Gresham Technologies plc

Interim Report 2021

"This has been another strong performance from our global team with thirteen new subscriptions in the first half including several key competitor wins.

As a result of the successful acquisition of Electra, Gresham is now the leading independent provider of reconciliations software to the global financial services community, with a significant presence in the US, our largest market. Our forward looking ARR is now more than double what it was just a year ago. We are a stronger and more resilient business with good momentum as we confidently head into the second half the year."

Ian Manocha, CEO, Gresham

THE QUEEN'S AWARDS FOR ENTERPRISE 2018

Highlights

Excluding the Impact of the Electra acquisition

Clareti annualised recurring revenues

£12.9m

Group annualised recurring revenues

£16.5m

Group revenues

£14.5m

Clareti revenues

£9.6m

Clareti recurring software revenues

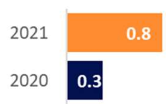
£6.6m

Group adjusted EBITDA

£2.8m

Group cash EBITDA

£0.8m



Cash

£8.1m

	HY 2021 £m	HY 2020 £m	Growth %	Like for like growth [i] %
Clareti annualised recurring revenues	12.9	10.7	21%	9%
Group annualised recurring revenues	16.5	13.8	20%	11%
Group revenues	14.5	12.2	19%	14%
Clareti revenues	9.6	7.4	30%	22%
Clareti recurring software revenues	6.6	5.4	22%	11%
Group adjusted EBITDA	2.8	2.4	17%	13%
Group cash EBITDA	0.8	0.3	167%	167%
Cash	8.1	7.4	9%	N/a

Financial highlights – the impact of the Electra acquisition

- Nine days trading post acquisition generated H1 revenues of £0.3m, with a cash EBITDA margin of approximately 14%
- Combined Clareti and Electra "Strategic" annualised recurring revenues increased by £9.2m to £22.1m as at 30 June 2021
- Group annualised recurring revenues increased by £9.2m to £25.7m as at 30 June 2021

Operational highlights

- Transformative acquisition of Electra creates global platform for growth funded out of existing cash resources and a £21m equity fundraise
- Thirteen new Clareti contracts secured including three new bank customers in Europe
- Significant contract win in new industry segment of audit
- Deepening key account relationships driving incremental opportunities
- Strong performance from Inforalgo business at first anniversary of acquisition
- Non-Clareti portfolio continuing to prove resilient

Outlook

- 96% of planned (pre-Electra acquisition) full year Clareti revenues already contracted or highly visible entering the second half of 2021
- On track to achieve full year market expectations
- Management confident in the strategy and outlook for the Group

Adjusted EBITDA refers to earnings before interest, tax, depreciation and amortisation, adjusted for one-off exceptional items and share-based payments.

Cash EBITDA refers to adjusted EBITDA less capitalised development spend and any IFRS 16 lease related cash payments.

(i) Growth rates stated on a like-for-like basis have been adjusted to remove the contribution for H1 2021 from the Inforalgo business acquired in July 2020.

Chief Executive review

Strategic overview

Gresham provides mission-critical software and cloud services that are highly differentiated, contain rich intellectual property, are proven at scale, and generate sticky high margin recurring revenues. Our Clareti technology solutions provide our customers complete control over their digital operations and give accountable executives in financial markets confidence in their critical data and business processes.

We aim to have Clareti embedded across the global financial community as the industry standard control platform for digital business, and in turn to create a valuable, modern, global, enterprise financial technology company.

We now have flagship customers using our technology in retail, commercial and investment banking, asset management, insurance and energy and commodities. We have also deployed our solutions into large corporates and the audit industry. The COVID-19 pandemic has highlighted the pressing need for financial institutions to further invest in intelligent automation solutions to reduce the need for manual interventions in their core processing activities and to transition to fully digital operations. Gresham is moving at a pace to capitalise on these opportunities, investing to drive organic growth as well as successfully integrating several carefully selected complementary acquisitions.

Our recent strategic acquisition of Electra Information Systems, a US-based competitor, which completed in June 2021, has significantly strengthened the Company's market share in the buy-side customer base and in the US, and has created a global platform for long term growth in revenues and earnings.

This acquisition gives us critical scale in our global delivery and customer success network - we now support over 270 customers in 20 countries around the world. The Electra customers have responded positively to the new ownership, and our previously competing teams are enthused about joining forces to create a global leader. We now have stronger direct sales teams in the major global financial markets in North America, Asia Pacific and in Europe, which will enable us to continue securing new name accounts as well as upselling and cross-selling our portfolio of software and cloud services to existing customers.

The Electra investment opens the door to the next stage of the development of our Group. We will now be able to leverage the combined investments in product development, distribution and customer support infrastructure to compete more effectively and ultimately to realise the high margins, strong cash generation, and attractive valuation multiples typical of large mature enterprise software firms.

Whilst we will continue to explore investment opportunities to gain further scale and distribution in each of our go-to-market initiatives, our focus for the immediate term is the successful integration of Electra and the globalisation of our combined businesses in order to efficiently sustain high levels of organic growth. With that in mind, it is pleasing to report that Gresham had a strong first half in 2021 with growth across all revenue lines including the acquired Inforalgo business and the non-Clareti business. Electra, operating as an independent business until 22 June 2021, also had a successful first half. Moving forward, we will refer to these combined recurring revenues as our 'Strategic ARR', as distinct from the 'non-Clareti ARR' coming from legacy products or third-party software and which is expected to decline over time In line with our strategy.

Trading update

Revenue

The Group earns revenues from the sale of software, cloud services, and provision of ancillary consultancy services. The following table summarises the Group's revenue performance in the six months to 30 June 2021:

		H1 2021	H1 2020	Variance	
		£'m	£'m	£'m	%
Clareti Solutions					
Recurring		6.6	5.4	1.2	22%
Non-recurring		0.1	-	0.1	100%
Software		6.7	5.4	1.3	24%
Services		2.9	2.0	0.9	45%
Electra *(9 days contribution)*		0.3	-	0.3	100%
Total	KPI	9.9	7.4	2.5	34%
Other Solutions					
Software – Partners		1.9	1.4	0.5	36%
Software – Own solutions		0.3	0.3	-	-
Services		0.3	0.4	(0.1)	(25%)
Contracting services		2.4	2.7	(0.3)	(11%)
Total		4.9	4.8	0.1	2%
Total Revenue	KPI	14.8	12.2	2.6	21%
Annualised recurring revenue as at 30 June					
Clareti ARR	KPI	12.9	10.7	2.2	21%
Electra ARR		9.2	-	9.2	N/a
Strategic ARR	New KPI	22.1	10.7	11.4	107%
Group ARR		25.7	13.8	11.9	86%

In the first half of the year, we were pleased to secure several new Clareti software contracts as well a number of new licences and upgrades with existing customers.

Our Clareti Control business performed well, signing three new bank customers in Europe, and a significant contract with the US audit practice of KPMG who will use the technology to improve automation in their testing and assurance work. All these new customers conducted rigorous evaluations and selected Clareti Control for its ability to handle multiple use cases and data types.

Our Clareti Connect product line, which brings together our messaging, banking, payments, regulatory and STP integration capabilities, performed strongly in the first half. We secured three new Connect customers, two of which are using the technology alongside our Control offering, and we saw multiple upgrades as existing customers added further connections for regulatory reporting, trading STP or payments requirements. Inforalgo, acquired in July 2020, is now integrated into the Clareti Connect business and has performed strongly in the first eleven months of ownership, generating £0.6m of revenue and positive cash EBITDA in the first half of 2021. On a like for like, constant currency, basis, Inforalgo forward-looking ARR grew 17% thanks to good customer retention and incremental sales. As a result, the Group expects to pay the first instalment of the deferred consideration in full (totalling £0.9m) during the third quarter of 2021.

Total Clareti renewals were also strong with a gross retention rate for the previous 12 months of 95% (excluding the impact of any ARR increases from existing contracts). As a result of new and incremental business, our forward-looking Clareti annualised recurring revenues (ARR) are 21% higher than a year ago. Year-on-year ARR growth at the end of June 2021 was impacted by slower new sales during and after the 2020 COVID-19 lockdown. Given the importance to the Group of building Strategic ARR, we look forward to providing further disclosures related to the maintenance of existing ARR as well as growth rates of incremental ARR at the full year.

Our Clareti professional services revenues stepped up significantly in H1. This is being driven by new sales implementations, on-going client support that was delayed during the 2020 lock-down, and a significant pull through of additional services with key customer ANZ. ANZ are transitioning towards go-live with our new digital banking products and we are building out the on-going support and managed service capability. We expect to develop further 'managed service' propositions for our Connect and Control customers. The Electra team have also been successfully introducing this software-related managed service model as a means to improve revenue visibility and customer value.

Other Solutions, the Group's portfolio of legacy revenues, performed in-line with our planning assumptions with additional recurring revenues from increased usage of third-party partner software by ANZ and growth in our lower margin Australian contracting business.

Earnings

Group			H1 2021	H1 2020	Variance	%
Gross margin		£m	11.1	10.5	0.6	6%
Gross margin		%	75	86		(9%)
Adjusted EBITDA	KPI	£m	2.8	2.4	0.4	17%
Adjusted EBITDA		%	25	20		5%
Cash EBITDA	KPI	£m	0.8	0.3	0.5	167%
Cash EBITDA		%	6	3		3%
(Loss)/profit before tax		£m	(0.8)	0.5	(1.3)	(260%)
Adjusted diluted EPS		pence	2.2	1.4	0.8	57%

Across all business segments, the majority of our cost of sales is made up of: (i) the customer-specific third party costs incurred in providing our hosted cloud solutions; and (ii) third party contractor costs incurred by our contracting services business (individuals we bring on our payroll as fixed-term employees to provide this service are recorded in administration costs).

On a Group basis, gross margin percentage has reduced as both our Clareti and contracting services lines of business have seen an increased amount of work being delivered via third party contractors which are recorded as a cost of sale. Both adjusted EBITDA and cash EBITDA have seen margin improvements due to growth in the Clareti business.

Included below are tables and commentary for each of our key business segments which describe the underlying trends in gross margin, adjusted EBITDA and cash adjusted EBITDA. Cash adjusted EBITDA adjusts EBITDA for capitalised development spend and any IFRS16 lease-related cash expenses classified as depreciation and interest.

Clareti Solutions			H1 2021	H1 2020	Variance	%
Gross margin		£m	8.4	6.9	1.5	22%
Gross margin		%	88	93		(5%)
Adjusted EBITDA	KPI	£m	1.3	0.7	0.6	86%
Adjusted EBITDA		%	14	9		6%
Cash EBITDA	KPI	£m	(0.7)	(1.3)	0.5	167%
Cash EBITDA		%	(7)%	(18)%		11%

Our key growth business, Clareti, continues to move towards a cash EBITDA breakeven position. As previously announced, we expect a combined Clareti and Electra cash EBITDA breakeven position for the first 12 months of trading post acquisition, with further operational leverage to be gained in subsequent periods. Gross margin from Clareti software remains consistent with the prior year however this is offset by gross margin reductions In Clareti services which have reduced since H1 2020 as an increased amount of services work has been delivered via third party contractors which are recorded as a cost of sale as opposed to operating expense. It is important to also note that both EBITDA measures for the increased Clareti services revenue have improved since the prior year.

Other Solutions (software)			H1 2021	H1 2020	Variance	
						%
Gross margin		£m	1.3	1.4	(0.1)	(7)%
Gross margin		%	52	66		(14%)
Adjusted EBITDA	KPI	£m	1.2	1.3	(0.1)	(8)%
Adjusted EBITDA		%	49	63		(14)%
Cash EBITDA	KPI	£m	1.2	1.3	(0.1)	(8)%
Cash EBITDA		%	49	63		(14)%

Our Other Solutions (software) business saw the expected reduction in revenues from one higher margin software arrangement which were more than offset by increases in usage fees from another legacy partner arrangement. The net of this resulted in an expected reduction in all margins across this business line. This business segment is not core to Gresham's strategy and our primary objective is to operate it as profitably as possible and at minimal risk.

Other Solutions (contracting services)			H1 2021	H1 2020	Variance	
						%
Gross margin		£m	1.1	2.1	(1.0)	(48)%
Gross margin		%	46	78		(32)%
Adjusted EBITDA	KPI	£m	0.3	0.4	(0.1)	(25)%
Adjusted EBITDA		%	13	13		-
Cash EBITDA	KPI	£m	0.3	0.4	(0.1)	(25)%
Cash EBITDA		%	13%	13%		-

We provide contracting services to ANZ at a fixed net margin of 13%. Fees are paid quarterly in advance, providing a helpful contribution to working capital, but otherwise this business segment is not strategically important and will continue to be managed with negligible administrative overheads. Whilst the cash EBITDA margin remains a consistent 13%, the gross margin for this business line fluctuates depending upon the level of work being contracted via third party contractors which are recorded as a cost of sale (fixed term employees are recorded as operational expenses).

Cashflow

	H1 2021	H1 2020		Variance
	£'m	£'m	£'m	%
Opening cash & cash equivalents at 1 January	8.9	9.6	(0.7)	(7)%
Operating cashflow excluding working capital	1.9	2.1	(0.2)	(10)%
Movement in working capital	(1.6)	(2.3)	0.7	30%
Capital expenditure - development costs	(1.8)	(1.8)	-	-
Principal paid on lease liabilities	(0.3)	(0.3)	-	-
Net tax (payment)/refund	(0.7)	0.5	(1.2)	(240)%
Other	(0.3)	0.1	(0.4)	(400)%
Financing activities - dividend paid	(0.5)	(0.5)	-	-
Share issue proceeds (net of costs)	20.2	-	20.2	N/a
Payment to acquire subsidiary (net of cash)	(17.7)	-	(17.7)	N/a
Closing cash & cash equivalents at 30 June	8.1	7.4	0.7	9%

The Group continues to be funded from operating cash and has no debt, although we now have the benefit of a revolving debt facility that was entered into alongside the acquisition of Electra. The USD 15m multicurrency revolving credit and USD 10m accordion loan facility may be drawn down upon to satisfy any future deferred consideration payments due to be made as a result of the Electra acquisition but there are no plans to draw on this at present. Operating cashflow remains strong and is materially consistent with the equivalent period in the prior year. The movement in working capital remains negative for the first half, which is aligned with the traditional half year working capital cycle due to the unwinding of the significant deferred revenue position that builds up during the fourth quarter each year. At a high level, free cash flow, excluding the impact of taxation, has remained reasonably flat. This is a result of the improving margins in our high growth Clareti business being offset by an expected decline in margins in the non-Clareti business. The Clareti business is now very close to a cash break even position and Group cash generation and operating leverage is expected to significantly improve as Clareti moves past the breakeven milestone. Further improvements in the mid-term are expected when synergies from the Electra combination are realised.

Tax has moved from a net receipt position in the first half of the prior year to a net payment position in the first half of 2021. This change is due to: to our foreign entities continuing to grow, resulting in increases in foreign tax payments compared to the equivalent prior year period of £0.4m; and the first half of 2020 including tax receipts of £0.8m occurring from the surrender of prior year tax losses. An equivalent prior year surrender of tax losses has not yet been made during 2021, although this may yet occur in the second half of 2021.

Currency movements are recorded in 'other', with the losses in the first half of 2021 being made on foreign currency holdings, largely AUD and USD, against which GBP strengthened in the period.

The net cash generated from share issue of £20.2m was raised to fund the Electra acquisition for which the payment of the majority of the initial consideration of £17.7m is also shown in the table above.

Electra

We were delighted to complete the acquisition of Electra during H1 and are grateful for the support provided by our new and existing shareholders for the transaction. The opportunity to combine the previously competing businesses to create a market leader is compelling and will accelerate the achievement of Gresham's ambitions in the global market.

Electra was acquired on a debt free, cash free basis on 22 June 2021 with an upfront consideration of USD 28.95m, of which USD 24.7m was paid in June 2021, with the balance remaining payable pending the finalisation of the completion accounting process. Subject to the achievement of performance criteria based on the retention of acquired customer recurring revenues, a maximum of USD9.65m in deferred consideration will be due, payable in two instalments after the first and second anniversaries of completion.

Electra has over 150 customers, the majority of which are U.S.-based buy-side financial services firms, and provides solutions to improve efficiency and mitigate risk in post-trade processing, including reconciliation, data aggregation and transformation, trade settlement and client fee billing. The acquisition secures Gresham a leading position in the buy-side market and strengthens our U.S. market presence. Longer term synergies are expected to be achieved as investments are made on a combined basis using pooled global resources. Our plans have been well received by staff, customers and partners and, whilst integration work is now underway, the management teams are ensuring the first priority is to ongoing customer-facing sales and service activity.

From a financial perspective, the combination provides an opportunity to drive meaningful earnings accretion and accelerate earnings growth and quality of revenues. Electra, as an independent standalone business, performed well during the first six months of 2021, adding four new customers, and growing forward-looking ARR to approximately USD 12.7m, from USD 12.2m at 31 December 2020. As at 30 June 2021, our Strategic ARR, the combined Clareti and Electra forward-looking annualised recurring revenue, is £22.1m, more than double what it was a year ago.

Sales and Marketing

Direct sales remain our primary route to market, and during 2020 we took the opportunity to re-structure our direct sales organisation. In H1 2021, we added a new inside sales team to support lead generation work, as well as creating business development roles for our key product lines. We are now seeing the benefits in terms of new wins, an improving pipeline and higher quality customer engagements. Enterprise software sales cycles into the financial community are high touch and complex, with competitive tendering processes, presentations, demonstrations, client references and proofs of concept. We continue to refine our sales approach and continue to pursue partnerships including selling alongside global system integrators as well as white-labelling and OEM arrangements. In H1, we launched our new messaging, website and a simplified Clareti product story and collateral, all of which has been well received in the market.

Products

During H1, we re-packaged our offerings and re-aligned our development groups into two product lines: Clareti Control and Clareti Connect. Development work on these offerings has progressed throughout H1 at full capacity as we enhance our platform to extend our undoubted technology lead in the market. We also have a third development team working on Digital Banking products driven by our innovation partnership with ANZ.

Clareti Control products

Clareti Control is an enterprise-grade business self-service platform for the reconciliation and control of "any and all" transaction data in financial markets. Our flagship Clareti Transaction Control is now well established in the market for ‘non-standardised’ problems such as inter-systems reconciliations with dozens of successful implementations. We have long recognised that, to achieve market leadership, we would need to enhance the platform to tackle the ‘standardised’ cash and securities markets and ultimately displace deeply embedded legacy solutions such as Smartstream TLM and FIS Intellimatch. In H1, we made available production releases of Clareti Cash Control and Clareti Securities Control based on functionality developed in partnership with two of the world’s largest investment banks for nostro, depot and confirmations reconciliations.

We are now the only vendor in the market that can offer ‘standardised’ and ‘non-standardised’ data reconciliations and controls on a modern self-service platform that has been proven at scale. This is a ‘holy grail’ for the operations functions within large capital markets institutions and we expect to capitalise on this opportunity in the market over the next few years. Over time, we will bring Electra’s reconciliation offering onto the same platform to offer ‘out of the box’ capabilities for handling buy-side nostro/depot as well as leveraging their patented capabilities for combining cash/stock/transaction into a single view (the NAV).

Clareti Connect products

Clareti Connect solutions allow customers to participate in the complex inter-connected global financial system without needing to be concerned with integration risk, cost and time to market. Connect solutions are sold primarily as cloud services delivered with tools built or acquired by Gresham and a rich library of industry connectivity and data transformations IP. These solutions enable institutions to seamlessly join their banking, payments, trading, accounting and regulatory systems and their external partners with intelligent straight-through-processing in a way that is reliable and cost effective. The current generation of solutions are based on technology acquired from C24, B2 and Inforalgo, and includes a library of over 350 standard services or connections. During H1, we went live with the first customer on our next generation cloud-native architecture Connect 2.0 and we are continuing the migration of customers and build out of the platform. The new technology enables extremely complex data integrations and straight through processes to be configured, deployed, monitored and maintained in a ‘low-code’ environment. We continue to enhance Connect to support for new industry requirements such as SWIFT MX / ISO20022 messaging.
Ultimately, we plan to bring together the Electra Data and Clareti Connect services onto common tooling.

Digital Banking products

Our strategic partnership with ANZ to develop a next generation of cash management offerings has progressed well in H1. The product development work via a chargeable Innovation Service and the first production release of a cloud-native bank account platform is on track to be handed over to ANZ before the end of this year. This important milestone will trigger incremental recurring software revenues, and an exciting roadmap for future releases has been jointly mapped out. In H2, we will also turn our attention to the opportunity to further monetise this innovative software in the global market.

Outlook

Following the successful completion of the move to subscription revenues in the Clareti business, and the acquisition of Electra, itself a subscription-based business, Gresham now benefits from high levels of recurring revenues. Our Strategic ARR, the combined Clareti and Electra forward-looking ARR, totalled £22.1m as at 30 June 2021. The non-Clareti portfolio provides a further £3.6m of forward-looking ARR, bringing Group ARR to £25.7m. Whilst the remainder of the non-Clareti portfolio, including our Australian sub-contracting operations, is not formally contracted on a recurring basis, it does have a track record of performing very predictably. In addition, existing signed statements of works for professional services projects provide a good level of visibility into second half services billings.

As a result, we enter the second half of 2021 with 96% of our planned (pre-Electra acquisition) full year Clareti revenues already contracted or highly visible and also have comparable levels of visibility over Electra planned revenues. Remaining planned revenues are expected to come from new subscriptions or upgrades currently in our combined pipeline.

There is good momentum in both businesses with pipelines continuing to improve from the low point about a year ago. The Clareti team are focused on developing key accounts in banking, sustaining the run rate of wins in Europe and opening up the Asia Pacific market following our appointment of a new sales team into Singapore in early 2021. The key account of ANZ is expected provide further incremental revenues in the fourth quarter as current innovation work achieves important milestones. The Electra business is expected to close several new names wins in the US and in Europe for both the reconciliations offering and the data aggregation service. There is also an encouraging level of on-going subscription growth in the customer base.

The pandemic and uncertain economy impacted the ability of our customers to initiate and drive new projects in FY20, however, during FY21 we have seen increasing levels of management ambition and associated budget allocations for change projects in our target markets. There are now strong indications that financial firms are planning for greater investment in FY22, with digital transformation and automation remaining a priority. A key challenge to address for Gresham, and our customers, is the availability of IT and software skills in a rapidly changing, high demand, global market. With the acquisition of Electra, we now have greater scale to explore new models for bringing talent in the business. For example, we will be expanding our graduate intake this year to be global and cross-functional. We are also reviewing our operating model for software development and other technical functions as part of merging the businesses.

The Group is now a larger and more resilient business following the acquisition of Electra. We have a clear and focused strategy, a strong balance sheet and cash position, and remain debt free. Given the continuing market demand for our offerings, and the encouraging sales pipeline underpinned by our current levels of contracted and highly visible revenues, we remain confident in our ability to achieve our FY21 plans for revenues and earnings.

Thank you for your support,

Ian Manocha
Chief Executive Officer
20 July 2021

Consolidated income statement

	Notes	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
Revenue	2	14,791	12,197	24,752
Cost of sales		(3,692)	(1,702)	(3,860)
Gross profit		11,099	10,495	20,892
Adjusted administrative expenses		(9,739)	(9,309)	(19,054)
Adjusted operating profit		1,360	1,186	1,838
Adjusting administrative items:				
Exceptional items	2	(1,482)	(195)	(400)
Amortisation on acquired intangibles		(516)	(397)	(893)
Share-based payments		(174)	(94)	(220)
		(2,172)	(686)	(1,513)
Total administrative expenses		(11,911)	(9,995)	(20,567)
Operating (loss)/profit		(812)	500	325
Finance revenue		3	30	37
Finance costs		(28)	(27)	(54)
(Loss)/profit before taxation		(837)	503	308
Taxation	3	256	(194)	953
(Loss)/profit after taxation - Attributable to owners of the Parent		(581)	309	1,261
Earnings per share				
Statutory				
Basic earnings per share – pence	4	(0.82)	0.45	1.84
Diluted earnings per share – pence	4	(0.82)	0.44	1.80
Adjusted				
Basic earnings per share – pence	4	2.25	1.45	4.04
Diluted earnings per share – pence	4	2.21	1.42	3.96

Consolidated statement of comprehensive income

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
(Loss)/profit attributable to the Parent	**(581)**	309	1,261
Other comprehensive income/(expense)			
Items that will or may be re-classified into profit or loss: Exchange differences on translating foreign operations	**11**	(77)	(113)
Total other comprehensive income/(expense)	**11**	(77)	(113)
Total comprehensive (expense)/income for the period	**(570)**	232	1,148

Consolidated statement of financial position

	30 June 2021 Unaudited	30 June 2020 Unaudited	31 December 2020 Audited
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	191	294	243
Right-of-use assets	1,657	1,087	1,646
Intangible assets	61,568	26,091	31,108
Deferred tax assets	1,010	-	552
	64,426	27,472	33,549
Current assets			
Trade and other receivables	5,364	5,274	3,497
Contract assets	2,617	-	923
Cash and cash equivalents	8,084	7,398	8,876
	16,065	12,672	13,296
Total assets	80,491	40,144	46,845
Equity and liabilities			
Equity attributable to owners of the Parent			
Called up equity share capital	4,166	3,413	3,508
Share premium account	23,856	3,903	4,341
Own share reserve	(510)	(778)	(778)
Other reserves	536	536	536
Foreign currency translation reserve	(183)	(158)	(194)
Retained earnings	18,524	18,375	19,453
Total equity attributable to owners of the Parent	46,389	25,291	26,866
Non-current liabilities			
Contract liabilities	-	470	66
Lease liabilities	923	525	1,004
Deferred tax liability	5,214	1,216	1,289
Provisions	146	144	146
Contingent consideration	2,581	-	349
	8,864	2,355	2,854
Current liabilities			
Trade and other payables	19,706	11,773	15,303
Lease liabilities	662	436	535
Income tax payable	117	289	378
Contingent consideration	4,753		909
	25,238	12,498	17,125
Total liabilities	34,102	14,853	19,979
Total equity and liabilities	80,491	40,144	46,845

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Currency translation £'000	Retained earnings £'000	Total £'000
At 1 January 2020	3,413	3,903	(945)	536	(81)	18,478	25,304
Attributable profit for the period	-	-	-	-	-	309	309
Other comprehensive expense	-	-	-	-	(77)	-	(77)
Total comprehensive income	-	-	-	-	(77)	309	232
Share-based payment expense	-	-	-	-	-	94	94
Issue of shares held by Employee Share Ownership Trust	-	-	167	-	-	-	167
Dividend	-	-	-	-	-	(506)	(506)
At 30 June 2020	3,413	3,903	(778)	536	(158)	18,375	25,291
Attributable profit for the period	-	-	-	-	-	952	952
Other comprehensive expense	-	-	-	-	(36)	-	(36)
Total comprehensive income	-	-	-	-	(36)	952	916
Exercise of share options	95	438	-	-	-	-	533
Share-based payment expense	-	-	-	-	-	126	126
At 31 December 2020	3,508	4,341	(778)	536	(194)	19,453	26,866
Attributable loss for the period	-	-	-	-	-	(581)	(581)
Other comprehensive income	-	-	-	-	11	-	11
Total comprehensive income	-	-	-	-	11	(581)	(570)
Issue of equity shares	656	20,344	-	-	-	-	21,000
Share issue costs	-	(870)	-	-	-	-	(870)
Exercise of share options	2	41	-	-	-	-	43
Share-based payment expense	-	-	-	-	-	174	174
Issue of shares held by Employee Share Ownership Trust	-	-	268	-	-	-	268
Dividend	-	-	-	-	-	(522)	(522)
At 30 June 2021	**4,166**	**23,856**	**(510)**	**536**	**(183)**	**18,524**	**46,389**

Consolidated statement of cashflows

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
Cashflows from operating activities			
(Loss)/profit after taxation	**(581)**	309	1,261
Depreciation of property, plant and equipment	**84**	109	245
Amortisation of intangible assets	**1,633**	1,284	2,810
Amortisation of right-to-use assets	**261**	229	496
Share-based payments	**174**	94	220
(Increase)/decrease in trade and other receivables	**(756)**	(118)	1,060
Increase in contract assets	**(1,172)**	(178)	(312)
Increase/(decrease) in trade and other payables	**525**	(740)	1,111
Decrease in contract liabilities	**(340)**	(1,155)	(1,263)
Taxation	**256**	35	(953)
Net finance costs	**25**	3	17
Cash inflow/(outflow) from operations	**109**	(128)	4,692
Income taxes received	**-**	769	1,307
Income taxes paid	**(663)**	(285)	(510)
Net cash (outflow)/inflow from operating activities	**(554)**	356	5,489
Cash flows from investing activities			
Interest received	**3**	30	37
Purchase of property, plant and equipment	**(22)**	(35)	(87)
Payments to acquire subsidiary undertakings (net of cash)	**(17,676)**	-	(1,900)
Payments to acquire intangible fixed assets	**(1,745)**	(1,834)	(3,565)
Net cash used in investing activities	**(19,440)**	(1,839)	(5,515)
Cash flows from financing activities			
Interest paid	**-**	(8)	(16)
Principal paid on lease liabilities	**(270)**	(303)	(576)
Dividends paid	**(522)**	(506)	(506)
Share issue proceeds (net of costs)	**20,173**	-	533
Net cash from/(used in) financing activities	**19,381**	(817)	(565)
Net decrease in cash and cash equivalents	**(613)**	(2,300)	(591)
Cash and cash equivalents at beginning of period	**8,876**	9,605	9,605
Exchange adjustments	**(179)**	93	(138)
Cash and cash equivalents at end of period	**8,084**	7,398	8,876

Notes to the interim report

1. Basis of preparation

Gresham Technologies plc (LSE: "GHT", "Gresham" or the "Company" or the "Group" or the "Parent") is a Public limited company and is listed on the London Stock Exchange. The Company's registered address is Aldermary House, 10 – 15 Queen Street, London, EC4N 1TX and the Company's registration number is 1072032.

These condensed interim financial statements are unaudited, have not been reviewed by the Group's auditors, and do not constitute statutory accounts within the meaning of the Companies Act 2006.

These condensed interim financial statements have been prepared on a going concern basis and in accordance with IAS 34 'Interim Financial Reporting', the Disclosure and Transparency Rules and the Listing Rules of the Financial Conduct Authority, and were approved on behalf of the Board by the Chief Executive Officer Ian Manocha and Chief Financial Officer Tom Mullan on 20 July 2021.

The accounting policies and methods of computation applied in these condensed interim financial statements are consistent with those applied in the Group's most recent annual financial statements for the year ended 31 December 2020.

The financial statements for the year ended 31 December 2020, which were prepared in accordance with international accounting standards in conformity with the requirements with the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union. The auditors' opinion on those financial statements was unqualified and did not contain a statement made under s498(2) or (3) of the Companies Act 2006.

Copies of these condensed interim financial statements and the Group's most recent annual financial statements are available from the Group's website www.greshamtech.com or by writing to the Company Secretary at the Company's registered office.

2. Segmental information

The segmental disclosures reflect the analysis presented on a monthly basis to the chief operating decision maker of the business, the Chief Executive and the Board of Directors.

For management purposes, the Group is organised into the following reportable segments:

- Clareti Solutions – supply of solutions predominantly to the finance and banking markets across Asia Pacific, EMEA and North America. Includes both software and services that can be accessed in the cloud, on-premise or deployed into hybrid environments. These primary offerings within this segment include:
    - *Clareti Control products*
        - The only modern enterprise-grade business self-service platform for the reconciliation and control of "any and all" transaction data in financial markets.
        - Disrupting markets dominated by legacy vendors whose inflexible technology fails to achieve more granular and real-time data control, or replacing in-house systems and manual processes.
        - Sold as applications for specific use cases including Clareti Transaction Control, Clareti Cash Control, Clareti Securities Control and Clareti Regulatory Control.
        - In future reporting periods, it is expected that Electra Control products will be reported along with this product line.
    - *Clareti Connect products*
        - A unique service that enables customers to participate in the complex inter-connected global financial system without having to worry about integration risk, cost and time to market.
        - Enables institutions to seamlessly connect their banking, payments, trading, accounting and regulatory systems and external partners with intelligent straight-through-processing in a way that is reliable and cost effective.
        - Sold primarily as a cloud service bringing together tools and software libraries built or acquired by Gresham into a rich menu of industry connectivity and data transformation services.

- In future reporting periods, it is expected that Electra Data Connect products will be reported along with this product line.
- Other Solutions – supply of a range of well-established solutions to enterprise-level customers in a variety of end markets
- Contracting Services – Supply of IT contracting services to one banking customer

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

6 months ended 30 June 2021 (unaudited) – Segmental Information

		Other Solutions		
	Clareti Solutions	Software	Contracting Services	Consolidated
	£'000	£'000	£'000	£'000
Revenue	9,856	2,468	2,467	**14,791**
Cost of sales	(1,147)	(1,181)	(1,364)	**(3,692)**
Gross profit	8,709	1,287	1,103	**11,099**
Gross profit %	*88%*	*52%*	*45%*	***75%***
Contracted administrative expenses	(267)	-	(787)	**(1,054)**
Gross profit after contracting fully costed	8,442	1,287	316	**10,045**
Gross profit %	*86%*	*52%*	*13%*	***68%***
Adjusted administrative expenses	(8,614)	(71)	-	**(8,685)**
Adjusted operating (loss)/profit	(172)	1,216	316	**1,360**
Adjusted operating margin %	*(2%)*	*49%*	*13%*	***9%***
Adjusting items:				
Exceptional costs				**(1,482)**
Amortisation of acquired intangibles				**(516)**
Share-based payments				**(174)**
Adjusting administrative expenses				**(2,171)**
Operating loss				**(812)**
Finance revenue				**3**
Finance costs				**(28)**
Loss before taxation				**(837)**
Taxation				**256**
Loss after taxation				**(581)**
Adjusted operating (loss)/profit	(172)	1,216	316	**1,360**
Amortisation of intangibles	1,117	-	-	**1,117**
Depreciation of property, plant and equipment	84	-	-	**84**
Amortisation of right-of-use assets	261	-	-	**261**
Bank charges	(9)	-	-	**(9)**
Adjusted EBITDA	1,281	1,216	316	**2,813**
Development costs capitalised	(1,745)	-	-	**(1,745)**
Principal paid on lease liabilities	(270)	-	-	**(270)**
Cash EBITDA	(734)	1,216	316	**798**
Segment assets				**80,491**
Segment liabilities				**(34,102)**

6 months ended 30 June 2020 (unaudited) – Segmental Information

		Other Solutions		
	Clareti Solutions	Software	Contracting Services	**Consolidated**
	£'000	£'000	£'000	**£'000**
Revenue	7,426	2,094	2,677	**12,197**
Cost of sales	(433)	(700)	(571)	**(1,704)**
Cost of sales capitalised as intangible asset	2	-	-	**2**
Gross profit	6,995	1,394	2,106	**10,495**
Gross profit %	94%	67%	79%	**86%**
Contracted administrative expenses	-	-	(1,748)	**(1,748)**
Gross profit after contracting fully costed	6,995	1,394	358	**8,747**
Gross profit %	94%	67%	13%	**72%**
Adjusted administrative expenses	(7,486)	(75)	-	**(7,561)**
Adjusted operating (loss)/profit	(491)	1,319	358	**1,186**
Adjusted operating margin %	(7%)	63%	13%	**10%**
Adjusting items:				
Exceptional costs				**(195)**
Amortisation of acquired intangibles				**(397)**
Share-based payments				**(94)**
Adjusting administrative expenses				**(686)**
Operating profit				**500**
Finance revenue				**30**
Finance costs				**(27)**
Profit before taxation				**503**
Taxation				**(194)**
Profit after taxation				**309**
Adjusted operating (loss)/profit	(491)	1,319	358	**1,186**
Amortisation of intangibles	887	-	-	**887**
Depreciation of property, plant and equipment	109	-	-	**109**
Amortisation of right-of-use assets	229	-	-	**229**
Bank charges	(6)	-	-	**(6)**
Adjusted EBITDA	728	1,319	358	**2,405**
Development costs capitalised	(1,834)	-	-	**(1,834)**
Principal paid on lease liabilities	(303)	-	-	**(303)**
Cash EBITDA	(1,409)	1,319	358	**268**
Segment assets				**40,144**
Segment liabilities				**(14,853)**

Adjusted EBITDA

Adjusted EBITDA is calculated as EBITDA excluding exceptional charges and share-based payments, reconciled as follows:

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
(Loss)/profit before taxation	(837)	503	308
Adjusting items:			
Amortisation of intangibles	1,633	1,284	2,810
Depreciation of property, plant and equipment	84	109	213
Amortisation of right-to-use assets	261	229	496
Notional interest on lease liabilities	19	19	38
Finance revenue	(3)	(30)	(37)
Interest payable	-	2	3
EBITDA	1,157	2,116	3,831
Exceptional items	1,482	195	400
Share-based payments	174	94	220
Adjusted EBITDA	2,813	2,405	4,451

Exceptional items

An analysis of exceptional items included within the Income statement is disclosed below:

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
Acquisition and associated integration costs	1,805	195	423
Gain on forward foreign exchange contract	(330)	-	-
Implementation of new ten-year share option scheme	7	-	33
Australian government Covid-19 contribution	-	-	(56)
	1,482	195	400

3. Taxation

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
Current income tax			
Overseas tax credit - adjustment to previous periods	(99)	(111)	(124)
Overseas tax charge - current period	433	217	599
UK corporation tax credit - adjustment to previous periods	-	(659)	(1,307)
Total current income tax	334	(553)	(832)

Deferred income tax

(Recognition)/derecognition of deferred tax	(467)	676	(202)
Tax rate change adjustments	(123)	71	81
Total deferred income tax	(590)	747	(121)
Total (credit)/charge in the income statement	(256)	194	(953)

The prior year UK corporation tax prior period adjustment relates to the cash credit received upon the surrender of losses.

4. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	6 months ended 30 June 2021 Unaudited	6 months ended 30 June 2020 Unaudited	12 months ended 31 December 2020 Audited
Basic weighted average number of shares	70,763,791	68,256,458	68,697,828
Dilutive potential ordinary shares			
Employee share options - weighted	1,361,641	1,881,255	1,414,549
Diluted weighted average number of shares	72,125,432	70,137,713	70,112,377

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
Adjusted earnings attributable to owners of the Parent	1,591	995	2,774
Adjusting items:			
Exceptional items	(1,482)	(195)	(400)
Amortisation of acquired intangibles	(516)	(397)	(893)
Share-based payments	(174)	(94)	(220)
Statutory earnings attributable to owners of the Parent	(581)	309	1,261
Earnings per share:			
Statutory			
Basic earnings per share - pence	(0.82)	0.45	1.84
Diluted earnings per share - pence	(0.82)	0.44	1.80
Adjusted			
Basic earnings per share - pence	2.25	1.45	4.04
Diluted earnings per share - pence	2.21	1.42	3.96

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of this interim statement.

5. Dividends paid and proposed

Amounts recognised as distributions to equity holders during the period:

	6 months ended 30 June 2021 Unaudited £'000	6 months ended 30 June 2020 Unaudited £'000	12 months ended 31 December 2020 Audited £'000
Final dividend			
Final dividend for the year ended 31 December 2020 of 0.75 pence per share	522	-	-
Final dividend for the year ended 31 December 2019 of 0.50 pence per share	-	506	506
	522	506	506

6. Acquisition of Electra Information Systems Inc

On 22 June 2021 Gresham Technologies plc acquired the entire ordinary share capital in Electra Information Systems Inc, a US based provider of post-trade processing software solutions and services.

The initial consideration was £17.8m with £3.0m additional consideration to be paid to settle outstanding liabilities. Contingent consideration dependent upon performance of up to £6.9m is payable over a 24 month period post acquisition. The maximum potential consideration is £27.7m.

The provisional amounts recognised in respect of identifiable assets and liabilities assumed are set out in the table below:

	Book value £'000	Adjustments £'000	Fair value £'000
Intangible assets			
Customer relationships	-	11,800	11,800
Software	-	4,959	4,959
Property, plant and equipment	25	-	25
Right-of-use assets	285	-	285
Trade and other receivables	1,633	-	1,633
Cash and cash equivalents	98	-	98
Trade and other liabilities	(4,152)	-	(4,152)
Lease liabilities	(297)	-	(297)
Deferred tax liability	-	(4,055)	(4,055)
Total net (liabilities)/assets	**(2,408)**	**12,704**	**10,296**
Satisfied as follows:			
Cash			17,774
Contingent consideration			6,048
Total consideration			**23,822**
Goodwill			13,526
Analysis of cash flows on acquisition:			
Net cash acquired			(98)
Cash paid			17,774
Net cash flow			**17,676**

Fair value of consideration paid:

Cash	17,774
Contingent consideration due less than one year	3,467
Contingent consideration due more than one year	2,581
Total consideration	**23,822**

The goodwill recognised above is attributable to intangible assets that cannot be individually separately and reliably measured from Electra due to their nature. These items include the expected value of synergies and assembled workforce.
Intangible assets were identified on acquisition relating to customer contracts and relationships and software. To determine the fair value of the intangible assets a valuation was performed by an independent external expert.

The customer related assets were valued using an Excess earnings method to assess the present value of expected cash received over the life of customer relationships adjusted by an annual attrition rate calculated based on historical revenue data. The software assets relating to internally developed technology were valued using an implied royalty rate method to estimate the fair value of developed technology.

Acquisition costs of £1.8m were incurred during the period ended 30 June 2021 as a result of the acquisition and integration of Electra. These costs have been recognised as exceptional costs within the Income Statement. In addition to the costs recorded as exceptional costs, a further £0.8m of costs directly attributable to the equity raise have been recognised within the net equity raise of £20.2m.

Contingent consideration

As part of the sale and purchase agreement, contingent consideration is payable up to £6,935,000 with the maximum amount payable if the Annual Recurring Revenues are £8,900,000 24 months after acquisition. The consideration is payable on a straight-line basis with no lower threshold with 50% payable in June 2021 and the balance payable in June 2023. Due to the nature of these payments a fair value calculation has been performed by Management to estimate the expected amount of consideration to be paid. As result, contingent consideration of £6,049,000 has been recognised in the statement of financial position, with £3,467,000 due in less than one year and £2,581,000 due in more than one year.

7. Statement of directors' responsibilities

The Directors are responsible for preparing the half-yearly financial report, in accordance with applicable law and regulations.

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements:

- has been prepared in accordance with IAS 34 as adopted by the European Union; and
- includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority (as detailed in the Chief Executive review).

The principal risks and uncertainties facing the Group for the period ending 30 June 2021 and anticipated for the remainder of the year ended 31 December 2021 remain consistent with those disclosed in the Group's financial statements for the year ended 31 December 2020, which are available from www.greshamtech.com.

Specific consideration has been given to the risks due to the Covid crisis, for further details see Chief Executive Review.

8. Related party transactions

No related party transactions have taken place during the first six months of the year that have materially affected the financial position or performance of the Company.

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