Mobile Tornado

Mobile Tornado Group plc
("Mobile Tornado", the "Company" or the “Group”)

Final Results and Notice of AGM

Mobile Tornado Group plc, the leading provider of instant communication mobile applications to the enterprise market, announces its results for the year ended 31 December 2017.

Financial Highlights

- Total revenue increased by 25% to £2.53m (2016: £2.02m)
- Recurring revenues increased by 13% to £2.07m (2016: £1.84m)
- Non-recurring revenues, comprising installation fees, hardware and professional services and perpetual license fees increased to £0.46m (2016: £0.19m)
- Gross profit increased by 26% to £2.42m (2016: £1.92m)
- Operating expenses increased by 7% to £4.15m (2016: £3.89m) – adversely impacted by the depreciation of sterling comparative to the previous period
- Adjusted EBITDA* loss of £1.72m (2016: £1.96m)
- Group operating loss for the year decreased to £1.76m (2016: £3.09m) – impacted by further exchange differences of £0.14m gain (2016: £0.64m loss)
- Loss after tax of £1.60m (2016: £3.45m)
- Basic loss per share of 0.61p (2016: 1.39p)
- Cash at bank of £0.73m (2016: £0.17m) with net debt of £9.81m (2016: £9.06m)

*Earnings before interest, tax, depreciation, amortization, exceptional items and excluding exchange differences

Operating highlight

- Contract wins with two major Mobile Network Operators (“MNO”) in Israel - now well positioned to capitalise on significant opportunities in the Israeli market
- Contract renewal with our Tier 1 network operator in Canada, currently our largest customer by license count and revenues
- Full commercial launches with two MNO customers in South Africa
- Completed the development of new Instant Communication platform, with significantly higher capacity and additional user features
- Software Development Kit (“SDK”) upgraded and released to market
- Development of the new Dispatch Console (MDC200) completed and released to market

Jeremy Fenn, Chairman of Mobile Tornado, said: “The market continues to move in a favourable direction and supports the investment we have made in our technical platform. There is an increasing appetite for companies and public agencies to explore PTToC as an alternative to their traditional radio systems. The lower cost of ownership, and enhanced functionality, are providing very compelling reasons for switching.

“The Board believes the Company is very well positioned to take advantage of these market dynamics. We believe we now have the leading offering within the business-critical market and are uniquely placed to capture non-mission-critical enterprise customers seeking a lower cost solution with the superior functionality benefits that PTToC offers.

"Our focus for the coming year will firmly shift towards the development of our sales channels and the monetisation of the platform. We have some excellent customers already on the platform and we are working closely with them to ensure they reach their full potential."

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Financial results and key performance indicators

Total revenue for the year ended 31 December 2017 increased by 25% to £2.53m (2016: £2.02m). Recurring revenues, a key performance indicator for the business, continued to increase and were up by 13% to £2.07m (2016: £1.84m). Non-recurring revenues, comprising installation fees, hardware professional services and perpetual license fees increased to £0.46m (2016: £0.19m) supported by the increased number and size of new installations during the period. As a result, gross profit increased by 26% to £2.42m (2016: £1.92m).

The majority of our operating expenses are denominated in New Israeli Shekels and whilst our underlying operating cost-base remained largely unchanged over the comparative period on a like-for-like basis, our reported operating expenses increased by 7% to £4.15m (2016: £3.89m) due primarily to the depreciation of Sterling comparative to the first half of the previous period.

Due to the annual revaluation of certain financial liabilities on the balance sheet, the Group reported a translation gain of £0.14m (2016: £0.64m loss) arising from the recovery of sterling during the year. The Group recorded an income tax credit in respect of our qualifying investment in R&D activities of £0.85m (2016: £0.28m).

As a result of the above, the loss after tax for the year decreased to £1.60m (2016: Loss £3.45m) and a reduced basic loss per share of 0.61p (2016: 1.39p).

The net cash outflow from operating activities was £1.53m (2016: £1.72m). At 31 December 2017, the Group had £0.73m cash at bank (2016: £0.17m) and net debt of £9.81m (2016: £9.06m).

Results and dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (year ended 31 December 2016: nil). The Company currently intends to reinvest future earnings to finance the growth of the business over the near term.

Review of Operations

I am very pleased to report the positive financial performance set out above. The numbers in isolation are encouraging but they provide only a partial insight into what has been a period of significant progression and exciting development for the business.

At the end of last year I reported that, under the stewardship of our CEO Avi Tooba, we started to make significant investment into our technical engineering resources to allow us to expand our product capabilities in certain key areas as well as to ensure improved cost effectiveness in the deployment of our technology by our clients. I am pleased to report a range of exciting product improvements developed by our R&D team over the course of the year.

First of all we made an important improvement to the functionality and user experience of our dispatch console. This is a key workforce efficiency tool that pinpoints the location of Push to Talk ("PTT") users on an interactive map, allowing managers to monitor and dispatch workers from a central location. There are many valuable applications for this tool and we see significant appetite for it in the market. Our latest version, the MDC2000, has been recently launched and as anticipated it is receiving excellent feedback from potential customers.

Another area of focus on the development side has been to maintain our drive to reduce the minimum system cost and accessibility of our private PTT systems. Whilst we believe our carrier class product to be competitively priced to Tier 1 MNO's we are committed to making our instant communication solutions available at even lower costs and with much reduced integration times. This is particularly relevant for the clients of our Independent Solution Vendors, who serve large corporates and clients in the Public sector, where end user numbers can typically be less than 10,000. Following the excellent work in this area we are now able to deploy our solution at considerably reduced costs.

Related to this was the completion of our work in developing our SDK allowing an external engineer to integrate a full suite of our PTT functionality into third party work-force management applications within a few weeks. These are developments that expand the relevance and application of the Mobile Tornado product, allowing us to capture a wider market share, and enable more efficient use of our own technical resources.

A third area of our development work has been focussed on expanding the number of available devices that are integrated with the Mobile Tornado PTT solution. A number of these have been ruggedised devices. We already have a wide range of third party devices from multiple handset vendors on which our solution can operate, but we have increased this significantly to ensure our customers have the devices choice they need. This is in response to the continued convergence of device usage for workers in industrial enterprises and field services who have previously relied on multiple devices and who can now elect for a single ruggedised smartphone device on which PTT and all applications can operate.

These continued improvements to our technical platform allow us to deliver, in our opinion, the most superior in-network PTT solution to our customers. Before moving on to our sales progress I wanted to set out how our customers prioritise their technical needs, whether MNO, global enterprise or public sector body, from a PTT perspective to demonstrate how we are able to differentiate our offering and to help bring our sales progress into context.

The technical needs of our clients can be simplified into three priority areas: Platform Robustness; User Efficiency; and Features

Platform Robustness is determined by the availability, capacity and scalability of the platform. The Mobile Tornado PTT system availability is 99.999%, which is equivalent to 5 minutes total downtime per year, and represents the gold standard of cellular network operation. Few if any of our competitors outside of the Mission Critical market can offer this level of performance and it is better than most land mobile radio ("LMR") and digital mobile radio ("DMR") network availability.

In capacity terms we can offer great flexibility, with high capacity systems for 200,000 users enabling large organizations and enterprises to be set up on one system, and low capacity systems that can be deployed with less than 10,000 registered users. In the context of scalability and group size our server database can allow for the creation of thousands of different groups for any given server with individual PTT group sizes up to 350 members.

The second element is User Efficiency and this is determined by the data usage, latency and speed of the service to the user. Some available applications in the market use a high bit rate. This could mean the customer may require up to 4GB of data per month per PTT user if large user groups are planned. A more problematic issue of higher bit rate systems is message delivery failure that becomes a greater issue in congested areas or during events where there is high data usage. Our technology selects the bit rate based on the system topology (2G, 3G, 4G or Wi-Fi) and selects a lower bit rate where the signal is weak. All these actions allow a user to consume a far lower data usage.

In terms of speed and latency, measured from PTT button press to the receipt of audio on the other side, our service is under one second, and about 0.5 second on 4G and Wi-Fi networks. This is irrespective of whether the group is 2 or 350 members.

The third key element of our platform is the number of features and level of functionality that the platform delivers. I have highlighted above some of the most important developments, such as the SDK, enhanced Dispatch console, and low cost private platforms and although we sit outside the Mission Critical public safety market, we strongly believe we can offer a technical solution and service that is very close to it in quality terms at a fraction of the price. The Board believes that this makes for a very compelling proposition to our customers.

In operational cost terms, we have been able to make the technical progress detailed above on broadly the same levels of spending as last year, as we sustained our R&D spending commitment. We have built excellent engineering capabilities across our three centres in Ukraine, Israel and India, and will continue to invest at similar levels as we seek to maintain our position in the market.

Mobile network operators ('MNOs')

We have seen some significant activity in our MNO engagement over the past year. Total revenues were up 25% year on year and it was pleasing to see the sustained momentum in our recurring revenue numbers in H2 2017, following the increase we saw during H1 2017.

In North America we were pleased to renew the contract we have with our Tier 1 MNO customer. A key factor in this renewal was the enhanced robustness of our platform and our ability to offer the customer the ultimate level of platform availability at 99.999% which I touched on earlier.

We have maintained for some time that South America is a primary target region for the business and we continue our close level of engagement with the largest MNO's in Mexico, Brazil, Ecuador and Colombia. Despite the delay in translating our engagement level into significant user license numbers which has been disappointing, we are finally beginning to see real traction being achieved by our MNO partners with their end customers, particularly in Colombia where we have recently had some important customer wins. We expect ramp up in these new customers to flow through into our financial performance in 2018. We are convinced by the market dynamics for PTT over Cellular ("PTToC") in the region given the high deployment of iDEN but we are yet to see the full consequences of its redundancy phase and the anticipated migration to PTToC in substantial numbers yet. Despite this we saw that revenues attributed to the region increased 41% from the previous year from a low number in absolute terms.

We are beginning to make encouraging progress in Africa, commencing commercial roll-out with the two largest South African MNOs in the later stages of the financial year. Discussions have also commenced with one of these MNOs around launching and deploying our proposition in the wider African market. I look forward to updating you in due course on this opportunity.

In Israel we recently announced the signing of two major MNO deals. The Israeli market is currently witnessing an intense period of competition by MNOs for business customers looking to replace LMR systems with PTToC offerings. We are delighted to have been selected by two major MNO's which positions us well into a market where we expect to see significant license sales potential during this financial year.

Hardware

Towards the end of the last financial year, we commenced a project that looked at the opportunities in the handset market, whilst still recognising that we are a technology led software provider. Since PTT is the primary application needed on the device for many of our customers, including MNOs looking to sell to their business customers, we concluded that there is a bundled sales opportunity for us to offer a device with a perpetual PTT license, where we effectively play the role as reseller of the device.

The increasing number of handset manufacturers producing ruggedised devices, targeted at the PTToC market, is a leading indicator on the momentum that has started to build. We have now engaged with a number of these to embed our application at manufacture, thereby enabling us to sell a bundled solution to customers. This is especially attractive to MNOs where there are large numbers of end users migrating to a PTToC solution from LMR, where the customers are familiar with paying for an integrated hardware/software solution.

The revenue economics to the business, albeit different from our recurring revenue licence model, would be highly attractive as we would be able to capture both a margin in the sale of the device as well as from the sale of our license. We will keep you updated on progress.

Independent Solution Vendors (ISV's) and Software Integrators

Our offering to ISV's and our ability to service them as a sales channel has been greatly enhanced by both the roll out of our SDK solution as well the work we have done in bringing down the cost of a private system built around our technology. Having this capability means we now have a healthy pipeline of enterprise opportunities via ISV's and Software Integrators.

Principal risks and uncertainties

The management of the business and the nature of the Group's strategy are subject to a number of risks.

The Directors have set out below the principal risks facing the business. The Directors are of the opinion that a thorough risk management process is adopted, which involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

Product obsolescence

Due to the nature of the market in which the Group operates, products are subject to technological advances and as a result, obsolescence. The Directors are committed to the research and development strategy in place, and are confident that the Group is able to react effectively to the developments within the market.

Indirect route to market

As described above, one of the Group's primary channels to market are MNOs reselling our services to their enterprise customers. Whilst MNOs are ideally positioned to forward sell our services and are likely to possess material resources for doing so, there remains an inherent uncertainty arising from the Group's inability to exert full control over the sales and marketing strategies of these customers.

Going concern and funding

The Directors have reviewed the available cash reserves which are supported by the recent placing of new shares completed on 10 January 2018 raising £1.35m, together with continued support from our principal shareholder - Intechnology plc, who have confirmed that they will not call on existing loans and borrowings and will provide working capital support under specific scenarios, as well as cash projections for the foreseeable future and in particular for the next twelve months from the date of signing these financial statements. The review modelled a range of sensitivities concerning both the size and timing of projected revenues from both current as well as new customers. On the basis of this review, they have reasonable expectation that the Group will be able to meet its liabilities as they fall due and continue to trade for the foreseeable future. They therefore have concluded that the financial statements are appropriately prepared on a going concern basis.

Outlook

The market continues to move in a favourable direction and supports the investment we have made in our technical platform. There is an increasing appetite for companies and public agencies to explore PTToC as an alternative to their traditional radio systems. The lower cost of ownership, and enhanced functionality, are providing very compelling reasons for switching.

The Board believes the Company is very well positioned to take advantage of these market dynamics. We believe we now have the leading offering within the business-critical market and are uniquely placed to capture non-mission-critical enterprise customers seeking a lower cost solution with the superior functionality benefits that PTToC offers.

Our focus for the coming year will firmly shift towards the development of our sales channels and the monetisation of the platform. We have some excellent customers already on the platform and we are working closely with them to ensure they reach their full potential.

Approved by the Board of Directors and signed on behalf of the Board

Jeremy Fenn
Chairman
2 May 2018

Consolidated income statement
For the year ended 31 December 2017

	2017	2016
	£'000	£'000
Continuing operations		
Revenue	**2,530**	2,024
Cost of sales	**(106)**	(103)
Gross profit	**2,424**	1,921
Operating expenses		
Administrative expenses	**(4,148)**	(3,885)
Exchange differences	**135**	(642)
Exceptional items	**(54)**	(276)
Depreciation and amortisation expense	**(112)**	(203)
Total operating expenses	**(4,179)**	(5,006)
Group operating loss before exchange differences, exceptional items & depreciation and amortisation expense	**(1,724)**	(1,964)
Group operating loss	**(1,755)**	(3,085)
Finance costs	**(698)**	(640)
Loss before tax	**(2,453)**	(3,725)
Income tax credit	**852**	277
Loss for the year	**(1,601)**	(3,448)
Loss per share (pence)		
Basic and diluted	**(0.61)**	(1.39)

Consolidated statement of comprehensive income
For the year ended 31 December 2017

	2017	2016
	£'000	£'000
Loss for the year	**(1,601)**	(3,448)
Other comprehensive loss		
Item that will subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**41**	(71)
Total comprehensive loss for the year	**(1,560)**	(3,519)
Attributable to:		
Equity holders of the parent	**(1,560)**	(3,519)

Consolidated statement of changes in equity
For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Accumulated Losses £'000	Total equity £'000
Balance at 1 January 2016	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,183)**	**(29,239)**	**(11,141)**
Equity settled share-based payments	-	-	-	-	-	23	23
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**23**	**23**
Loss for the year	-	-	-	-	-	(3,448)	(3,448)
Exchange differences on translation of foreign operations	-	-	-	-	(71)	-	(71)
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**(71)**	**(3,448)**	**(3,519)**
Balance at 31 December 2016	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,254)**	**(32,664)**	**(14,637)**

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Accumulated Losses £'000	Total equity £'000
Balance at 1 January 2017	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,254)**	**(32,664)**	**(14,637)**
Equity settled share-based payments	-	-	-	-	-	45	45
Issue of share capital	476	660	-	-	-	-	1,136
Transactions with owners	**476**	**660**	**-**	**-**	**-**	**45**	**1,181**
Loss for the year	-	-	-	-	-	(1,601)	(1,601)
Exchange differences on translation of foreign operations	-	-	-	-	41	-	41
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**41**	**(1,601)**	**(1,560)**
Balance at 31 December 2017	**5,427**	**12,672**	**(7,620)**	**10,938**	**(2,213)**	**(34,220)**	**(15,016)**

Consolidated statement of financial position
As at 31 December 2017

	2017 £'000	2016 £'000
Assets		
Non-current assets		
Property, plant and equipment	**276**	294
Intangible assets	**125**	162
	401	456
Current assets		
Trade and other receivables	**1,721**	1,313
Inventories	**1**	-
Cash and cash equivalents	**732**	165
	2,454	1,478
Liabilities		
Current liabilities		
Trade and other payables	**(5,085)**	(4,719)
Borrowings	**(10,545)**	(3,667)
Net current liabilities	**(13,176)**	(6,908)
Non-current liabilities		
Trade and other payables	**(2,241)**	(2,625)
Borrowings	**-**	(5,560)
	(2,241)	(8,185)
Net liabilities	**(15,016)**	(14,637)
Equity attributable to the owners of the parent		
Share capital	**5,427**	4,951
Share premium	**12,672**	12,012
Reverse acquisition reserve	**(7,620)**	(7,620)
Merger reserve	**10,938**	10,938
Foreign currency translation reserve	**(2,213)**	(2,254)
Accumulated losses	**(34,220)**	(32,664)
Total equity	**(15,016)**	(14,637)

Consolidated statement of cash flows
For the year ended 31 December 2017

	2017 £'000	2016 £'000
Operating activities		
Cash used in operations	**(1,528)**	(1,721)
Tax received	**431**	277
Net cash used in operating activities	**(1,097)**	(1,444)
Investing activities		
Purchase of property, plant & equipment	**(80)**	(108)
Purchase of intangible assets	**-**	(81)
Net cash used in investing activities	**(80)**	(189)
Financing activities		
Issue of ordinary share capital	**1,190**	-
Share issue costs	**(54)**	-
Proceeds from borrowings	**620**	1,670
Net cash inflow from financing activities	**1,756**	1,670
Effects of exchange rates on cash and cash equivalents	**(12)**	21
Net increase in cash and cash equivalents in the year	**567**	58
Cash and cash equivalents at beginning of year	**165**	107
Cash and cash equivalents at end of year	**732**	165

1 Financial information

The financial information set out in this final results announcement does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 will be dispatched to shareholders for approval at the Annual General Meeting to be held on 12 June 2018. The statutory accounts contain an unqualified audit report, which did not include a statement under s498(2) or s498(3) of the Companies Act 2006, and will be delivered to the Registrar of Companies.

The statutory accounts for the year ended 31 December 2016 which have been delivered to the Registrar of Companies, contained an unqualified audit report and did not include a statement under s498(2) or s498(3) of the Companies Act 2006.

2 Segmental analysis

The Group presents its results in accordance with internal management reporting information to the chief operating decision maker (Board of Directors). At 31 December 2017 the Board continued to monitor operating results by category of revenue within a single operating segment, the provision of instant communication solutions. Under IFRS 8 the Group has only one operating segment. Therefore the results presented in the income statement are the same as those required under IFRS 8, save for the year end entry of IFRS 2 share option charge of £45,000 (year ended 31 December 2016: £23,000).

Revenue by category

	2017 **£'000**	2016 £'000
License fees	**1,972**	1,679
Hardware & software	**38**	22
Professional services	**319**	163
Other	**201**	160
Total	**2,530**	2,024

Revenue is reported by geographical location of customers. Non-current assets are reported by geographical location of assets.

	2017 Revenue £'000	**2017 Non-current assets £'000**	2016 Revenue £'000	2016 Non-current assets £'000
UK	**33**	**15**	62	11
Europe	**437**	**-**	418	-
North America	**1,018**	**-**	895	-
South America	**367**	**28**	261	-
Israel	**274**	**358**	76	445
Africa	**401**	**-**	312	-
Asia/Pacific	**-**	**-**	-	-
Total	**2,530**	**401**	2,024	456

Our mobile network operator customer in Canada represents £886,000 (2016: £852,000) of the total revenue of the Group.

3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £1,601,000 (2016: £3,448,000) by the weighted average number of ordinary shares in issue during the year of 263,398,121 (2016: 247,553,189).

	2017 Basic and diluted		2016 Basic and diluted	
	Loss £'000	**Loss per share pence**	Loss £'000	Loss per share pence
Loss attributable to ordinary shareholders	**(1,601)**	**(0.61)**	(3,448)	(1.39)
Adjusted basic loss per share	**(1,601)**	**(0.61)**	(3,448)	(1.39)

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options are anti-dilutive under the terms of IAS 33.

4 Notice of Annual General Meeting

The Annual General Meeting of the Company will be held at Cardale House, Cardale Court, Beckwith Head Road, Harrogate, HG3 1RY on 12 June 2018 at 9.00 a.m. The audited results for the year ended 31 December 2017 will be posted to shareholders shortly and will be available on the Company's website at www.mobiletornado.com at the same time.