Mobile Tornado

Unaudited Interim Report

for the six months ended 30 June 2019

Mobile Tornado Group plc
Company registration number: 5136300

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Financial Highlights

- Total revenue increased by 21% to £1.49m (H1 2018: £1.23m)
    - Recurring revenues broadly stable at £0.98m (H1 2018: £1.02m)
    - Non-recurring revenues* increased by 140% to £0.51m (H1 2018: £0.21m)
- Operating expenses decreased by 5% to £1.68m (H1 2018: £1.78m)
- Adjusted EBITDAE** losses reduced by 54% to £0.29m (H1 2018: £0.64m)
- Group operating loss of £0.40m (H1 2018: £0.72m)
- Loss after tax of £0.69m (H1 2018: £1.03m)
- Basic loss per share of 0.20p (H1 2018: 0.34p)
- Cash and cash equivalents of £0.03m (H1 2018: £0.33m)
    - Post period end, completed a subscription to raise a total of £0.75m before expenses

*Non-recurring revenues comprising installation fees, hardware, professional services and capex license fees
**Earnings before interest, tax, depreciation, amortisation, exceptional items and excluding exchange differences

Operating highlights

- Several bundled solution deals completed in Israel with public municipalities, government agencies and enterprises
- Tender submitted and trial conducted with major government agency in South Africa
- Sold and commissioned a server platform with an MNO partner in Colombia for deployment with a major transportation group
- Completed an exclusive deal with a Chinese rugged handset manufacturer for customers in the Israel market

Post period end

- Successfully completed a subscription to raise £0.75m to provide additional working capital and conversion of £0.78m of debt into equity by major shareholder InTechnology plc

Financial results

Total turnover in the six-month period to 30 June 2019 increased by 21% to £1.49m (H1 2018: £1.23m). Recurring revenues remained broadly stable in the period at £0.98m (H1 2018: £1.02m). Non-recurring revenues, comprising installation fees, hardware, professional services and capex license fees increased by 140% to £0.51m (H1 2018: £0.21m). As a result, gross profit increased by 22% to £1.39m (H1 2018: £1.14m).

Our reported operating expenses decreased by 5% to £1.68m (H1 2018: £1.78m) reflecting the positive impact our investments have made to date and the operating efficiencies our technical platform is now delivering.

Due to the annual revaluation of certain financial liabilities on the balance sheet, the Group reported a translational loss of £0.01m (H1 2018: £0.04m loss) arising from the depreciation of Sterling comparative to the start of the period. As a result of the above, the loss after tax for the period decreased by 33% to £0.69m (H1 2018: Loss £1.03m).

The net cash outflow from operating activities during the period reduced to £0.46m (H1 2018: £1.42m). At 30 June 2019, the Group had £0.03m cash at bank (30 June 2018: £0.33m) and net debt of £8.85m (30 June 2018: £7.81m). Of this net debt figure, £5.62m is in respect of preference shares, held by InTechnology plc, the Company's largest shareholder. These preference shares are redeemable at par value on 31 December 2020, or, at the Company's discretion, at any earlier date.

The Company completed a placing on 28 August 2019, raising £0.75m before expenses at an issue price of 5p per share. At the same time, InTechnology converted £0.78m of current debt into equity at the 5p issue price, resulting in a total of 30,504,687 new ordinary shares being issued.

Review of Operations

The Board is delighted with the operational progress the Group has made during the first half of the year, with positive momentum developing in each of our target markets of Israel, Africa and the Americas.

In Israel, our bundled solution has sold well during the first half of the year, with notable deals concluded with public utilities, local authorities and government agencies. The bundled solution comprises our full end-to-end proposition including server platform, devices, applications and dispatch console, alongside an embedded perpetual license for use of the service. This has had a positive effect on the Group's cashflow and profitability as we receive margin on the license upfront, as well as separate margin on the hardware that we procure on behalf of the customer. With the IDEN switch-off in Israel scheduled for the end of 2019, the Board anticipates that activity levels should accelerate in the second half of the current financial year.

During the period, we sold and commissioned a new server platform for a major MNO in Colombia, and this will be deployed during the second half of the year, initially for a major transportation group. We understand from our MNO partner that they will use this platform to sell services to other transportation groups, once the first customer has been fully commissioned. During the last 18 months, we have dramatically reduced the cost of ownership for a private system and this deal is a perfect illustration of the types of opportunities that are now opening up as a result.

In South Africa, we have been working with one of our MNO customers on the submission of a tender for the deployment of services across a major government agency. Extensive trials have been running successfully for a number of weeks and we are hopeful that a deal will conclude during the second half. We have a major strategic advantage in Africa given our technical superiority. Cellular infrastructure on this continent is still largely 2G and 3G, and we are currently the only cellular PTT carrier grade market solution that can transition seamlessly across 2G, 3G, 4G and WiFi networks, delivering an uninterrupted service to the end user. As a result, we are engaged with the two leading MNOs in this territory and are currently involved in multiple tenders across government agencies, public authorities and enterprises.

Now that we are offering an end-to-end solution, we are able to ensure that the handsets we offer are optimised to work seamlessly with our applications. To this end, we are constantly reviewing the new low cost rugged PoC handsets that are now emerging as the market expands, to ensure we are in a position to offer our customers the best overall value proposition. Following a recent review, we secured an exclusive deal with a Chinese manufacturer, requiring us to commit to purchasing 5,000 handsets over the first 12 months to maintain such exclusivity. As a result, we have had to increase the handset stock levels and this is one of the reasons we raised additional external funds during August.

Research and Development

As I have highlighted in the past, the barriers to entry for cellular based PTT solution providers like Mobile Tornado into the public safety markets are very high, largely due to the dominant position of the established players offering radio-based solutions that operate on their own, high cost, bespoke infrastructure and handsets. They will not give up their control of these markets easily, but we have demonstrated that, with our constantly improving cellular based solution, we are able to secure public safety contracts, evidenced by certain deals that have closed during the first half of the year. I'm pleased to confirm that this transformative development is being driven across all of our target markets.

We have also been able to achieve this through our continued investment in developing the fastest, most robust, fully functioned, efficient PoC solution on the market. It's worth highlighting again some of the key characteristics of our solution:

- Speed – 500 millisecond set up time
- Capacity – our dual redundant servers can now be deployed to cater for >200,000 users and our dispatch console can handle 18 independent PTT channels
- Security – end-to-end encryption with a different key for each transmission, and new developments to counter the increasing cyber threat
- Functionality/features – push to talk/alert/location/message/video, dispatch console and recording are all part of the solution
- Efficiency – server/application optimised to ensure device battery consumption minimised

We believe these technical advantages are now being recognised by large organisations within both the public and private sector and utilising our new customers as case studies and references, will significantly enhance our credibility as we make further inroads into the public safety markets.

Funding

We completed a placing for £0.75m in August 2019, to provide the business with additional working capital. This has enabled the Group to build up a small increase in handset stocks and take a more flexible approach when negotiating deals with prospective customers. The £0.30m revolving loan facility with InTechnology plc will also remain in place.

The 2018 Annual Report and Accounts highlighted a significant outstanding receivable with one of our partners. This amount stood at £0.64m as at 31 December 2018 and £0.80m as at 30 June 2019. The Group was hoping to collect the outstanding debt in the short term following an equity investment into said partner. The equity investment was not completed as anticipated, due to the unfavourable capital market environment, and we have been in discussions since then to determine a mutually acceptable way forward. Based on a growing pipeline of new business and our partner's recent move into profitability, I'm pleased to report that we have agreed an acceptable repayment schedule with our partner to settle this debt over a maximum 36-month period with certain accelerated debt repayment opportunities.

Outlook

Our team has delivered an excellent first half. The EBITDAE loss has more than halved to £0.29m from £0.64m in 2018, driven by stable recurring revenues, a solid performance with our bundled offering in Israel and a new system deployment with our MNO partner in South America.

More importantly, we have competed against major players in the PTT space in highly complex tenders, and won, securing some major strategic customers as a result. I have no doubt that the significantly enhanced credibility we have gained has put us in a strong position as we engage with similar organisations across both the public and private sectors.

We are therefore well placed to further develop our business in each of our target markets. I expect the recurring revenue streams to return to growth in the second half of the current financial year as our efforts across Africa and South America, in particular, begin to gain traction. In Israel, we have a strong pipeline of new deals which we are confident will be developed further as the IDEN shutdown approaches at the end of the current calendar year.

The Board would like to thank those shareholders that supported the recent fundraising and we look forward to the remainder of 2019 and beyond with increasing confidence.

Jeremy Fenn
Chairman
18 September 2019

Consolidated income statement
For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2018 Unaudited £'000	Year ended 31 December 2018 Audited £'000
Continuing Operations				
Revenue		**1,493**	1,234	2,974
Cost of sales		**(101)**	(95)	(315)
Gross profit		**1,392**	1,139	2,659
Other operating expenses		**(1,683)**	(1,775)	(3,547)
Group operating loss before exchange differences, exceptional items, depreciation and amortisation expense		**(291)**	(636)	(888)
Exchange differences		**(12)**	(44)	(138)
Exceptional items		**-**	-	(49)
Depreciation and amortisation expense		**(98)**	(37)	(208)
Total operating expenses		**(1,793)**	(1,856)	(3,942)
Group operating loss		**(401)**	(717)	(1,283)
Finance costs		**(290)**	(334)	(619)
Loss before tax		**(691)**	(1,051)	(1,902)
Income tax credit		**-**	17	367
Loss for the period		**(691)**	(1,034)	(1,535)
Loss per share (pence)				
Basic and diluted	3	**(0.20)**	(0.34)	(0.47)

Consolidated statement of comprehensive income
For the six months ended 30 June 2019

	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2018 Unaudited £'000	Year ended ended 31 December 2018 Audited £'000
Loss for the period	**(691)**	(1,034)	(1,535)
Other comprehensive income			
Exchange differences on translation of foreign operations	**(1)**	(11)	(28)
Total comprehensive loss for the period	**(692)**	(1,045)	(1,563)

Consolidated statement of changes in equity
For the six months ended 30 June 2019

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	**5,427**	**12,672**	**(7,620)**	**10,938**	**(2,213)**	**(34,220)**	**(15,016)**
Equity settled share-based payments	-	-	-	-	-	29	29
Issue of share capital	1,558	2,252	-	-	-	-	3,810
Transactions with owners	**1,558**	**2,252**	**-**	**-**	**-**	**29**	**3,839**
Loss for the period	-	-	-	-	-	(1,034)	(1,034)
Exchange differences on translation of foreign operations	-	-	-	-	(11)	-	(11)
Total comprehensive income for the period	-	-	-	-	**(11)**	**(1,034)**	**(1,045)**
Balance at 30 June 2018	**6,985**	**14,924**	**(7,620)**	**10,938**	**(2,224)**	**(35,225)**	**(12,222)**

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2018	**6,985**	**14,924**	**(7,620)**	**10,938**	**(2,224)**	**(35,225)**	**(12,222)**
Equity settled share-based payments	-	-	-	-	-	25	25
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**25**	**25**
Loss for the period	-	-	-	-	-	(501)	(501)
Exchange differences on translation of foreign operations	-	-	-	-	(17)	-	(17)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(17)**	**(501)**	**(518)**
Balance at 31 December 2018	**6,985**	**14,924**	**(7,620)**	**10,938**	**(2,241)**	**(35,701)**	**(12,715)**

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019	**6,985**	**14,924**	**(7,620)**	**10,938**	**(2,241)**	**(35,701)**	**(12,715)**
Equity settled share-based payments	-	-	-	-	-	27	27
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**27**	**27**
Loss for the period	-	-	-	-	-	(691)	(691)
Exchange differences on translation of foreign operations	-	-	-	-	(1)	-	(1)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(1)**	**(691)**	**(692)**
Balance at 30 June 2019	**6,985**	**14,924**	**(7,620)**	**10,938**	**(2,242)**	**(36,365)**	**(13,380)**

Consolidated balance sheet
As at 30 June 2019

Mobile Tornado

	Note	**30 June 2019 Unaudited £'000**	30 June 2018 Unaudited £'000	31 December 2018 Audited £'000
Assets				
Non-current assets				
Property, plant & equipment		**168**	308	219
Intangible assets		**69**	115	88
		237	423	307
Current assets				
Trade and other receivables		**1,489**	1,125	1,243
Inventories		**69**	93	151
Tax debtor		**364**	493	462
Cash and cash equivalents		**33**	328	354
		1,955	2,039	2,210
Liabilities				
Current liabilities				
Trade and other payables		**(4,858)**	(4,364)	(4,555)
Borrowings		**(3,262)**	(2,510)	(2,796)
Net current liabilities		**(6,165)**	(4,835)	(5,141)
Non-current liabilities				
Trade and other payables		**(1,828)**	(2,187)	(2,257)
Borrowings		**(5,624)**	(5,623)	(5,624)
		(7,452)	(7,810)	(7,881)
Net liabilities		**(13,380)**	(12,222)	(12,715)
Shareholders' equity				
Share capital	4	**6,985**	6,985	6,985
Share premium	4	**14,924**	14,924	14,924
Reverse acquisition reserve		**(7,620)**	(7,620)	(7,620)
Merger reserve		**10,938**	10,938	10,938
Foreign currency translation reserve		**(2,242)**	(2,224)	(2,241)
Retained earnings		**(36,365)**	(35,225)	(35,701)
Total equity		**(13,380)**	(12,222)	(12,715)

Consolidated cash flow statement
For the six months ended 30 June 2019

Mobile Tornado

	Note	**Six months ended 30 June 2019 Unaudited £'000**	Six months ended 30 June 2018 Unaudited £'000	Year ended 31 December 2018 Audited £'000
Operating activities				
Cash used in operations	5	**(464)**	(1,421)	(1,849)
Tax credit received		**-**	-	493
Net cash used in operating activities		**(464)**	(1,421)	(1,356)
Investing activities				
Purchase of property, plant & equipment		**(27)**	(56)	(101)
Net cash used in investing activities		**(27)**	(56)	(101)
Financing				
Issue of ordinary share capital		**-**	1,351	1,351
Share issue costs		**-**	(81)	(81)
Proceeds from borrowings		**170**	(200)	(200)
Net cash inflow from financing		**170**	1,070	1,070
Effects of exchange rates on cash and cash equivalents		**-**	3	9
Net increase in cash and cash equivalents in the period		**(321)**	(404)	(378)
Cash and cash equivalents at beginning of period		**354**	732	732
Cash and cash equivalents at end of period		**33**	328	354

Notes to the interim report
For the six months ended 30 June 2019

1 General information

The financial information in the interim report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 and has not been audited or reviewed. The financial information relating to the year ended 31 December 2018 is an extract from the latest published financial statements on which the auditor gave an unmodified report that did not contain statements under section 498 (2) or (3) of the Companies Act 2006 and which have been filed with the Registrar of Companies.

2 Basis of preparation

These interim financial statements are for the six months ended 30 June 2019. They have been prepared using the recognition and measurement principles of IFRS.

The interim financial statements have been prepared under the historical cost convention.

The interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2018. The accounting policies have been applied consistently throughout the Group for the purpose of preparation of the interim financial statements.

3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £691,000 (30 June 2018: £1,034,000, 31 December 2018: £1,535,000) by the weighted average number of ordinary shares in issue during the period of 349,240,236 (30 June 2018: 303,775,500, 31 December 2018: 326,694,121).

	Six months ended 30 June 2019 Unaudited Basic and diluted		Six months ended 30 June 2018 Unaudited Basic and diluted		Year ended 31 December 2018 Audited Basic and diluted	
	Loss	**Loss per share**	Loss	Loss per share	Loss	Loss per share
	£'000	**pence**	£'000	pence	£'000	pence
Loss attributable to ordinary shareholders	**(691)**	**(0.20)**	(1,034)	(0.34)	(1,535)	(0.47)

Notes to the interim report
For the six months ended 30 June 2019

4 Share capital and share premium

	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2018	**271,353**	**5,427**	**12,672**	**18,099**
Issue of shares	77,887	1,558	2,252	3,810
At 30 June 2018, 31 December 2018 & 30 June 2019	**349,240**	**6,985**	**14,924**	**21,909**

Non-voting preference shares

	Number of shares '000	Nominal Value £'000
At 30 June 2018, 31 December 2018 and 30 June 2019	**71,277**	**5,702**

Liabilities and preference shares totalling £5,702k were converted into 71,277k 8p preference shares on 28 August 2013. The preference shares are non-voting, non-convertible redeemable preference shares redeemable at par value on 31 December 2020, or, at the Company's discretion, at any earlier date. The preference shares accrue interest at a fixed rate of 10% per annum.

5 Cash used in operations

	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2018 Unaudited £'000	Year ended 31 December 2018 Audited £'000
Loss before taxation	**(691)**	(1,051)	(1,902)
Adjustments for:			
Depreciation and amortisation	**98**	37	208
Share based payment charge	**27**	29	54
Interest expense	**290**	334	619
Changes in working capital:			
Decrease/(Increase) in inventories	**82**	(92)	(149)
(Increase)/Decrease in trade and other receivables	**(148)**	125	(200)
Decrease in trade and other payables	**(122)**	(803)	(479)
Net cash used in operations	**(464)**	(1,421)	(1,849)

6 Shareholder information

The interim announcement will be published on the company's website www.mobiletornado.com on 18 September 2019.

Corporate information

Mobile Tornado

Company Registration Number:	5136300	
Registered Office:	Cardale House Cardale Court Beckwith Head Road Harrogate HG3 1RY	
Directors:	Jeremy Fenn Avi Tooba Peter Wilkinson Jonathan Freeland	(Executive Chairman (Chief Executive Officer) (Non-Executive Director) (Non-Executive Director)
Nominated Advisor and Broker:	Allenby Capital Ltd 5 St Helen's Place London EC3A 6AB	
Bankers:	Barclays Bank Plc Hanover Square 50 Pall Mall London SW1Y 5AX	
Solicitors:	Schofield Sweeney LLP Wellington Street Leeds LS1 2AY	
Registrars:	Link Asset Services 34 Beckenham Road Beckenham Kent BR3 4TU	
Auditors:	Saffery Champness LLP Mitre House North Park Road Harrogate HG1 5RX	

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