Learning Technologies Group plc

Interim Report for the six month period to 30 June 2015

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Chairman's Statement

Introduction

We have made good progress during the first half of 2015 delivering operational and financial synergies as a result of the acquisitions made in 2014. I am pleased to report that profits are in line with management expectations and that we have entered the second half of the year with a strong order book.

LTG's strategy is to create a global e-learning business with revenues in excess of £50 million through organic growth and selective acquisition. In April 2014 LTG acquired LINE Communications Holdings Limited ('LINE') and in May 2014 it acquired Preloaded Limited ('Preloaded'). The comparative figures included in this report for the first half of 2014 include the post-acquisition results for these two businesses.

Results

Revenues increased by 29% to £8.4 million in the 6 months ended 30 June 2015 (H1 2014: £6.5 million) and adjusted EBITDA grew by 47% to £1.3 million (H1 2014: £0.9 million), reflecting an increase in adjusted EBITDA margins from 13.4% to 15.3%. The increase in EBITDA margin is a result of the realisation of the planned £0.7 million annualised cost synergies that arose from the integration of LINE and Epic Performance Improvement Limited ('Epic') in mid 2014.

Operating profit, stated after amortisation of acquired intangibles, depreciation, share based payments and integration costs, increased by 217% to £0.3 million (H1 2014: £0.1 million).

A net tax credit of £144,000 (H1 2014: charge of £42,000) includes a release of deferred tax liabilities created from acquired intangibles of £87,000 and the increase of deferred tax assets created by share options of £57,000.

The Group reported a rise in net profit to £0.4 million (H1 2014: loss of £0.3 million) and basic earnings per share increased to 0.099 pence (H1 2014: loss of 0.098 pence).

At the end of the half year LTG had a strong cash balance of £3.0 million (31 December 2014: £4.4 million). The Group has no debt.

Net cash flow from operating activities was £0.4 million, as trade debtors increased to £3.2 million (31 December 2014: £2.8 million) and amounts recoverable on contracts increased to £2.5 million (31 December 2014: £1.8 million) as a result of a few substantial projects. During the same period the Company elected to settle £1.3 million of deferred consideration related to the acquisition of Preloaded in cash and paid a final dividend of £0.2 million.

Overall net assets increased to £15.1 million (31 December 2014: £13.8 million) and shareholders funds increased from 4.1 pence per share to 4.2 pence per share.

Group development

LEO Learning ('LEO') was formed from the merger of Epic and LINE in July 2014. Over the past year we have seen the benefits of this merger in terms of the scale of offering that we now provide to clients, the increased access to specialist resources across our network, the application of our industry leading thought leadership, together with economies of scale, workflow management and best practice in improving customer satisfaction and margins.

We were particularly pleased to win a substantial contract in partnership with KPMG to create an important capability assessment solution for a central government department and we are heartened to see LEO, time and time again, retain important clients often in very competitive bids (for example with Civil Service Learning) and extending and deepening our relationships with clients as we partner with them to "Move learning to the heart of business strategy", as we have done with clients such as Jaguar Land Rover and Sky.

Chairman's Statement (continued)

So far in H2 2015 we have restructured the business to focus on offering key account management, client market sector specialism, consultancy and strategic advice, as well as to give staff a defined career route for progression within the business. The integration of LTG's businesses now means that we are able to offer our clients a more comprehensive and integrated range of solutions to their learning needs across a wider geography, and our staff the opportunity to apply their skills in different sectors and group locations.

Preloaded has continued its success in the year-to-date. At the beginning of the year it won a contract to deliver an innovative learning games campaign for a global restaurant chain, and it has now commenced the next phase of this work which extends into 2016. Building on a successful project for the Science Museum, Preloaded has won an educational project with the British Museum that will encourage visitors to explore and engage with the museum through phone and tablet devices. We continue to be excited by the pipeline of opportunities Preloaded has in the 'games with purpose' space.

In April 2015 we launched gomo 3.0, the latest version of our cloud based self-authoring tool. This award winning product has seen strong sales growth in H1 2015 and as we come to the end of our first full year of roll-out I am pleased to report that we are seeing high renewal rates, with many customers increasing the number of licences that they order. Clients include Nike, Burberry, Xerox and Santander. gomo also provides an effective platform through which LEO can assist clients in furthering the quality of their in-house offering and we are seeing encouraging trends in the referral of work across the Group.

After an exceptional 2014, the US office had a slow start to this year. However, under the guidance of our new VP for North America, the sales pipeline and order book have grown encouragingly over the past few months.

Our Brazilian joint venture had an exceptional sales period in the first half of 2015 and production processes have been improved such that as they enter the second half of the year they have moved from a loss to reporting their first monthly profit. Our share of reported losses in the first half of 2015 was £41,000 (H1 2014: £22,000 loss).

We continue to invest in the business. At the beginning of July 2015 we moved Preloaded to a new studio in Finsbury Park and we are in the middle of a year-long programme of investment in our ERP, finance and HR systems which will allow us to streamline processes, provide improved management information and create the platform for increasing scale.

Dividend

I am delighted to announce that the Board has approved an interim dividend of 0.05 pence per share (2014: 0.03 pence per share) reflecting the progress that the Company has made and the Board's confidence in the future. This will be paid on 30 October 2015 to shareholders on the register at 9 October 2015.

Post half year end acquisition and outlook

On 31 July 2015 the Group announced the acquisition of Eukleia Training Limited ('Eukleia'). The acquisition is a continuation of LTG's objective to acquire specialist businesses that extend the Group's service offering and help move it into new markets. Eukleia gives LTG a presence in the substantial growing market for Governance, Risk and Compliance ('GRC') in the financial services sector and significantly expands its scale and client base. Eukleia's sector expertise is its key strength and LTG expects to use its operational know-how to further enhance the business. Eukleia will also take advantage of LTG's international presence to access other GRC markets, in particular in the US.

Chairman's Statement (continued)

The initial consideration comprised £6.0 million cash, £1.5 million in LTG equity plus up to £3.5 million contingent deferred consideration. At the same time as the acquisition LTG placed 35,714,286 new shares to raise £7.5m at 21 pence per share. Further details are provided in Note 7.

In summary the Board is pleased with the progress that the Group has made in the first half of 2015, the realisation of planned operational synergies, the strengthened order book and the acquisition of Eukleia at the beginning of the second half of the year, which continues our commitment to build a global e-learning business of scale. We continue to actively pursue acquisition opportunities on both sides of the Atlantic.

We look forward to continuing to deliver significant profitable progress during the remainder of 2015.

Andrew Brode, Chairman
28 September 2015

Consolidated statement of comprehensive income

	Note	Six months to 30 June 2015 (unaudited) £'000	Year to 31 Dec 2014 (audited) £'000	Six months to 30 June 2014 (unaudited) £'000
Revenue	3	8,390	14,920	6,504
Operating expense		(8,032)	(14,433)	(6,382)
		358	487	122
Share of losses of joint venture		(41)	(160)	(22)
Operating profit*		317	327	100
Adjusted EBITDA		1,287	2,065	874
Amortisation of intangibles		(480)	(659)	(233)
Depreciation		(90)	(171)	(69)
Share based payment costs		(400)	(583)	(355)
Integration costs		-	(325)	(117)
Operating profit*		317	327	100
Costs of acquisition		-	(296)	(294)
Finance expense		(115)	(162)	(68)
Interest receivable		7	4	1
Profit/(loss) before taxation		209	(127)	(261)
Income tax expense	4	144	(35)	(42)
Profit/(loss) for the period/year attributable to the owners of the parent		353	(162)	(303)
Earnings/(loss) per share attributable to owners of the parent:				
Basic, (pence)	5	0.099	(0.049)	(0.098)
Diluted, (pence)	5	0.093	(0.049)	(0.098)
Other comprehensive income:		8	17	-
Total comprehensive income/(loss) for the period		**361**	**(145)**	**(303)**

Consolidated statement of financial position

	Note	30 June 2015 (unaudited) £'000	31 Dec 2014 (audited) £'000	30 June 2014 (unaudited) £'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		331	339	382
Intangible assets		11,025	11,364	12,184
Deferred tax assets		825	618	-
Investments		-	16	-
		12,181	12,337	12,566
CURRENT ASSETS				
Trade receivables		3,201	2,762	2,535
Other receivables, deposits and prepayments		470	337	427
Amounts recoverable on contracts		2,469	1,806	1,908
Cash and bank balances	6	2,958	4,358	3,815
		9,098	9,263	8,685
TOTAL ASSETS		**21,279**	**21,600**	**21,251**
CURRENT LIABILITIES				
Trade and other payables		5,560	4,832	5,422
Corporation tax		226	352	115
Provisions		-	-	30
		5,786	5,184	5,567
NON CURRENT LIABILITIES				
Deferred tax liabilities		360	446	398
Other long term liabilities		-	1,512	1,523
Provisions		30	49	-
		390	2,007	1,921
TOTAL LIABILITIES		**6,176**	**7,191**	**7,488**
NET ASSETS		**15,103**	**14,409**	**13,763**
EQUITY AND LIABILITIES				
Share capital		1,334	1,329	1,327
Share premium account		13,125	13,098	13,089
Merger relief reserve		22,269	22,269	22,269
Reverse acquisition reserve		(22,933)	(22,933)	(22,933)
Share-based payment reserve		1,742	1,203	894
Foreign exchange translation reserve		25	17	-
Accumulated losses		(459)	(574)	(883)
TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**15,103**	**14,409**	**13,763**

Consolidated statement of changes in equity (£'000)

	Share capital	Share Premium	Merger relief reserve	Reverse acquisition reserve	Share based payments reserve	Foreign exchange reserve	Retained profits/(losses)	Total equity
Balance at 1 January 2014	**1,034**	**1,159**	**22,269**	**(22,933)**	**547**	**-**	**(588)**	**1,488**
Loss for the period	-	-	-	-	-	-	(303)	(303)
Other comprehensive loss	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	-	(303)	(303)
Issue of shares	293	12,202	-	-	-	-	-	12,495
Costs of issuing shares	-	(272)	-	-	-	-	-	(272)
Share based payment charge / credited to equity	-	-	-	-	355	-	-	355
Transfer on exercise and lapse of options	-	-	-	-	(8)	-	8	-
Balance at 30 June 2014	**1,327**	**13,089**	**22,269**	**(22,933)**	**894**	**-**	**(883)**	**13,763**
Profit for period	-	-	-	-	-	-	141	141
Exchange differences on translating foreign operations	-	-	-	-	-	17	-	17
Total comprehensive profit for the period	-	-	-	-	-	17	141	158
Issue of shares	2	9	-	-	-	-	-	11
Share based payment charge / credited to equity	-	-	-	-	228	-	-	228
Deferred tax credit on share options	-	-	-	-	356	-	-	356
Transfer on exercise and lapse of options	-	-	-	-	(275)	-	275	-
Dividends paid	-	-	-	-	-	-	(107)	(107)
Balance at 31 December 2014	**1,329**	**13,098**	**22,269**	**(22,933)**	**1,203**	**17**	**(574)**	**14,409**
Profit for period	-	-	-	-	-	-	353	353
Exchange differences on translating foreign operations	-	-	-	-	-	8	-	8
Total comprehensive income for the year	-	-	-	-	-	8	353	361
Issue of shares	5	27	-	-	-	-	-	32
Share based payment charge / credited to equity	-	-	-	-	400	-	-	400
Deferred tax credit on share options	-	-	-	-	149	-	-	149
Transfer on exercise and lapse of options	-	-	-	-	(10)	-	10	-
Dividends paid	-	-	-	-	-	-	(248)	(248)
Balance at 30 June 2015	**1,334**	**13,125**	**22,269**	**(22,933)**	**1,742**	**25**	**(459)**	**15,103**

Consolidated statement of cash flows

	Six months to 30 June 2015 (unaudited)	Year to 31 Dec 2014 (audited)	Six months to 30 June 2014 (unaudited)
	£'000	£'000	£'000
Cash flow from operating activities			
Profit/(loss) before taxation	209	(127)	(261)
Adjustments for:-			
Share option charge	400	583	355
Amortisation of intangible assets	480	659	233
Depreciation of plant and equipment	90	171	69
Share of loss of joint venture	41	160	22
Finance expense	115	162	20
Interest received	(7)	(4)	(1)
Operating cash flow before working capital changes	**1,328**	**1,604**	**437**
(Increase)/decrease in trade and other receivables	(572)	507	621
(Increase) in amount recoverable on contracts	(663)	(668)	(183)
Increase/(decrease) in payables	417	(507)	(2,038)
	510	936	(1,163)
Interest received	7	4	1
Income tax (paid)/received	(127)	(32)	22
Net cash flow from/(used in) operating activities	**390**	**908**	**(1,140)**
Cash flow used in investing activities			
Purchase of property, plant and equipment	(79)	(123)	(59)
Development of intangible assets	(141)	(198)	(47)
Acquisition of subsidiaries, net of cash acquired	-	(4,407)	(3,836)
Deferred consideration payments in the period	(1,337)	-	-
Investment in joint venture	(25)	(179)	(26)
Net cash flow used in investing activities	**(1,582)**	**(4,907)**	**(3,968)**
Cash flow used in financing activities			
Dividends paid	(248)	(107)	-
Cash generated from issue of shares, net of share issue costs	32	7,756	7,753
Repayment of bank loans	-	(465)	-
Net cash flow (used in)/from in financing activities	**(216)**	**7,184**	**7,753**
Net increase/(decrease) in cash and cash equivalents	(1,408)	3,185	2,645
Cash and cash equivalents at beginning of the year	4,358	1,170	1,170
Effects of foreign exchange rate changes	8	3	-
Cash and cash equivalents at end of the year	**2,958**	**4,358**	**3,815**

Notes to the consolidated financial statements for the six months to 30 June 2015

1. General information

Learning Technologies Group plc ("the Company'') and its subsidiaries (together, "the Group'') provide a range of e-learning services and technologies to corporate clients. The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group.

The Company is a public limited company, which is listed on the AIM Market of the London Stock Exchange and domiciled in England and incorporated and registered in England and Wales. The address of its registered office is 52 Old Steine, Brighton, East Sussex, BN11NH. The registered number of the Company is 07176993.

2. Basis of preparation

The unaudited consolidated interim financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU).

The interim results for the six months to 30 June 2015 are neither audited nor reviewed by our auditors and the accounts in this interim report do not therefore constitute statutory accounts in accordance with Section 434 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2014 have been filed with the Registrar of Companies and the auditor's report was unqualified, did not contain any statement under Section 498(2) or 498(3) of the Companies Act 2006 and did not contain any matters to which the auditors drew attention without qualifying their report.

The accounting policies used in preparing the interim results are the same as those applied to the latest audited annual financial statements.

3. Segment analysis

Geographical information

All revenues of the Group are derived from its principal activity, the production of interactive multimedia programmes. The Group's revenue from external customers and non-current assets by geographical location are detailed below.

	UK £'000	Europe £'000	America £'000	Other £'000	Total £'000
30 June 2015 (unaudited)					
Revenue	7,184	618	570	18	8,390
Non-current assets	12,174	-	7	-	12,181
31 December 2014 (audited)					
Revenue	11,893	997	1,977	53	14,920
Non-current assets	12,315	-	6	16	12,337
30 June 2014 (unaudited)					
Revenue	5,454	440	589	21	6,504
Non-current assets	12,562	-	4	-	12,566

Information about major customers

In the six months to 30 June 2015, the year ended 31 December 2014 and the six months to 30 June 2014, no customer accounted for more than 10 percent of reported revenues.

4. Taxation

Taxation for the six months to 30 June 2015 has been calculated by applying the estimated tax rate for the current financial year ending 31 December 2015 to an estimated tax adjusted profit figure.

5. Earnings per share

	30 June 2015 (unaudited) £'000	31 Dec 2014 (audited) £'000	30 June 2014 (unaudited) £'000
Profit /(loss) after tax attributable to owners of the Group :	353	(162)	(303)
Weighted average number of shares:			
Basic	355,129,516	332,027,000	309,592,092
Diluted	381,350,644	332,027,000	309,592,092
Basic earnings per share (pence)	0.099	(0.049)	(0.098)
Diluted earnings per share (pence)	0.093	(0.049)	(0.098)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has share options that are dilutive potential ordinary shares.

Adjusted earnings per share (pence) is calculated by removing those costs for which adjustments were made in arriving at the adjusted EBITDA figure shown on the consolidated statement of comprehensive income:

	30 June 2015 (unaudited) £'000	31 Dec 2014 (audited) £'000	30 June2014 (unaudited) £'000
Profit/(loss) after tax attributable to owners of the Group :	353	(162)	(303)
Adjustments for:			
Costs of acquisition	-	296	294
Finance expense	115	162	68
Amortisation of intangibles	480	659	233
Depreciation	90	171	69
Share based payment charge	400	583	355
Integration costs	-	325	117
Adjusted earnings	1,438	2,034	833
Weighted average number of shares:			
Basic	355,129,516	332,027,000	309,592,092
Diluted	381,350,644	348,090,000	361,330,255
Adjusted basic earnings per share (pence)	0.405	0.613	0.269
Adjusted diluted earnings per share (pence)	0.377	0.584	0.231

6. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:-

	30 June 2015 (unaudited) £'000	31 Dec 2014 (audited) £'000	30 June 2014 (unaudited) £'000
Cash and bank balances	2,958	4,358	3,815

7. Subsequent events

Acquisition of Eukleia Training Limited

On 31 July 2015 LTG acquired the entire issued share capital of Eukleia Training Limited (‘Eukleia’), a provider of e-learning services to the financial services sector. The consideration comprised an initial payment of £7.5 million of which £6.0 million was paid in cash and £1.5 million in new LTG shares, at a price of 22 pence per share, issued to the shareholders of Eukleia. Cash consideration was adjusted to take account of surplus cash of £0.8 million in Eukleia at completion. Up to a further £3.5 million will be payable based on the revenue growth of Eukleia in each of the years ending 31 December 2016 and 2017, payable with up to 20% in new LTG shares at the option of LTG with the remainder in cash.

Placing of shares

The cash element of the Eukleia acquisition was funded from part of the proceeds of the placing of 35,714,286 new shares in the Company to raise £7.5m at 21 pence per share. Surplus funds will be used to finance future acquisitions, to further the Group's organic growth strategy and for general corporate purposes.

Company information

Directors
Andrew Brode, Non-Executive Chairman
Jonathan Satchell, Chief Executive Officer
Harry Hill, Non-Executive Deputy Chairman
Piers Lea, Chief Strategy Officer
Neil Elton, Group Finance Director
Dale Solomon, Chief Operating Officer
Leslie-Ann Reed, Non-Executive Director

Company secretary
Neil Elton

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