Learning Technologies Group plc (formerly known as In-Deed Online plc)

# Interim Report for the six month period to 30 June 2014

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## Chairman's Statement

### Introduction

This was another successful period of progress and development for the Group as it continued to extend its capability and build the Company towards its goal of creating a business with revenues in excess of £50m. LINE Communications, a designer of blended learning solutions, and Preloaded, a creator of innovative learning games were acquired in April and May respectively. Additionally, LTG's core business continued to grow both in the UK and internationally.

LTG has created the European market leader in the custom content market and aspires to build a major global e-learning business in a marketplace that is fragmented, evolving rapidly and expanding. LTG's strategy continues to grow its business both organically, taking advantage of the synergies and opportunity that the acquisitions of LINE and Preloaded bring, and to seek further acquisitions that bring scale, capability and international reach.

### Results

LINE and Preloaded were both acquired during the second quarter and therefore made a limited contribution to these results.

Revenues increased by 75% to £6.5m (2013: £3.7m) with acquisitions contributing £2.5m and the original business, Epic, growing by 8%. Adjusted EBITDA grew to £874,000 (2013: £563,000), in line with the Board's expectations. Following costs associated with amortisation of intangibles and development, depreciation, share based payments and various one-off integration and acquisition costs incurred during the period, a small loss before taxation of £261,000 was incurred.

### Group development

LTG has grown considerably in the period with the two strategic acquisitions of LINE Communications and Preloaded. Integration into the Group of both businesses has been successfully achieved. LINE Communications and LTG's core business, Epic, have been merged to create a European leader in the custom content market. Our goal was to combine all processes and functions within 100 days and this was achieved on time and within budget on 7 July and our new brand, LEO (leolearning.com) was launched.

LEO has been well received by our customers and partners with particular interest in our consulting-led offering and the broader range of services including 'games with purpose'. LINE has partnered with global consulting firms for many years and has often created blended and digital learning components for their large-scale contracts, most notably the NHS Leadership Academy with KPMG last year. LEO's scale and offering is already creating many new substantial opportunities in our contract pipeline.

Preloaded, with its expertise in the learning games marketplace, broadens LTG's position as an end-to-end service provider of learning technologies. Trading in this business is strong, ahead of our initial expectations. Our focus is on assisting Preloaded to manage their growth and maximise their potential.

LTG's authoring tool, gomo 2.0 was launched in April and sales of licenses are in line with expectations and gaining momentum. LTG's aspiration is that gomo becomes the authoring tool of choice for multi-device learning and that the licences deliver the Group a consistent and recurring revenue stream.

Internationally, the US office has continued to build in line with growing demand. It has recently won two substantial contracts in the government and not-for-profit sectors and the opportunity in the US remains large and undiminished. In Brazil, our joint venture has seen encouraging signs of pick up following the hiatus caused by the World Cup.

## Acquisitions Funding

During the period under review LTG funded its acquisition of both LINE Communications and Preloaded through a mixture of cash and shares. £8 million was raised through a placing of 50,000,000 shares at 16p per share and in total 27,312,500 shares were issued as consideration.

At the half year end LTG had cash balances of £3.8 million.

## People

On 25 June 2014, Piers Lea, Richard Jones, Dale Solomon and Leslie-Ann Reed were appointed to the Board. Piers Lea, who was CEO of LINE Communications, was appointed Chief Strategy Officer of the Group. Richard Jones and Dale Solomon, Finance Director and Chief Operating Officer respectively, stepped up to the Board from their existing executive roles and Leslie-Ann Reed joined as a Non-Executive Director.

Over the last year LTG has been through significant growth and change. The Group has outstanding, talented people who are committed and have a broad range of skills. Without their professionalism, dedication and hard work, LTG would not be in the excellent position it is today. The Board and I wish to express our thanks to all the team and welcome those who have joined us on our journey.

In September, Peter Mountford, Deputy Chairman, stepped down from the Board. We thank him for his contribution and wish him well.

## Dividend

We stated at the time of our admission to AIM last November that the Group would pursue a progressive dividend policy. In light of the progress that has been made, I am delighted to announce that the Directors intend to declare a maiden dividend of 0.03p per share. This will be paid on 14 November 2014 to shareholders on the register at 17 October 2014. Before the interim dividend is declared, Company Financial Information for the period ended 31 May 2014 must be filed with Companies House. Following the filing today, an announcement declaring the interim dividend and confirming the above details will follow as soon as practicable.

## Outlook

The Board is pleased that trading since the half year has been in line with our expectations. Although LEO is still in its formative phase, we anticipate the benefit from the combined offering to be fully realised in 2015.

Preloaded and LEO US are outperforming our expectations and we expect the trajectory to continue for the remainder of 2014.  Our Brazilian joint venture has seen a resumption of its progress following the hiatus caused by the World Cup.

The e-learning market is fragmented and continues to grow rapidly. LTG is at the forefront of the industry and has the opportunity to take advantage of its leading position. We have a robust pipeline of acquisition opportunities that the Board is carefully considering to extend the Group's leadership.

With a strong foundation and the benefits of the first half's actions flowing though, LTG views the future with confidence.

Andrew Brode, Chairman
25 September 2014

**Consolidated statement of comprehensive income**

| | Note | Six months to 30 June 2014 (unaudited) £'000 | Year to 31 Dec 2013 (audited) £'000 | Six months to 30 June 2013 (unaudited) £'000 |
|---|---|---|---|---|
| Revenue | 3 | 6,504 | 7,557 | 3,714 |
| Cost of sales | | (2,769) | (2,978) | (1,486) |
| Gross profit | | 3,735 | 4,579 | 2,228 |
| Administrative expenses | | (3,613) | (3,422) | (1,866) |
| Share of (losses)/profit of joint venture | | (22) | (32) | 6 |
| **Operating profit*** | | 100 | 1,125 | 368 |
| **Adjusted EBITDA** | | 874 | 1,452 | 563 |
| Amortisation of intangibles | | (192) | - | - |
| Amortisation of development | | (41) | (75) | (36) |
| Depreciation | | (69) | (79) | (41) |
| Share based payment costs | | (355) | (173) | (118) |
| Integration costs | | (117) | - | - |
| **Operating profit*** | | 100 | 1,125 | 368 |
| Deemed cost of listing | | - | (1,108) | - |
| Costs of acquisition | | (294) | (950) | - |
| Finance expense | | (68) | - | - |
| Interest receivable | | 1 | 7 | 4 |
| **(Loss)/profit before taxation** | | (261) | (926) | 372 |
| Taxation | 4 | (42) | (182) | (141) |
| **(Loss)/profit for the period** | | (303) | (1,108) | 231 |
| Other comprehensive income: | | - | - | (1) |
| **Total comprehensive (loss)/income for the period** | | **(303)** | **(1,108)** | **230** |
| (Loss)/earnings per share attributable to owners of the Parent: | | | | |
| Basic, (pence) | 5 | (0.098) | (0.429) | 0.090 |
| Diluted, (pence) | 5 | (0.098) | (0.429) | 0.086 |

**Consolidated statement of financial position**

| | Note | 30 June 2014 (unaudited) £'000 | 31 Dec 2013 (audited) £'000 | Proforma 30 June 2013 (unaudited) £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | | 382 | 250 | 254 |
| Intangible assets | | 12,184 | 150 | 139 |
| Investments | | - | - | 38 |
| | | 12,566 | 400 | 431 |
| CURRENT ASSETS | | | | |
| Trade receivables | | 2,535 | 1,237 | 1,198 |
| Other receivables, deposits and prepayments | | 427 | 86 | 120 |
| Amounts recoverable on contracts | | 1,908 | 947 | 667 |
| Deferred tax assets | | - | 1 | 0 |
| Fixed deposits with licensed banks | | - | - | 1,000 |
| Cash and bank balances | 6 | 3,815 | 1,170 | 653 |
| | | 8,685 | 3,441 | 3,638 |
| **TOTAL ASSETS** | | **21,251** | **3,841** | **4,069** |
| **EQUITY AND LIABILITIES** | | | | |
| Share capital | | 1,327 | 1,034 | 77 |
| Share premium account | | 13,089 | 1,159 | 1,218 |
| Capital redemption reserve | | - | - | 28 |
| Other reserves | | (664) | (664) | (249) |
| Share-based payment reserve | | 894 | 547 | 262 |
| Foreign exchange translation reserve | | - | - | 5 |
| (Accumulated losses)/retained profits | | (883) | (588) | 625 |
| **TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT** | | **13,763** | **1,488** | **1,966** |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | | 5,422 | 2,206 | 1,875 |
| Corporation tax | | 115 | 87 | 177 |
| Amount owing to related parties | | - | 30 | 30 |
| Provisions | | 30 | 30 | - |
| | | 5,567 | 2,353 | 2,082 |
| NON CURRENT LIABILITIES | | | | |
| Other long term liabilities | | 1,523 | - | - |
| Deferred tax liabilities | | 398 | - | 21 |
| | | 1,921 | - | 21 |
| **TOTAL LIABILITIES** | | **7,488** | **2,353** | **2,103** |
| **TOTAL EQUITY AND LIABILITIES** | | **21,251** | **3,841** | **4,069** |

## Consolidated statement of changes in equity

| | Share capital | Share Premium | Capital redemption reserve | Other reserves | Share based payments reserve | Foreign exchange reserve | Retained profits/(losses) | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | **77** | **1,218** | **28** | **(249)** | **144** | **-** | **695** | **1,913** |
| Profit for the period | - | - | - | - | - | - | 231 | 231 |
| Other comprehensive income | - | - | - | - | - | - | (1) | (1) |
| Total comprehensive income for the period | - | - | - | - | - | - | 230 | 230 |
| Share based payment charge credited to equity | - | - | - | - | 118 | - | - | 118 |
| Foreign currency translation differences | - | - | - | - | - | 5 | - | 5 |
| Dividend paid | - | - | - | - | - | - | (300) | (300) |
| **Balance at 30 June 2013** | **77** | **1,218** | **28** | **(249)** | **262** | **5** | **625** | **1,966** |
| Group reconstruction | 957 | 23 | (28) | (415) | - | - | - | 537 |
| Costs of issuing shares | - | (82) | - | - | - | - | - | (82) |
| Loss for period | - | - | - | - | - | - | (1,338) | (1,338) |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Total comprehensive (loss) for the period | - | - | - | - | - | - | (1,338) | (1,338) |
| Share based payment charge credited to equity | - | - | - | - | 410 | - | - | 410 |
| Write off foreign exchange reserve | - | - | - | - | - | (5) | - | (5) |
| Transfer on exercise and lapse of options | - | - | - | - | (125) | - | 125 | - |
| **Balance at 31 December 2013** | **1,034** | **1,159** | **-** | **(664)** | **547** | **-** | **(588)** | **1,488** |
| Loss for the period | - | - | - | - | - | - | (303) | (303) |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - | - | - | (303) | (303) |
| Issue of shares | 293 | 12,202 | - | - | - | - | - | 12,495 |
| Costs of issuing shares | - | (272) | - | - | - | - | - | (272) |
| Share based payment charge credited to equity | - | - | - | - | 355 | - | - | 355 |
| Transfer on exercise and lapse of warrants | - | - | - | - | (8) | - | 8 | - |
| **Balance at 30 June 2014** | **1,327** | **13,089** | **-** | **(664)** | **894** | **-** | **(883)** | **13,763** |

## Consolidated statement of cash flows

| | Six months to 30 June 2014 (unaudited) £'000 | Proforma Year to 31 Dec 2013 (audited) £'000 | Proforma Six months to 30 June 2013 (unaudited) £'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| (Loss)/ profit before taxation | (261) | (926) | 372 |
| Adjustments for:- | | | |
| Share option charge | 355 | 173 | 118 |
| Deemed cost of listing | - | 1,108 | - |
| Non-cash costs of acquisition | - | 950 | - |
| Amortisation of development | 41 | 75 | 36 |
| Amortisation of intangible assets | 192 | - | - |
| Depreciation of plant and equipment | 69 | 79 | 41 |
| Share of profit/(loss) of joint venture | 22 | 32 | (6) |
| Finance expense | 20 | - | - |
| Interest received | (1) | (7) | (4) |
| **Operating cash flow before working capital changes** | **437** | **1,484** | **557** |
| Decrease/(increase) in trade and other receivables | 621 | (444) | (449) |
| (Increase)/decrease in amount recoverable on contracts | (183) | (245) | 34 |
| (Decrease)/increase in payables | (2,038) | 578 | 276 |
| Interest received | 1 | 7 | 4 |
| Income tax received/(paid) | 22 | (192) | (110) |
| **Net cash flow from operating activities** | **(1,140)** | **1,188** | **312** |
| **Cash flow used in investing activities** | | | |
| Purchase of property, plant and equipment | (59) | (63) | (29) |
| Development of intangible assets | (47) | (77) | (26) |
| Cash acquired on reverse acquisition | - | 705 | - |
| Cash costs of acquisitions | (3,836) | (652) | - |
| Cash consideration on reverse acquisition | - | (1,323) | - |
| Investment in joint venture | (26) | - | - |
| **Net cash flow used in investing activities** | **(3,968)** | **(1,410)** | **(55)** |
| **Cash flow used in financing activities** | | | |
| Dividends paid prior to group reconstruction | - | (300) | (300) |
| Cash generated from issue of shares, net of share issue costs | 7,753 | - | - |
| **Net cash flow used in financing activities** | **7,753** | **(300)** | **(300)** |
| Net increase/(decrease) in cash and cash equivalents | 2,645 | (522) | (43) |
| Cash and cash equivalents at beginning of the year | 1,170 | 1,692 | 1,692 |
| Effects of foreign exchange rate changes | - | - | 4 |
| **Cash and cash equivalents at end of the year** | **3,815** | **1,170** | **1,653** |

## Notes to the consolidated financial statements for the six months to 30 June 2014

### 1. General information

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

The Company is a public limited company, which is listed on the AIM Market of the London Stock Exchange and domiciled in England and incorporated and registered in England and Wales. The address of its registered office is 52 Old Steine, Brighton, East Sussex, BN1 1NH. The registered number of the Company is 07176993.

### 2. Basis of preparation

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

The interim results for the six months to 30 June 2014 are neither audited nor reviewed by our auditors and the accounts in this interim report do not therefore constitute statutory accounts in accordance with Section 434 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2013 have been filed with the Registrar of Companies and the auditor’s report was unqualified, did not contain any statement under Section 498(2) or 498(3) of the Companies Act 2006 and did not contain any matters to which the auditors drew attention without qualifying their report.

On 8 November 2013 the Company, then named In-Deed Online plc, became the legal parent of Epic Group Limited. The consolidated financial statements were presented as proforma to present the substance of the transaction. The comparative results to 30 June 2013 represent the consolidated position of Epic Group Limited prior to the reverse acquisition.

The accounting policies used in preparing the interim results are the same as those applied to the latest audited annual financial statements though a change in terminology has been used in describing intangible assets.

## 3. Segment analysis

### Geographical information

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

| | UK £'000 | Europe £'000 | America £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|
| **30 June 2014** | | | | | |
| **Revenue** | 5,454 | 440 | 589 | 21 | 6,504 |
| **Net assets** | 13,361 | 116 | 285 | - | 13,762 |
| **31 December 2013** | | | | | |
| **Revenue** | 6,534 | 808 | 215 | - | 7,557 |
| **Net assets** | 1,365 | - | 123 | - | 1,488 |
| **30 June 2013** | | | | | |
| **Revenue** | 3,228 | 434 | 52 | - | 3,714 |
| **Net assets** | 1,901 | - | 27 | 38 | 1,966 |

### Information about major customers

In the six months to 30 June 2014, no customer accounted for more than 10 percent of reported revenues. In the year ended 31 December 2013, one customer generated revenues of £760,000. No other customer accounted for more than 10 percent of reported revenues. In the six months to 30 June 2013, no customer accounted for more than 10 percent of reported revenues.

## 4. Taxation

Taxation for the six months to 30 June 2014 has been calculated by applying the estimated tax rate for the current financial year ending 31 December 2014 to an estimated tax adjusted profit figure.

## 5. Earnings per share

| | 30 June 2014 (unaudited) £'000 | 31 Dec 2013 (audited) £'000 | 30 June 2013 (unaudited) £'000 |
|---|---|---|---|
| (Loss)/profit after tax attributable to owners of the Group : | (303) | (1,108) | 230 |
| Weighted average number of shares: | | | |
| Basic | 309,592,092 | 258,138,014 | 255,000,000 |
| Diluted | 309,592,092 | 258,138,014 | 266,562,226 |
| Basic earnings per share (pence) | (0.098) | (0.429) | 0.090 |
| Diluted earnings per share (pence) | (0.098) | (0.429) | 0.086 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has share options that are dilutive potential ordinary shares. The share options in issue during the six months ended 30 June 2014 are anti-dilutive and therefore are not included in the above calculation.

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

| | 30 June 2014 £'000 | 31 Dec 2013 £'000 | 30 June 2013 £'000 |
|---|---|---|---|
| (Loss)/profit after tax attributable to owners of the Group : | (303) | (1,108) | 230 |
| Adjustments for: | | | |
| Deemed cost of listing | - | 1,108 | - |
| Costs of acquisition | 294 | 950 | - |
| Finance expense | 68 | - | - |
| Amortisation of intangibles | 192 | - | - |
| Amortisation of development | 41 | 75 | 36 |
| Depreciation | 69 | 79 | 41 |
| Share based payment charge | 355 | 173 | 118 |
| Integration costs | 117 | - | - |
| Adjusted earnings | 833 | 1,277 | 425 |
| Weighted average number of shares: | | | |
| Basic | 309,592,092 | 258,138,014 | 255,000,000 |
| Diluted | 361,330,255 | 283,746,935 | 266,562,226 |
| Adjusted basic earnings per share (pence) | 0.269 | 0.495 | 0.167 |
| Adjusted diluted earnings per share (pence) | 0.231 | 0.450 | 0.159 |

The Remuneration Committee is in negotiations which are expected to result in a reduction to the share based payment charge and the diluted weighted average number of shares.

## 6. Cash and cash equivalents

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

| | 30 June 2014 (unaudited) £'000 | 31 Dec 2013 (audited) £'000 | 30 June 2014 (unaudited) £'000 |
|---|---|---|---|
| Fixed deposits with licensed banks | - | - | 1,000 |
| Cash and bank balances | 3,815 | 1,170 | 653 |
| | 3,815 | 1,170 | 1,653 |

## 7. Acquisitions

On 7 April 2014, the Company acquired 100% of the issued share capital of LINE Communications Holdings Limited (LINE) in exchange for an initial consideration of £9,000,000 of which £5,130,000 was cash and £3,870,000 was in newly issued Learning Technologies Group plc (LTG) shares. LINE is a company engaged in the design of fully blended e-learning solutions.

The investment was made in order to enable LTG to combine LINE with its existing company Epic to create a European leader in the e-learning custom content market.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for LINE, the fair value of assets acquired and liabilities assumed at the acquisition date.

| **Consideration at 7 April 2014** | **£'000** |
|---|---|
| Cash | 5,130 |
| Equity instruments (24,187,500 ordinary shares) | 3,870 |
| **Total consideration** | **9,000** |
| | |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 1,258 |
| Property, plant and equipment | 110 |
| Trade and other receivables | 2,546 |
| Deferred tax assets | 70 |
| Trade and other payables | (2,728) |
| Borrowings | (465) |
| Deferred tax liabilities | (206) |
| Intangible assets identified on acquisition | 980 |
| **Total identifiable net assets** | **1,565** |
| | |
| **Goodwill** | **7,435** |
| | |
| **Total** | **9,000** |

The equity element of consideration is calculated using the share price at which a placing of shares was made on 11 April 2014.

The fair value of the acquired intangible assets of £980,000 is provisional pending receipt of the final valuations for those assets.

On 12 May 2014, the Company acquired 100% of the issued share capital of Preloaded Limited (Preloaded) in exchange for an initial consideration of £2,200,000 comprising £1,590,625 cash; of which £1,200,000 was paid immediately with the remaining £390,625 to be paid within 12 months, and £609,375 in newly issued LTG shares. A contingent consideration of £3,400,000 was also due with 50% dependent on revenue in 2014 and 50% dependent on revenue in 2015. These considerations have been discounted using a discount factor of 10% and are held as liabilities on the balance sheet.

Preloaded is a company engaged in the design of educational computer games. As a result of the acquisition, the group is expected to increase its presence in this market.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Preloaded, the fair value of assets acquired and liabilities assumed at the acquisition date.

| **Consideration at 12 May 2014** | **£'000** |
|---|---|
| Cash | 1,200 |
| Cash due during first 12 months | 391 |
| Equity instruments (3,125,000 ordinary shares) | 609 |
| Contingent consideration due in 2015 | 1,545 |
| Contingent consideration due in 2016 | 1,405 |
| **Total consideration** | **5,150** |
| | |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 1,236 |
| Property, plant and equipment | 27 |
| Trade and other receivables | 493 |
| Trade and other payables | (196) |
| Deferred tax liabilities | (227) |
| Intangible assets identified on acquisition | 1,080 |
| **Total identifiable net assets** | **2,413** |
| | |
| **Goodwill** | **2,737** |
| | |
| **Total** | **5,150** |

The equity element of consideration is calculated using the share price at close of business on 12 May 2014.

The fair value of the acquired intangible assets of £1,080,000 is provisional pending receipt of the final valuations for those assets.

## Company information

**Directors**
Andrew Brode, Non-Executive Chairman
Peter Mountford, Executive Deputy Chairman (resigned 22 September 2014)
Jonathan Satchell, Chief Executive Officer
Harry Hill, Non-Executive
Piers Lea, Chief Strategy Officer (appointed 1 July 2014)
Leslie-Ann Reed, Non-Executive (appointed 1 July 2014)
Richard Jones, Finance Director (appointed 1 July 2014)
Dale Solomon, Chief Operating Officer (appointed 1 July 2014)

**Company secretary**
Richard Jones

**Company number**
07176993

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**Independent auditors**
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Chartered Accountants and Statutory Auditors
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**Communications consultancy**
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**Nominated adviser and broker**
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**Legal advisers**
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**Registrars**
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learning technologies group

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