Regulatory Story

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Mobile Tornado Group PLC - MBT Final Results
Released 07:01 28-Apr-2017

Mobile Tornado

RNS Number : 6262D
Mobile Tornado Group PLC
28 April 2017

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

Final results

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 2016.

Financial Highlights

- Revenue decreased by 10% to £2.02m (2015: £2.26m)
- Recurring revenues increased by 10% to £1.84m (2015: £1.68m)
- Professional service sales decreased to £0.16m (2015: £0.50m)
- Hardware and 3rd party software sales decreased to £0.02m (2015: £0.08m)
- Gross profit decreased by 9% to £1.92m (2015: £2.12m)
- Operating expenses increased by 15% to £3.89m (2015: £3.38m) - adversely impacted by the depreciation of sterling during the year
- Adjusted EBITDA* loss of £1.96m (2015: £1.26m)
- Group operating loss for the year increased to £3.09m (2015: £1.45m) - impacted by further exchange differences of £0.64m (2015: £0.07m) and exceptional items of £0.28m (2015: £nil) comprising property costs arising from our joint lease and salary and redundancy costs arising from the transition of our R&D team during the year
- Loss after tax of £3.45m (2015: £1.66m)
- Basic loss per share of 1.39p (2015: 0.69p)
- Cash at bank of £0.17m (2015: £0.11m) with net debt of £9.06m (2015: £6.81m)

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

Operating highlights

- Appointment of Avi Tooba as Chief Executive, formerly a senior director with Motorola for 30 years
- Recruitment of a new senior management team with significant sector experience
- New R&D centre opened in Ukraine to support development of new functionality and feature sets
- Enhanced technical platform delivering strong positive feedback from customers and increasing commercial engagement
- Applications roadmap developed featuring SDK and Dispatcher applications - development well advanced with launches anticipated this financial year
- Growing pipeline of high quality customer engagements driven by enhanced technical platform and applications

Jeremy Fenn, Chairman of Mobile Tornado, said: "The appointment of Avi Tooba as our Chief Executive and his subsequent recruitment of an experienced senior management team has put the business in a strong position to capitalise on the huge opportunities that exist within the instant communication market. With the emergence of 3G and now 4G, there is universal acceptance across both public and private sectors that PTT over Cellular is now a genuine alternative to traditional radio platforms."

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Financial results and key performance indicators

Total revenue for the year ended 31 December 2016 reduced by 10% to £2.02m (2015: £2.26m). Encouragingly, recurring revenue, a key performance indicator for the business, continued to increase and was up by 10% to £1.84m (2015: £1.68m). Non-recurring revenue, comprising installation fees, hardware and professional services, reduced to £0.19m (2015: £0.58m) due to the smaller number and size of new installations during the period.

Gross profit decreased to £1.92m (2015: £2.12m) as a result of the growth in higher margin recurring revenues being countered by lower professional services revenues in the year. Operating expenses increased by 15% in the year to £3.89m (2015: £3.38m) resulting from the enhancements made to our research and development staffing over the year.

Due to the annual revaluation of certain financial liabilities on the balance sheet, the Group also reported a translational loss of £0.64m (2015: £0.07m) due to the depreciation of sterling during the year. The Group received an income tax credit in respect of our qualifying investment in R&D activities of £0.28m (2015: £0.37m).

As a result of the above, the loss after tax for the year increased to £3.45m (2015: Loss £1.66m) and an increased basic loss per share of 1.39p (2015: 0.69p).

The net cash outflow from operating activities was £1.72m (2015: £1.23m). At 31 December 2016, the Group had £0.17m cash at bank (2015: £0.11m) and net debt of £9.06m (2015: £6.81m).

Results and dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016 (year ended 31 December 2015: nil). The Company currently intends to reinvest future earnings to finance the growth of the business over the near term.

Review of operations

The appointment of Avi Tooba during the period as Chief Executive has resulted in a significant acceleration in the development of our technical platform. Having held senior positions at Motorola Solutions for over 30 years, he brings enormous experience to our business. He has moved fast to strengthen our engineering teams, opening up a technical centre in Ukraine to capitalise on established talent pools that have deep experience of instant communications. At the same time, we have recruited a highly experienced technical leadership team to drive the development of the various projects.

Although operating expenses have increased to accommodate this investment in resources, we have been prudent in our approach, and by rebalancing the teams across our different geographical locations, have managed to restrict the cost increase compared to the prior year to 15%. Of this, in excess of 50% was caused by the decline in the value of sterling over the year since the majority of our overheads are denominated in foreign currency.

The primary focus of the technical team has been to ensure that our services can be deployed more effectively to customers across the world. The server platform has been enhanced to deliver more capacity for customers, creating a far better return on investment. A further development has enabled customers to install our software onto virtual servers, eliminating the need for expensive hardware investment within their own data centres. These improvements have been well received by our existing customers.

The next cycle of development is to introduce certain new products to the market. During the year, we commenced work on a new Software Development Kit (SDK), an application that allows customers to integrate our instant communication solutions into their own products quickly and easily. Given the huge industry that has developed around workforce management, the market opportunity for our SDK is substantial. We have commenced trials with a number of businesses that are interested to introduce instant communication functionality to their existing workforce management applications.

We also committed to the development of a new Dispatch Console towards the end of last year, and are expecting to make a full commercial launch in July 2017. This console will be a significant step forward with major advances in functionality and feature sets, allowing companies with large workforces to manage their operations more effectively. A number of customers are currently running beta trials prior to a full commercial launch in the third quarter of this financial year. We are confident that this product will open up new potential markets and generate incremental revenue streams.

Mobile network operators ('MNOs')

Although revenues overall were down year on year, it was pleasing to see recurring revenues increase by 10% compared to the previous year. This increase was driven by our MNO customers in the Americas, offset in part by a decline in South Africa caused by the renegotiation of our exclusive agreement in the first half of the year. The exclusivity payments have been reduced to facilitate investment in the launch of services with the three leading MNOs in the territory. Whilst there have been some delays in the roll out of services, I'm pleased to report that the two largest MNOs are in the process of launching full services during the second quarter of this year.

South America continues to be the primary opportunity for growth over the coming years. Our engagement with MNOs in Mexico, Brazil, Equador and Colombia has continued. Many of the technical developments outlined above have been tailored to requirements in these markets, and it is encouraging that we are beginning to see early signs that the market opportunity we have been aware of for some time may be starting to gather momentum.

As we have previously highlighted, the iDEN Push To Talk (PTT) platform, which was widely deployed in South America, has reached the end of its life. It's anticipated that many of these customers will look to switch their instant communication requirements to PTT over cellular. We are working hard with our existing customers to ensure they are well placed to capitalise on the opportunity. I am hopeful that as our solution gains traction in the market, providing evidence that it represents a robust and high quality alternative to iDEN, then new customers will also be attracted to our solution.

Our activities in mainland Europe remained stable during the period, with flat revenues compared to the previous year. The technical developments and new product initiatives have started to generate interest from MNOs in a number of countries and in response we are seeking to strengthen our business development resource across this region during the current year.

Activity in Israel accelerated during the period with our exclusive partner launching services with one of the leading MNOs. A number of major corporate customers have been trialling the service and I am pleased to see that these trials are turning into full commercial contracts. We anticipate good momentum in this market during the current financial year.

Independent Solution Vendors (ISVs)

As detailed above, we have significantly enhanced our SDK, allowing ISVs and their customers to incorporate PTT functionality into their applications. We are very confident that this channel to market will become more important to the business as it allows us to deploy our solution to the market with little or no incremental cost. The feedback from early trials of the SDK are very promising and I look forward to developing this channel over the coming year.

Hardware manufacturers

It is essential that our solution operates across a wide selection of rugged handset and accessories. We have certified a number of new 3G and 4G devices for operation on our systems, enhancing our proposition to our partners and customers.

Public sector

We have continued to work on a number of significant projects within the public sector. As we have highlighted in the past, the commercial nature of these deals is such that, rather than payment of a regular monthly license fee, the customer pays an upfront capital sum for the right to use our platform for a fixed period of time. Given that the size of these deals can be significant, the trials and negotiations can take place over an extended period of time. This process can obviously take some time given the value and complexities of the opportunities, but given the technical advances we have made over the last 12 months, and the increasing number of tenders we are being asked to participate in, we hope to win our first public sector deal in the short-medium term.

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 Company announced today the launch of a placing of up to 24.5m million shares at 5.0p to raise a total of approximately £1.2m. The Directors are subscribing for 12,000,000 shares. The net proceeds of the placing will be used to fund the working capital requirements of the Company.

The Directors are therefore satisfied that the Group and Company have adequate resources to enable them to continue in business for the foreseeable future, which also takes into consideration its contracted revenues, anticipated contracts as well as a written undertaking from the Directors to meet any shortfall in those funds to be raised in the above placing.

Outlook

The appointment of Avi Tooba as our Chief Executive and his subsequent recruitment of an experienced senior management team has put the business in a strong position to capitalise on the huge opportunities that exist within the instant communication market. With the emergence of 3G and now 4G, there is universal acceptance across both public and private sectors that PTT over Cellular is now a genuine alternative to traditional radio platforms. Our new executive management team, with their experience and background, are able to engage at the highest levels with these organisations and bring unique perspective on the technical requirements of customers as they transition to the new platforms.

With a renewed sense of confidence around the quality of our platform and software applications, it is our intention to deliver the fastest and most robust PTT over Cellular proposition in the marketplace. Given our heritage, we are one of the only providers that is able to provide a seamless interface across 2G, 3G and 4G. As the market for PTT over LTE increases in coming years, we believe our ability to offer MNOs with legacy customers on the old platforms a seamless service and transition to the new, will place us in a unique position. The introduction of new products and services over coming months will further demonstrate the strength we now have across the business.

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

Jeremy Fenn
Chairman
28 April 2017

Consolidated income statement
For the year ended 31 December 2016

	2016 £'000	2015 £'000
Continuing operations		
Revenue	**2,024**	2,259
Cost of sales	**(103)**	(137)
Gross profit	**1,921**	2,122
Operating expenses		
Administrative expenses	**(3,885)**	(3,384)
Group operating loss before exchange differences, exceptional items & depreciation and amortisation expense	**(1,964)**	(1,262)
Exchange differences	**(642)**	(68)
Exceptional items	**(276)**	-
Depreciation and amortisation expense	**(203)**	(115)
Total operating expenses	**(5,006)**	(3,567)
Group operating loss	**(3,085)**	(1,445)
Finance costs	**(640)**	(586)
Loss before tax	**(3,725)**	(2,031)

Income tax credit	**277**	371
Loss for the year	**(3,448)**	(1,660)
Loss per share (pence)		
Basic and diluted	**(1.39)**	(0.69)

Consolidated statement of comprehensive income
For the year ended 31 December 2016

	2016 £'000	2015 £'000
Loss for the year	**(3,448)**	(1,660)
Other comprehensive loss		
Item that will subsequently be reclassified to profit or loss: Exchange differences on translation of foreign operations	**(71)**	(19)
Total comprehensive loss for the year	**(3,519)**	(1,679)
Attributable to:		
Equity holders of the parent	**(3,519)**	(1,679)

Consolidated statement of changes in equity
For the year ended 31 December 2016

	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 2015	**4,501**	**11,225**	**(7,620)**	**10,938**	**(2,164)**	**(27,592)**	**(10,712)**
Equity settled share-based payments	-	-	-	-	-	13	13
Issue of share capital	450	787	-	-	-	-	1,237
Transactions with owners	**450**	**787**	**-**	-	**-**	**13**	**1,250**
Loss for the year	-	-	-	-	-	(1,660)	(1,660)
Exchange differences on translation of foreign operations	-	-	-	-	(19)	-	(19)
Total comprehensive loss for the year	-	-	-	-	**(19)**	**(1,660)**	**(1,679)**
Balance at 31 December 2015	**4,951**	**12,012**	**(7,620)**	**10,938**	**(2,183)**	**(29,239)**	**(11,141)**

	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)**		**(2,183)**	**(29,239)**	

				10,938			**(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)**

Consolidated statement of financial position
As at 31 December 2016

	2016	2015
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	**294**	315
Intangible assets	**162**	107
	456	422
Current assets		
Trade and other receivables	**1,313**	1,268
Inventories	-	28
Cash and cash equivalents	**165**	107
	1,478	1,403
Liabilities		
Current liabilities		
Trade and other payables	**(4,719)**	(3,535)
Borrowings	**(3,667)**	(1,380)
Net current liabilities	**(6,908)**	(3,512)
Non-current liabilities		
Trade and other payables	**(2,625)**	(2,514)
Borrowings	**(5,560)**	(5,537)
	(8,185)	(8,051)
Net liabilities	**(14,637)**	(11,141)
Equity attributable to the owners of the parent		
Share capital	**4,951**	4,951
Share premium	**12,012**	12,012
Reverse acquisition reserve	**(7,620)**	(7,620)
Merger reserve	**10,938**	10,938
Foreign currency translation reserve	**(2,254)**	(2,183)
Accumulated losses	**(32,664)**	(29,239)
Total equity	**(14,637)**	(11,141)

Consolidated statement of cash flows
For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Operating activities		
Cash used in operations		

	(1,721)	(1,233)
Tax received	**277**	371
Net cash used in operating activities	**(1,444)**	(862)
Investing activities		
Purchase of property, plant & equipment	**(108)**	(206)
Purchase of intangible assets	**(81)**	(107)
Net cash used in investing activities	**(189)**	(313)
Financing activities		
Issue of ordinary share capital	**-**	1,350
Share issue costs	**-**	(113)
Proceeds from borrowings	**1,670**	-
Net cash inflow from financing activities	**1,670**	1,237
Effects of exchange rates on cash and cash equivalents	**21**	4
Net increase in cash and cash equivalents in the year	**58**	66
Cash and cash equivalents at beginning of year	**107**	41
Cash and cash equivalents at end of year	**165**	107

1 Financial information

The financial information set out in this final results announcement does not constitute statutory accounts within the meaning of s495(2) or s495(3) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 will be dispatched to shareholders for approval at the Annual General Meeting to be held on 6 June 2017. 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 2015 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 2016 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 £23,000 (year ended 31 December 2015: £13,000).

Revenue by category

	2016 £'000	2015 £'000
License fees	**1,679**	1,279
Hardware & software	**22**	81
Professional services	**163**	499
Other	**160**	400
Total	**2,024**	2,259

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

	2016 Revenue £'000	**2016 Non-current assets £'000**	2015 Revenue £'000	2015 Non-current assets £'000
UK	**62**	**11**	125	11
Europe	**418**	**-**	476	-
North America	**895**	**-**	764	15

South America	**261**	**-**	271	-
Israel	**76**	**445**	105	396
Africa	**312**	**-**	483	-
Asia/Pacific	**-**	**-**	35	-
Total	**2,024**	**456**	2,259	422

Our mobile network operator customer in Canada represents £852,000 (2015: £729,000) 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 £3,448,000 (2015: £1,660,000) by the weighted average number of ordinary shares in issue during the year of 247,553,189 (2015: 240,710,723).

	2016		2015	
	Basic and diluted		Basic and diluted	
	Loss	**Loss per share**	Loss	Loss per share
	£'000	**pence**	£'000	pence
Loss attributable to ordinary shareholders	**(3,448)**	**(1.39)**	(1,660)	(0.69)
Adjusted basic loss per share	**(3,448)**	**(1.39)**	(1,660)	(0.69)

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 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 6 June 2017 at 9.00 a.m. The audited results for the year ended 31 December 2016 will be posted to shareholders shortly and will be available on the Company's website at www.mobiletornado.com at the same time.

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