Foundations for future growth

EMIS Group plc
Half year results 2018

emis group

Financial highlights

PRIMARY, COMMUNITY & ACUTE CARE

No. 1
market share

Market-leading position maintained in primary care, providing EMIS Web to the GP market in the UK. Number two position maintained in community, A&E and hospital pharmacy.

COMMUNITY PHARMACY

No.=1
market share

Joint market leadership in the provision of dispensary pharmacy management software for the community pharmacy market.

SPECIALIST & CARE

No. 1
market share

EMIS Group is the number one private provider of diabetic screening services and the number one in providing screening software to the diabetic eye screening market.

PATIENT

No. 1
provider of online GP booking

More patients book their appointments online using Patient Access than any other system, and Patient.info receives 26 million average page views per month.

Total revenue

£84.5m **+7%**

(2017 H1: £79.2m)

Operating profit reported post exceptional items

£12.9m **+23%**

(2017 H1: £10.5m)

Adjusted earnings per share[1]

22.2p

(2017 H1: 22.2p)

Recurring revenue

£69.4m **+4%**

(2017 H1: £66.8m)

Cash flow and debt generated from operations[2]

£32.2m **+24%**

(2017 H1: £26.0m)

Earnings per share reported post exceptional items

16.1p **+23%**

(2017 H1: 13.1p)

Adjusted operating profit[1]

£17.6m **+1%**

(2017 H1: £17.5m)

Net cash

£32.3m

(2017 H1: £10.5m)

Interim dividend

14.2p **+10%**

(2017 H1: 12.9p)

1 Excludes capitalisation and amortisation of development costs, amortisation of acquired intangibles and exceptional items. Earnings per share calculations also adjust for the related tax and non-controlling interest impact. The only exceptional item excluded in either period relates to a £2.5m charge in 2017 H1 in respect of the Group's reorganisation programme.

2 Stated after deduction of capitalised development costs of £2.8m (2017 H1: £2.1m) and of the cash impact of exceptional items of £1.4m (2017 H1: £2.7m).

Overview

Financial statements

Operational highlights

Encouraging H1 progress in line with expectations

- Revenue growth of 7% was entirely organic, with recurring revenues up 4%
- Excluding Patient's results, adjusted operating profit increased by 8%
- Strong market share positions maintained across the Group
- NHS Digital settlement expected to be within the provision made in 2017
- Investment in team to complete legacy tasks and improve service execution
- Improved net cash position despite increased investment
- Interim dividend increased by 10%

Improved business execution

- Strengthened senior leadership team and launched new management development programme
- Invested in building up software development team in UK and India
- Committed to meeting and exceeding our customers' and users' expectations

NHS Digital recovery plan well advanced

- Meeting key service level obligations under the contract from 1 July 2018
- Invested in support and software development staff to resolve legacy issues
- Continue to engage constructively with NHS Digital on the settlement

Successful delivery of legacy commitments

- Completed majority of outstanding commercial agreements and long-term delivery commitments with customers in Community and Acute Care
- Reached financially beneficial arrangement to exit legacy Acute Care contract in Australia
- Developing and defining next stage roadmaps for Primary and Community Care

Encouraging progress with key products and market developments

- Patient – Patient Access App 2.0 launched
- Primary Care – confirmed architectural design for EMIS Web upgrade and strengthened the team
- Produced new mobile apps, released new software upgrades and launched new platforms and services across the Group's businesses

Strategy development for the next stage of growth

- Identifying sustainable long-term market opportunities with executable plans
- Defining our new five-year product roadmap
- Strategy update in November 2018

Current trading and outlook – focussed on execution while planning for growth

- Good revenue visibility and order book for the rest of 2018
- Remain confident of delivering the Board's expectations for the year as a whole

Chief Executive Officer's overview

Encouraging progress in the half year

We delivered organic revenue growth and profit improvement despite incremental investment in Patient and increased legacy-related operational costs.

We made encouraging progress in the half year in line with the Board's expectations. We delivered organic revenue growth and profit improvement despite incremental investment in Patient and increased legacy-related operational costs in the period. Our balance sheet remains strong, with net cash rising to £32.3m.

Business execution

We focussed our business units on improving service execution in line with the high standards our customers expect. Over the last year we have strengthened our senior leadership team, having recruited 18 new colleagues out of our team of 46. These new skills are complementary to our existing leadership talent and together they are focussed on improving execution.

We have also launched our new management development programme – Manager Essentials. This is a foundation course ensuring that our managers have the tools and techniques to successfully navigate the opportunities and challenges they face daily.

We are focussed on meeting and exceeding our customers' expectations in the products and services we provide. To this end we have invested in building up our software development team in the UK and India as well as targeting our delivery and service teams on particular customers and projects.

Chief Executive Officer's overview continued

NHS Digital recovery plan

The execution theme also applied to the recovery plan for NHS Digital (NHSD) following the discovery of service level reporting issues in January 2018 being a major focus. This has resulted in the deployment of 93 additional support and software development staff to resolve the legacy issues, in line with the investment we indicated in March 2018.

As planned, we are pleased to report that we have met the key service level obligations under the GP Systems of Choice (GPSoC) contract from 1 July 2018 and expect to continue to do so. The Group continues to engage constructively with NHSD on the settlement. Our current expectation is that, when finalised, this will be within the provision that we have already made.

Delivery of legacy commitments

In addition to our NHSD recovery plan, we focussed our teams on successfully fulfilling legacy customer delivery commitments, including:

- completing 17 out of 18 outstanding commercial agreements with Community Care customers;
- completing 25 out of 30 long-term delivery commitments with Acute Care customers;
- reaching a financially beneficial arrangement for the sale of a legacy Acute Care software product in Northern Territory, Australia;
- developing the next stage of the user defined roadmap for Primary Care through our National User Group; and
- defining the next stage of our Community Care roadmap in partnership with senior representatives from our customer user group.

Delivery of key products and market developments

While we have been addressing a number of legacy commitments, we have also been building opportunities across the Group to deliver future growth. We delivered key product and market developments in the period, bringing innovation to our user base, including:

- Patient – Patient Access 2.0 app (the second element of our investment) was launched;
- Primary Care – we confirmed our architectural design for the EMIS Web upgrade and started building the team;
- Community Care – we released a new windows-based mobile app for beta trial for "clinicians on the go";
- Acute Care – we released a new software upgrade for Symphony, our unscheduled care product;
- Partners – we released our new GP Analytics platform to the market in limited availability;
- Egton – we launched our document digitisation service to the market;
- Community Pharmacy – we continued the successful roll-out of our new ProScript Connect product; and
- Specialist & Care – we continued our improved service performance.

Strategy for growth

In parallel with our major focus on execution, we have been considering and developing our strategic plans for the Group. This is progressing well with the executive team focussed on identifying sustainable long-term market opportunities with appropriate executable plans.

We have made significant strides in defining our new five-year product roadmap, led by our recently appointed Group Chief Technology Officer. The technology choices we make will be the key enablers to taking the business to the next stage of its growth.

We are hosting a Capital Markets Day for investors and analysts in London in November to cover the Group's long-term growth strategy.

Summary and outlook

This is a demanding yet encouraging time for the Group. We are committed to resolving our legacy issues, meeting and exceeding our customers', users' and shareholders' expectations while planning for growth. There is still more work to do to bring the Group's performance up to the standards I expect, but the changes we have made in the last year provide the core foundations for the next stage of our growth.

Operational review

Primary, Community & Acute Care

Primary Care

EMIS Health maintained its UK GP market share of 56% (31 December 2017: 56%) and retained its market leadership position.

As noted in a separate announcement on 28 March 2018, EMIS Group has agreed with NHSD to continue to deliver Lot 1 services in England pursuant to the GPSoC framework. Lot 1 covers the centrally funded GP clinical IT system functionality, support and hosting. The new call off has been agreed to enable the continued delivery of Lot 1 services on a "business as usual" basis, as well as a series of agreed changes during the period from the expiry of the existing framework (on 27 March 2018) until 31 December 2019 to ensure business continuity of critical systems to general practices whilst a new replacement framework and supporting services are established.

The new framework, GP IT Futures, is targeted to commence in summer 2019 and this is a key priority for us for the rest of 2018. We will continue to work closely with NHSD to ensure it has a clear sense of our product roadmap and enhanced capabilities.

The Group is participating in the Scotland bid for primary care whilst being cognisant of its other priorities including preparing for GP IT Futures and enhancing the core product set. The Group will continue to develop the Scotland bid over the coming months and is keeping its options open as the dialogue develops. The current contract delivers annual revenues of approximately £2.5m.

In Northern Ireland, EMIS Health Primary Care has received confirmation from 65 practices of their intention to upgrade to EMIS Web. We expect that these upgrades will be completed over the next six months.

The Group's Egton business continued to grow during the period, providing a range of software, hardware and services, including health administration, compliance software and GP practice websites. Deployment of CCG-funded NHS Wi-Fi continues, with 1,287 GP practices now using Egton's solution. Egton's newly released patient record digitisation product has received significant interest, with over 89,000 patient paper records being digitised. We continue to see growth in Egton's existing products, such as Automated Arrivals, with 2,510 active kiosks now in operation. More than seven million patients have arrived at their surgery and checked in using Automated Arrivals in the past year.

Community Care

EMIS Health grew its community market share in the first half, with an increase of 1% to 18% (31 December 2017: 17%), retaining the number two market position.

This is good progress towards the Group's goal of consolidating its number two market position and of aiming for market leadership over time. A focus on strengthening customer relationships has led to improved engagement and support from the key strategic customers in the EMIS Health community user group, evidenced by improvements in customer satisfaction. The team secured a number of contract wins including South Warwickshire and Hereford, and improved its share of the hospice market. The new patient tracking system for supporting urgent treatment centres is showing steady growth with two new contracts won in the first half.

EMIS Health continues to support "clinicians on the go"; the new version of EMIS Mobile has been well received by doctors and nurses needing up-to-date electronic access to medical records at the point of care in a community setting, such as home visits.

Opportunities continue to arise for EMIS Health in the community segment from the strategic changes within the NHS with emerging new organisations such as the accountable care organisations (ACOs) and integrated care systems that are looking to whole health economy deployments for care records. EMIS Health is strongly placed to deliver in this area.

Acute Care

EMIS Health Acute Care grew its market share by 3% to 32% (31 December 2017: 29%) in the hospital pharmacy market, retaining its number two position.

EMIS Health also maintained its number two position in A&E, with market share at 19% (31 December 2017: 19%). The business delivered an improved result on the comparative period.

During the first half, the Acute Care team successfully delivered the deployment of a light version of its electronic patient record product to its first customer, Northampton General Hospital NHS Trust, which is now live with the division's entire suite of acute care systems. The business also secured new contracts in A&E, in hospital pharmacy and in order communications. There are a number of new sites in the pipeline for the remainder of the year.

Following the announcement in 2016 of the winding down of the Group's Australian operation, a number of customers have needed longer-term support to enable transition to new suppliers. During the period, in addition to the sale of legacy software, the business also agreed a new support and maintenance contract with the Northern Territory Government of Australia, including the provision of transition assistance as it completes the replacement of its core clinical system.

Community Pharmacy

EMIS Health Community Pharmacy (EHCP) grew as expected, maintaining its joint market-leading position in the first half, with a market share of 37% (31 December 2017: 37%).

The deployment of ProScript Connect continues at pace with 2,277 direct customers now upgraded from ProScript, representing 69% of the direct EHCP estate. This includes large group customers Rowlands Pharmacy and Day Lewis Pharmacy, which have now upgraded their entire estates. The roll-out of ProScript Connect into the Celesio independent estate has also picked up momentum with 880 sites now installed (44% of the AAH independent estate) and the roll-out continuing to progress to plan.

However, due to a change in internal strategy, Celesio has decided not to pursue the option to roll out ProScript Connect into its Lloyds Pharmacy chain at the current time.

The current focus for the business is delivering an integrated module to support customers in adhering to the Falsified Medicines Directive (FMD) which comes into force in February 2019. EMIS Health is well placed to help customers with this new industry-wide requirement, which sets out to eliminate counterfeit medicines from the supply chain. EHCP's FMD module will be made available as an upgrade to ProScript Connect.

Specialist & Care

Specialist & Care has maintained its position as the leading software provider in English diabetic retinopathy screening with a 76% market share (31 December 2017: 76%).

EMIS Care remains the clear market leader in outsourced diabetic eye screening and ophthalmology imaging services, maintaining a 26% market share (31 December 2017: 26%). After careful analysis of the financial case, EMIS Care has bid for a number of new diabetic eye screening contracts, with the results of the tender processes due to be announced later in the year.

Operating to the highest quality clinical safety standards is the Group's priority, and EMIS Care has implemented new processes in the first half of 2018 to further improve clinical quality. This includes a single grading protocol across all diabetic eye screening programmes (DESPs), and plans to implement a standardised slit lamp biomicroscopy (SLB) training qualification, increasing the programmes' SLB capacity. This is a service EMIS Care can provide within its own DESPs, and in future to non-EMIS Care DESPs too.

Patient

The previously announced improvements to both Patient.info and Patient Access continue to be well received by users of the leading information website and patient-facing services. 2018 continues to be a year of investment as Patient builds and strengthens its strategy, website and patient-facing services.

Patient.info enables the general public to self-care by searching for high quality information relating to clinical conditions. Following an upgrade in the second half of 2017, the website has seen steady growth, from 25 million average page views per month in 2017 H2, to 26 million average page views per month in 2018 H1.

During the first half of 2018 there were a number of further developments in Patient.info, including improved structure of the patient information clinical leaflets for better navigation, the introduction of new content formats including recipes and quizzes, and PR campaigns achieving mainstream media coverage.

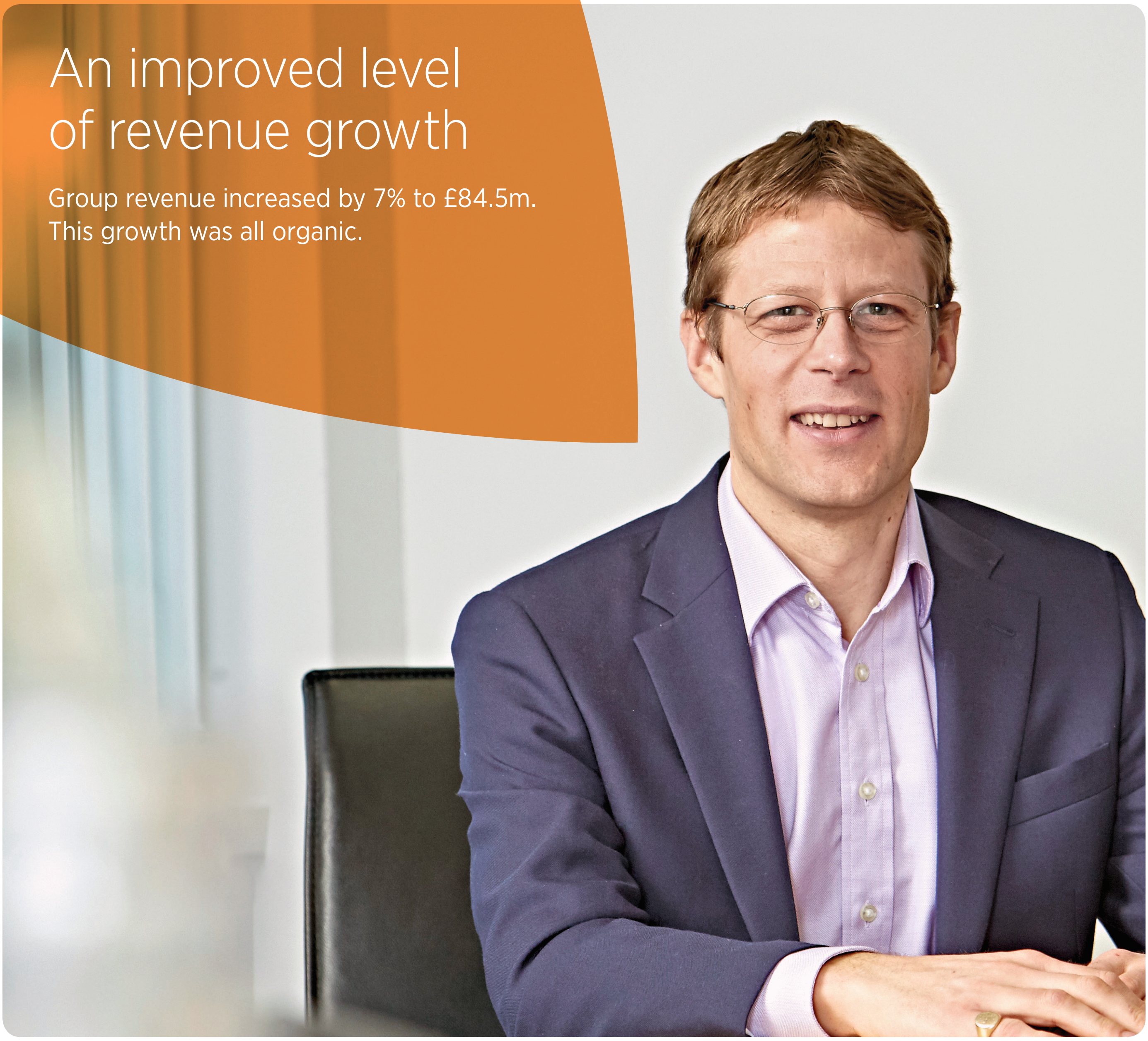
The majority of the traffic to the site is routed through Google and, just as it did last year, Google has recently changed its algorithms, which has negatively impacted the traffic coming to the site from early August 2018. The Patient team is working through the implications and will adjust its approach, but it currently appears likely that the growth in associated advertising revenues will be suppressed during the second half of the year.

Patient Access enables patients to book appointments directly with their GP, order repeat prescriptions, view their clinical record including test results, and securely message their GP. The new improved app, Patient Access 2.0, was launched in May 2018 and over 2.2 million users have already moved across to the new service. Patient Access has seen a 34% uplift in the average number of monthly users to 1.8 million users during the period (2017 H1: 1.3 million). Year on year medical record views have increased by 49%, appointment bookings have increased by 14%, and repeat prescriptions have increased by 27%.

Financial review

An improved level of revenue growth

Group revenue increased by 7% to £84.5m. This growth was all organic.



The Group's overall financial performance for the half year ended 30 June 2018 demonstrated strong cash flow performance and an improved level of revenue growth, while adjusted operating profit also increased but at a slower pace as a consequence of investment in Patient and a heavier cost base following the NHSD service level reporting issues discovered early in the year.

Financial summary

Group revenue increased by 7% to £84.5m (2017 H1: £79.2m). This growth was all organic. Recurring revenue grew by 4% to £69.4m (2017 H1: £66.8m), representing 82% of the Group's total revenue.

Adjusted operating profit for the period was £17.6m (2017 H1: £17.5m), with the revenue growth largely offset by increased investment in the Patient business (which as a result reported a £1.3m higher loss than in the comparative period) and higher costs in Primary Care in responding to the NHSD recovery plan and strategic priorities set out in the CEO's overview.

Financial review continued

Segmental performance

Revenue increased in Primary, Community & Acute Care, assisted by an agreement to sell a legacy software product to Northern Territory, Australia, as part of the closure plans previously announced. This helped to offset a small decline in recurring revenues and an increase in the cost base, particularly in development and support, resulting in a flat adjusted operating profit performance overall.

Performance in the Community Pharmacy division reflected a strong performance in the market and in operational delivery of the ProScript Connect roll-out with a 14% increase in revenue and 36% increase in adjusted operating profit.

Specialist & Care delivered results in line with expectations with the full period benefit from 2017's new contracts driving revenue growth, and the improved profit performance reported in the second half of 2017 further progressed.

In Patient, investment in developing the future business model continued in line with the strategic plans, resulting in an increased loss of £1.7m in the period, as expected.

Revenue

Revenue is analysed in the following categories:

- software and software licences, which increased to £32.0m (2017 H1: £27.4m), due to the Northern Territory sale and growth in the Group's customer base;
- maintenance and software support, which were slightly lower at £19.7m (2017 H1: £20.6m) reflecting reduced revenues from legacy products;
- other support services, where revenues were higher at £18.1m (2017 H1: £16.1m), with increased EMIS Care revenues;
- hosting, which increased to £5.8m (2017 H1: £5.6m), as a result of more hosted solutions in Community Care;
- training, consultancy and implementation, which fell to £4.5m (2017 H1: £5.5m), reflecting lower levels of new business activity in Acute Care; and
- hardware revenues, which were higher at £4.4m (2017 H1: £4.0m), driven by stronger sales of EMIS Anywhere, the Group's solution for remote access to EMIS Web.

Profitability and dividend

Adjusted operating profit increased by 1% to £17.6m (2017 H1: £17.5m) but this is after taking account of the ongoing investment in the Patient business. Excluding Patient's results, adjusted operating profit increased by 8%, with the adjusted operating margin on the same basis slightly ahead at 23.2% (2017 H1: 22.9%).

The Group employed 2,046 staff at 30 June 2018, with the increase from 1,922 at 31 December 2017 driven principally by further investment in the Indian development team (72 increase), Patient team (21 increase) and GP support team (16 increase).

There were no exceptional items in the period (2017 H1: £2.5m of reorganisation costs). After accounting for exceptional items, the capitalisation and amortisation of development costs, and for the amortisation of acquired intangibles, operating profit was 23% higher at £12.9m (2017 H1: £10.5m).

The tax charge for the period was £2.4m (2017 H1: £2.1m), representing an effective rate of tax before share of result of joint venture of 19.1% (2017 H1: 19.9%).

Adjusted basic and diluted EPS were unchanged at 22.2p and 22.1p respectively (2017 H1: 22.2p and 22.1p respectively). As a result of the exceptional charge in 2017 H1, the reported basic and diluted EPS were both higher at 16.1p (2017 H1: 13.1p for both measures).

The Board has taken into account the consistent underlying growth of the Group, together with its future prospects, and has therefore resolved to increase the interim dividend by 10% to 14.2p (2017 H1: 12.9p) per share, payable on 2 November 2018 to shareholders on the register at the close of business on 28 September 2018.

Cash flow, net cash and financing

Net cash generated from operations (after deducting £2.8m of capitalised development costs) increased by 24% to £32.2m (2017 H1: £26.0m). Net cash generated from operations is also stated after deducting the cash cost of exceptional charges of £1.4m (2017 H1: £2.7m). On an adjusted basis, adding back this cost, cash flow from operations increased by 17% to £33.6m (2017 H1: £28.7m). This reflected a strong working capital performance, and is stated after absorbing the increased level of Patient investment in 2018 H1.

Net capital expenditure excluding capitalised development costs was unchanged at £3.6m (2017 H1: £3.6m), and was principally on computer equipment. After finance costs, tax, dividends and Employee Benefit Trust transactions, the Group ended the period with net cash of £32.3m (31 December 2017: £14.0m; 2017 H1: £10.5m).

At 30 June 2018, the Group had available undrawn bank facilities of £30.0m committed until June 2021, with an accordion arrangement to increase the quantum up to £60.0m and a further option to extend the term by a further year.

Andy Thorburn
Chief Executive Officer
31 August 2018

Peter Southby
Chief Financial Officer
31 August 2018

Group statement of comprehensive income

for the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 Unaudited £'000**	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Revenue	9	**84,548**	79,190	160,354
Costs:				
Changes in inventories		**(223)**	674	(182)
Cost of goods and services		**(8,227)**	(8,518)	(14,492)
Staff costs[1]		**(36,902)**	(38,143)	(75,162)
Other operating expenses[2]		**(15,884)**	(13,269)	(40,119)
Depreciation of property, plant and equipment		**(2,350)**	(2,283)	(4,506)
Amortisation of intangible assets		**(8,056)**	(7,185)	(15,253)
Adjusted operating profit		**17,616**	17,509	37,406
Development costs capitalised		**2,803**	2,145	4,426
Amortisation of intangible assets[3]		**(7,513)**	(6,660)	(14,204)
Reorganisation costs[4]		**—**	(2,528)	(5,800)
Service level reporting charges[5]		**—**	—	(11,188)
Operating profit		**12,906**	10,466	10,640
Finance income		**3**	2	3
Finance costs		**(157)**	(152)	(302)
Share of result of joint venture		**318**	350	596
Profit before taxation		**13,070**	10,666	10,937
Income tax expense	10	**(2,432)**	(2,053)	(2,074)
Profit for the period		**10,638**	8,613	8,863
Other comprehensive income				
Items that may be reclassified to profit or loss:				
Currency translation differences		**(44)**	(4)	30
Other comprehensive income		**(44)**	(4)	30
Total comprehensive income for the period		**10,594**	8,609	8,893
Attributable to:				
– equity holders of the parent		**10,095**	8,233	8,083
– non-controlling interest in subsidiary company		**499**	376	810
Total comprehensive income for the period		**10,594**	8,609	8,893

Earnings per share attributable to equity holders of the parent		**Pence**	Pence	Pence
Basic	11	**16.1**	13.1	12.8
Diluted	11	**16.1**	13.1	12.8

1 Including reorganisation costs of £nil (2017 H1: £2,468,000; 2017 FY: £5,688,000).

2 Including contract asset depreciation of £701,000 (2017 H1: £682,000; 2017 FY: £1,285,000), reorganisation costs of £nil (2017 H1: £60,000; 2017 FY: £112,000) and service level reporting charges of £nil (2017 H1: £nil; 2017 FY: £11,118,000).

3 Excluding amortisation of computer software used internally of £543,000 (2017 H1: £525,000; 2017 FY: £1,049,000).

4 The reorganisation costs in 2017 relate to redundancy and restructuring costs.

5 The service level reporting charges in 2017 relate to the NHS Digital reporting issue and reflect the estimated cost of settling the issue with NHS Digital and the cost of remediating the software code to address the problem backlog present at the year end, together with associated professional fees.

Group balance sheet

as at 30 June 2018

	Notes	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
ASSETS				
Non-current assets				
Goodwill		**50,336**	50,336	50,336
Other intangible assets	13	**45,505**	55,937	50,508
Property, plant and equipment		**21,398**	21,159	22,037
Investment in joint venture		**416**	502	98
		117,655	127,934	122,979
Current assets				
Inventories		**1,410**	2,489	1,633
Current tax assets		**717**	—	1,128
Trade and other receivables		**41,808**	41,793	40,148
Cash and cash equivalents		**32,328**	10,484	13,991
		76,263	54,766	56,900
Total assets		**193,918**	182,700	179,879
LIABILITIES				
Current liabilities				
Trade and other payables		**(23,945)**	(20,646)	(20,207)
Current tax liabilities		**—**	(700)	—
Deferred income		**(42,637)**	(37,436)	(33,736)
Provision	14	**(10,514)**	—	(11,188)
		(77,096)	(58,782)	(65,131)
Non-current liabilities				
Deferred tax liability		**(5,800)**	(8,353)	(6,734)
		(5,800)	(8,353)	(6,734)
Total liabilities		**(82,896)**	(67,135)	(71,865)
NET ASSETS		**111,022**	115,565	108,014
EQUITY				
Ordinary share capital		**633**	633	633
Share premium		**51,045**	51,045	51,045
Own shares held in trust		**(2,140)**	(2,395)	(2,293)
Retained earnings		**53,689**	59,410	51,289
Other reserve		**2,013**	2,023	2,057
Equity attributable to owners of the parent		**105,240**	110,716	102,731
Non-controlling interest		**5,782**	4,849	5,283
TOTAL EQUITY		**111,022**	115,565	108,014

Group statement of cash flows

for the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 Unaudited £'000**	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Cash generated from operations		**35,020**	28,110	48,834
Finance costs		**(102)**	(259)	(359)
Finance income		**3**	2	3
Tax paid		**(2,170)**	(3,699)	(8,139)
Net cash generated from operating activities		**32,751**	24,154	40,339
Cash flows from investing activities				
Purchase of property, plant and equipment		**(3,477)**	(3,439)	(6,198)
Proceeds from sale of property, plant and equipment		**87**	238	329
Development costs capitalised		**(2,803)**	(2,145)	(4,426)
Purchase of software		**(250)**	(360)	(718)
Dividends received		**—**	—	650
Net cash used in investing activities		**(6,443)**	(5,706)	(10,363)
Cash flows from financing activities				
Transactions in own shares held in trust		**153**	(130)	(30)
Bank loan repayments		**—**	(2,000)	(2,000)
Dividends paid	12	**(8,124)**	(7,355)	(15,476)
Net cash used in financing activities		**(7,971)**	(9,485)	(17,506)
Net increase in cash and cash equivalents		**18,337**	8,963	12,470
Cash and cash equivalents at beginning of period		**13,991**	1,521	1,521
Cash and cash equivalents at end of period		**32,328**	10,484	13,991

Cash generated from operations			
Operating profit	**12,906**	10,466	10,640
Adjustment for non-cash items:			
Amortisation of intangible assets	**8,056**	7,185	15,253
Depreciation of property, plant and equipment	**3,051**	2,965	5,791
Profit on disposal of property, plant and equipment	**(58)**	(141)	(193)
Share-based payments	**383**	383	550
Operating cash flow before changes in working capital	**24,338**	20,858	32,041
Changes in working capital:			
Decrease/(increase) in inventory	**223**	(674)	182
(Increase)/decrease in trade and other receivables	**(2,436)**	(2,048)	581
Increase/(decrease) in trade and other payables	**4,668**	963	(466)
Increase in deferred income	**8,901**	9,011	5,308
(Decrease)/increase in provision	**(674)**	—	11,188
Cash generated from operations	**35,020**	28,110	48,834

Group statement of changes in equity

for the six months ended 30 June 2018

	Notes	Share capital £'000	Share premium £'000	Own shares held in trust £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2017		633	51,045	(2,275)	58,239	2,027	4,473	114,142
Profit for the period		—	—	—	8,237	—	376	8,613
Transactions with owners								
Share acquisitions less sales		—	—	(120)	(10)	—	—	(130)
Share-based payments		—	—	—	383	—	—	383
Deferred tax in relation to share-based payments		—	—	—	(84)	—	—	(84)
Dividends paid		—	—	—	(7,355)	—	—	(7,355)
Other comprehensive income								
Currency translation differences		—	—	—	—	(4)	—	(4)
At 30 June 2017		633	51,045	(2,395)	59,410	2,023	4,849	115,565
(Loss)/profit for the period		—	—	—	(184)	—	434	250
Transactions with owners								
Share acquisitions less sales		—	—	102	(2)	—	—	100
Share-based payments		—	—	—	167	—	—	167
Deferred tax in relation to share-based payments		—	—	—	19	—	—	19
Dividends paid	12	—	—	—	(8,121)	—	—	(8,121)
Other comprehensive income								
Currency translation differences		—	—	—	—	34	—	34
At 31 December 2017		633	51,045	(2,293)	51,289	2,057	5,283	108,014
Profit for the period		—	—	—	10,139	—	499	10,638
Transactions with owners								
Share acquisitions less sales		—	—	153	—	—	—	153
Share-based payments		—	—	—	383	—	—	383
Deferred tax in relation to share-based payments		—	—	—	2	—	—	2
Dividends paid	12	—	—	—	(8,124)	—	—	(8,124)
Other comprehensive income								
Currency translation differences		—	—	—	—	(44)	—	(44)
At 30 June 2018		**633**	**51,045**	**(2,140)**	**53,689**	**2,013**	**5,782**	**111,022**

Notes to the half year financial statements

1. General information

The financial statements for the six months ended 30 June 2018 and the six months ended 30 June 2017 do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 13 March 2018 and delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

These condensed half year financial statements were approved for issue by the Board of Directors on 30 August 2018.

2. Basis of preparation

These condensed half year financial statements for the half year ended 30 June 2018 have been prepared in accordance with the AIM Rules for Companies, comply with IAS 34 Interim Financial Reporting as adopted by the European Union and should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group is profitable and it is anticipated that this will continue. There is a high and continuing level of recurring revenue and high cash conversion is anticipated for the foreseeable future. The Group's existing significant cash resources and banking facilities provide additional comfort that it will continue to be able to meet its cash flow obligations.

Accordingly, after careful enquiry and review of available financial information, the Directors have formed the conclusion that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of these consolidated half year financial statements.

The financial information is presented in sterling, which is the functional currency of EMIS Group. All financial information presented has been rounded to the nearest thousand.

3. Accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's annual report and accounts for the year ended 31 December 2017.

Current taxes on income in the half year period are accrued using the tax rates that would be applicable to expected total annual profits. Deferred taxes on income are calculated based on the standard rates that are enacted as at the balance sheet date.

The changes in accounting policy set out below will also be reflected in the Group's annual report and accounts for the year ending 31 December 2018.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 on a retrospective basis. IFRS 15 replaces all existing revenue recognition requirements in IFRS and sets out a comprehensive framework for determining whether, when and how much revenue to recognise. The Group has completed its assessment of IFRS 15 and has not identified any material differences between the requirements of IFRS 15 and the Group's previous revenue recognition policy. Accordingly no financial restatement has been made. Revenue is only recognised when (or as) control of goods or services passes to the customer, in accordance with when distinct performance obligations are met, and at the amount to which the Group expects to be entitled.

The Group's most significant revenue category is the sale of software and software licences. Materially all of this revenue is derived from software subscription fees or licences and results in performance obligations being met over time, with revenue recognised over the period during which the software is provided to the customer. Revenue from the sale of perpetual licences or the sale of the software itself is recognised at the point in time that ownership passes to the customer.

The Group's five other revenue categories are: maintenance and software support; other support services; hosting; training, consultancy and implementation; and hardware. Of these, revenue from the sale of hardware has a performance obligation that is met at a point in time, being the point in time when hardware is delivered or installed. The performance obligations for the Group's other revenue types are typically satisfied over time, either as the service is provided or the project delivered. Further disclosure is made in note 9.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments from 1 January 2018, replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out the requirements for assessing the impairment of financial assets, requiring consideration of the likelihood of default of trade receivables, firstly by splitting out the high risk balances and continuing to provide for these separately, and then applying a loss rate to the remaining balance where it is known from experience that the loss rate is not nil. On the basis that the Group has little or no history of unprovided trade receivable write off (with the majority of these balances with various parties within the government-supported National Health Service), adopting this new standard has not had a material impact and accordingly no financial restatement has been made. It has not had a significant effect on the Group's accounting policy, which is to make specific provisions against high risk trade receivable balances, where balances are in dispute or where doubt exists about the customer's ability to pay.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and has not had a significant effect on the Group's accounting policy.

3. Accounting policies continued

IFRS 16 Leases (effective 1 January 2019)

IFRS 16 Leases has been issued and is effective for annual periods beginning after 1 January 2019. IFRS 16 covers the requirements for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. This is a significant departure from the current standard, IAS 17 Leases, and will result in most of the Group's operating leases being brought onto the balance sheet (and the associated operating lease charge, currently charged to operating profit, being replaced with a finance cost and depreciation charge).

Whilst the Group has not early adopted IFRS 16 in preparing these half year financial statements it has completed its initial assessment of the potential impact of IFRS 16 on its consolidated financial statements and determined that if it were to adopt the 'cumulative catch-up approach' then an additional net liability of approximately £1m would be brought onto the Group balance sheet at the date of transition. There would be no material impact on the Group's profit before tax for the year ending 31 December 2019. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

4. Critical accounting judgements and key sources of estimation uncertainty

In preparing the 2018 half year financial statements no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations, that have a material effect on the amounts recognised in the financial statements. The key sources of estimation uncertainty that carry a significant risk of material change to the carrying value of assets and liabilities within the next year are unchanged from the 2017 Group annual report and accounts. These include service level reporting charges, for which the Group holds a provision of £10,514,000. Further details are disclosed in note 14.

5. Principal risks and uncertainties

The 2017 Group annual report and accounts describes the principal risks and uncertainties that could impact the Group's performance. These relate to healthcare structure and procurement changes, product integration and interoperability, software (product) development, recruitment and retention, information governance and cyber security, and clinical safety. These remain unchanged since the annual report was published and, accordingly, are valid for these half year financial statements. The Group operates a structured risk management process, which identifies and evaluates risks and uncertainties and reviews mitigation activity.

6. Financial risk management

The Group's activities expose it to financial risks including credit risk, liquidity risk, interest rate risk and price risk.

These condensed consolidated half year financial statements do not include all financial risk management information and disclosures required in the annual financial statements and therefore should be read in conjunction with the 2017 Group annual report and accounts.

The Group does not engage in significant levels of hedging activity and holds no material derivative financial instruments. Carrying value approximates to fair value for all financial instruments. During 2018, there has not been any significant change in business or economic circumstances that affects the fair value of the Group's financial assets and financial liabilities, any reclassification of financial assets or liabilities, nor any changes in any of the Group's risk management policies. Accordingly, the Directors, having reviewed IFRS 13 Fair Value Measurement and IAS 34 Interim Financial Reporting, are of the opinion that no additional disclosure is required.

7. Forward-looking statements

Certain statements in this half year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Notes to the half year financial statements continued

8. Segmental reporting

IFRS 8 Operating Segments provides for segmental information disclosure on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The Group considers that this role is performed by the main Board.

The Group has four operating and reportable segments, all involved with the supply and support of connected healthcare software and services:

- Primary, Community & Acute Care;
- Community Pharmacy;
- Specialist & Care; and
- Patient.

Each operating segment is assessed by the Board based on a measure of adjusted operating profit. This measurement basis excludes exceptional items, the effect of capitalisation and amortisation of development costs, and the amortisation of acquired intangible assets. The Board considers this to provide the best measure of underlying performance as it excludes non-recurring costs, amortisation of acquired intangibles arising from business combinations and reflects the underlying in-year cost of development of software for external sale, as development is considered to be a core ongoing operating function of the business. Items are classified as exceptional due to either their nature or size. Exceptional items in 2017 H1 related to reorganisation costs. Group operating expenses, finance income and costs, cash and cash equivalents and bank loans and overdrafts are not allocated to segments, as group and financing activities are not segment specific.

	Six months ended 30 June 2018					Six months ended 30 June 2017				
	Primary, Community & Acute Care £'000	**Community Pharmacy £'000**	**Specialist & Care £'000**	**Patient £'000**	**Total £'000**	Primary, Community & Acute Care £'000	Community Pharmacy £'000	Specialist & Care £'000	Patient £'000	Total £'000
Revenue	**60,604**	**12,319**	**10,124**	**1,501**	**84,548**	58,480	10,853	8,412	1,445	79,190
Segmental operating profit/(loss) as reported internally	**16,100**	**3,517**	**379**	**(1,667)**	**18,329**	16,106	2,579	(55)	(327)	18,303
Development costs capitalised	**1,720**	**–**	**–**	**1,083**	**2,803**	2,145	–	–	–	2,145
Amortisation of development costs	**(3,724)**	**(306)**	**–**	**(124)**	**(4,154)**	(3,219)	(82)	–	–	(3,301)
Amortisation of acquired intangible assets	**(2,741)**	**(288)**	**(330)**	**–**	**(3,359)**	(2,741)	(288)	(330)	–	(3,359)
Reorganisation costs	**–**	**–**	**–**	**–**	**–**	(2,528)	–	–	–	(2,528)
Segmental operating profit/(loss)	**11,355**	**2,923**	**49**	**(708)**	**13,619**	9,763	2,209	(385)	(327)	11,260
Group operating expenses					**(713)**					(794)
Operating profit					**12,906**					10,466
Net finance costs					**(154)**					(150)
Share of result of joint venture					**318**					350
Profit before taxation					**13,070**					10,666

Revenue excludes intra-group transactions on normal commercial terms from the Primary, Community & Acute Care segment to the Community Pharmacy segment totalling £2,284,000 (2017 H1: £2,373,000) and from the Primary, Community & Acute Care segment to the Specialist & Care segment totalling £124,000 (2017 H1: £90,000).

Revenue of £57,621,000 (2017 H1: £56,435,000) is derived from the NHS and related bodies. Revenue of £6,428,000 (2017 H1: £3,157,000) is derived from customers outside the United Kingdom.

9. Revenue

The nature and effect of initially applying IFRS 15 on the Group's half year financial statements is disclosed in note 3.

The table below disaggregates revenue by product/service type. Revenues from the sale of hardware, the sale of perpetual licences, or the sale of software itself are recognised at a point in time. All other revenues are typically recognised over time, as performance obligations are met. For both the Primary, Community & Acute Care segment and the Community Pharmacy segment, software and software licence revenues are the most significant revenue type. Revenues in the Specialist & Care and Patient segments are principally generated from the provision of other support services.

	Six months ended 30 June 2018 Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Software and software licences	**32,029**	27,392	55,117
Maintenance and software support	**19,755**	20,562	41,404
Other support services	**18,093**	16,095	32,462
Hosting	**5,806**	5,569	11,609
Training, consultancy and implementation	**4,471**	5,524	12,411
Hardware	**4,394**	4,048	7,351
	84,548	79,190	160,354

10. Income tax expense

The tax expense recognised reflects management estimates of the tax charge for the period and has been calculated using the estimated average tax rate of UK corporation tax for the financial year of 19.0% (2017: 19.25%) and, in relation to deferred tax, at an estimated average future rate of 18.0% (2017 H1: 18.4%).

11. Earnings per share (EPS)

The calculation of basic and diluted EPS is based on the following earnings and numbers of shares:

Earnings	**Six months ended 30 June 2018 Unaudited £'000**	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Basic earnings attributable to equity holders	**10,139**	8,237	8,053
Reorganisation costs	**–**	2,528	5,800
Service level reporting charges	**–**	–	11,188
Development costs capitalised	**(2,803)**	(2,145)	(4,426)
Amortisation of development costs and acquired intangible assets	**7,513**	6,660	14,204
Tax and non-controlling interest effect of above items	**(877)**	(1,335)	(5,129)
Adjusted earnings attributable to equity holders	**13,972**	13,945	29,690

Weighted average number of ordinary shares	**Number '000**	Number '000	Number '000
Total shares in issue	**63,311**	63,311	63,311
Shares held by Employee Benefit Trust	**(335)**	(430)	(396)
For basic EPS calculations	**62,976**	62,881	62,915
Effect of potentially dilutive share options	**103**	174	203
For diluted EPS calculations	**63,079**	63,055	63,118

EPS	**Pence**	Pence	Pence
Basic	**16.1**	13.1	12.8
Adjusted	**22.2**	22.2	47.2
Basic diluted	**16.1**	13.1	12.8
Adjusted diluted	**22.1**	22.1	47.0

Notes to the half year financial statements continued

12. Dividends

In relation to the 2017 financial year, an interim dividend of 12.9p was paid on 27 October 2017 amounting to £8,121,000 followed by a final dividend of 12.9p on 4 May 2018 amounting to £8,123,000.

For 2018, the Directors are proposing an interim dividend of 14.2p, which will be payable on 2 November 2018 to shareholders on the register at 28 September 2018. This interim dividend, which will amount to approximately £8,946,000, has not been recognised as a liability in these half year financial statements.

13. Other intangible assets

	Computer software used internally £'000	Computer software developed for external sale £'000	Computer software acquired on business combinations £'000	Customer relationships £'000	Total £'000
Cost					
At 1 January 2017	5,527	40,527	36,320	36,304	118,678
Additions	360	2,145	—	—	2,505
At 30 June 2017	5,887	42,672	36,320	36,304	121,183
Additions	358	2,281	—	—	2,639
At 31 December 2017	6,245	44,953	36,320	36,304	123,822
Additions	250	2,803	—	—	3,053
At 30 June 2018	**6,495**	**47,756**	**36,320**	**36,304**	**126,875**
Accumulated amortisation and impairment					
At 1 January 2017	2,288	19,610	20,024	16,139	58,061
Charged in period	525	3,301	1,803	1,556	7,185
At 30 June 2017	2,813	22,911	21,827	17,695	65,246
Charged in period	524	4,186	1,802	1,556	8,068
At 31 December 2017	3,337	27,097	23,629	19,251	73,314
Charged in period	543	4,154	1,803	1,556	8,056
At 30 June 2018	**3,880**	**31,251**	**25,432**	**20,807**	**81,370**
Net book value					
At 30 June 2018	**2,615**	**16,505**	**10,888**	**15,497**	**45,505**
At 31 December 2017	2,908	17,856	12,691	17,053	50,508
At 30 June 2017	3,074	19,761	14,493	18,609	55,937
At 1 January 2017	3,239	20,917	16,296	20,165	60,617

14. Provisions

	Service level reporting charges £'000	Total £'000
At 1 January 2017 and 30 June 2017	—	—
Provision recognised	(11,188)	(11,188)
At 31 December 2017	(11,188)	(11,188)
Utilisation of provision	674	674
At 30 June 2018	**(10,514)**	**(10,514)**

The provision at 30 June 2018 of £10,514,000 (2017 H1: £nil; 2017 FY: £11,188,000) is in respect of service level reporting charges in relation to the NHS Digital reporting issue and reflects the estimated future cost of settling the issue with NHS Digital and the cost of remediating the software code to address the problem backlog present at 31 December 2017, together with associated professional fees.

Shareholder information

Internet

The Group operates a website which can be found at www.emisgroupplc.com/investors. This site is regularly updated to provide information about the Group. In particular, the share price and all of the Group's press releases and announcements can be found on the site. The maintenance and integrity of the website is the responsibility of the Directors.

Registrar

Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details: Link Asset Services, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, tel. 0871 664 0300, calls cost 12p per minute plus your phone company's access charge. If you are outside the UK, please call +44 371 664 0300. Calls outside the UK will be charged at the applicable international rate. The registrar is open between 9.00am and 5.30pm, Monday to Friday, excluding public holidays in England and Wales. The registrar's website is www.signalshares.com. This will give you access to your personal shareholding by means of your investor code which is printed on your share certificate or statement of holding. A user ID and password will be sent to you once you have registered on the site.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on the website. More detailed information can be found at www.moneyadviceservice.org.uk.

You can find out more information about investment scams, how to protect yourself and report any suspicious telephone calls to the Financial Conduct Authority (FCA) by visiting their website (www.fca.org.uk) or contacting them on 0800 111 6768.

Payment of dividends

Shareholders may find it more convenient to make arrangements to have dividends paid directly into their bank account. The advantages of this are that the dividend is credited to a shareholder's bank account on the payment date, there is no need to present cheques for payment and there is no risk of cheques being lost in the post. To set up a dividend mandate or to change an existing mandate, please contact the Company's registrar, Link Asset Services, as set out above.

Share dealing services

The sale or purchase of shares must be done through a stockbroker or share dealing service provider. The London Stock Exchange provides a "Locate a broker" facility on its website which gives details of a number of companies offering share dealing services. For more information, please visit the private investors section at www.londonstockexchange.com. Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or to sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Share price information

The latest information on the share price is available at www.emisgroupplc.com/investors.

Directors and advisers

Directors

Executive
Andy Thorburn – Chief Executive Officer

Peter Southby – Chief Financial Officer

Non-executive
Mike O'Leary – Chairman

Robin Taylor – Senior Independent Non-executive Director

Kevin Boyd – Independent Non-executive Director

Andy McKeon – Independent Non-executive Director

David Sides – Independent Non-executive Director

Company Secretary
Christine Benson

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