across the business as a result.

On entering the second half of 2016 the business is well set for growth, and to capitalise on the opportunities in the Digital markets.

Average permanent recruitment fees were 4% higher in the first half of 2016 whilst contract recruitment margins on professional recruitment deals (those at margins over 12%) increased from 16.7% in 2015 to 17.6% in 2016. Contract recruitment margins on all deals (excluding payroll) increased to 13.2% from 12.3%.

The trading performance at ECOM, the Group's digital recruitment division, has been below expectations and has led to an impairment in goodwill for the Group amounting to £3.2m, set against the original investment in the acquisition of ECOM.

We are declaring an interim dividend of 0.5 pence (2015: 1.0 pence) and this will be paid on 16 November 2016 to shareholders on the register on 21 October 2016.

Although the first half of 2016 was challenging financially, this masks the significant operational progress we have 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 and enabling increased levels of cross selling. The leadership team looks forward to integrating the recent acquisition of Rees Draper Wright, benefiting from joint client development and building upon the platform in the US. We remain mindful of ongoing economic uncertainty and are taking steps to ensure that the Group is agile enough to respond to any changes that we may see in market conditions.

I would like to take the opportunity to thank all of our colleagues across InterQuest on the support they have given the new leadership team and commend them on their focus and commitment to delivering excellence for our clients and candidates.

Chris Eldridge

Chief Executive Officer

6 September 2016

Unaudited condensed consolidated interim statement of comprehensive income

	Note	**6 months to 30 June 2016 £'000**	6 months to 30 June 2015 £'000	12 months to 31 December 2015 £'000
Revenue		**73,770**	81,196	158,613
Cost of sales		**(62,816)**	(69,091)	(134,800)
Gross profit		**10,954**	12,105	23,813
Amortisation		**(172)**	(172)	(345)
Other administration costs		**(9,613)**	(9,567)	(18,554)
Total administrative expenses		**(9,785)**	(9,739)	(18,899)
Operating profit before non-recurring items		**1,169**	2,366	4,914
Impairment		**(3,152)**	-	-
Other non-recurring items		**(34)**	(174)	(337)
Operating (loss)/profit		**(2,017)**	2,192	4,577
Acquisition costs		**-**	-	(21)
Finance costs		**(178)**	(172)	(444)
(Loss)/profit before tax		**(2,195)**	2,020	4,112
Income tax expense	**5**	**(214)**	(396)	(1,027)
(Loss)/profit for the period/year		**(2,409)**	1,624	3,085
(Loss)/profit and total comprehensive (expense)/income for the period/year		**(2,409)**	1,624	3,085
Attributable to:				
Owners of the parent		**(2,436)**	1,617	3,020
Non-controlling interests		**27**	7	65
Total comprehensive (expense)/income for the period/year		**(2,409)**	1,624	3,085
Earnings per share from both total and continuing operations:				
		Pence	Pence	Pence
Basic (loss)/earnings per share	**6**	**(6.7)**	4.7	8.5
Diluted (loss)/earnings per share	**6**	**(6.5)**	4.4	8.2

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 2016 £'000	30 June 2015 £'000	31 December 2015 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	**533**	777	611
Goodwill	**15,715**	18,867	18,867
Other intangible assets	**827**	1,173	1,000
Deferred income tax assets	**-**	149	-
Total non-current assets	**17,075**	20,966	20,478
Current assets			
Trade and other receivables	**31,967**	28,621	27,417
Cash and cash equivalents	**807**	1,444	1,181
Total current assets	**32,774**	30,065	28,598
Total assets	**49,849**	51,031	49,076
LIABILITIES			
Current liabilities			
Trade and other payables	**(17,293)**	(18,972)	(16,698)
Borrowings	**(10,752)**	(8,302)	(7,180)
Current tax payable	**(1,030)**	(1,142)	(1,571)
Total current liabilities	**(29,075)**	(28,416)	(25,449)
Non-current liabilities			
Deferred income tax liability	**(205)**	-	(212)
Total non-current liabilities	**(205)**	-	(212)
Total liabilities	**(29,280)**	(28,416)	(25,661)
Net assets	**20,569**	22,615	23,415
EQUITY			
Share capital	**363**	353	359
Share premium account	**10,646**	10,592	10,632
Capital redemption reserve	**12**	12	12
Retained earnings	**7,666**	10,067	10,829
Share based payment reserve	**2,471**	2,150	2,199
Share buy back reserve	**(666)**	(666)	(666)
Total issued share capital and reserves attributable to the owners of the parent	**20,492**	22,508	23,365
Non-controlling interests	**77**	107	50
Total equity	**20,569**	22,615	23,415

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 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**
Balance at 1 July 2015	**353**	**10,592**	**12**	**10,067**	**2,150**	**(666)**	**107**	**22,615**
Comprehensive income								
Profit for the period	-	-	-	1,403	-	-	58	1,461
Total comprehensive expense for the period	**-**	**-**	**-**	**1,403**	**-**	**-**	**58**	**1,461**
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	49	-	-	49
Issue of share capital	6	40	-	-	-	-	-	46
Current tax credit on share based payments	-	-	-	(191)	-	-	-	(191)
Deferred tax credit	-	-	-	39	-	-	-	39
Dividends relating to 2015	-	-	-	(574)	-	-	-	(574)
Elimination of reserves on acquisition of IQ Telecom NCI	-	-	-	-	-	-	(65)	(65)
Elimination of deficit on acquisition of Korus Group NCI	-	-	-	-	-	-	(66)	(66)
Adjustment to IQ Telecom NCI	-	-	-	24	-	-	16	40
Adjustment to Korus Group NCI	-	-	-	61	-	-	-	61
Total contributions by and distributions to owners	**6**	**40**	**-**	**(641)**	**49**	**-**	**(115)**	**(661)**
Balance at 31 December 2015	**359**	**10,632**	**12**	**10,829**	**2,199**	**(666)**	**50**	**23,415**

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 2016	**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 contributions by and distributions to owners	**4**	**14**	**-**	**(727)**	**272**	**-**	**-**	**(437)**
Balance at 30 June 2016	**363**	**10,646**	**12**	**7,666**	**2,471**	**(666)**	**77**	**20,569**

Unaudited condensed consolidated interim statement of cash flows

	6 months to 30 June 2016 £'000	6 months to 30 June 2015 £'000	12 months to 31 December 2015 £'000
Cash flows from operating activities			
(Loss)/profit after taxation	**(2,409)**	1,624	3,085
Adjustments for:			
Depreciation	**221**	232	441
Disposal of assets	**-**	-	(10)
Share-based payment charge	**272**	144	193
Finance costs	**178**	240	444
Amortisation	**172**	172	345
Impairment	**3,152**	-	-
Income tax expense	**214**	396	1,027
Increase in trade and other receivables	**(4,550)**	(2,252)	(1,052)
Increase in trade and other payables	**594**	2,690	2,019
Cash (used in)/generated from operations	**(2,156)**	3,246	6,492
Income taxes paid	**(759)**	(488)	(688)
Net cash (used in) / generated from operating activities	**(2,915)**	2,758	5,804
Cash flows from investing activities			
Purchase of property, plant and equipment	**(144)**	(76)	(138)
Acquisition of subsidiaries, net of cash acquired	**-**	-	(1,560)
Acquisition of non-controlling interest in subsidiaries	**-**	(563)	-
Loan notes paid	**-**	-	(443)
Net cash used in from investing activities	**(144)**	(639)	(2,141)
Cash flows from financing activities			
Proceeds from issue of share capital	**18**	111	179
Proceeds from sale of shares in subsidiary	**-**	-	25
Net (decrease) / increase in discounting facility	**3,572**	(1,310)	(2,432)
Interest paid	**(178)**	(172)	(444)
Dividends paid	**(727)**	(515)	(1,089)
Net cash (used in) / received from financing activities	**2,685**	(1,886)	(3,761)
Net increase in cash and cash equivalents	**(374)**	233	(98)
Effects of currency translation on cash and cash equivalents	**-**	(68)	-
Cash, cash equivalents and overdrafts at beginning of period/year	**1,181**	1,279	1,279
Cash, cash equivalents and overdrafts at end of period/year	**807**	1,444	1,181

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 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 5 September 2016.

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 2015 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 2016 and has been prepared in accordance with the accounting policies as set out in the annual financial statements for the year ended 31 December 2015. The unaudited condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015, 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 2015.

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.

On 1 January 2016 the trade and assets of Mint Recruitment Solutions Limited were transferred to InterQuest Group (UK) Limited. Subsequent to the transfer the business is now continuing to trade under two trading divisions of InterQuest Group (UK) Limited; IQ Change, based in London, and IQ Digital, based in Manchester. In order that the 2015 segmental analysis may be comparable to the 2016 performance the Business Change division is now shown under the new 2016 structure in Niche.

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 2016

	Niche £'000	ECOM £'000	Enterprise £'000	Public Sector £'000	Other £'000	Total £'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	81	3,258
Unallocated central overheads						(1,645)
EBITA per management accounts						1,613
Reconciling items to amounts reported in the interim statement of comprehensive income:						
Share based payment						(272)
Amortisation						(172)
Impairment						(3,152)
Non-recurring items						(34)
IFRS operating profit						(2,017)
Finance costs						(178)
Profit before tax						(2,195)

Notes to the unaudited condensed consolidated interim report

4 Revenue and segmental reporting (continued)

Six months to 30 June 2015

	Niche £'000	ECOM £'000	Enterprise £'000	Public Sector £'000	Other £'000	Total £'000
Revenue	29,064	8,898	24,324	17,824	1,086	81,196
Gross profit	6,040	2,153	1,796	1,763	353	12,105
Divisional EBITA	2,255	587	717	988	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 six month period ended 30 June 2016 and 30 June 2015.

	Revenue		Gross profit	
	Six month period to 30 June 2016 £'000	Six month period to 30 June 2015 £'000	**Six month period to 30 June 2016 £'000**	Six month period to 30 June 2015 £'000
Permanent	**3,833**	3,993	**3,833**	3,993
Contract	**69,937**	77,203	**7,121**	8,112
	73,770	81,196	**10,954**	12,105

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

Notes to the unaudited condensed consolidated interim report

5 Income tax expense

	6 months to 30 June 2016 £'000	6 months to 30 June 2015 £'000	12 months to 31 December 2015 £'000
Current tax			
Corporation tax on profits for the period/year	**222**	433	975
Adjustment in respect of prior periods	**-**	-	(50)
Adjustment in respect of non-recurring items	**-**	(37)	(68)
Total current tax	**222**	396	857
Deferred tax			
Origination and reversal of temporary difference	(8)	-	(37)
Adjustment in respect of prior periods	-	-	207
Total deferred tax	**(8)**	-	-
Total income tax expense	**214**	396	1,027

Notes to the unaudited condensed consolidated interim report

6 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 2016 £'000	6 months ended 30 June 2015 £'000	12 months to ended 31 December 2015 £'000
(Loss)/profit for the year attributable to the owners of the company	**(2,436)**	1,617	3,020
Adjustments to basic earnings			
Intangible assets amortisation	**172**	172	345
Tax on intangible asset amortisation	**(34)**	(36)	(69)
Impairment	**3,152**	-	-
Share based payment charge	**272**	144	193
Deferred tax (credit) on share based payment	**(54)**	(30)	(39)
Restructuring items	**-**	153	118
Tax on restructuring items	**-**	(32)	(24)
Fees related to acquisition of ECOM Recruitment Limited	**-**	-	21
Redundancy and loss of office costs	**34**	-	219
Tax on loss of office costs	**(7)**	-	(44)
Fees related to acquisition of non-controlling interest in subsidiary	**-**	20	-
Tax on acquisition fees	**-**	(4)	-
Adjusted earnings	**1,099**	2,004	3,740

6 Earnings per share (continued)

Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**36,204,457**	34,732,097	35,635,968
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**37,213,139**	36,410,815	36,995,389
Earnings per share	**Pence**	Pence	Pence
Basic (loss)/earnings per share	**(6.7)**	4.7	8.5
Diluted earnings per share	**(6.5)**	4.4	8.2
Adjusted earnings per share			
Basic (loss)/earnings per share	**3.0**	5.7	10.5
Diluted earnings per share	**3.0**	5.5	10.1

7 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 has been impaired by £3,152k which has been treated as a non-recurring item in the period. The carrying value of the goodwill at 30 June 2016 is £1,710k.

8 Subsequent events

On 3 August the Group acquired 78% of the share capital of RDW-RD Limited ("RDW"), a boutique executive search firm for blue chip clients, with the right to acquire the remainder of the shares in RDW.

The wholly owned subsidiaries of RDW, Rees Draper Wright Limited and Rees Draper Wright Inc operate from offices in London and New York.

The total consideration agreed was:

	£'000
Cash	1,273
Issue of new shares in InterQuest Group Plc	546
Deferred consideration	381
Total	2,200

As part of the total consideration, InterQuest issued 728,000 new ordinary shares to the vendors on completion. The outstanding interests in RDW are subject to put and call arrangements with the vendors, which can be exercised up to 18 October 2016 on the same terms. Assuming that this option is exercised, a further 205,333 new ordinary shares will be issued in due course.

9 Interim report

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