

17 September 2018

RESTORE PLC

Half Year Results 2018

Restore plc (“Restore” or “the Group”), the UK office services provider, announces its unaudited half year results for the six month period ended 30 June 2018.

Financial Highlights:

ADJUSTED RESULTS – Continuing operations	HY 2018	HY 2017	% Change
Revenue (£m)	95.1	86.9	9%
EBITDA (£m)*	22.1	19.5	13%
Operating profit (£m)*	18.9	16.5	15%
Profit before tax (£m) *	17.3	15.3	13%
Earnings per share**	12.0	10.9	10%
Dividend per share (p)	2.0	1.67	20%
Net debt (£m)	115.4	76.9	

* Before amortisation of intangible assets, exceptional items and share-based payments charge

** Calculated based on the weighted average shares in issue and a standard tax charge

STATUTORY RESULTS – Continuing operations	HY 2018	HY 2017
Operating profit (£m)	10.9	1.3
Profit before tax (£m)	9.3	0.1
Basic earnings per share (p)	6.2	0.0

Summary:

- Group revenue up 9% to £95.1m
- Group adjusted profit before tax up 13% to £17.3m
- Adjusted basic earnings per share up 10% to 12.0p
- Document Management revenue up 8% to £69.9m; operating profit up 11% to £17.6m
 - Restore Datashred benefit from increased GDPR-related activity in second quarter
- Relocations revenue up 14% to £25.2m; operating profit up 35% to £2.7m
 - Improvement in operating margin from increased operational efficiency
- Good initial contribution from TNT Business Solutions; integration programme now underway
- Interim dividend per share up 20% to 2.0p

Commenting on the results Charles Skinner, Chief Executive, said:

“We are pleased to report another strong first-half performance, particularly in light of the demanding comparator set by our growth in the prior year period.

TNT Business Solutions, whose acquisition we completed in May, has performed in line with expectations and its full integration into the Group is now underway. We remain focused on realising our targeted operational synergies and the longer-term opportunities that the business provides to expand our presence in the UK public sector, where many entities still undertake records management in-house.

We will continue to pursue our strategy of organic and acquisitive growth and we are well positioned to gain further market share across all of our businesses.

The Board’s expectations for the full year remain unchanged.”

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CHIEF EXECUTIVE'S REVIEW

SUMMARY

I'm pleased to report a strong performance in the first half of 2018. Adjusted earnings per share growth of 10% was highly satisfactory given the strength of the comparative period in 2017, when year-on-year growth was 38%. Revenues were £95.1m (2017: £86.9m) with adjusted profit before tax increasing to £17.3m (2017: £15.3m). Statutory profit before tax was £9.3m (2017: £0.1m).

During the period, our Document Management division delivered adjusted operating profit of £17.6m (2017: £15.8m) on turnover of £69.9m (2017: £64.8m). The core records management business continued to account for the majority of this, with secure revenues and good margins, including a healthy contribution for two months from the records management activities of TNT Business Solutions ("TNT BS"). Restore Datashred, our shredding business, faced a very strong comparator period and underperformed against budget for the early months of the year, but finished the period well, partly due to increased GDPR-related activity, with operating margins moving up closer to our medium-term aspirations. Restore Digital, whose primary activity is document scanning, performed well in the period and successfully executed its major seasonal contract scanning exam papers.

Our Relocations division delivered adjusted operating profit of £2.7m (2017: £2.0m) on turnover of £25.2m (2017: £22.1m) in what is its seasonally weaker half. Restore Harrow Green, our office relocation business which accounts for the majority of the division's activities, traded comfortably ahead of the previous year. Restore Technology, which comprises our IT Lifecycle Services, IT Relocation and Printer Cartridge Recycling businesses, continued to perform well overall.

In May we acquired the business and assets of TNT BS for £88.0m, funded through a £51.5m equity issue and new debt facilities. The business has a particularly strong public sector base, which is expected to enhance our position within the public sector in both records management and our other activities, and two significant freehold sites. Immediately following the acquisition, the Competition and Markets Authority served an Initial Enforcement Order on us which meant that we weren't able to integrate the business into our existing operations, thereby delaying the realisation of some of the operational synergies we expect to generate. The enforcement order was removed in July and the investigation was closed in August. Accordingly, we have now embarked upon our integration programme. The business has performed well since acquisition and in line with management expectations.

We made three small scanning acquisitions during the period, the largest of which was ORS, a scanning bureau in Hampshire acquired in June.

Whilst our Group is structured so that the individual businesses have the power and responsibility to operate autonomously, a key strength of the Group is that all of our businesses share a similar customer base. A key factor in the development of the Group has been maintaining the same customer relationship management system for all of our businesses to ensure that our full range of services are offered to all existing and potential customers. This means we can generate significantly more sales opportunities and build closer relationships with our customers. As part of this we undertook a major rebranding exercise during the period whereby all of our operations are now immediately recognisable as being part of the Restore group. This further consolidates our position as a coherent business and an increasing force in UK office services.

RESULTS

Adjusted operating profit for the six months to 30 June 2018 was £18.9m (2017: £16.5m). Adjusted profit before tax was £17.3m (2017: £15.3m) on sales of £95.1m (2017: £86.9m). Adjusted earnings per share for the period were 12.0p (2017: 10.9p).

On an unadjusted basis, operating profit was £10.9m (2017: £1.3m) and profit before tax was £9.3m (2017: £0.1m). Unadjusted earnings per share were 6.2p (2017: 0.0p). Exceptional items in the period were £4.3m, of which £2.0m related to costs on the TNT BS acquisition, including £1.0m of Stamp Duty. There were £1.7m of restructuring costs primarily related to acquisitions made in 2017 and 2018, but

also including costs related to the vacant former PHS DS site in Leyton which has now been re-let. The other element of exceptional costs was National Insurance on share option exercises totalling £0.6m.

DOCUMENT MANAGEMENT

Our Document Management division comprises Restore Records Management, Restore Datashred and Restore Digital.

For the period the division achieved an operating profit of £17.6m (2017: £15.8m) on turnover of £69.9m (2017: £64.8m).

Restore Records Management – Revenue £38.8m (2017: £34.3m)

Restore Records Management, our core records management business, continued to trade well. With the recently acquired TNT BS assets, the number of boxes stored by the Group is now approaching 20 million. Records management continues to be the bedrock of the Group with very solid earnings visibility and continuing organic growth in revenues and profit. In the period, there was an increase in destruction activity related to the introduction of GDPR legislation, combined with a delay in the intake of some major new contracts, such that overall net box growth was flat. Looking ahead, we continue to expect net box growth from our existing customer base, with storage rates increasing. We also expect to generate growth from new business wins, particularly in the public sector where many entities still undertake records management in-house.

We continue to develop our estate to maximise storage cost efficiency. We have developed additional space in our freehold site outside Bath. We have also taken long leases on more hardened aircraft shelters at our site in Oxfordshire. We will shortly start work on a major building project at our site at Rainham where we will increase capacity significantly; this will accommodate future growth as well as providing lower cost space to replace more expensive sites as their leases expire. With the acquisition of two major freehold sites as part of the TNT BS transaction, our scope to create more space at existing facilities is further enhanced. An example of current property rationalisation is our surrender this month of our lease on a large site in Motherwell: all of its contents have been transferred to our other sites in Scotland so that occupancy rates are now optimal and operating margins have sharply improved.

Much of our operational focus is now on the integration of the TNT BS acquisition. Two of the three main sites, both in the Midlands, are predominantly focused on public sector work, including a major contract with the Ministry of Defence. These sites are specifically configured for the specialist work they undertake and there is limited need for integration; we intend to focus this part of the business on growing our public sector activities where we see significant long-term opportunities. The other main site is on the same estate in Essex as another of our large facilities and is currently being integrated into our South East operations, thereby generating operational synergies. The leases on the two other smaller sites which formed part of the acquisition expire over the next two years and will not be renewed, leading to further efficiencies. We believe that the TNT BS acquisition is an excellent strategic fit with our business and can also be expected to generate a strong return on invested capital. It traded in line with expectations in the two months in the period under our ownership.

Our records management business combines steady revenue growth with opportunities to increase margins through increased efficiencies. This produces a highly visible, steadily growing earnings stream. We are continually looking for ways to grow this business further and remain focused on demonstrating to potential clients in the public sector the merits of outsourcing their requirements. As the largest of our businesses, our records management division also plays an important role in working closely with our other businesses to generate sales opportunities from our Group-wide customer base.

Restore Datashred – Revenue £20.8m (2017: £19.6m)

Restore Datashred, our secure shredding and recycling business, started the period weakly but showed significant improvement in the later months of the period. Most of the business comprises the shredding business acquired as part of the acquisition of PHS DS two years ago. In 2017 we embarked on the major project of moving the IT systems away from its previous owner. This involved introducing a new operating system and creating a new back office. Such an operation is never without risk and it

undoubtedly impacted the business's performance in the second half of 2017 and the opening months of 2018. The period under review was also impacted by the heavy snow at the end of the winter; this is an operationally geared business and the lost revenue from the snow-affected days dropped through to the bottom line. But the performance towards the end of the period was encouraging, with revenues showing solid organic growth, partly due to increased GDPR-related activity, and a reduction in costs.

We have recently commissioned our new site at Crayford, South East London, replacing an aged and ill-configured facility that had become unsuited to the high volumes it was servicing. The new facility is the largest dedicated confidential shredding centre in Europe with a dual-line design capable of shredding 30 tonnes per hour. While this expansion has increased Restore Datashred's operating costs, we expect its increased operational efficiencies to benefit operating margins in the longer term. We have also relocated our site in Livingston, Scotland, to a more modern facility and are in the process of closing our site in Telford and moving its operations to our sites in Manchester and Rugby.

Restore Datashred can be expected to continue to benefit from greater awareness generated by GDPR of the need to securely destroy paper records. It is increasingly well placed to take advantage of its strong market position as one of the main operators in an attractive market where scale brings significant benefits. We have recently slowed our acquisition activities in shredding as we address some of the operational issues relating to the change in IT systems, but we expect to take advantage of opportunities to consolidate what remains a fragmented market. We believe the business is well-positioned for a period of strong growth and improving margins.

Restore Digital – Revenue £10.3m (2017: £10.9m)

Restore Digital, our digitisation business whose primary activity is scanning, produced an increase in year-on-year profit despite lower revenues. Over the last two years we have focused strongly on the operational performance of the business, including the development of our flagship branch at Manchester. Our operating margins at our main scanning bureaux have increased and we are now focusing on generating increased revenues to channel through these facilities.

Restore Digital has several business streams in addition to conventional scanning bureau activity. These include our major exam scanning contract where we are in the first year of the renewed 5-year contract. The major seasonal activity under this contract, scanning GCSE and A level exams, was successfully and profitably executed in May and June. Other major contracts include our work for the Nuclear Decommissioning Authority and several major projects with NHS Trusts where we are typically digitising patients records over a number of years. Our management consultancy activities traded strongly in the period and our hosting and support activities continue to generate very stable revenue streams.

During the period we made two small acquisitions of scanning businesses, both of whose activities were immediately integrated into our existing operations. We also acquired ORS, a Southampton-based scanning bureau, which provides us with an additional scanning facility.

RELOCATIONS

Our Relocations division comprises Restore Harrow Green, the UK market leader in office relocation, and three businesses trading under the Restore Technology banner. IT Lifecycle Services recycles IT equipment safely and securely and is increasingly involved in the full lifecycle of IT hardware. IT Relocation specialises in server and data centre relocation, as well as IT moves, equipment installation and deployment. Printer Cartridge Recycling is the UK's leading collector of empty toner cartridges which are subsequently sold on in bulk to refillers and original equipment manufacturers worldwide.

During the period, which is the seasonally weaker half of the year for Restore Harrow Green, the division recorded an operating profit of £2.7m (2017: £2.0m) on turnover of £25.2m (2017: £22.1m). Organic growth across the division was strong.

Restore Harrow Green – Revenue £17.6m (2017: £15.8m)

Restore Harrow Green traded well with steady growth in both London and in the regional branches. There were no particularly significant one-off moves during the period but demand from our regular

large customers remained strong. Our new facility in East London has significantly helped our operational efficiency and contributed to our improvement in operating margins.

Restore Technology – Revenue £7.6m (2017: £6.3m)

IT Lifecycle Services continued to perform well. We are increasingly involved in the entire lifecycle of IT assets, including configuration and deployment, as well as moving and support, through to final disposal. This is a fast-growing niche and we have recently moved into a new facility in Bedford which significantly enhances our capacity and operational efficiency. Our IT Relocation business continued to perform steadily. It is working more closely with IT Lifecycle Services. Our Printer Cartridge Recycling business continues to struggle and is focused on leveraging the Restore group customer base, the majority of whom produce empty toner cartridges.

GROUP

Central costs for the period were £1.4m (2017: £1.3m), representing 1.5% (2017: 1.5%) of Group revenues.

STATEMENT OF FINANCIAL POSITION

Net bank debt on 30 June 2018 was £115.4m (30 June 2017: £76.9m). The year on year increase is a result of M&A activity with the largest being TNT BS which completed on 1 May 2018 and was funded by a combination of debt and a £51.5m equity placing before expenses. Smaller acquisitions have been funded by the Group's debt facilities. Property, plant and equipment has increased largely due to the addition of the two freehold properties acquired with TNT BS. Current assets and current liabilities, excluding cash, financial liabilities and tax, have both increased year on year due to the increased scale of the business as a result of acquisitions, most notably TNT BS. The financial position of the Group remains robust. The Group remains comfortable in its ability to service its financial obligations and leverage at 30 June 2018 was 2.3x pro forma adjusted EBITDA.

CASH FLOW

Net cash generated from operations was £10.6m (2017: £3.1m). The year on year increase was largely driven by the increase in profitability helped by the significant reduction in exceptional costs. The working capital outflow of £7.2m has primarily been driven by two factors. Firstly, funding the working capital requirement for TNT BS as the working capital did not transfer as part of the transaction. The working capital required was higher than expected due to the delayed integration as a result of the Initial Enforcement Order issued by the Competition and Markets Authority which had a knock-on effect on customer billing timetables. Secondly, the seasonal impact of increased trading days in June 2018 versus December 2017 and the large exam scanning contract mean that additional working capital levels are required in the first six months of the year. Capital expenditure totalled £5.2m (2017: £2.3m) compared to depreciation of £3.2m (2017: £3.0m). The first six months of 2018 has seen investment in our Datashred and IT Lifecycle Services facilities. Net bank interest paid amounted to £0.9m (2017: £1.1m) and tax paid totalled £2.0m (2017: £1.4m).

BANK FACILITIES

As part of the acquisition of TNT BS the Group extended its bank facilities. This included the extension of the banking syndicate from two to four banks. The enlarged facilities continue to November 2022 and consist of a single £160m RCF facility. In addition there is a £30m uncommitted accordion facility. These facilities provide the Group with adequate capital to continue to support its growth strategy.

DIVIDENDS

The Board has declared an interim dividend of 2.0p per share (2017: 1.67p), a 20% year-on-year increase. The interim dividend will be paid on 9 November 2018 to shareholders on the register on 5 October 2018. The Company paid its first interim dividend in 2012 of 0.4p and the increased interim dividend is in line with the Board's intention to follow a progressive dividend policy.

PEOPLE

We firmly believe that power and responsibility should be locked together and driven as far down the business as possible. We remain committed to this principle and it is unaffected by now having over two thousand people working in the Group. This relies on our people being prepared to take on responsibility; it is their dynamism and commitment which will drive the business forward. I thank them for their energy, professionalism and effectiveness which has achieved so much for Restore and its shareholders. I look forward to them continuing to benefit from the Group's success.

OUTLOOK

We will continue to pursue our strategy of organic and acquisitive growth and we are well positioned to gain further market share across all of our businesses.

The Board's expectations for the full year remain unchanged.

Charles Skinner
Chief Executive

17 September 2018

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Note	Unaudited six months ended 30 June 2018 £'m	Unaudited six months ended 30 June 2017 £'m	Audited year ended 31 December 2017 £'m
Revenue	2	95.1	86.9	176.2
Cost of sales		(55.5)	(50.8)	(108.9)
Gross profit		39.6	36.1	67.3
Administrative expenses		(21.2)	(19.9)	(34.2)
Amortisation of intangible assets	7	(3.2)	(3.0)	(5.4)
Exceptional items	2	(4.3)	(11.9)	(15.5)
Operating profit	2	10.9	1.3	12.2
Finance costs		(1.6)	(1.2)	(2.5)
Profit before tax		9.3	0.1	9.7
Income tax charge	3	(2.1)	(0.1)	(1.9)
Profit and total comprehensive income for the period from continuing operations		7.2	-	7.8
Profit attributable to owners of the parent		7.2	-	7.8
Earnings per share attributable to owners of the parent (pence)				
Total and continuing operations				
- Basic	4	6.2p	0.0p	6.9p
- Diluted	4	6.0p	0.0p	6.7p

The reconciliation between the statutory results shown above and the non-GAAP adjusted measures are shown below:

	Note	Unaudited six months ended 30 June 2018 £'m	Unaudited six months ended 30 June 2017 £'m	Audited year ended 31 December 2017 £'m
Operating profit		10.9	1.3	12.2
Adjustments for:				
Amortisation of intangible assets	4	3.2	3.0	5.4
Exceptional items	4	4.3	11.9	15.5
Share-based payments charge	4	0.5	0.3	0.6
Adjustments		8.0	15.2	21.5
Adjusted operating profit		18.9	16.5	33.7
Depreciation of property, plant and equipment	7	3.2	3.0	6.0
Earnings before interest, taxation, depreciation, amortisation and exceptional items (EBITDA)		22.1	19.5	39.7
Profit before tax		9.3	0.1	9.7
Adjustments		8.0	15.2	21.5
Adjusted profit before tax		17.3	15.3	31.2

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	Note	Unaudited 30 June 2018 £'m	Unaudited 30 June 2017 £'m	Audited 31 December 2017 £'m
Assets				
Non-current assets				
Intangible assets	8	258.2	191.0	193.9
Property, plant and equipment		70.2	46.8	46.1
Deferred tax asset		3.5	3.0	3.9
		331.9	240.8	243.9
Current assets				
Inventories		1.8	1.7	2.0
Trade and other receivables		53.5	43.9	43.4
Cash and cash equivalents	9	15.7	15.4	10.7
		71.0	61.0	56.1
Total assets		402.9	301.8	300.0
Liabilities				
Current liabilities				
Trade and other payables		(41.5)	(39.6)	(33.5)
Financial liabilities - borrowings	9	-	(6.9)	(9.4)
Other financial liabilities		(0.1)	(0.2)	(0.1)
Current tax liabilities		(1.0)	(0.2)	(0.9)
Provisions		(1.2)	(0.9)	(1.5)
		(43.8)	(47.8)	(45.4)
Non-current liabilities				
Financial liabilities - borrowings	9	(131.1)	(85.4)	(79.5)
Other long term liabilities		(0.1)	(0.1)	(0.1)
Other financial liabilities		(0.2)	(0.2)	(0.2)
Deferred tax liabilities		(13.4)	(13.3)	(13.3)
Provisions		(5.4)	(6.5)	(5.6)
		(150.2)	(105.5)	(98.7)
Total liabilities		(194.0)	(153.3)	(144.1)
Net assets		208.9	148.5	155.9
Equity				
Share capital		6.1	5.6	5.6
Share premium account		150.4	100.9	100.9
Other reserves		2.8	1.8	3.2
Retained earnings		49.6	40.2	46.2
Equity attributable to owners of parent		208.9	148.5	155.9

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2017	5.6	100.9	2.4	43.2	152.1
Profit for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Transactions with owners					
Dividends	-	-	-	(3.0)	(3.0)
Transfers	-	-	(0.3)	0.3	-
Share-based payments charge	-	-	0.3	-	0.3
Cash settlement of EIP options	-	-	(0.8)	-	(0.8)
Deferred tax on share-based payments	-	-	0.2	-	0.2
Negative equity in minority interest	-	-	-	(0.3)	(0.3)
Balance at 30 June 2017 (unaudited)	5.6	100.9	1.8	40.2	148.5
Balance at 1 July 2017	5.6	100.9	1.8	40.2	148.5
Profit for the period	-	-	-	7.8	7.8
Total comprehensive income for the period	-	-	-	7.8	7.8
Transactions with owners					
Dividends	-	-	-	(1.9)	(1.9)
Transfers	-	-	(0.1)	0.1	-
Share-based payments charge	-	-	0.3	-	0.3
Deferred tax on share-based payments	-	-	1.2	-	1.2
Balance at 31 December 2017 (audited)	5.6	100.9	3.2	46.2	155.9
Balance at 1 January 2018	5.6	100.9	3.2	46.2	155.9
Profit for the period	-	-	-	7.2	7.2
Total comprehensive income for the period	-	-	-	7.2	7.2
Transactions with owners					
Issue of shares during the year	0.5	51.0	-	-	51.5
Issue costs	-	(1.5)	-	-	(1.5)
Dividends	-	-	-	(4.1)	(4.1)
Transfers	-	-	(0.3)	0.3	-
Share-based payments charge	-	-	0.5	-	0.5
Deferred tax on share-based payments	-	-	(0.6)	-	(0.6)
Balance at 30 June 2018 (unaudited)	6.1	150.4	2.8	49.6	208.9

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Note	Unaudited six months ended 30 June 2018 £'m	Unaudited six months ended 30 June 2017 £'m	Audited year ended 31 December 2017 £'m
Net cash generated from operations	7	10.6	3.1	15.7
Net finance costs		(0.9)	(1.1)	(2.2)
Income taxes paid		(2.0)	(1.4)	(2.5)
Net cash generated from operating activities		7.7	0.6	11.0
Cash flows from investing activities				
Purchases of property, plant and equipment and applications software	2	(5.2)	(2.3)	(5.3)
Purchase of subsidiary, net of cash acquired	6	(1.4)	(2.0)	(5.6)
Purchase of trade and assets		(88.3)	(0.8)	(1.5)
Proceeds from sale of available for sale assets		-	-	0.1
Cash flows used in investing activities		(94.9)	(5.1)	(12.3)
Cash flows from financing activities				
Proceeds from share issues		50.0	-	-
Dividends paid		-	-	(4.9)
Repayment of bank borrowings		(2.3)	(3.0)	(7.3)
Drawdown/(repayment) of revolving credit facility		1.0	-	(9.0)
New bank loans raised		44.0	10.0	20.0
Finance lease repayments		(0.1)	-	(0.1)
Net cash generated/(used) in financing activities		92.6	7.0	(1.3)
Net increase in cash and cash equivalents		5.4	2.5	(2.6)
Cash and cash equivalents at start of period		10.3	12.9	12.9
Cash and cash equivalents at the end of period	9	15.7	15.4	10.3
Cash and cash equivalents shown above comprise:				
Cash at bank		15.7	15.4	10.7
Bank overdraft		-	-	(0.4)
		15.7	15.4	10.3

Notes to the Consolidated Interim report

For the six months ended 30 June 2018

1 Basis of preparation

The condensed consolidated interim financial information for the six month period ended 30 June 2018 was approved by the Board of Directors and authorised for issue on 17 September 2018. The disclosed figures are not statutory accounts in terms of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017, on which the auditors gave an audit report which was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006, have been filed with the Registrar of Companies. The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union.

This half-yearly report has been prepared on a basis consistent with the accounting policies expected to be applied for the year ended 31 December 2018, and uses the same accounting policies and methods of computation applied for the year ended 31 December 2017, except in relation to the adoption of IFRS 15 'Revenue from Customers' and IFRS 9 'Financial Instruments', effective 1 January 2018. The adoption of these standards has not lead to any changes in the interim financial statements.

IFRS 16 'Leases' was issued in January 2016. The Group will apply the standard from 1 January 2019 and will transition to IFRS 16 with the modified retrospective approach and prior year figures will not be adjusted.

As shown in note 30 of the 2017 Annual Report, the Group had £143.9m of non-cancellable operating lease commitments. It is expected that the application of this standard will have a material impact on the Group's Financial Statements to bring these obligations and associated assets onto the Statement of Financial Position. The Group is currently finalising its assessment of this.

IFRS 16 requires lessees to adopt a uniform approach to the presentation of leases, assets must be recognised for the right of use received and liabilities must be recognised for the discounted payment obligations entered into for all leases. The Group will make use of the relief options provided for leases of low-value assets and short-term leases (shorter than 12 months). For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability will be recognised at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The right of use asset will generally be measured at the amount of the lease liability plus initial direct costs. Net debt will rise accordingly due to the material increase in lease liabilities. Depreciation charges on right of use assets and the interest expense from unwinding of the discount on the lease liabilities will be recognised. The change in presentation of operating lease expenses will result in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these half-yearly financial statements.

2 Segmental information

The Group is organised into two main operating segments, Document Management and Relocation, and incurs Head Office costs. Services per segment operate as described in the Chief Executive's review. The main segmental profit measure is adjusted operating profit and is shown before exceptional items, share-based payments charge and amortisation of intangible assets. The vast majority of trading of the Group is undertaken within the United Kingdom. Segment assets include intangibles, property, plant and equipment, inventories, receivables and operating cash. Central assets include deferred tax and Head Office assets. Segment liabilities comprise operating liabilities. Central liabilities include income tax and deferred tax, corporate borrowings and head office liabilities. Capital expenditure comprises additions to computer software, property, plant and equipment and includes additions resulting from acquisitions through business combinations. Segment assets and liabilities are allocated between segments on an actual basis.

REVENUE

The revenue from external customers was derived from the Group's principal activities primarily in the UK (where the Company is domiciled) as follows:

Unaudited six months ended 30 June 2018				
	Document Management £'m	Relocation £'m	Head Office £'m	Total £'m
Revenue	69.9	25.2	-	95.1
Segment adjusted operating profit/(loss)	17.6	2.7	(1.4)	18.9
Amortisation of intangible assets				(3.2)
Exceptional items				(4.3)
Share-based payments charge				(0.5)
Operating profit				10.9
Finance costs				(1.6)
Profit before tax				9.3
Tax charge				(2.1)
Profit after tax				7.2
Segment assets	348.6	48.5	5.8	402.9
Segment liabilities	38.6	11.6	143.8	194.0
Capital expenditure	4.7	0.5	-	5.2
Depreciation and amortisation	3.4	3.0	-	6.4

Unaudited six months ended 30 June 2017				
	Document Management £'m	Relocation £'m	Head Office £'m	Total £'m
Revenue	64.8	22.1	-	86.9
Segment adjusted operating profit/(loss)	15.8	2.0	(1.3)	16.5
Amortisation of intangible assets				(3.0)
Exceptional items				(11.9)
Share-based payments charge				(0.3)
Operating profit				1.3
Finance costs				(1.2)
Profit before tax				0.1
Tax charge				(0.1)
Profit after tax				-
Segment assets	264.0	32.0	5.8	301.8
Segment liabilities	41.8	9.1	102.4	153.3
Capital expenditure	2.2	0.1	-	2.3
Depreciation and amortisation	5.6	0.4	-	6.0

Audited year ended 31 December 2017

	Document Management £'m	Relocation £'m	Head Office £'m	Total £'m
Revenue	126.9	49.3	-	176.2
Segment adjusted operating profit/(loss)	31.0	5.2	(2.5)	33.7
Amortisation of intangible assets				(5.4)
Exceptional items				(15.5)
Share-based payments charge				(0.6)
Operating profit				12.2
Finance costs				(2.5)
Profit before tax				9.7
Tax charge				(1.9)
Profit after tax				7.8
Segment assets	246.1	53.5	0.4	300.0
Segment liabilities	34.6	11.4	98.1	144.1
Capital expenditure	4.9	0.4	-	5.3
Depreciation and amortisation	10.6	0.8	-	11.4

For the six months ended 30 June 2018, exceptional costs were £4.3m (including restructuring costs of £2.0m, £1.7m of transaction costs, £0.6m of National Insurance on the exercise of share options (2017: exceptional costs were £11.9m including restructuring costs of £3.7m, £0.3m in relocation and transport costs, £0.1m of transaction costs, £7.2m in relation to the settlement of the Executive Incentive Plan in cash and £0.6m of other exceptional costs).

In the year ended 31 December 2017, £15.5m of exceptional costs were incurred (acquisition transaction costs, £0.5m, box relocation and associated costs, £0.5m, restructuring and redundancy costs, £6.7m, £7.2m in relation to settlement of the Executive Incentive Plan in cash and £0.6m of other exceptional costs).

3 Tax

The underlying tax charge is based on the expected effective tax rate for the full year to 31 December 2018. It is anticipated that the tax charge in the period will be £2.1m.

4 Earnings per ordinary share

Basic earnings per share have been calculated on the profit after tax for the period and the weighted average number of ordinary shares in issue during the period.

	Unaudited six months ended 30 June 2018	Unaudited six months ended 30 June 2017	Audited year ended 31 December 2017
Weighted average number of shares in issue	116,692,682	112,362,360	112,607,015
Total profit after tax for the period	£7.2m	£0.0m	£7.8m
Total basic earnings per ordinary share (pence)	6.2p	0.0p	6.9p
Weighted average number of shares in issue	116,692,682	112,362,360	112,607,015
Share options	2,467,253	3,201,345	3,448,077
Weighted average fully diluted number of shares in issue	119,159,253	115,563,705	116,055,092
Total fully diluted earnings per share (pence)	6.0p	0.0p	6.7p
Continuing profit for the period	£7.2m	£0.0m	£7.8m
Continuing basic earnings per share (pence)	6.2p	0.0p	6.9p
Continuing fully diluted earnings per share (pence)	6.0p	0.0p	6.7p

The Directors believe that adjusted basic earnings per share provide a more appropriate representation of the underlying earnings derived from the Group's business. The adjusting items are shown in the table below:

	Unaudited six months ended 30 June 2018 £'m	Unaudited six months ended 30 June 2017 £'m	Audited year ended 31 December 2017 £'m
Profit before tax for the period	9.3	0.1	9.7
Adjustments:			
Amortisation of intangible assets	3.2	3.0	5.4
Exceptional items	4.3	11.9	15.5
Share-based payments charge	0.5	0.3	0.6
Adjusted profit for the period	17.3	15.3	31.2

The additional adjusted earnings per share, based on weighted average number of shares in issue during the period, 116.7m (2017: 112.4m, 112.6m) is calculated below:

	Unaudited Six months ended 30 June 2018	Unaudited Six months ended 30 June 2017	Audited Year ended 31 December 2017
Adjusted profit before tax (£'m)	17.3	15.3	31.2
Tax at 19.0% / 19.5% / 19.25% (£'m)	(3.3)	(3.0)	(6.0)
Adjusted profit after taxation (£'m)	14.0	12.3	25.2
Adjusted basic earnings per share (pence)	12.0p	10.9p	22.4p
Adjusted fully diluted earnings per share (pence)	11.7p	10.6p	21.7p

5 Dividends

In respect of the current period, the Directors propose an interim dividend of 2.0p per share (2017: 1.67p) to be paid to shareholders on 9 November 2018. The proposed interim dividend is payable to all shareholders on the Register of Members on 5 October 2018. The estimated dividend to be paid is £2.6m (2017: £1.9m).

6 Business Combinations

On 2 January 2018, the Group completed the acquisition of the trade and assets of Scanning Direct, a scanning business for cash consideration of £50,000. The customer relationships acquired were £35,000.

On 9 January 2018, the Group completed the acquisition of the trade and assets of Papershrink, a scanning business for cash consideration of £0.2m. The customer relationships acquired were £0.2m.

On 1 May 2018, the Company completed the acquisition of the records management business of TNT UK Limited, for a total consideration of £88.0m. As part of the acquisition, the Company placed 10,100,000 ordinary shares of 5 pence each, with institutional investors raising £51.5m before expenses. The balance of the consideration was settled in cash. Fixed assets of £22.7m were acquired and the provisional customer relationships acquired were £43.7m and goodwill £21.6m.

On 21 June 2018, the Group acquired Optical Record Systems Limited (ORS), a Southampton-based scanning bureau, for an initial cash consideration of £1.6m. Cash of £0.2m was acquired as part of the net assets and the provisional customer relationships acquired were £0.7m and goodwill £0.6m.

7 Cash inflow from operations

	Unaudited six months ended 30 June 2018 £'m	Unaudited six months ended 30 June 2017 £'m	Audited year ended 31 December 2017 £'m
Continuing operations			
Profit before tax	9.3	0.1	9.7
Depreciation of property, plant and equipment	3.2	3.0	6.0
Amortisation of intangible assets	3.2	3.0	5.4
Net finance costs	1.6	1.2	2.5
Share-based payments charge for the period	0.5	0.3	0.6
Share-based payments charge on cash settlement of EIP options	-	7.1	7.2
Cash settlement of EIP options	-	(7.9)	(7.9)
Decrease in inventories	0.2	0.3	0.3
Increase in trade and other receivables	(9.2)	(4.7)	(4.0)
Increase/(decrease) in trade and other payables	1.8	0.7	(4.1)
Net cash generated from operations	10.6	3.1	15.7

8 Intangible assets

	Goodwill £'m	Customer relationships £'m	Trade names £'m	Applications software & IT £'m	Total £'m
Cost					
1 January 2017	131.5	74.5	4.3	3.1	213.4
Arising on acquisition of subsidiaries	2.0	0.5	-	-	2.5
Arising on acquisition of trade	-	0.8	-	-	0.8
Additions - external	-	-	-	0.4	0.4
30 June 2017	133.5	75.8	4.3	3.5	217.1
1 July 2017	133.5	75.8	4.3	3.5	217.1
Arising on acquisition of subsidiaries	2.3	2.4	-	-	4.7
Disposals	-	-	-	(0.3)	(0.3)
Additions - external	-	-	-	0.6	0.6
31 December 2017	135.8	78.2	4.3	3.8	222.1
1 January 2018	135.8	78.2	4.3	3.8	222.1
Arising on acquisition of subsidiaries	0.6	0.7	-	-	1.3
Arising on acquisition of trade	21.7	43.9	-	-	65.6
Additions - external	-	-	-	0.6	0.6
30 June 2018	158.1	122.8	4.3	4.4	289.6
Accumulated amortisation and impairment					
1 January 2017	10.6	9.3	1.3	1.9	23.1
Charge for the period	-	2.5	0.2	0.3	3.0
30 June 2017	10.6	11.8	1.5	2.2	26.1
1 July 2017	10.6	11.8	1.5	2.2	26.1
Charge for the period	-	2.0	0.1	0.3	2.4
Disposals	-	-	-	(0.3)	(0.3)
31 December 2017	10.6	13.8	1.6	2.2	28.2
1 January 2018	10.6	13.8	1.6	2.2	28.2
Charge for the period	-	2.7	0.1	0.4	3.2
30 June 2018	10.6	16.5	1.7	2.6	31.4
Carrying amount					
30 June 2018 - Unaudited	147.5	106.3	2.6	1.8	258.2
31 December 2017 - Audited	125.2	64.4	2.7	1.6	193.9
30 June 2017 - Unaudited	122.9	64.0	2.8	1.3	191.0

9 Financial liabilities

	Unaudited 30 June 2018 £'m	Unaudited 30 June 2017 £'m	Audited 31 December 2017 £'m
Bank loans due within one year			
Bank loans and overdrafts	-	-	0.4
Bank Loans – secured	-	7.1	9.3
Deferred financing costs	-	(0.2)	(0.3)
	-	6.9	9.4
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Non-current			
Bank loans - secured	132.3	85.9	80.4
Deferred financing costs	(1.2)	(0.5)	(0.9)
	131.1	85.4	79.5

On 30 April 2018, the Company put in place new debt facilities with Barclays, Royal Bank of Scotland, Lloyds and Bank of Ireland, comprising a £160.0m revolving credit facility and an additional £30.0m uncommitted accordion facility.

Analysis of net debt

	Unaudited 30 June 2018 £'m	Unaudited 30 June 2017 £'m	Audited 31 December 2017 £'m
Cash at bank and in hand	15.7	15.4	10.7
Bank loans and overdrafts due within one year	-	(6.9)	(9.4)
Bank loans due after one year	(131.1)	(85.4)	(79.5)
	(115.4)	(76.9)	(78.2)

10 Post balance sheet events

On 31 August 2018, the Group acquired Spinnaker Waste Management Limited, a Portsmouth based Waste Electrical and Electronic Equipment (WEEE) and electronic waste recycling for £0.5m.

ENDS