16 August 2023

Restore plc

("Restore" or the "Group" or "Company")

Half Year Results 2023

Restore plc (AIM: RST), the UK's leading provider of digital and information management and secure lifecycle services, today announces its unaudited results for the six months ended 30 June 2023 ("H1", or "the period").

OVERVIEW

During the half, the Group delivered solid revenues with good performances in Records Management, Digital's recurring income streams and Harrow Green. As previously announced, this has been offset by a weaker performance in Technology due to reduced volumes of quality IT assets for resale, and a lower level of non-recurring contracts in Digital (particularly in bulk scanning).

Overall, revenue was broadly unchanged at £139.6m (H1 2022: £140.3m) for the period, with adjusted EBITDA[1] down 5% against H1 2022 at £38.3m as a result of the net effect of trading factors noted above. Adjusted profit before tax[1] reduced to £15.1m after the additional impact of higher interest rates on borrowing costs.

As a result of increases to the Group's cost of capital, reduced expectations on service activity, paper volumes and recycled paper pricing, a non-cash write-down of £32.5m against the legacy investment in Datashred has been applied. This write-down results in a statutory loss before tax for the Group of £25.9m.

The Group remained highly cash generative, with net debt[2] reducing to £97.9m and a leverage[3] ratio of 1.8x which remains well within the Group's target range and covenant levels.

The Group has also announced today the appointment of Mike Killick as interim CFO who will take over day-to-day finance responsibility with effect from 21 August 2023 from Neil Ritchie who previously announced his decision to step down as CFO on 14 June 2023. Neil Ritchie will oversee an orderly transition and be available until the end of his contractual notice period on 13 December 2023. Good progress is being made with the Group's management succession planning and further updates on the ongoing search processes for a new CEO and the permanent CFO roles will be made in due course.

Current trading remains in line with the Board's revised expectations to achieve an adjusted profit before tax of £31m for the full year.

FINANCIAL SUMMARY	H1 2023	H1 2022[4]	Change
Revenue	£139.6m	£140.3m	-0%
Adjusted EBITDA	£38.3m	£40.3m	-5%
Adjusted profit before tax	£15.1m	£20.9m	-28%
Statutory (loss)/profit before tax	-£25.9m	£14.1m	-284%
Net debt[4]	£97.9m	£103.5m	-5%
Adjusted basic earnings per share[1]	8.4p	12.4p	-32%
Statutory basic (loss)/earnings per share	-20.5p	7.5p	-373%
Dividend per share	1.85p	2.6p	-29%

OPERATING PERFORMANCE

- Records Management, which represents over 70% of Group profits, delivered revenue growth of 6% and net box growth of 0.4% in the period. Price increases have been successfully implemented and costs have been well controlled. The new BBC and Department for Work and Pensions contracts continue to progress well
- In the Digital business, income from recurring outsourcing, storage and data support services was in line with expectations, although a reduction in bulk scanning has impacted performance, with the comparative period also benefiting from a large non-recurring public sector contract of £5.3m delivered in H1 2022
- Revenue in Technology declined, as recycled asset sales continued to show weak volume and quality, although secure destruction and end user device services remained on track. The latest hardware market data indicates that subdued volumes will continue into H2 2023
- Datashred delivered increased service activity levels and a continued focus on operational efficiency, however a significant reduction in recycled paper prices since the period end is expected to impact H2 profitability
- Harrow Green continues to perform well and in line with management's expectations

- Cost reduction plan on track to save c.£5m in 2023, primarily through organisation and property changes, whilst preserving capability and capacity. Other cost mitigation actions include a fixing of a proportion of energy costs to replace the Group's previous fixed energy deal and an extension of fixed rate interest instruments.

FINANCIAL PERFORMANCE

- Revenue was broadly unchanged at £139.6m (H1 2022: £140.3m), with adjusted EBITDA down 5% at £38.3m reflecting a robust performance in Records Management but weakness in Technology trading and non-recurring contracts in Digital
- Across the Group, total storage revenue was up 11%, long term contracts and recurring income was up 3%, relocations revenue was up 7% but other service income, IT asset and paper trading was down 13%
- In the Digital and Information Management division revenue was £85.1m (H1 2022: £87.1m) and adjusted operating profit was £20.9m (H1 2022: £24.6m)
- In the Secure Lifecycle Services division revenue was £54.5m (H1 2022: £53.2m) and adjusted operating profit was £3.3m (H1 2022: £5.6m)
- Adjusted profit before tax was lower at £15.1m (H1 2022: £20.9m) due to the net impact of different trading conditions across the Group and the impact of higher interest rates on financing costs with the resulting adjusted basic earnings per share down 32% to 8.4p (H1 2022: 12.4p)
- A non-cash impairment of £32.5m has been made to the carrying value of the Datashred acquisition investment and results from an increase in the weighted average cost of capital used in the valuation of future cashflows and reduced expectations on service activity, paper volumes and recycled paper pricing. Although a large write down, this does not impact the Group's ability to pay dividends
- Statutory loss before tax for the period was £25.9m (H1 2022: £14.1m profit before tax) and is reflective of the significant non-cash impairment of the Datashred investment, with a resulting statutory basic loss per share of 20.5p (H1 2022: 7.5p earnings per share). Excluding this impairment, the statutory profit before tax for the period would be £6.6m
- Good cash generation, resulted in net debt reducing to £97.9m and a leverage ratio of 1.8x, well within the Group's target range and covenant levels (H1 2022: 1.7x)
- Interim dividend of 1.85p (H1 2022: 2.6p) declared, but reduced proportionately to reflect the lower earnings in the period.

OUTLOOK

The Board anticipates that the Group will achieve a solid revenue performance for the year underpinned by the core storage and highly contracted income streams that are a central feature of the Group's strength. As previously announced, the specific challenges in Technology, Digital and Datashred will impact the full year performance. However, actions are being taken to mitigate these headwinds, including plans to reduce costs by approximately £5m in 2023 whilst preserving the Group's capabilities and capacity. Current trading remains in line with the Board's revised expectations for an adjusted profit before tax of £31m for the full year.

Cash generation is expected to remain good and net debt is expected to continue to reduce in the second half.

Whilst the near-term economic outlook remains uncertain, the fundamentals of the business remain strong, with the core long-term contracted and storage revenue underpinning the profitability and cash generation of the Group.

Jamie Hopkins, Interim CEO, commented:

"Whilst the first half has been a difficult period, the Group remains profitable and cash generative on an adjusted basis and continues to deliver excellent service for our customers. The fundamentals of the business remain highly attractive and our core storage business and recurring service income across the Group provide a strong base from which to navigate the current economic challenges and rebuild profitability and shareholder value. Good progress is being made with the Group's management succession planning and we are delighted to welcome Mike Killick, who will be joining as interim CFO on 21 August 2023."

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Notes

1. Adjusted profit and earnings are stated before adjusting items, amortisation and impairment, with adjusted EPS calculated using a standard tax charge
2. Net debt defined as external borrowings less cash, excluding the effects of lease obligations under IFRS16
3. Leverage calculated using pre-IFRS16 EBITDA adjusted for share-based payments, including a pro-forma adjustment for acquisitions in line with financial debt covenants
4. £0.3m of bank refinancing charges were treated as adjusting items in deriving adjusted PBT and adjusted EPS at H1 2022 but have been restated to not exclude these charges consistent with treatment at FY22

BUSINESS PERFORMANCE

The core business of the Group in storage and recurring services continued to grow during the period. However, the Group experienced reduced levels of activity across some business lines in Q2 with customers deferring or reducing activity to reduce their costs as a result of broader macro-economic uncertainty.

These effects, together with continued soft trading in recycled IT assets and a large non-recurring public sector contract in Digital benefitting H1 2022 resulted in a flat revenue performance of £139.6m (H1 2022: £140.3m). The Group remains profitable on an adjusted basis, albeit at a lower level than that achieved in H1 2022, with price increases offsetting inflationary pressures. The lower adjusted profit before tax for the period of £15.1m (H1 2022: £20.9m) reflects these different trading effects and also the impact of interest costs on financing expenses.

The statutory loss before tax for the period of £25.9m (H1 2022: £14.1m profit before tax) reflects a non-cash impairment of £32.5m on the carrying value of the historic acquisition investment in Restore Datashred.

The Group remains highly cash generative, with net debt reducing during the period to £97.9m and leverage operating well within the Group's target at 1.8x (H1 2022: 1.7x).

Digital and Information Management

Our Digital and Information Management division comprises Restore Records Management and Restore Digital.

For the period, the division achieved revenue of £85.1m (H1 2022: £87.1m) and an adjusted operating profit of £20.9m (H1 2022: £24.6m). Within this, the business successfully implemented a programme of price increases that offset inflationary pressures during the period. The prior half year also included the benefit of large non-recurring contracts within Digital with associated revenues of £5.3m.

Restore Records Management – Revenue £59.3m up 6% (H1 2022: £55.9m)

Records Management is the largest business unit in the Group and represents over 40% of Group revenue and 70% of operating profits.

Storage income, representing 71% of revenue, saw boxes under management increase by 0.4% during the period, primarily as a result of intake on the previously announced BBC archive contract that commenced in April following completion of a bespoke, environment-controlled vault.

Price increases were successfully implemented through Q1 and into Q2 and have offset inflationary pressures from people costs, leases, rates and energy.

Cost management is a continued focus and targeted changes to organisation structures and the property estate are returning savings and a more efficient operating model. As a result, capacity utilisation eased as planned from 97% to 95% and is more in line with our long-term utilisation target.

With the BBC contract underway, the focus for sales has now returned to new business wins and there is a strong pipeline of opportunities for H2. However, offsetting net box growth has been an increased level of customer destructions.

Restore Digital – Revenue £25.8m down 17% (H1 2022: £31.2m)

Digital has successfully developed a broader portfolio of income streams since the acquisition of EDM in 2021, with revenue from outsourced digital mailrooms, cloud hosted storage and management services, records preservation and software provision performing predictably and in line with management expectations.

However, a high proportion of the business remains in bulk document scanning and data capture services which, whilst providing future potential to develop into more complex, recurring revenue, can be more cyclical in the current macro environment.

In 2022, the Digital business benefitted from substantial non-recurring contracts of £5.3m and during the later stages of H1 2023 the level of non-recurring customer project activity reduced and led us to reduce our expectations for the year.

In line with this change, a number of strategic operational initiatives have been accelerated, including the consolidation of one of the eleven sites into the rest of the estate, which will improve flexibility and reduce costs.

In sales, the team continues to lead the market with 233 new deals won in the period, extension of long-term contracts with ten key customers and a stable pipeline of further opportunities although customer decision making has slowed in 2023.

Secure Lifecycle Services

Our Secure Lifecycle Services division comprises Restore Technology, the market leader in IT Lifecycle Services, Restore Datashred, a national shredding business, and Restore Harrow Green, the UK's market leader in office and commercial relocations.

For the period the division achieved revenue of £54.5m (H1 2022: £53.2m) and an adjusted operating profit of £3.3m (H1 2022: £5.6m).

Whilst the recycling arm of Technology faced laptop and desktop availability headwinds resulting in reduced recycling income, Datashred and Harrow Green performed well through H1, although caution should be applied to the outlook for Datashred where recycled paper bale prices fell significantly at the end of Q2 and are anticipated to continue to be weak in H2.

Restore Technology – Revenue £16.3m down 5% (H1 2022: £17.2m)

Revenue associated with 'in life' end user device services and secure, on site, destruction improved compared to H1 2022.

However, income from IT asset recycling and resale fell by 16% with asset quality also reduced. With a much lower grade of laptop and desktop assets received by the business for processing, this has resulted in an impact on profitability. This trend is consistent with the most recent IDC Global PC shipments data reporting that sales are down 13.4% in Q2 2023 against the equivalent period in the prior year.

The sector continues to be highly fragmented and we experienced increasing customer and sales channel demand for highly trusted partners to support new asset installation and services for mid and end of life asset and data management and recycling services. The current slowdown in hardware sales is anticipated to reverse, although the timeframe is uncertain, and we believe reflects customers slowing investment due to economic uncertainty and the life of assets procured to support ways of working during the pandemic.

In response, we are preserving our core capabilities but reducing capacity through consolidation of the Dunsfold site into the remaining six sites and reducing shift patterns elsewhere in the business.

Restore Datashred – Revenue £18.6m up 2% (H1 2022: £18.3m)

Datashred performed well in H1, with increased service activity levels despite high customer churn as customers looked to consolidate and reduce site count. The business implemented price increases in H1 and these are offsetting inflation pressures in people and fleet costs.

The team continued to improve the operational effectiveness of the business with visits per day at record highs of more than 11 per day and its net promoter score improving further to 76 in the period illustrating continued strong customer satisfaction.

With c.70% of revenue attributable to service revenues, the business has a solid base of contracted income although, as noted, customer churn through customer action and sector competition was higher in H1.

The balance of revenue from recycled paper bales has a history of volatility with pricing since the end of the pandemic (assuming H2 2021) at over £200/tonne compared with an average price of c.£160/tonne for the three years leading up to the pandemic, and a range of £130 to £180. As such, the predictability of profits can be difficult to determine and in H1 paper pricing of c.£210/tonne supported a good profit result. However, pricing since June has fallen to below £180/tonne and, as such, the business is cautious on its H2 outlook.

Restore Harrow Green – Revenue £19.6m up 11% (H1 2022: £17.7m)

Revenue in H1 was good at +11% against H1 2022, particularly when considering the equivalent period in the prior year benefitted from a large MoD contract that ended in Q2 2022.

The business has seen good expansion of relocation activity in London with total relocations up 7%. The decision to expand storage capacity is proving to be sound with storage revenue growing 36%, and now represents 15% of total income in H1.

We are also pleased with the development of the Life Sciences business following the opening of the Cambridge site in 2021 with 73% revenue growth achieved in H1 and major contracts planned for H2.

Further strategic development of the business is continuing with potential for regional expansion and commercial storage capabilities.

FINANCIAL PERFORMANCE

Financial overview

The Group has delivered a profitable and cash generative result for H1 on an adjusted basis although profits are lower than anticipated at the commencement of the year with the statutory loss for the period also reflecting the impact of a non-cash impairment of £32.5m on the holding value of the Datashred intangible asset arising on historic acquisition.

Pricing is negating inflation pressures and cost management plans are being actioned although activity levels are varied across the business units with weak market conditions in technology recycling, indications of customers reducing spend on some of the Group's more discretionary service lines and the headwind of increased interest rates.

Cashflows continue to be strong with 84% cash conversion[5] with a corresponding reduction in net debt and leverage in line with expectations at 1.8x. A proportion of interest rates were fixed in H1 through conversion of £25m of the Group's floating debt facility into a fixed term / fixed rate USPP with interest rate hedges undertaken post period end on a further £25m of the floating debt facility.

Adjusted basic earnings per share for the period were 8.4p (H1 2022: 12.4p) and reflect lower operating profit, higher interest costs and a higher tax rate. The statutory loss per share of 20.5p (H1 2022: 7.5p earnings per share) reflects the impairment of the Datashred intangible asset and would be 3.2p before the effects of the impairment.

An interim dividend of 1.85p (H1 2022: 2.6p) will be paid on 20 October 2023 to shareholders on the register on 22 September 2023, maintaining the approximate ratio of dividend to adjusted earnings per share.

Income Statement

Revenue was broadly flat for the period at £139.6m (H1 2022: £140.3m), with storage revenues up 11%, long term contracts and recurring income up 3%, relocations revenue up 7% but other service income, IT asset and paper trading down 13%.

The table below summarises the effects of pricing, activity levels and prior year acquisitions on H1 revenues and indicates that the positive pricing effect of £5.8m across the businesses are offset by the weakness of revenues in Technology (-£0.9m) and the effect of a reduction in non-recurring contracts (-£5.3m).

Revenue	H1 2023 £m	H1 2022 £m	Price change %	Activity change %	Non-repeats change %	Acq'n change %	Change %
Restore Records Management	59.3	55.9	+6%	-	-	-	+6%
Restore Digital	25.8	31.2	+5%	-5%	-17%	-	-17%
Digital & Information Management	**85.1**	**87.1**	**+6%**	**-2%**	**-6%**	**-**	**-2%**
Restore Technology	16.3	17.2	+1%	-16%	-	+10%	-5%
Restore Datashred	18.6	18.3	+2%	-	-	-	+2%
Restore Harrow Green	19.6	17.7	+1%	+4%	-	+6%	+11%
Secure Lifecycle Services	**54.5**	**53.2**	**+1%**	**-4%**	**-**	**+5%**	**+2%**
Total	**139.6**	**140.3**	**+4%**	**-2%**	**-4%**	**+2%**	**-0%**

Within the Digital and Information management division, Records Management performed well with price and activity driven revenue growth offsetting inflationary pressures. In Digital, the business is lapping a strong comparative with £5.3m of revenue in the comparable period attributable to a large non-recurring scanning contracts. Other Digital revenues from cloud storage and recurring services, such as digital mailrooms, have performed in line with expectations.

Records Management is exiting the period in strong shape with Digital experiencing a slow-down in bulk scanning projects as a result of customers managing their budgets although the increasing proportion of recurring revenues, largely due to the acquisition of EDM in 2021 and its subsequent development, is in line with the strategy to develop a more rounded digital services business of scale.

In Secure Lifecycle Services, Harrow Green and Datashred have grown revenues as a result of increased activity levels and pricing actions.

However, the Technology business continued to experience low volumes of quality IT assets for recycling during H1 with recent IDC data on Q2 indicating a further period of reduced new laptop sales of -13% suggesting that this trend is likely to continue through H2.

Although this is believed to be a largely cyclical effect caused by pandemic demand patterns, the current lack of volume has significantly reduced profit expectation from this business unit for the year although we are encouraged by the expansion and scale of the other Technology lifecycle income streams including secure onsite data destruction, pre and mid-life services and server recovery and resale.

The profitability for the period was lower primarily due to quality of assets in Technology and the effect of the non-repeat contracts in Digital with adjusted EBITDA down 5% to £38.3m and adjusted PBT down 28% to £15.1m after the additional effect of higher interest costs. The statutory loss before tax was £25.9m and is stated after a non-cash impairment charge of £32.5m that primarily relates to the intangible assets arising on the 2016 acquisition of Datashred. Before impairment, the statutory profit before tax would be £6.6m.

The table below summarises the key aspects to performance in the period with the positive price effect of £5.8m offsetting cost inflation of £5.0m, whilst reduced activity levels in Digital (non-repeat contracts) and Technology (asset quality) impact operating profit by £6.0m, and interest costs increased by £1.9m against H1 2022. Other non-cash effects benefiting adjusted profit were £1.3m and are primarily due to the net effect of non-cash charges relating to long term incentive provisions and IFRS16 charges.

	£m
H1 2022 Adjusted profit before tax	**20.9**
Price increases	5.8
Cost inflation	(5.0)
Technology/Digital activity	(6.0)
Bank interest	(1.9)
Other	1.3
H1 2023 Adjusted profit before tax	**15.1**

Adjusted profit items

Management believe that presentation of an adjusted profit before tax assists readers of the accounts to better understand the performance of the business. The adjusting items during the period are described below.

	H1 2023 £m	**H1 2022 £m**	**Change**
Impairment of intangible assets	32.5	-	n/a
Amortisation of intangible assets	6.3	5.9	+7%
Acquisition related transaction/advisory costs	0.2	0.8	-75%
Restructuring and redundancy	1.0	0.1	+900%
Strategic IT reorganisation	1.0	-	n/a
Total adjusting items	**41.0**	**6.8**	**+503%**

The £32.5m non-cash impairment of intangible assets relates to the historic acquisition of Datashred. Amortisation of intangible assets increased versus H1 2022 as a result of prior year acquisitions. Acquisition related transaction / advisory costs are lower due to low levels of acquisition with restructuring costs primarily relating to redundancy on the strategic organisation restructure and site closure of Dunsfold. IT reorganisation costs relate to specific strategic programmes to consolidate finance and other operational systems.

Balance Sheet and Cashflow

The Balance Sheet as at 30 June 2023 remains strong, with key ratios across working capital and trade debt consistent with prior periods.

Cashflows were also strong with a reduction in net debt to £97.9m and leverage of 1.8x.

The net debt was further diversified during H1 by the introduction of £25m of fixed term USPP, building on the improvement of the floating rate bank facility in 2022. Together with the introduction of interest hedging on the floating facility, interest cost certainty is substantially increased with a policy to hedge or fix rate on 50-70% of debt.

On review of the Datashred business following recent paper price reductions and a period of relative stability in working patterns, management have reduced their medium-term expectation of tonnages that the business unit will collect for processing and the pricing of recycled paper bales. This, together with an increase in the cost of capital resulting from recent interest rate rises, has led to a reduction in expectation of the value of future cashflows. As such, management have reviewed the carrying value of the Datashred investment, that largely arose on the acquisition of the PHS paper shredding business in 2016, and have applied an impairment of £32.5 on the carrying value of the investment leaving a remaining value of £27.5m.

Notes

5. Calculated as free cashflows (reconciled in statement of cashflows), divided by adjusted operating profit after tax (using a standard tax rate)

FINANCIAL STATEMENTS

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2023

	Note	Unaudited six months ended 30 June 2023 £'m	Unaudited six months ended 30 June 2022 £'m	Audited year ended 31 December 2022 £'m
Revenue - continuing operations	2	139.6	140.3	279.0
Cost of sales		(80.1)	(78.7)	(155.4)
Gross profit		59.5	61.6	123.6
Administrative expenses		(46.3)	(42.6)	(89.2)
Movement in trade receivables loss allowances		-	-	(0.2)
Impairment of intangible assets		(32.5)	-	-
Operating (loss)/profit		(19.3)	19.0	34.2
Finance costs		(6.6)	(4.9)	(10.9)
(Loss)/profit before tax		(25.9)	14.1	23.3
Taxation	4	(2.2)	(3.8)	(6.5)
(Loss)/profit after tax		(28.1)	10.3	16.8
Other comprehensive income		-	-	-
(Loss)/profit and total comprehensive (loss)/income for the period attributable to owners of the parent		(28.1)	10.3	16.8
(Loss)/earnings per share attributable to owner of the parent (pence)				
Total				
- Basic	6	(20.5p)	7.5p	12.3p
- Diluted	6	(20.5p)	7.3p	12.2p

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

Operating (loss)/profit		(19.3)	19.0	34.2
Adjustments for:				
Adjusting items - Amortisation of intangible assets	3	6.3	5.9	12.1
Adjusting items - Administrative expenses	3	2.2	0.9	5.6
Adjusting items - Impairment	3	32.5	-	-
Adjustments*		41.0	6.8	17.7
Adjusted operating profit		21.7	25.8	51.9
Depreciation of property, plant and equipment and right-of-use assets		16.6	14.5	29.6
Earnings before interest, taxation, depreciation, amortisation, impairment and adjusting items (adjusted EBITDA)		38.3	40.3	81.5
(Loss)/profit before tax		(25.9)	14.1	23.3
Adjustments* (as stated above)		41.0	6.8	17.7
Adjusted profit before tax		**15.1**	**20.9**	**41.0**

*£0.3m of bank refinancing charges were treated as adjusting items in deriving the Group's alternative performance measures at H1 22 but have been restated consistent with the presentation at FY22.

Condensed Consolidated Statement of Financial Position
As at 30 June 2023

	Note	Unaudited 30 June 2023 £'m	Unaudited 30 June 2022 £'m	Audited 31 December 2022 £'m
ASSETS				
Non-current assets				
Intangible assets	5	293.5	330.7	331.9
Property, plant and equipment		80.5	78.6	79.7
Right-of-use assets		95.6	93.3	101.4
Deferred tax asset		-	5.3	-
		469.6	507.9	513.0
Current assets				
Inventories		2.2	2.3	2.0
Trade and other receivables		66.8	72.6	70.0
Corporation tax receivable		0.3	-	-
Cash and cash equivalents		25.3	29.9	30.2
		94.6	104.8	102.2
Total assets	2	564.2	612.7	615.2
LIABILITIES				
Current liabilities				
Trade and other payables		(49.9)	(55.7)	(49.2)
Financial liabilities – lease liabilities		(21.6)	(20.2)	(19.2)
Current tax liabilities		-	(2.6)	(1.6)
Provisions		(1.7)	(1.4)	(1.7)
		(73.2)	(79.9)	(71.7)
Non-current liabilities				
Financial liabilities – borrowings	10	(123.2)	(133.4)	(133.7)
Financial liabilities – lease liabilities		(83.5)	(87.4)	(90.3)
Deferred tax liabilities		(30.4)	(33.2)	(30.9)
Provisions		(15.8)	(7.9)	(15.4)
		(252.9)	(261.9)	(270.3)
Total liabilities	2	(326.1)	(341.8)	(342.0)
Net assets		238.1	270.9	273.2
EQUITY				
Share capital		6.8	6.8	6.8
Share premium account		187.9	187.9	187.9
Other reserves		6.5	8.8	6.9
Retained earnings		36.9	67.4	71.6
Equity attributable to owners of parent		238.1	270.9	273.2

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2023

	Attributable to owners of the parent				
	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2022 (audited)	6.8	187.9	7.0	63.5	265.2
Profit for the period	-	-	-	10.3	10.3
Total comprehensive loss for the period	-	-	-	10.3	10.3
Transactions with owners					
Dividends	-	-	-	(6.4)	(6.4)
Share-based payments charge	-	-	1.8	-	1.8
Balance at 30 June 2022 (unaudited)	6.8	187.9	8.8	67.4	270.9
Balance at 1 July 2022	6.8	187.9	8.8	67.4	270.9
Profit for the period	-	-	-	6.5	6.5
Total comprehensive income for the period	-	-	-	6.5	6.5
Transactions with owners					
Dividends	-	-	-	(3.5)	(3.5)
Share-based payments charge	-	-	(0.1)	-	(0.1)
Deferred tax on share-based payments	-	-	(0.7)	-	(0.7)
Transfer*	-	-	(2.1)	2.1	-
Purchase of treasury shares	-	-	(1.1)	-	(1.1)
Disposal of treasury shares	-	-	2.1	(0.9)	1.2
Balance at 31 December 2022 (audited)	6.8	187.9	6.9	71.6	273.2
Balance at 1 January 2023	6.8	187.9	6.9	71.6	273.2
Loss for the period	-	-	-	(28.1)	(28.1)
Total comprehensive loss for the period	-	-	-	(28.1)	(28.1)
Transactions with owners					
Dividends	-	-	-	(6.6)	(6.6)
Share-based payments charge	-	-	(0.4)	-	(0.4)
Balance at 30 June 2023 (unaudited)	6.8	187.9	6.5	36.9	238.1

*****In 2022 a net amount of £2.1 million was reclassified from share-based payment reserve to retained earnings in respect of lapsed and exercised options.

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2023

	Note	Unaudited six months ended 30 June 2023	Unaudited six months ended 30 June 2022	Audited year ended 31 December 2022
		£'m	£'m	£'m
Cash generated from operating activities	8	32.5	28.5	65.2
Net finance costs		(5.5)	(5.9)	(11.4)
Income taxes paid		(4.8)	(2.8)	(6.0)
Net cash generated from operating activities		22.2	19.8	47.8
Cash flows from investing activities				
Purchase of property, plant and equipment and applications software	2	(5.6)	(5.1)	(11.0)
Purchase of subsidiary, net of cash acquired		(1.1)	(8.8)	(10.8)
Purchase of trade and assets		-	(0.7)	(0.7)
Cash flows used in investing activities		(6.7)	(14.6)	(22.5)
Cash flows from financing activities				
Dividends paid		-	-	(9.9)
Purchase of treasury shares		(0.2)	-	(1.1)
Proceeds from disposal of treasury shares		0.1	-	1.2
Repayment of revolving credit facility		(35.0)	-	(145.8)
Drawdown of revolving credit facility		-	1.0	146.8
Drawdown of US Private Placement notes facility		25.0	-	-
Principal element of lease repayments		(10.3)	(9.2)	(19.2)
Net cash used in financing activities		(20.4)	(8.2)	(28.0)
Net decrease in cash and cash equivalents		(4.9)	(3.0)	(2.7)
Cash and cash equivalents at start of period		30.2	32.9	32.9
Cash and cash equivalents at the end of period	10	25.3	29.9	30.2

A reconciliation between the statutory results shown above and the non-GAAP free cashflow measure is shown below:

Cash generated from operating activities		32.5	28.5	65.2
Less: Income tax paid		(4.8)	(2.8)	(6.0)
Less: Purchase of property, plant and equipment and application software		(5.6)	(5.1)	(11.0)
Less: Principal element of lease repayments		(10.3)	(9.2)	(19.2)
Add: Adjusting items (excl. impairment and amortisation)	3	2.2	0.9	5.6
Free cashflow*		14.0	12.3	34.6

*Calculated as cash generated from operating activities less income taxes paid, capital expenditure and lease payments, but before adjusting items (excluding amortisation and impairment).

Notes to the Consolidated Interim report
For the six months ended 30 June 2023

1 Basis of Preparation

The half year report has been prepared in accordance with IAS 34, Interim Financial Reporting, adopting accounting policies that are consistent with those of the previous financial year and corresponding half year reporting period,

2 Segmental Analysis

The Group is organised into two main operating segments, Digital and Information Management and Secure Lifecycle Services and incurs central costs. The vast majority of trading of the Group is undertaken within the United Kingdom. Segment assets include intangibles, property, plant and equipment, right-of-use assets, 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. Segment assets and liabilities are allocated between segments on an actual basis.

Revenue - Continuing operations	Unaudited 30 June 2023 £'m	Unaudited 30 June 2022 £'m	Audited 31 December 2022 £'m
Restore Records Management	59.3	55.9	113.7
Restore Digital	25.8	31.2	54.5
Digital and Information Management	85.1	87.1	168.2
Restore Technology	16.3	17.2	35.8
Restore Datashred	18.6	18.3	37.4
Restore Harrow Green	19.6	17.7	37.6
Secure Lifecycle Services	54.5	53.2	110.8
Total revenue	139.6	140.3	279.0

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

Segment information	Unaudited 30 June 2023 £'m	Unaudited 30 June 2022 £'m	Audited 31 December 2022 £'m
Digital and Information Management	20.9	23.8	44.8
Secure Lifecycle Services	2.8	5.5	11.0
Central	(4.9)	(2.6)	(7.6)
Amortisation of intangible assets	(6.3)	(5.9)	(12.1)
Impairment of intangible assets	(32.5)	-	-
Share-based payment credit/(charge)	0.7	(1.8)	(1.9)
Operating (loss)/profit	(19.3)	19.0	34.2
Finance costs	(6.6)	(4.9)	(10.9)
(Loss)/profit before tax	(25.9)	14.1	23.3

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

Digital and Information Management	Unaudited 30 June 2023 £'m	Unaudited 30 June 2022 £'m	Audited 31 December 2022 £'m
Operating profit	20.9	23.8	44.8
Adjusting Items	-	0.8	2.6
Adjusted operating profit	20.9	24.6	47.4

Secure Lifecycle Solutions	Unaudited 30 June 2023 £'m	Unaudited 30 June 2022 £'m	Audited 31 December 2022 £'m
Operating profit	2.8	5.5	11.0
Adjusting Items	0.5	0.1	0.8
Adjusted operating profit	3.3	5.6	11.8

	Digital and Information Management £'m	Secure Lifecycle Services £'m	Head Office £'m	Unaudited 30 June 2023 Total £'m
Segment assets	431.5	120.8	11.9	564.2
Segment liabilities	108.8	53.9	163.4	326.1
Capital expenditure	4.4	1.1	0.1	5.6
Depreciation and amortisation	16.3	6.4	0.2	22.9
				Unaudited 30 June 2022
Segment assets	441.3	152.3	19.1	612.7
Segment liabilities	117.2	52.6	172.0	341.8
Capital expenditure	3.9	1.2	-	5.1
Depreciation and amortisation	14.2	6.1	0.1	20.4
				Audited 31 December 2022
Segment assets	446.3	158.3	10.6	615.2
Segment liabilities	115.4	63.7	162.9	342.0
Capital expenditure	8.4	2.2	0.4	11.0
Depreciation and amortisation	29.2	11.9	0.6	41.7

3 Adjusting items

Restore's strategy is to grow through organic expansion, strategic acquisitions and margin enhancement through efficiency and scale. To assess progress in delivery of this strategy, management believe it is useful to provide readers of the accounts with alternative performance measures ('APMs') that describe the performance of the Group before the effects of significant costs or income that are considered to be distorting due to their nature, and non-cash amortisation primarily arising from acquired intangible assets. Adjustments made from statutory measures to adjusted measures are referred to as adjusting items and include amortisation, expenses associated with acquisitions and subsequent integration costs, costs associated with major restructuring programmes, and other significant costs that are considered to be distorting due to their nature when assessing the performance of the business.

The £32.5m non-cash impairment of intangible assets relates to the historic acquisition of Datashred. Amortisation of intangible assets increased versus H1 2022 as a result of prior year acquisitions.

For the six months ended 30 June 2023, adjusting administrative costs were £2.2m, including £0.2m of acquisition related costs, £1.0m of restructuring and redundancy costs and £1.0m in respect of strategic IT reorganisation. For the six months ended 30 June 2022, adjusting costs were £0.9m, including £0.8m acquisition related restructuring costs and £0.1m acquisition related transaction costs. For the year ended 31 December 2022, adjusting costs were £5.6m, including £1.4m of acquisition related transaction/advisory costs, £2.6m of restructuring and redundancy costs, £0.9m of property related costs and £0.7m in respect of strategic IT reorganisation.

4 Taxation

The current tax charge for the period to 30 June 2023 is anticipated to be £2.2m, based on the estimated effective tax rate for the Group.

5 Intangible Assets

	Goodwill £'m	Customer relationships £'m	Trade names £'m	Applications software IT £'m	Total £'m
Cost					
1 January 2022	212.5	168.8	4.3	10.3	395.9
Arising on acquisition of subsidiaries	3.5	5.1	-	-	8.6
Arising on acquisition of trade and assets	0.2	0.6	-	-	0.8
Additions – external	-	-	-	0.1	0.1
Disposals	-	-	-	(0.4)	(0.4)
30 June 2022	216.2	174.5	4.3	10.0	405.0
Arising on acquisition of subsidiaries	1.2	3.3	-	0.2	4.7
Arising on acquisition of trade and assets	-	0.1	-	-	0.1
Fair Value Adjustment	1.7	-	-	-	1.7
Additions – external	-	-	-	0.8	0.8
Disposals	-	-	-	(0.3)	(0.3)
30 December 2022	219.1	177.9	4.3	10.7	412.0
Additions – external	-	-	-	0.4	0.4
Disposals	-	-	-	-	-
30 June 2023	219.1	177.9	4.3	11.1	412.4
Accumulation amortisation and impairment					
1 January 2022	17.6	42.6	2.8	5.7	68.7
Charge for the year	-	5.2	0.1	0.6	5.9
Disposals	-	-	-	(0.3)	(0.3)
30 June 2022	17.6	47.8	2.9	6.0	74.3
Charge for the year	-	5.2	0.1	0.9	6.2
Disposals	-	-	-	(0.4)	(0.4)
31 December 2022	17.6	53.0	3.0	6.5	80.1
Charge for the year	-	5.4	0.1	0.8	6.3
Disposals	-	-	-	-	-
Impairment	32.5	-	-	-	32.5
30 June 2023	50.1	58.4	3.1	7.3	118.9
Carrying amount					
30 June 2023	169.0	119.5	1.2	3.8	293.5
31 December 2022	201.5	124.9	1.3	4.2	331.9
30 June 2022	198.6	126.7	1.4	4.0	330.7

For the purpose of impairment testing, goodwill and other intangibles are allocated to business units which represent the lowest level at which that those assets are monitored for internal management purposes. The recoverable amount of each cash-generating unit ('GCU') is determined from value-in-use calculations. The calculations use pre-tax cash flow projections through to the end of 2027 and a pre-tax discount rate.

An impairment review was conducted at HY 2023, as a result of weak volume and quality of recycled asset sales in Technology, and the recent drop in paper price as well as a re-assessment of long-term volume in Datashred. The impairment review covered Technology and Datashred only, as no impairment indicators were identified in respect of the Group's other CGUs. The CGUs tested for impairment at HY 2023 have compound average growth rates for revenue ranging from 4%-6% over the period 2024-2027. Terminal cash flows are based on projections for FY27, assumed to grow perpetually at 2%. The forecasts have been discounted using a pre-tax discount rate of 12.8%.

The impairment review performed, which included downside scenario modelling, indicated the need for an impairment in Datashred of £32.5m. An impairment has resulted from reduced expectations on service activity, paper volumes and recycled paper pricing, as well as an increase in the discount rate partly driven by the change in interest rate.

No impairment was required to the Technology CGU.

Datashred

The impairment charge of £32.5m is sensitive to changes in revenue assumptions as well as to changes in the discount rate. More optimistic assumptions reduce the impairment, whereas more conservative assumptions increase the impairment. The scenario which forms the basis of the impairment assumes paper pricing of £170-£175 per tonne, steady compound average growth in paper tonnages of 1.0%, and 4.5% compound average growth in service revenue.

Assuming 0% growth in paper tonnages increases the impairment charge by £0.2m. A £5/tonne reduction in the paper price increases the impairment by £2.1m. Reducing the compound average growth rate of service revenue to 4% increases the impairment by £4.2m. An increase in the discount rate by 0.5% results in an additional impairment of £1.0m.

Technology

The reduced level of profitability in Technology is considered to be cyclical, however an increase in the discount rate or the businesses not achieving the growth in profitability forecast for FY27 could result in an impairment. An increase in the discount rate to 13.6% using management's base case would result in an impairment of £0.4m, with a further increase of 0.1% resulting in an impairment of £0.8m. A 10% reduction in the terminal year EBITDA would result in an impairment of £1.5m. These downside scenarios are before taking any mitigating actions such as capex reductions, which would increase the headroom in the model.

6 Earnings per ordinary share

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

	Unaudited six months ended 30 June 2023 £'m	Unaudited six months ended 30 June 2022 £'m	Audited year ended 31 December 2022 £'m
Weighted average number of shares in issue	136,924,067	136,674,067	136,761,738
Total (loss)/profit for the period	(£28.1m)	£10.3m	£16.8m
Total basic (loss)/earnings per ordinary share	(20.5p)	7.5p	12.3p
Weighted average number of shares in issue	136,924,067	136,674,067	136,761,738
Share options	663,859	4,777,957	1,264,065
Weighted average fully diluted number of shares in issue	137,587,926	141,452,024	138,025,803
Total fully diluted earnings per share	(20.5p)	7.3p	12.2p

Adjusted earnings per share

The Directors believe that adjusted 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 2023 £'m	Unaudited six months ended 30 June 2022* £'m	Audited year ended 31 December 2022 £'m
(Loss)/profit before tax	(25.9)	14.1	23.3
Adjustments:			
Adjusting items - Amortisation of intangible assets	6.3	5.9	12.1
Adjusting items – Impairment	32.5	-	-
Adjusting items – Administrative expenses	2.2	0.9	5.6
Adjusted profit before tax	15.1	20.9	41.0

*£0.3m of bank refinancing charges were treated as adjusting items in deriving the Group's alternative performance measures at H1 22 but have been restated consistent with the presentation at FY22.

The adjusted earnings per share, based on weighted average number of shares in issue during the period, 136.9m (2022: 136.7m) is calculated below:

	Unaudited six months ended 30 June 2023	Unaudited six months ended 30 June 2022*	Audited year ended 31 December 2022
Adjusted profit before tax (£'m)	15.1	20.9	41.0
Tax at 23.5% (2022: 19.0%) (£'m)	(3.6)	(4.0)	(7.8)
Adjusted profit after tax (£'m)	11.5	16.9	33.2
Adjusted basic earnings per share	8.4p	12.4p	24.3p
Adjusted fully diluted earnings per share	8.4p	12.0p	24.1p

*£0.3m of bank refinancing charges were treated as adjusting items in deriving the Group's alternative performance measures at H1 22 but have been restated consistent with the presentation at FY22.

7 Dividends

In respect of the current period, the Directors declare an interim dividend of 1.85p per share (2022: £2.6p). The estimated dividend to be paid is £2.5m (2022: £3.6m) and will be paid on 20 October 2023 to those shareholders on the register as at 22 September 2023.

8 Cash generated from operating activities

	Unaudited six months ended 30 June 2023 £'m	Unaudited six months ended 30 June 2022 £'m	Audited year ended 31 December 2022 £'m
Continuing operations			
(Loss)/profit before tax	(25.9)	14.1	23.3
Depreciation of property, plant and equipment and right-of-use assets	16.6	14.5	29.6
Amortisation of intangible assets	6.3	5.9	12.1
Impairment of intangible assets	32.5	-	-
Net finance costs	6.6	4.9	10.9
Share-based payments (credit)/charge	(0.7)	1.8	1.9
Share-based payment settlement	(0.4)	-	-
Increase in inventories	(0.3)	(0.1)	(0.3)
Decrease/(increase) in trade and other receivables	3.2	(14.8)	(11.9)
(Decrease)/increase in trade and other payables	(5.4)	2.2	(0.4)
Cash generated from operating activities	32.5	28.5	65.2

10 Financial liabilities - borrowings

	Unaudited 30 June 2023 £'m	Unaudited 30 June 2022 £'m	Audited 31 December 2022 £'m
Non-current			
Bank loans – secured	125.0	135.0	135.0
Deferred financing costs	(1.8)	(1.6)	(1.3)
	123.2	133.4	133.7

Analysis of net debt

Cash at bank and in hand	25.3	29.9	30.2
Bank loans due within one year	-	-	-
Bank loans due after one year	(123.2)	(133.4)	(133.7)
	(97.9)	(103.5)	(103.5)

ENDS