Tribal Group plc ("Tribal")

Preliminary Results year ended 31 December 2017

Tribal, a leading provider of software and services to the international education management market, announces preliminary results for the year ended 31 December 2017.

Financial highlights

- Adjusted operating profit for the year up 82% to £8.5m* (2016: £4.7m*) on revenue of £84.9m (2016: £90.3m)
- Annual recurring revenue increased by 5% to £37.5m (2016: £35.5m)
- Return to statutory profit of £2.6m (2016: £1.2m loss); earnings per share 1.3p (2016: 0.7p loss)
- Annualised operational efficiencies achieved of £12.0m, including £3.0m in year savings; further efficiencies anticipated in 2018
- Strong operational cash inflow during the year of £11.1m (2016: £8.3m) and year end net cash of £14.1m (2016: 8.8m); operating cash conversion of 130% (2016: 115%)
- Return to dividend payments with the Board recommending 1p per share dividend to be paid annually going forwards

* Adjusted operating profit is in respect of continuing operations and is stated excluding "Other Items" charges of £4.9m (2016: £5.0m). Other Items include Share-based Payments, Deferred Contingent Consideration, Amortisation of IFRS3 Intangibles, Profit on sale of Synergy, and Restructuring and associated costs

Operational highlights

- Positive sales momentum with new contract wins at three major universities
- Significant commitment from Australian customer base with four-year extension agreed
- Strong performance in Quality Assurance Solutions business, with new customer wins in Abu Dhabi and Dubai
- Investment in next generation cloud-based Student Information System “Tribal Edge” well received by customers

Ian Bowles, Chief Executive, commented:

"I am very pleased with the 2017 results as they clearly demonstrate that the changes driven by management are having the positive impact anticipated. Representing twenty-two months of a three year turn around, it is my view that we are very much on track. Our Customers, partners and the broader team at Tribal are seeing the benefit of a clear long-term strategy and commitment to the Education Sector”

Ends

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Chairman’s statement

With the Group placed on a sound financial footing in 2016, and with many of its operational challenges addressed, I am pleased to report that the Group has now returned to full year statutory profit for the first time since 2013.

Annually Recurring Revenues, which now include Cloud services, grew over 5% to £37.5m, overall profitability doubled to an adjusted operating margin of 10%, compared with 5% in 2016, and the Group ended the year with net cash up 59% at £14.1m (2016: £8.8m). Shareholder value is now being created in a sustainable manner as the Group continues to drive efficiencies in the business. A further £3m of annualised savings were realised in 2017, bringing the total annualised savings realised to £12.0m since the initiation of the cost savings programme; this has driven improved financial performance without impacting the Group’s ability to serve its customers or drive its business forward.

For the year to 31 December 2017, Tribal Group achieved an adjusted Operating Profit of £8.5m, up 82%, on a revenue of £84.9m (2016: operating profit of £4.7m on a revenue of £90.3m) and increased Adjusted Earnings per Share (diluted) to 3.2p (2016: 1.9p). The fall in revenue reflected a combination of the expiry of the Ofsted Early Years contract in March 2017 and the disposal of Synergy in March 2016 – excluding these factors, the revenue increased by 6.5%, particularly due to the strong performance in the remaining Quality Assurance Solutions (QAS) business.

2017 confirmed that Tribal remains a leading international provider of student information systems to universities, colleges and schools in the UK, Australia and New Zealand markets as well as elsewhere in the world. We serve a large installed customer base, including many of the world's leading universities and colleges.

During the year, the Group secured significant new contract wins in the Higher Education sector, including Sheffield University and Glasgow Caledonian University in the UK, and our third win in Malaysia, at the University of Malaya. We also finalised a AUD$27.5m (approx. £16.8m), four-year extension to the Callista contract, which provides student information systems to 11 Australian universities for the on-going development of the Callista product and seamless migration into the cloud ready Tribal Edge platform.

I am also pleased to note the strong performance in Further Education and Work-based Learning where, in the UK, the growth is being driven by significantly improved software sales to new business customers, and in APAC, the Campus solution at the British Council has been successfully rolled out to 34 countries. In our i-graduate business there was a change of leadership in the first half of the year, and we successfully secured a number of new contracts. However, the overall participation by universities in the key International Student Barometer survey towards the end of 2017 was disappointing, as more universities than expected chose to skip a year. We look forward to welcoming them back into the survey in 2018.

The Quality Assurance Solutions business also performed well in 2017 and secured significant contract wins at the Abu Dhabi Education Council, the Ministry of Education of Dubai & Northern Emirates. In addition to broadening the offerings beyond School Inspections to include Performance Benchmarking and Professional Development & Training, QAS continues to have opportunities to grow and develop its business both in the UK and, more widely, to build on our existing contracts in the Middle East and the USA.

Looking to the future

In 2018, I expect Tribal to continue to secure new clients for our Student Information Systems, with a strong pipeline of new opportunities in Higher Education, and the prospect of continued improvement in sales performance. Additionally, with a further contract already secured in Dubai and a strong pipeline of new work, QAS enters 2018 with confidence and optimism.

Revenues are expected to be broadly flat in 2018, which represents a small growth excluding the impact of the final year of Ofsted revenue in 2017.

We expect the operating margins to increase further, as the cost savings achieved in 2016 and 2017 continue to benefit 2018. We will look for further efficiencies in 2018.

We will also continue to reshape our product development and customer-facing support businesses to provide a more agile and responsive customer-facing environment. As part of this change, we are transitioning our current hosted customers to a new data centre, in partnership with Rackspace. The investment in this migration will provide us with increased sales opportunities for hosting solutions to new and existing customers, as well as providing a resilient platform for our next generation, cloud-based Student Information System.

Although there remains much to do, I see the momentum continuing into 2018 and beyond, as the Group continues to drive cost efficiencies in the business and increasingly takes advantage of the international market for student information systems.

Employees

I would like to thank all our employees for their hard work and commitment. The Group has undergone significant continued change through 2017, and that inevitably brings uncertainty. The support of the employees has been invaluable in bringing the Group through this challenging period. Although there is much still to do in 2018, the overall business structural changes have largely been made, which should provide a more settled and certain environment for 2018. I should also like to thank my fellow directors for their hard work, determination and persistence in seeking to improve the efficiency of the Tribal business.

Dividends

The Board believes that the payment of dividends is important and has previously confirmed its intention to pursue a progressive dividend policy once the Group's financial performance supported the payment of a dividend.

Given the good overall performance of the business in 2017 and the strong closing cash position, the Group is now in a sustainable financial position. The Board has therefore decided to propose a dividend of 1p per share. This will be paid in May 2018, pending ratification at the Company's Annual General Meeting.

Outlook and current trading

We expect overall market conditions and demand for student management systems to remain stable in 2018. While the timing of deal closures and achievement of implementation milestones remains difficult to predict, we are well positioned to continue to benefit from the demand for student systems and upgrades. We have already secured several software and service contract wins in the early part of 2018.

With the introduction of IFRS15 in 2018, there will be some impact on revenues and operating profit as the Group will be required to spread the recognition of software revenues over the duration of the implementation period, rather than immediate recognition on installation. This is likely to cause a modest transitional dip in revenues and operating profit in 2018, as large contract wins in year are spread over the future implementation period.

Given the factors described above, and the strong platform around which to build sustainable shareholder value, I expect continued improvement in our profitability during the current year.

Richard Last
Chairman

Chief Executive's report

The Group has delivered a significant improvement in profitability, as a result of continued restructuring and efficiency drive, and it has maintained its market leadership, with strong sales momentum, and new customers gained. Ongoing investment in the development of a next generation, cloud-based platform for Student Information Systems[1] provides a roadmap for new and existing customers into the future.

In 2017, the Group has continued to build on the strong foundations laid in 2016 and has driven a significant and sustainable improvement in profitability.

Revenues fell in 2017 to £84.9m (2016: £90.3m); however, 2016 revenue included £11.6m relating to the Ofsted contract which successfully concluded in March 2017 (2017 Ofsted revenue: £3.0m), and £1.7m from Synergy (disposed of in March 2016) and SLS (closed 2015). Excluding these items, revenue relating to continuing operations increased by 6.5%, to £81.9m (2016: £76.9m).

Annually Recurring Revenues, which from 2017 include Cloud services, increased by 5.5% to £37.5m (2016: £35.5m).

We identified areas where we can more effectively align the Group's resources to deliver material cost efficiencies and improve margin without impacting the Group's ability to serve our customers or drive our business forward. Cumulative annualised cost savings achieved since the start of the cost efficiencies programme total £12.0m, of which £3.0 annualised savings were realised in 2017 (2016: £9.0m annualised, of which £5.8m in year).

The impact of these actions has grown through the year, and we can report a significantly improved trading performance for 2017, with the first full year statutory profit since 2013, and adjusted operating profit up 82% to £8.5m (2016: £4.7m). This, coupled with good cash generation, with net cash up 59% to £14.1m (2016: £8.8m), has left the Group in a stronger position at the end of the financial year.

1 Student Information System (SIS) is the general industry term for education management solutions that encompasses Management Information Systems (MIS), Customer (or Student) Relationship Management (CRM), business insight and data analytics products. Student Management System (SMS) is more specifically the administration aspect of Student Information Systems. We refer to our heritage products as SMS, our new offerings (aligned with their wider applicability) as SIS, and the general industry as student information.

2017 in summary

In our chosen regional markets and sectors, overall activity levels for the replacement or enhancement of student management systems have remained stable. We have seen significantly improved win rates in our UK Further Education and Work-based Learning businesses and we continue to win new customers in the Higher Education sector, reaffirming the strength of Tribal's software and services portfolio, and confirming that our international customer base and continued market leading position provide a strong platform around which to build long term shareholder value.

The Group won significant new contracts in the Higher Education sector, including at the University of Sheffield, a major UK Russell Group University, as well as contracts with Glasgow Caledonian University, University of South Wales and Heriot-Watt University. We also secured our third Higher Education customer in Malaysia at the University of Malaya.

Our Callista business, which provides student information systems to 25% of Australian universities, performed well, and we finalised a AUD$27.5m (approx. £16.8m), four-year extension to our contract with the 11 Universities for the on-going development of the Callista product with seamless migration into the cloud-ready Tribal Edge product platform.

Quality Assurance Solutions (QAS) confirmed its position as a market-leading international school inspections business. QAS completed the first term as sole provider of school inspections for the Department of Education and Knowledge in Abu Dhabi. In Dubai, a contract with the Ministry of Education (MoE) for the review of public schools was won and delivered. In 2018, the MoE in Dubai also awarded us the contract for the review of private schools. In the US, evaluations of schools and districts in New York State continued under a new contract extension and similar review work was won with a new state, Alabama. The contract to provide the National Centre for Excellence in the Teaching of Mathematics for the UK Department for Education was expanded to include additional maths development in the North of England.

The Group's large customer base ensures it is well positioned to take advantage of the increasing market trend to improve student engagement, through our experience in data analytics and student barometers from the i-graduate line of business.

Shareholder returns & dividends

Given recent performance of the business, a strengthened balance sheet, and confidence in the sustained profitability of the business, the Board has declared a full year dividend of 1p (2016: nil) which will be paid in May 2018, pending approval at the AGM in April 2018. The Board of Directors believes that the payment of dividends is important, and will continue to pursue a progressive dividend policy to be paid once a year.

Product & Services strategy

Tribal is a worldwide, software and services company focused on the education market. At the core of our business, we have a portfolio of functionally rich student information systems and these are being expanded with the development of a next generation, cloud-based solution – Tribal Edge. Our new product investment will focus on Tribal Edge and delivering a solution that enables institutions to significantly enhance the student experience they are able to offer.

The Group also continues to invest significantly in our existing products. In 2017, the Group spent £10.2m (2016: £10.3m) on product development, of which £2.1m (2016: £1.1m) was capitalised, and related to development of SchoolEdge and the new Tribal Edge solution. The remaining £8.1m (2016: £9.2m) was expensed in year and related to product development costs and related overheads for the existing SITS, ebs, and Maytas products.

Tribal Edge was successfully launched at our UK Higher Education conference in July. The launch was followed by a series of roadshows to all our UK customers. This has drawn high interest and secured commitments for beta sites and early adopters for the first Tribal Edge modules. The launch to our Asia Pacific customers has been equally well received, with those using Callista having agreed a four-year contract extension that includes the integration of Tribal Edge for their use in the near-term.

Our strategy for Tribal Edge has been to first develop a number of new modules that deliver additional functionality for our Higher and Further Education customers and that integrate to all our core student information systems. The initial modules are:

- Student View – a mobile app giving students anytime, anywhere availability to see their day at a glance and enabling them to access all information they need at their fingertips, all personalised to their timetable and their lifestyle. Student View incorporates Student Engage;
- Student Engage - a social collaboration app designed to operate like a social network but with added safeguarding features that keep staff's professional and personal lives separate. It enables staff and students to connect, communicate and collaborate with each other safely and securely;
- Student Support - ensures students are supported through the complete education lifecycle. Institution support staff have a single view of all student performance issues and identify opportunities to deliver critical support to reduce drop-outs and maximise student successes, while students have easy access to support wherever they are; and
- Student Insight – a learning analytics solution that monitors and tracks student engagement, analysing student data from multiple sources, and flagging students at potential risk, thus enabling the targeting of students that need support. This timely intervention improves outcomes and reduces dropouts.

The Student Engage module was kick-started with the acquisition of intellectual property and exclusive distribution rights for an existing private social network solution in the education markets across the UK, Australia and New Zealand. This gave both an existing customer base and a solution that was actively used and could be developed upon, and is now available as Student Engage, fully integrated into a single mobile app, Student View.

A closed-beta (limited access) was completed at the end of 2017 and a full beta programme is now underway with both Higher Education and Further Education customers in the UK and in Australia. Several early adopters have also been identified and they will receive the roll-out of new modules in early 2018. The Student Insight module was also used as the enabling platform in the ongoing trial of student analytics and analysis with JISC.

Our progress with Tribal Edge has been further enhanced with a strategic partnership with Microsoft. Microsoft's Azure application development team will work with Tribal to accelerate the creation of new functionality, enabling the rapid development of an enhanced cloud-based platform and the conversion of the current functionally-rich applications of SITS:Vision and ebs to the Tribal Edge framework.

Outside of Higher and Further Education, we have continued the successful development of SchoolEdge, a new, web-based product for schools. Schools in Australia have adopted many of the new modules on offer and the development continues to offer a completely refreshed schools student information system.

We have also continued to invest in our market-leading employers and training providers' solution, Maytas. This has seen particular growth in the UK where the Government's introduction of the Apprenticeship Levy has encouraged companies to explore and adopt apprentices. Maytas fully supports the management of apprenticeship programmes including the critical area of funding.

Business structure

Tribal's organisational structure has been simplified to drive improved customer focus, more agile management, responsiveness to local needs, and clear accountability across our business and is managed through three segments. Within the Student Management Systems business, we have adopted a primarily regional structure, split between Europe, Middle East & Africa (EMEA), and Australia, New Zealand & Asia- Pacific (APAC). QAS and i-graduate operate as independent businesses and are managed globally.

Student Management Systems (SMS) focuses on the following market sectors: Higher Education, Further Education, Colleges & Employers (referred to in Australia as VET), and Schools, and across three main markets, UK, Australia and New Zealand. Product/ Offerings are split between License & Development Services, Support & Maintenance, Implementation, and Cloud Operations. From 2017, SMS no longer includes K2 Asset Management (K2) or Software Solutions, as they are non-core businesses and are now included within the i-graduate line of business.

Quality Assurance Solutions covers inspection and review services which support the assessment of educational delivery including the Ofsted Early Years inspection contract. From 2017, it also includes Performance Benchmarking.

i-graduate covers i-graduate student surveys and data analytics as well as various non-core businesses, not forming part of Student Management Systems or QAS. These include K2 Asset Management, Software Solutions and Information Matters. It no longer includes Performance Benchmarking, which has moved to QAS in 2017.

Revenue and profit for each segment are restated for 2016 to reflect the above changes.

Product & Services revenues

The table below groups products and offerings, irrespective of the segment in which they fall. Most license and related services (Support & Maintenance, Implementation Services and Cloud Services) relate to the Group's Student Management Systems; however, there are businesses which are non-core, managed under the i-graduate line of business, which include license and related services. This includes K2 and Software Solutions where we continue to support & maintain the existing product; the Group also has a software product, developed and sold by QAS, to support Ofsted as they manage school inspections following the conclusion of our Ofsted contract at the end of March 2017.

	Revenue £'000		
Revenues by LoB	2017	2016 (restated)	Change
License & Development fees	9,989	10,973	(9.0%)
Support & Maintenance fees	33,474	32,211	3.9%
Implementation Services	14,840	12,411	19.6%
Cloud Services	4,004	3,322	20.5%
Software & Related Services	62,307	58,918	5.8%
School Inspections & related services (excl Ofsted)	14,119	10,925	29.2%
Survey & data analytics (i-graduate)	3,031	3,147	(3.7%)
Other Services	2,441	3,918	(37.7%)
Non-Software related services	19,591	17,989	8.9%
Continuing Operations	81,898	76,907	6.5%
Ofsted contract revenues (contract completed)	3,020	11,620	
Synergy/SLS (disposed of/ closed)	–	1,728	
Total Revenue	84,918	90,255	(5.9%)

Annually Recurring Revenue	37,478	35,533	5.5%

All revenue (which includes license, support & maintenance, and other services) relating to Synergy (disposed of) and SLS (closed) is shown separately.

Overall, the revenue from License & Development fees has fallen 9.0% to £10.0m (2016: £11.0m). This is due in part to contracts successfully moving from a software development phase further into the implementation phase. We have also seen some Higher Education institutions moving towards a bundled pricing model, where the contractual terms result in license revenue being phased over time rather than being recognised upfront, as previously. In 2017, the contract awarded by Glasgow Caledonian University was based on a bundled pricing model with contractual terms that resulted in the software license recognition being phased over the implementation period.

For 2018, this transition ends with the move to IFRS15 accounting, by which the Group's revised revenue recognition policy requires all significant license revenue to be spread over the implementation period (as detailed in the Financial Review section).

Support & Maintenance retention rates remain high, and as a result, our Annual Recurring Revenue base has continued to grow. Support & Maintenance fees in the period were £33.5m (2016: £32.2m), an increase of 3.9%.

Implementation services deliver the technical implementation of our software products at customer sites, typically working alongside customer teams. Implementation projects vary in length, and range from a small number of days, to more than two years for more complex projects. Revenues are typically based on day rate fees, although we sometimes operate under fixed fee contracts for defined implementation scopes. Overall growth of 19.6% was driven by the extensive implementation work at British Council, University of Waikato and Massey University.

Cloud services cover the provision of managed IT services and hosting services to customers to manage their Tribal products either on premise, in a private cloud, or in a public cloud. These services have grown by 20.5% in 2017, to £4.0m (2016: £3.3m) as customers increasingly migrate their IT systems into the cloud. These hosting services are recurring, and from 2017 the Group will include Cloud services revenue in the calculation of Annually Recurring Revenue.

School inspections & related services covers all products and services offered by the QAS line of business which do not relate to the sale of software licenses and related services.

Surveys & data analytics covers all products and services offered by the i-graduate line of business which do not relate to the sale of software licenses and related services.

Geographic revenues

Revenues generated in Tribal's key geographic markets were as follows:

	Revenue £'000	
	2017	2016
UK	39,252	46,469
Asia Pacific	33,713	31,819
North America and rest of the	11,953	11,967
	84,918	90,255

Revenues in Asia Pacific have increased by 6%, mostly due to the QAS contracts secured in Abu Dhabi and Dubai.

Headcount

	Headcount As at 31 December	
	2017	2016
UK	542	741
Asia Pacific	287	323
North America and rest of the	21	25
	850	1,089
Full Time Equivalent (FTE)	820	1,041

Our overall workforce has reduced by 22% to a total headcount of 850, down from 1,089 at 31 December 2016. Full time equivalent headcount (FTE) has reduced by 221 FTEs in the year.

This follows an 18% headcount reduction in the previous year, a total reduction of 473 heads (36%) since 31 December 2015.

Of these reductions in 2017, approximately 100 FTE reductions were the result of specific actions taken as part of our cost reduction program to drive increased profitability. The other reductions were due to the winding down of the Ofsted contract, and were transferred back to Ofsted under TUPE regulations.

Segmental performance

Results for each business segment are shown in the table below. The Central & Group costs represent the aggregate of all costs which support the Lines of Business, and which are not directly and specifically attributable to each Line of Business. This provides greater transparency into the profitability of each business.

	Revenue £'000		Adjusted Operating Profit £'000	
	2017	2016 (restated)	2017	2016 (restated)
Student Management Systems	60,026	59,005	17,613	12,021
i-graduate	7,101	8,705	1,064	1,007
Quality Assurance Solutions	17,791	22,545	4,408	6,537
Total Lines of Business	84,918	90,255	23,085	19,565
Central / Group costs [1]			(14,543)	(14,877)
			8,542	4,688

The capitalised development cost was £2.1m in 2017 (2016: £1.1m). This relates to continued development of our SchoolEdge product, and investment in our Tribal Edge next generation, cloud-based student management system.

1 Central/Group: these are costs described as Unallocated Corporate expenses and represent all costs which are not directly attributable or controllable by the Line of Business. Costs include Finance, HR, Legal, IT, General (non-Line of Business specific) Marketing costs, Corporate Services and Board of Director costs including all attributable office costs. It was determined the previous methodology allocated costs in a way that did not represent the level of resource utilised by that business, and accordingly did not provide sufficient insight into the underlying profitability of the Lines of Business.

Student Management Systems

	Year ended 31 December £'000	
	2017	2016
Total Revenue	60,025	59,005
Adjusted Operating Profit	17,613	12,021
Adjusted Operating Profit Margin	29%	20%
Capitalised Product Development Expenditure	2,135	1,098
Amortisation of Development costs	(1,445)	(1,411)

Overall activity levels in our markets and sectors for the replacement or enhancement of student information systems remain stable and we continue to see a steady stream of new opportunities in all sectors.

In 2016, the Student Management System included combined revenue of £1.7m and profits of £1.0, from Synergy (disposed of in March 2016) and SLS (closed in 2015).

Student Management Systems revenues increased by 1.7% to £60.0m (2016: £59.0m). Excluding Synergy/SLS, SMS revenue grew by 4.8%.

Adjusted operating profit was £17.6m (2016: £12.0m) and the adjusted operating margin was 29% (2016: 20%). Excluding Synergy/SLS, SMS profit grew by 60%.

The Group won significant new contracts in the Higher Education sector, including a £4.3m contract for the implementation of the full student information system at the University of Sheffield, a major UK Russell Group University, as well as contracts with Glasgow Caledonian University, the University of South Wales and Heriot-Watt University. We secured our third Higher Education customer in Malaysia, at the University of Malaya, reaffirming Tribal as an international market leader in student information systems.

Within the Higher Education sector, our Callista business, which was acquired in March 2015, and which provides student information systems to 25% of Australian universities, performed well, and we finalised a AUD27.5m (approx. £16.8m), four-year extension to our contract with the 11 Universities for the on-going development of the Callista product and seamless migration into the cloud ready Tribal Edge platform.

We have successfully completed key implementation stages at Massey University and the University of Waikato in New Zealand, as well as commencing the implementation of recent wins at the University of the Arts London, the University of Malaya, and Sheffield University; other key implementation contracts continue to proceed well, if slightly delayed, including Universiti Teknologi Petronas (UTP) and Institut Teknologi Petroleum Petronas (INSTEP) in Malaysia, and University of Bristol.

In the EMEA Further Education and Work-based Learning (WBL) business, we continued to make strong progress in 2017, with key wins at Nottingham College, Bridgend College and the Met Film School, and, following the introduction of the apprenticeship levy, secured new WBL Maytas customers, including Travis Perkins, Boots Opticians and EY (Ernst & Young).

In the APAC Further Education (referred to as VET in Australia/ New Zealand) and Schools sectors, the New South Wales Student Administration and Learning Management (SALM) programme has continued to deploy our ebs Student Management System successfully; in 2017, we successfully concluded the roll-out to 2,200 schools in New South Wales (NSW). This is in addition to the 138 TAFE (Technical & Further Education) campuses, which continue to operate successful – although, as previously noted, the NSW Government made a public announcement in June 2016 that they will be reviewing their TAFE student enrolment system and will look to implement a new, cloud-based solution. Tribal continues to discuss the future solution with TAFE NSW but, regardless, we expect TAFE NSW to be a customer into 2019, and the schools' element of SALM will continue as planned.

Within our Campus business, the implementation at the British Council continues to proceed well, and we have now gone live in 119 locations in 34 countries worldwide.

Our other Student Information product for schools, SchoolEdge, has enjoyed good customer retention rates during the year. However, we have been informed that the dioceses representing around 800 of the 1800 schools have decided to move from Tribal to a student information system that they are building in collaboration with two providers; we have commenced discussions regarding transitional arrangement; however, we expect to continue to provide software and services to these schools into at least 2019.

i-graduate

	Year ended 31 December £'000	
	2017	2016
Student surveys & data analytics	3,031	3,147
Other	4,070	5,558
Total Revenue	7,101	8,705
Adjusted segment operating profit	1,064	1,007
Adjusted operating margin	15%	12%

The i-graduate division provides a range of services for managers of universities, colleges and schools, so they are able to assess and enhance the quality of the education they provide, and improve their operational performance. Also included in this line of business are non-core services. Products/Offerings provided by this division include:

- i-graduate student surveys & data analytics
- K2 Asset Management
- Software Solutions
- Transformation and change advisory services
- Information Management Services

This division's activities have increasingly focused on those skills and tools that closely relate to our student information systems. Increasingly, we integrate these activities with our software offerings.

i-graduate line of business revenue in the period was £7.1m (2016: £8.7m), a reduction of 18%.

Revenue from the core i-graduate student survey and data analytics offerings fell 3.7% from £3.1m to £3.0m. In our i-graduate business there was a change of leadership in the first half of the year, and we successfully secured contracts in Australia, including for the Australian Universities International Student Barometer. We also extended the strategic partnership with Universities UK International delivering underpinning research for the widely distributed UK's Competitive Advantage report. However, the overall participation by universities in the key International Student Barometer survey towards the end of 2017 was disappointing, as more universities than expected chose to skip a year. There were also costs of further investment in the business and management transition. These factors adversely impacted the segmental operating profit, which fell to £0.4m (2016: £1.1m).

The revenue from the non-core businesses fell by £1.5m, including £0.8m in K2 Asset Management, and £0.4m in Information Matters as the businesses are transitioned to a maintenance mode. However, the focus on optimising margins improved the operating profit to £0.7m (2016: £(0.1)m).

Quality Assurance Solutions

	Year ended 31 December £'000	
	2017	2016
Education services	14,772	10,925
Ofsted contract revenues	3,019	11,620
Total Revenue	17,791	22,545
Adjusted segment operating profit	4,408	6,538
Adjusted operating margin	25%	29%

QAS provides inspection services used by the Office of Standards in Education, Children's Services and Skills (Ofsted), the UK government agency responsible for monitoring quality in settings such as colleges, schools and nurseries. These services have also been purchased by government agencies in the US and Middle East. Typically, we provide these services under multi-year contracts, with fixed and variable pricing elements. We also provide complementary services including training for prospective quality assurance inspectors, training and software tools for school leaders to prepare for inspections, online professional development tools for teachers to enhance their professional development, and other similar offerings.

QAS revenue declined in the period by 21% to £17.8m. However, in March 2017, the final Ofsted contract ("Early Years") came to a successful conclusion, as previously announced, to be taken back in-house by Ofsted. Revenues relating to Ofsted contracts were £3.0m, down from £11.6m in 2016.

The remaining Quality Assurance Solutions business, which excludes the Ofsted contract, had a strong performance and grew by 35% in 2017, to £14.8m. QAS has secured significant contract wins at the Abu Dhabi Education Council, worth £8.4m over 2 years, where we are the sole supplier of school reviews in Abu Dhabi, and the Ministry of Education of Dubai & Northern Emirates. The first tranche of these contracts was successfully delivered in 2017. In the US, we signed an extension to our contract with the New York State Education Department, as well as gaining a new customer, the Alabama State Education Department. We also successfully retendered for the NCETM contract (National Centre for Excellence in the Teaching of Maths).

QAS adjusted operating profit was £4.4m (2016: £6.5m), and adjusted operating margins were 25% (2016: 29%).

Ian Bowles
Chief Executive Officer

CFO's report

Overview

For the year ended 31 December 2017, the Group's revenue from continuing operations was £84.9m (2016: £90.3m). Adjusted operating profit increased by 82% to £8.5m (2016: £4.7m) and adjusted operating profit margin improved to 10.1% (2016: 5.2%).

All other development costs are expensed as incurred, and totaled £8.1m in 2017 (2016: £9.2m). This relates to development of the existing product portfolio, including SITS, ebs, K2 Asset Management and Maytas, and associated overhead and management cost.

Adjusted profit before tax was £8.4m (2016: £4.2m) and adjusted diluted earnings per share were 3.2p (2016: 1.9p). The Group made a statutory profit after tax of £2.6m (2016: loss of £1.2m), and a statutory operating margin of 3.1% (2016: (1.3)%).

At the end of the year the Group had net cash of £14.1m (2016: net cash of £8.8m).

Results of operations

Revenue

Revenue was lower by 6% at £84.9m in the year (2016: £90.3m). However, total revenue in 2016 included £11.6m (2017: £3.0m) from the expiry of contracted work for the Ofsted Early Years contract, which successfully concluded in March 2017, and £1.7m (2017: £nil) of combined revenue from Synergy (disposed of in March 2016), and the SLS business (closed in 2015). Excluding these amounts, revenue grew 6.5% to £81.9m in 2017 from £76.9m in 2016.

Across our university and college customer base, retention rates remained high, and as a result, our Support & Maintenance revenue is 3.9% to £33.5m (2016: £32.2m, excluding Synergy), representing 53% of the total revenue from our Student Management Systems business (2016: 55%).

Adjusted Operating Profit (EBITA)

The adjusted operating profit was £8.5m (2016: £4.7m). Higher margin recurring revenues and improved operational efficiencies drove an increase in Gross Profit Margin to 50% (2016: 43%). The ongoing cost reduction programme initiated in early 2016 has achieved cumulative annualised savings of £12.0m, of which £5.2m were in-year savings (£3.2m from 2016, and a further £2.0m in 2017), with an additional £1.0m of savings which will be realised in 2018. The impact of foreign exchange movement was £0.3m (2016: £0.7m).

There was a negative impact of £1.9m on earnings in 2017 compared to 2016, as a combined result of the expiry of the Ofsted Early Years contract, which contributed £1.0m less in 2017 (2017: £1.0m; 2016: £2.0m), and the disposal in March 2016 of the Synergy/SLS business (£0.9m in 2016).

The adjusted operating profit is after capitalised development costs of £2.1m (2016: £1.1m), reflecting the Group's revised product strategy focusing on development of the new Tribal Edge platform and continued development of the SchoolEdge product. Amortisation charges relating to capitalised development were £1.4m (2016: £1.4m).

Key Performance Indicators (KPIs)

Revenue £84.9m (2016: £90.3m)
Adjusted Operating margin 10.1% (2016: 5.2%)
Backlog £120.4m (2016: £113.8m)
Staff Retention 87% (2016: 84%)
Adjusted Operating profit £8.5m (2016: £4.7m)
Annually Recurring Revenue £37.5m (2016: £35.5m)
Cash Conversion 130% (2016: 115%)
Revenue per Employee £104k (2016: £87k)

Alternative Performance Measures

The Group uses alternative performance measures, detailed below, to provide greater understanding of the underlying performance of the business. There have been no changes to the Group's Alternative Performance Measures since 2016, although the Annually Recurring Revenue now includes Cloud services as they are considered recurring revenues. The 2016 comparative has been restated accordingly.

Adjusted Operating Profit / Adjusted Operating Margin / Adjusted Earnings per Share

These measures are in respect of Operating Profit/(Loss) excluding certain items not directly related to the trading business or regarded as exceptional in nature. These items have been removed from the adjusted profit figure and disclosed as "Other Items" on the income statement. The main adjustments are as follows:

Share-based payments

In 2017, Share-based payment charges of £1.7m (2016: £1.0m) are excluded from the Adjusted Operating profit. The charges in the current year relate to the matching shares granted as part of the rights issue and share subscriptions in April 2016 (£0.5m) and the Long Term Incentive Plan options (LTIPs) which were granted to the Executive Directors in June 2016 and 2017 (£0.6m), and to the senior management team in June 2017 (£0.3m).

Amortisation of IFRS3 Intangibles

The amortisation charge in relation to IFRS3 intangible assets of £2.0m (2016: £1.9m) arose from separately identifiable assets recognised as part of previous acquisitions. The assets principally relate to software and customer relationships and are amortised over their expected life which was determined in the year the acquisition took place.

Restructuring and associated costs

Costs of £1.0m (2016: £1.9m) were incurred, which relate to redundancy costs for the restructuring of the Group's operations, initiated in 2016 and continued through 2017.

Sales order backlog

The sales order backlog relates to the total value of orders which have been signed on or before, but not fully delivered by, 31 December 2017. This represents the best estimate of business expected to be delivered and recognised in future periods, and is based on the Total Contract Value (TCV) signed between Tribal and the customer, even though customer contracts may contain clauses which, under certain circumstances, may permit customers to reduce their commitment at a future date. Software Support & Maintenance (S&M) revenues are typically subject to annual renewal; due to the high renewal rates, two years of S&M revenues are included in the backlog calculation.

The total sales order backlog of the Group as at 31 December 2017 was up 5.8% at £120.4m (2016: £113.8m).

Annually Recurring Revenue (ARR)

The annually recurring revenue relates to the amount of revenue in the year in respect of ongoing services, charged on a recurring basis, usually annually, and which the Group considers is likely to continue into the future. This includes the total annual Support & Maintenance (S&M) fees relating to Tribal's software products, and from 2017, includes Cloud revenues, which relate to the provision of ongoing, annually recurring hosting services provided to customers in either a public or a private cloud environment.

The total annually recurring revenue for 2017 is £37.5m (S&M £33.5m; Cloud services £4.0m), which increased by 5.5% from £35.5m in 2016 (S&M £32.2m; Cloud services £3.3m).

Operating Cash Conversion

Operating cash conversion is calculated as net cash from operating activities before tax as a proportion of adjusted operating profit. In 2017, operating cash conversation was 130% (2016: 115%).

Free Cash Flow

Free cash flow is included as a key indicator of the cash that is generated by the Group and available for further investment or distribution. It is calculated as net cash from operating activities less capital expenditure and less capitalised development costs (excluding acquired intellectual property). In 2017, free cash flow was £8.0m (2016: £6.0m).

Development Costs

	2017 (£m)	2016 (£m)
SchoolEdge	1.0	1.1
Tribal Edge	1.1	–
Capitalised Development costs	2.1	1.1
Amortisation of Development	(1.4)	(1.4)

Net Finance Costs

Overall financing costs were £0.3m (2016: £1.0m). Financing costs on the Group's loan facility decreased to £0.2m (2016: £0.6m). Tribal streamlined its credit facilities with Lloyds Banking Group and Clydesdale Bank, committed until June 2018, to better match the Group's ongoing requirements, reducing its revolving credit facility from £25m at the beginning of 2017 to £15m from August 2017. From January 2018, the Group reduced the facilities further, to £11m including overdraft facilities and bank guarantee lines. Discussions are ongoing to renew facilities. Other financing costs reduced to £0.1m (2016: £0.4m) following reductions in the unwinding of discounts on deferred consideration.

Deferred Contingent Consideration

In March 2017, Tribal signed a variation to the Share Purchase Agreement with the vendors of Sky Software Pty ("Campus"), which amended the terms of the deferred contingent consideration payments. Under the variation, it was agreed that a combination of cash (AUD$980,325), 670,882 ordinary shares and 1,339,286 share options would be paid/issued in full and final settlement of all contingent obligations under the Agreement.

Going concern

Tribal had net cash of £14.1m at end of 2017, and a revolving credit facility of £15m, committed until June 2018, of which £6.5m was allocated to trading guarantees with customers at 31 December 2017.

The Group's software products benefit from a significant installed customer base, whilst its other activities are typically delivered under the framework of long-term contracts. Collectively, the Group has a range of customers across different geographic areas, good levels of committed income and a pipeline of new opportunities. While the Group has a net current liability position, the Group's forecasts and projections, which allow for reasonable possible changes in trading performance, show that the Group will be cash generative across the forecast period.

The Directors have a reasonable expectation that the Group has sufficient financial resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Taxation

The corporation tax on continuing operations was £1.8m (2016: £0.9m) and the adjusted effective tax rate was 21% (2016: 21%). This includes the impact of higher rates of taxation arising in overseas jurisdictions.

As the Group continues to operate in international jurisdictions with a higher rate of corporation tax, it is anticipated that the tax charges on profits in the near- to medium-term future is likely to be higher than the standard rate of UK corporation tax.

Share Capital

On 24 April 2017, the Company issued 670,882 shares as part of the settlement of the deferred contingent consideration related to the acquisition of Sky Software Pty ("Campus").

As at 31 December 2017, there were 196,051,181 shares issued.

Related parties

Transactions with related parties during the period are set out in note 32.

Earnings per share

Adjusted diluted earnings per share from continuing operations before other costs, the results of businesses disposed of, and intangible asset impairment charges and amortisation, which reflects the Group's underlying trading performance, increased to 3.2p (2016: 1.9p).

Statutory earnings per share (diluted) increased to 1.3p (2016: loss of 0.7p).

Shareholder returns & dividends

The Board has proposed a full year dividend of 1p per share, pending approval at the AGM on 24 April 2018. This will be paid in May 2018, with an associated record date of 4 May 2018, an ex-dividend date of 3 May 2018 and an anticipated payment date of 25 May 2018. The Board of Directors intend to continue to pursue a progressive dividend policy with a single dividend payment each year following the annual results.

Impact of IFRS15

IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 and introduces an amended framework for revenue recognition. The standard provides revised guidance on revenue accounting, matching the recognition of revenue to the delivery of performance obligations in contractual arrangements for the provision of products and services.

The Group has assessed the impact of adopting IFRS 15, and has concluded that software license revenue will be recognised over the duration of the project implementation period on a percentage complete basis. This will spread the recognition of license review over an extended period, rather than immediate, upfront recognition of license revenue.

In 2017, this is expected to increase the revenue by £0.4m to £85.3m and operating profit by £0.4m to £8.9m, a decrease of £0.2m to accrued income and a decrease of £0.6m to deferred income.

Net Cash generated from operating activities

Operating cash inflow for the period was £11.1m (2016: £8.3m).
Free Cash Flow is £8.0m (2016: £6.0m)

Capital Expenditure

Capital expenditure totaled £4.4m (2016: £2.4m), comprising £2.1 (2016: £1.1m) on software product development, £1.5m (2016: £nil) on the acquisition of intellectual property from Wambiz and £0.8m (2016: £1.3m) on replacement of IT equipment and office premises.

Acquisitions & Deferred Considerations

The Group made a total net payments £1.1m (2016: £3.0m) during the year in relation to the deferred consideration obligations of previous acquisitions being Campus £0.8m and Callista £0.3m.

Pension obligations

As a consequence of certain contract awards, some employees participated in defined benefit pension schemes, the largest of which relates to the Ofsted Early Years inspection contract we entered during the year ended December 2010. Across these pensions schemes, the combined deficit calculated under IAS19 at the end of the year totaled £1.7m (2016: deficit of

£1.7m), with gross assets of £11.0m and gross liabilities of £12.7m. Total actuarial gains recognised in the consolidated statement of
comprehensive income are £0.1m (2016: loss of £1.7m). The Ofsted Early Years contract expired in March 2017, and those individuals working directly on the contract were transferred to Ofsted, under the Transfer of Undertakings (Protection of Employment) act (TUPE). Under the terms of the contract, they may elect to transfer their pension plan from Tribal to Ofsted. The Group is working with the Pension Ombudsman to finalise the scheme valuation and transitional arrangements which we hope to conclude in 2018.

Financial risks

The main financial risks the Group faces relate to the continued sales of our software, where a trading downturn puts a strain on the operating cash flow, credit risk arising from contractual delays or scope changes, fluctuations in interest rates, and foreign exchange risk.

Funding arrangements

The Group finances its operations by a combination of cash reserves from equity capital, retained profits and bank borrowings. The Group Finance team leads treasury management and operates within policies reviewed and approved by the Board.

On 30 June 2016, the Group agreed amendments to the terms of its banking facilities which remain committed until June 2018. During 2017 the size of the overall credit facility has been voluntarily reduced from £25m to £15m, and reduced further in January 2018 to £11m. The maximum permissible leverage ratio (measured as the ratio of net debt to EBITDA) must not exceed 2x. The definition of EBITDA has also been defined to exclude certain non-cash and one-off trading impacts that have unfavorable impacts on the calculation. For the foreseeable future, the Group is forecast to operate within the bank covenant requirements set out in the facility agreements.

Credit risk

The Group seeks to reduce the risk of bad debts arising from non-payment by our customers. This risk is closely monitored by the Credit & Collections team, which form part of Group Finance. Tribal incurred no material bad debts during 2017.

Interest rate risk

At the end of 2017, Tribal had no bank loan indebtedness. However, the Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, and forward rate agreements and interest swaps may be used, where appropriate, to achieve the desired mix of fixed and floating rate debt. There are no open derivative financial instruments at the year end.

Foreign exchange risk

Tribal's reporting currency is Sterling. A number of its subsidiaries have different functional currencies, so increases and decreases in the value of Sterling versus the currency used by the Group's international operations will affect its reported results, and the value of assets and liabilities on the consolidated balance sheet.

Tribal's principal currency exchange exposure is to the Australian dollar although as at 31 December 2017, the Group was also exposed to movements in the rates between Sterling and the US dollar, United Arab Emirates Dirhams, South African Rand, and New Zealand dollar. See note 32 for further details.

The Group Finance team oversees management of foreign exchange risk, and policies and procedures approved by the Board.

Mark Pickett
Chief Financial Officer

Consolidated Income Statement

For the year ended 31 December 2017

	Note	Adjusted £'000	Other items (see note 6) £'000	Year ended 31 December 2017 Total £'000	Adjusted £'000	Other items (see note 6) £'000	Year ended 31 December 2016 Total £'000
Continuing operations							
Revenue	3	84,918	–	84,918	90,255	–	90,255
Cost of sales		(42,401)	–	(42,401)	(51,408)	–	(51,408)
Gross profit		42,517	–	42,517	38,847	–	38,847
Total administrative		(33,975)	(4,815)	(38,790)	(34,159)	(4,625)	(38,784)

Operating profit/(loss)	2	8,542	(4,815)	3,727	4,688	(4,625)	63
Investment income	4	20	–	20	66	–	66
Finance costs	3,5	(179)	(128)	(307)	(595)	(398)	(993)
Profit/(loss) before tax		8,383	(4,943)	3,440	4,159	(5,023)	(864)
Tax (charge)/credit	6	(1,757)	936	(821)	(889)	596	(293)
Profit/(loss) for the year		6,626	(4,007)	2,619	3,270	(4,427)	(1,157)
Earnings per share							
Basic	7	3.4p		1.3p	1.9p		(0.7)p
Diluted	7	3.2p		1.3p	1.9p		(0.7)p

All activities are from continuing operations

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit/(loss) for the year	2,619	(1,157)
Other comprehensive (expense)/income:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension schemes	55	(1,706)
Deferred tax on measurement of defined benefit pension schemes	(9)	290
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(436)	3,070
Other comprehensive (expense)/income for the year net of tax	(390)	1,654
Total comprehensive income for the year attributable to equity holders of the parent	2,229	497

Consolidated Balance Sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Goodwill	9	21,113	21,316
Other intangible assets	10	13,863	14,214
Property, plant and equipment		1,577	1,981
Deferred tax assets		4,275	3,881
Accrued income		150	169
		40,978	41,561
Current assets			
Inventories		–	83
Trade and other receivables	11	13,625	15,810
Accrued income		4,851	3,605
Current tax assets		106	84
Cash and cash equivalents (excluding bank overdrafts)		14,082	10,260
		32,664	29,842
Total assets		73,642	71,403
Current liabilities			
Trade and other payables	12	(6,888)	(7,066)
Accruals		(8,593)	(8,204)

Deferred income		(17,934)	(19,352)
Current tax liabilities		(2,573)	(1,266)
Borrowings		–	(1,427)
Provisions		(1,250)	(941)
		(37,238)	(38,256)
Net current liabilities		(4,574)	(8,414)
Non-current liabilities			
Other payables		(551)	(1,026)
Deferred tax liabilities	12	(1,276)	(1,877)
Deferred income		(113)	(818)
Retirement benefit obligations		(1,718)	(1,725)
Provisions		(194)	(211)
		(3,852)	(5,657)
Total liabilities		(41,090)	(43,913)
Net assets		32,552	27,490
Equity			
Share capital		9,803	9,769
Share premium		15,539	14,989
Other reserves		22,783	20,879
Accumulated losses		(15,573)	(18,147)
Total equity attributable to equity holders of the parent		32,552	27,490

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2016	4,743	21	20,503	(19,107)	6,160
Loss for the year	–	–	–	(1,157)	(1,157)
Other comprehensive income for the year	–	–	–	1,654	1,654
Acquisition of own shares	–	–	(91)	–	(91)
Issue of equity share capital	5,026	17,091	–	–	22,117
Costs associated with issue of share capital	–	(2,123)	–	–	(2,123)
Charge to equity for share-based payments	–	–	876	–	876
Tax credit on charge to equity for share-based	–	–	–	54	54
Transfer from merger reserve	–	–	(409)	409	–
At 31 December 2016 and 1 January 2017	9,769	14,989	20,879	(18,147)	27,490
Profit for the year	–	–	–	2,619	2,619
Other comprehensive expense for the year	–	–	–	(390)	(390)
Issue of equity share capital	34	550	–	–	584
Charge to equity for share-based payments	–	–	1,393	–	1,393
Tax credit on charge to equity for share-based	–	–	–	345	345
Transfer from other payables for share-based	–	–	511	–	511
At 31 December 2017	9,803	15,539	22,783	(15,573)	32,552

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Net cash from operating activities	13	11,117	8,274
Investing activities			
Interest received		20	66
Gross proceeds from disposal of Synergy		–	19,421
Costs associated with disposal of Synergy		–	(872)
Purchases of property, plant and equipment		(803)	(443)
Expenditure on intangible assets		(3,559)	(1,932)
Payment of deferred consideration for acquisitions		(1,157)	(3,374)

Repayment of Escrow (in respect of Human Edge)	–	357
Net cash (outflow)/inflow from investing activities	(5,499)	13,223
Financing activities		
Interest paid	(101)	(460)
Purchase of own shares	–	(91)
Gross proceeds on issue of shares	–	22,117
Costs associated with issue of shares	–	(2,123)
Repayment of borrowings and loan arrangement fees	(25)	(34,500)
Net cash used in financing activities	(126)	(15,057)
Net increase in cash and cash equivalents	5,492	6,440
Cash and cash equivalents at beginning of year	8,833	1,736
Effect of foreign exchange rate changes	(243)	657
Cash and cash equivalents at end of year	14,082	8,833

Notes to the Financial Statements

1. General information

The basis of preparation of this preliminary announcement is set out below.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016,but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting.

Whilst the financial information included in this preliminary announcement has been completed in accordance with International Financial Reporting Standards (IFRSs), this announcement itself does not contain sufficient information to comply with IFRSs. The financial information has been prepared on the historical cost basis, except for financial instruments.

Copies of this announcement can be obtained from the Company's registered office at King's Orchard, 1 Queen Street, Bristol BS2 0HQ.

The full financial statements which comply with IFRSs will be posted to shareholders on or around 29 March 2018 and are available to members of the public at the registered office of the Company from that date, and are now available on the Company's website: www.tribalgroup.com.

2. Business segments

Information reported to the Group’s Chief Executive for the purposes of resource allocation and assessment of segment performance is focused on the nature of each type of activity. The Group’s reportable segments and principal activities under IFRS 8 are detailed below:

Student Management Systems (“SMS”) represents the delivery of software and subsequent maintenance and support services and the activities through which we deploy and configure our software for our customers;

i-graduate, represents a portfolio of performance improvement tools and services, including analytics, software solutions, facilities and asset management; and

Quality Assurance Solutions (“QAS”), representing inspection and review services which support the assessment of educational delivery.

In accordance with IFRS 8 'Operating Segments', information on segment assets is not shown, as this is not provided to the chief operating decision-maker. Inter-segment sales are charged at prevailing market prices.

	Revenue (£'000)		Adjusted Segment Operating Profit (£'000)		
	Year ended 31 December 2017 £'000	Restated Year ended 31 December 2016 £'000	Year ended 31 December 2017 £'000	Restated Year ended 31 December 2016 £'000	As previously reported Year ended 31 December 2016 £'000
Student Management Systems	60,026	59,005	17,613	12,021	4,724
i-graduate	7,101	8,705	1,064	1,007	901
Quality Assurance Solutions	17,791	22,545	4,408	6,537	2,532
Total	84,918	90,255	23,085	19,565	8,157
Unallocated corporate expenses			(14,543)	(14,877)	(3,469)
Adjusted operating profit			8,542	4,688	4,688
Amortisation of IFRS 3 intangibles			(2,034)	(1,912)	(1,912)
Other items			(2,781)	(2,713)	(2,713)
Operating profit			3,727	63	63
Investment income			20	66	66
Finance costs			(307)	(993)	(993)
Profit/(loss) before tax			3,440	(864)	(864)
Tax charge			(821)	(293)	(293)
Profit/(loss) after tax			2,619	(1,157)	(1,157)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit earned by each segment, without allocation of central administration costs, including Directors' salaries, finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

From the beginning of 2017, the basis of cost allocation for each of the Lines of Business has changed. It was determined that the previous methodology allocated central costs (which include Finance, HR, Legal, IT, Corporate services., Marketing and Office costs) in a way that did not represent the level of resource utilised by that business, and accordingly did not provide sufficient insight into the underlying profitability of the Line of Business. The segmental analysis of Adjusted Operating profit now allocates all directly attributable and controllable direct and overhead costs to its business segment. The central and group costs now represent the aggregate of all costs which support the Lines of Business, and which are not directly and specifically attributable to each Line of Business.

Within QAS revenues of approximately 4% (2016: 13%) have arisen from the Segments largest customer; within SMS revenues of approximately 8% (2016: 7%) have arisen from the Segments largest customer.

Geographical information

Revenue from external customers, based on location of the customer, are shown below:

	2017 £'000	2016 £'000
UK	39,252	46,469
Asia Pacific	33,713	31,819

North America and rest of the world	11,953	11,967
	84,918	90,255

Non-current assets

	2017 £'000	2016 £'000
UK	19,636	19,171
Asia Pacific	21,336	22,376
North America and rest of the world	6	14
	40,978	41,561

The Group's revenues from its major products and services were as follows:

Continuing operations

	2017 £'000	Restated 2016 £'000
Licence and development fees	9,989	11,284
Implementation services	14,840	13,342
Support & Maintenance	33,474	32,422
Cloud services	4,004	3,357
Other services	2,441	4,159
School inspections & other related services (QAS)	17,139	22,545
i-graduate survey & data analytics	3,031	3,147
	84,918	90,255

2016 is restated to identify Cloud services separately and reallocate Performance Benchmarking to "School inspections & other related services (QAS)" from "i-graduate survey & data analytics".

3. Other items

	2017 £'000	2016 £'000
Profit on sale of Synergy	-	(301)
– Repayment of Escrow (in respect of the acquisition of Human Edge)	–	357
– Movement in deferred contingent consideration	(29)	(607)
Acquisition related costs	(29)	(250)
Share based payments (including employer related taxes)	(1,732)	(1,036)
– Onerous contracts	–	115
– Costs on closure of SLS business	–	(33)
– Property related	–	136
– Restructuring and associated costs	(1,020)	(1,946)
Other exceptional items	(1,020)	(1,728)
Other Administrative costs	(2,781)	(2,713)
– Amortisation of IFRS 3 intangibles	(2,034)	(1,912)
Total administrative expenses	(4,815)	(4,625)

– Unwinding of discount on deferred consideration	(128)	(205)
– Bank arrangement fees written off	–	(244)
– Fees associated with waiver of loan covenant	–	51
Other financing items	(128)	(398)
	(4,943)	(5,023)
Tax on other items	936	596
	(4,007)	(4,427)

IAS 1, paragraph 97 requires separate disclosure of such items that are considered material by nature or value, that they require separate disclosure in the financial statements. As such, 'other items' are not part of the Group's underlying trading activities and include the following:

Acquisition costs: during the period, a final payment was made in respect of deferred consideration payable on acquisition of Callista, which resulted in a true up of the amounts provided (2017: £29,000: 2016 £250,000).

Other exceptional items: amounts principally reflect the costs arising in respect of the restructuring of the Group's operations. The restructuring program was executed in the first half of 2017 and associated costs provided for. Amounts relate mainly to provision for redundancy costs. (2017: £1,020,000: 2016: £1,946,000).

Share based payments (see note 23): The numbers above include the movement in associated employers taxes accrual (2017: £339,000: 2016: £160,000).

Amortisation of IFRS3 intangibles: amortisation arising on the fair value of intangible assets acquired is separately disclosed as other items. (2017: £2,034,000: 2016: £1,912,000).

Financing charges: consistent with the treatment of movements in deferred consideration, the unwind of the discount on deferred consideration is separately presented as other financing costs in the income statement (2017: £128,000: 2016: £398,000).

Taxation: the tax credit arising on the above items is presented on a consistent basis with the underlying cost or credit to which it relates and therefore is also presented separately on the face of the income statement.

4. Investment income

	2017 £'000	2016 £'000
Net interest receivable on retirement benefit obligations	–	12
Other interest receivable	20	54
	20	66

5. Finance costs

	2017 £'000	2016 £'000
Interest on bank overdrafts and loans	51	310
Amortisation and write off of loan arrangement fees	36	60
Net interest payable on retirement benefit obligations	42	–
Other interest payable	50	225
Adjusted Finance costs	179	595
Unwinding of discounts	128	205
Bank arrangement fees written off	–	244

Fees associated with waiver of loan covenants	–	(51)
Other finance costs	128	398
Total finance costs	307	993

6. Tax

	2017 £'000	2016 £'000
Current tax		
UK corporation tax	100	116
Overseas tax	1,529	690
Adjustments in respect of prior years	(165)	309
	1,464	1,115
Deferred tax		
Current year	(641)	(816)
Adjustments in respect of prior years	(2)	(6)
	(643)	(822)
Tax charge on profits	821	293

The continuing tax charge can be reconciled to the profit from continuing operations per the income statement as follows:

	2017 £'000	2016 £'000
Profit/(loss) before tax on continuing operations	3,440	(864)
Tax credit at standard rate of 19.25% (2016: 20%)	662	(173)
Effects of:		
Overseas tax rates	180	140
Expenses not deductible for tax purposes	64	180
Adjustments in respect of prior years	(167)	272
Additional deduction for R&D expenditure	(7)	(87)
Movement in tax provision	–	116
Utilisation of unrecognised tax losses	(125)	(358)
Effect of changes in tax rates	214	203
Tax expense for the year	821	293

In addition to the amount charged to the income statement a current tax credit of £nil (2016: £nil) and a deferred tax credit of £345,000 (2016: credit of £54,000) has been recognised directly in equity during the year in relation to share schemes. A deferred tax charge of £9,000 (2016: credit of £290,000) has been recognised in the Consolidated Statement of Comprehensive Income in relation to Defined Benefit pension schemes.

The Group continues to hold an appropriate corporation tax provision in relation to the Group relief claimed from Care UK for the year ended 31 March 2007, together with other appropriate Group provisions.

The income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 19.25% (2016: 20%). This rate reflects the reduction of the UK corporation tax rate from 20% to 19% from 1 April 2017. Tax for other jurisdictions is calculated at the prevailing rates prevailing in the respective jurisdictions.

A further reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future tax charge accordingly. The deferred tax balances at 31 December 2017 have been calculated based on these rates.

7. Dividends

	2017 £'000	2016 £'000
Proposed final dividend for the year ended 31 December 2017 of 1.0 pence (year ended 31 December 2016: nil pence) per share	1,961	–

8. Earnings per share

Earnings per share and diluted earnings per share are calculated by reference to a weighted average number of ordinary shares calculated as follows:

	2017 thousands	2016 thousands
Weighted average number of shares outstanding:		
Basic weighted average number of shares in issue	195,011	168,755
Weighted average number of employee share options	10,729	-
Weighted average number of shares outstanding for dilution calculations	205,740	168,755

Diluted earnings per share only reflects the dilutive effect of share options for which performance criteria have been met. Previous share incentive schemes vest based on cumulative EPS for a three year period with the earliest vesting based on the Group's results for the three years to 31 December 2017. None of the 552,928 remaining share options that were issued in 2015 met the performance criteria.

In regards the diluted loss per share in 2016, all potentially dilutive ordinary shares, including options and deferred shares, are anti-dilutive as they would decrease the loss per share.

The maximum number of potentially dilutive shares, based on options that have been granted but have not yet met vesting criteria, is 10,084,612 (2016: 5,367,189). In addition there are a further 3,405,996 (2016: 3,405,996) potentially dilutive matching share options that have been granted but have not yet met vesting criteria as at 31 December 2017.

The adjusted basic and diluted earnings per share figures shown on the consolidated income statement are included as the Directors believe that they provide a better understanding of the underlying trading performance of the Group. A reconciliation of how these figures are calculated is set out below:

	2017 £'000	2016 £'000
Net Profit/(loss)	2,619	(1,157)
Earnings per share		
Basic	1.3p	(0.7)p
Diluted	1.3p	(0.7)p
Adjusted earnings per share		
Basic	3.4p	1.9p
Diluted	3.2p	1.9p

	Profit/(loss) for the year		Earnings per share	
	2017 £'000	2016 £'000	201 7	2016 £'000
Profit/(loss) for the year attributable to equity	2,619	(1,157)	1.3	(0.7)p
Add back:				
Amortisation of IFRS intangibles (net of tax)	1,444	1,354		
Disposal of Synergy	–	(301)		
Repayment of Escrow	–	(357)		
Bank arrangement fees written off	–	244		
Share based payments	1,393	876		
Unwinding of discounts	128	205		
Other items (net of tax)	1,013	1,799		
Movement in deferred contingent consideration	29	607		
Total adjusting items (net of tax)	4,007	4,427	2.1	2.6p
Adjusted earnings	6,626	3,270	3.4	1.9p

9. Goodwill

	2017 £'000	2016 £'000
Cost		
At beginning of year	102,547	119,542
Disposals	(10)	–
Allocation of goodwill to disposal of Synergy business	–	(19,107)
Exchange differences	(193)	2,112
At end of year	102,344	102,547
Accumulated impairment losses		
At beginning of year	81,231	81,231
At end of year	81,231	81,231
Net book value		
At end of year	21,113	21,316
At beginning of year	21,316	38,311

Goodwill acquired in a business is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from the business combination. The carrying amount of goodwill has been allocated as follows:

	2017 £'000	2016 £'000
Student Management Systems	17,579	17,782
i-graduate	3,534	3,534
	21,113	21,316

Goodwill is reviewed at least annually for impairment by comparing the recoverable amount of each cash generating unit (CGU) with the goodwill, intangible assets and property, plant and equipment allocated to that CGU.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use risk adjusted cash flow projections based on the financial budget approved by management for the period to 31 December 2018. The budget was prepared based on past experience, strategic plans and management's expectation for the markets in which they operate including adjustments for known contract ends, contract related inflationary increases and planned cost savings. The budget was extrapolated over an eight-year period with a growth assumption of 2% per annum. Cash flows beyond the budget and extrapolation period were calculated into perpetuity using a growth rate of 2%. This growth rate is in line with the expected average UK economy long-term growth rate.

The cash flows projections are discounted at a post-tax discount rate of 11.27% (2016: 12%). The single discount rate, which is consistently applied for all CGUs, is determined with reference to internal measures and available industry information and reflects specific risks relevant to the Group.

Impairment testing inherently involves a number of judgmental areas, including the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the Group and the estimation of the future revenue and expenditure of each CGU. Accordingly, management undertook stress testing to understand the key sensitivities and concluded as follows:

SMS is the largest segment and has significant impairment headroom as such no reasonable sensitivities would cause an impairment.

i-graduate is the smallest segment and the impairment headroom is the most sensitive. The discount rate for 2017 would need to increase to 11.8% for an impairment to occur or the growth rate reduce to 1.4% per annum. For example, if the growth rate decreased to 1.0% and the discount rate was 11.0% it would result in an impairment of approximately £54,000. One of the significant assumptions in i-graduate is the increase of profits in the budget for the period to 31 December 2018. It should be noted that the i-graduate budget was prepared on a bottom-up basis which the Directors consider to be a prudent, low case position with known potential upside, albeit with some risk attached. The Directors do not feel these sensitivity scenarios or a combination of the two are likely to occur. Additionally, the annually recurring nature of the surveys and data analytics i-graduate undertakes give further comfort. The Directors will however continue to closely monitor the position given the sensitivity of the segment.

Further to the impairment review, the Directors concluded that no impairment has arisen during the year.

10. Other intangible assets

	Software £'000	Customer contracts & relationships £'000	Acquired Intellectual Property £'000	Development costs £'000	Business systems £'000	Software licences £'000	Total £'000
Cost							
At 31 January 2016	6,634	6,613	–	30,015	5,688	–	48,950
Transfers	–	–	–	–	–	1,369	1,369
Additions	–	–	–	1,098	764	70	1,932
Disposals	–	–	–	(6,994)	–	(35)	(7,029)
Exchange differences	1,242	529	–	360	18	–	2,149
At 31 December 2016 and 1 January 2017	7,876	7,142	–	24,479	6,470	1,404	47,371
Additions	–	–	1,873	2,135	97	77	4,182
Disposals	–	–	–	–	(191)	(12)	(203)
Exchange differences	(109)	(46)	–	(79)	(2)	–	(236)
At 31 December 2017	7,767	7,096	1,873	26,535	6,374	1,469	51,114
Amortisation							
At 1 January 2016	2,128	3,800	–	23,831	4,407	–	34,166
Transfers	–	–	–	–	–	1,084	1,084

Charge for the year	1,422	490	–	1,411	162	166	3,651
Disposals	–	–	–	(6,504)	–	(25)	(6,529)
Exchange differences	489	168	–	122	6	–	785
At 31 December 2016 and 1 January 2017	4,039	4,458	–	18,860	4,575	1,225	33,157
Charge for the year	1,529	505	187	1,445	642	134	4,442
Disposals	–	–	–	–	(191)	(12)	(203)
Exchange differences	(93)	(27)	–	(24)	(1)	–	(145)
At 31 December 2017	5,475	4,936	187	20,281	5,025	1,347	37,251
Carrying amount							
At 31 December 2017	2,292	2,160	1,686	6,254	1,349	122	13,863
At 31 December 2016	3,837	2,684	–	5,619	1,895	179	14,214

Software and customer contracts and relationships have arisen from acquisitions and are amortised over their estimated useful lives, which are 3–6 years and 3–12 years respectively. The amortisation period for development costs incurred on the Group's product development is 3 to 7 years, based on the expected life-cycle of the product. Amortisation of development costs is included within cost of sales; the amortisation for software, customer contracts and relationships, business systems and software licences is included within administrative expenses.

Included within Business Systems are finance systems with a carrying value of £1.3m (2016: £1.6m). Each system is being amortised over a period of three to five years and have an average of three years left.

On 5 June 2017, the Group acquired Intellectual property from Wambiz Limited. The initial cash consideration was £1,250,000, with further consideration of £289,000 and £485,000 payable at the end of years 1 and 2 respectively. An intangible asset of £1,873,000 has been recorded under Acquired intellectual property, discounted for deferred payments which have been recorded as a deferred consideration liability in Trade and other payables. This asset is being amortised over a period of 5 years.

11. Trade and other receivables

	2017 £'000	2016 £'000
Amounts receivable for the sale of services	12,202	14,373
Allowance for doubtful debts	(1,713)	(1,578)
	10,489	12,795
Other receivables	516	209
Prepayments	2,620	2,806
	13,625	15,810

12. Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	429	677
Other taxation and social security	2,596	3,309
Other payables	3,038	1,453
Deferred consideration	825	1,627
	6,888	7,066

Non-current		
Other payables	153	-
Deferred consideration	398	1,026
	551	1,026
Total	7,439	8,092

Other payables are split as follows:

	2017 £'000	2016 £'000
Goods received not invoiced	1,650	246
Funds restricted in use	39	212
Other creditors	1,349	995
	3,038	1,453

13. Notes to the cash flow statement

	2017 £'000	2016 £'000
Operating profit from continuing operations	3,727	63
Gain on disposal of Synergy	–	(301)
Depreciation of property, plant and equipment	1,190	1,506
Amortisation and impairment of other intangible assets	4,442	3,651
Share based payments	1,393	876
Movement in deferred consideration	29	566
Other non-cash items	69	(486)
Operating cash flows before movements in working capital	10,850	5,875
Decrease in inventories	83	50
Decrease in receivables	1,044	4,139
Decreases in payables	(931)	(2,295)
Net cash from operating activities before tax	11,047	7,769
Tax received	70	505
Net cash from operating activities	11,117	8,274

Net cash from operating activities before tax can be analysed as follows:

	2017 £'000	2016 £'000
Continuing operations (excluding restricted cash)	11,220	7,819
Decrease in restricted cash	(173)	(50)
	11,047	7,769