

2015

Half Year Report

Fronde Systems Group Limited
Half Year Report
For the six months ended
30 September

The logo for Fronde, featuring the word "Fronde" in a bold, white, sans-serif font. Above the letter 'o' is a small, colorful graphic consisting of several overlapping squares in shades of yellow, orange, red, and blue, arranged in a cluster.

Fronde



Group Directory

Company Number	528567
Registered Office/ Principal Place of Business	3 Queens Wharf Wellington Telephone +64 4 499 3000 Facsimile +64 4 460 5703 Website www.fronde.com
Directors	C Burton G Cross DW Irving A Lark SL Maier Jr JI Mayson (Chairman)
Auditor	Deloitte 10 Brandon St Wellington
Solicitor	Quigg Partners The Bayleys Building 28 Brandon St Wellington
Banker	ANZ National Bank Limited 215 – 229 Lambton Quay Wellington
Share Registry	Link Market Services 138 Tancred Street Ashburton
Unlisted Market Stock Code	FSG www.unlisted.co.nz



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Chairman's Report

On behalf of the Board I present to you our report for the first six months of the 2015-16 financial year. In our last report we informed you that we have and will continue to take action to monitor and improve financial performance. Steps taken in April 2015 have resulted in substantially improved results in the first half year, and we continue to take action to ensure we remain profitable in a more challenging second half.

Financial Result

In the six months ended 30 September 2015 we achieved a profit before tax of \$1.2m, a \$2.3m improvement on the same period in the prior year. Revenue was very similar to the prior half-year at \$31.6m, with growth, albeit at a much reduced rate of 7%, in Australia offset by a reduction in New Zealand revenue. Operating margins improved by 12% to \$8.4m as tighter control on costs and capacity were put into effect. The final result is a \$1m profit net of tax.

Net Assets have increased by \$1.2m since 31 March 2015 and total equity is now \$3.7m. The company had cash in the bank of \$300k, and a \$3m overdraft facility with ANZ is in place for use if required.

The earn-out agreement entered into on acquiring OnlineOne in April 2013 has now been renegotiated and concluded. The revised agreement extends the earn out period and the targets are now aligned with Fronde's primary focus of driving recurring revenue. The value of the shares actually issued, and an estimate of shares likely to be issued, under this revised agreement has been reflected in these half year results. This has resulted in a charge of \$203k against Profit Before Tax.

Australia


Revenues from Australia continue to grow, albeit at a slower rate than expected. In this financial year, results were expected to benefit from sales of a new product, Fronde Cloud Workspace. However, sales have not eventuated and we have made the decision to withdraw this product from market, and redirect efforts into our profitable Google and NetSuite practices. Despite a loss of \$292k in the first half for Fronde Australia, with renewed focus on our Google and NetSuite revenue streams, we expect to report a profit for the second half.

Leadership

As announced prior to the AGM in July, Ian Clarke is stepping down from his role as CEO. Your Board has conducted an international search for a replacement and has announced the appointment of Anthony (Ant) Belsham to the role of Chief Executive for Fronde Systems Group with effect from Monday 7 December 2015.

Ant has over 20 years of Senior Leadership experience at Fisher & Paykel Appliances with a proven track record of building large and diverse (cross-functional, cultural and global) teams delivering significant business growth and results. He notes a career highlight as reinventing F&P's global sales organisation through the implementation of "Insight Sales" based on the Challenger Sale methodology. In addition, not only does he know Fronde well, having been a client for a number of years, but he is deeply experienced with the challenges of the digital world.

The Board would like to thank Ian Clarke for his leadership as the CEO of Fronde Group. He has been instrumental in the evolution and growth of the business over the last 16 years.



J Mayson
Chairman

Chief Executive's Report

Operating margin for the Group was \$897k higher than the same period in the prior year on flat revenue, with overhead costs also reducing by \$1.5m. This reflects a number of cost saving actions which have been taken, including the April restructure noted in our last report, sub-leasing some of our premises in Wellington, and ongoing adjustment of delivery capacity to match forecast revenues.

Australia

Growth continues in parts of our Australian business, particularly in the Google practice. However this growth was insufficient to cover the loss from Fronde Cloud Workspace and resulted in the Australian business making a loss for the half year.

The outlook for the second half is positive with increasing sales pipeline strength. We continue to leverage our operations in Manila to reduce operating costs, and we have expanded the range of services we deliver from that facility to cover technical, support and marketing lead generation.

Our decision last year to combine the Australian and New Zealand NetSuite practice is delivering results with our New Zealand clients now enjoying the same high standard of service that the Australian clients receive. Consistency of operating margins is improving as the proportion of recurring revenues increases, and we have positioned the Australian business to deliver a net profit for the full year.

New Zealand

Many areas of our NZ business units are performing strongly as we assist more and more clients with their migration to the cloud and to managed services. We remain focused on driving recurring revenues and the most attractive areas for growth in recurring revenues are the large and mid-tier enterprise markets.

We continue to support our government clients with their IT services requirements. However, changing Government investment priorities and procurement practices have reduced both the number and profitability of opportunities for custom software development. As such, significant focus is going into enterprise markets in Wellington and Auckland to provide lost revenue, as well as growth opportunities. Aligned to this, are our continued efforts to cross-skill our technical teams to deliver the digital solutions that this segment demands.

In our enterprise markets, we have been successful in winning platform development work for large established clients and our pipeline is strong for Salesforce work, as well as for Google and Amazon product sales and implementations.

Outlook

Looking out to the second half of the year, in some markets we will see slower growth. To ensure we remain profitable at the full year, we continue to adjust the mix of skills and capacity required to match costs with forecast revenues.

A handwritten signature in black ink that reads "Ian Clarke".

Ian Clarke
CEO

Statement of Comprehensive Income

For the period ended 30 September 2015

	Note	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 \$000	Group Audited year ended 31-Mar-15 \$000
Revenue	3	31,583	31,589	59,552
Cost of sales		(23,215)	(24,118)	(45,314)
Gross profit		8,368	7,471	14,238
Profit/(loss) from disposal of property		-	-	(180)
Profit/(loss) from disposal of property		-	-	(180)
Expenditure	4	(7,103)	(8,559)	(17,303)
Finance costs	3	(54)	(37)	(108)
Profit/(loss) before income tax expense		1,211	(1,125)	(3,353)
Income tax expense		-	-	576
Profit/(loss) for the period		1,211	(1,125)	(2,777)
Other Comprehensive Income				
Gains/(losses) from:				
Translation of foreign operations		(247)	(187)	182
Other comprehensive income for the year net of tax		(247)	(187)	182
Total comprehensive income for the year net of tax		964	(1,312)	(2,595)
Earnings per share:				
Basic and diluted		16.95	(15.74)	(38.87)
(cents per share, based on profit after tax)				

This Statement is to be read in conjunction with the Notes to the Financial Statements.

Statement of Financial Position

As at 30 September 2015

	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 \$000	Group Audited year ended 31-Mar-15 \$000
Assets			
Current assets	10,019	11,858	9,068
Non-current assets	3,109	2,807	2,989
Total assets	13,128	14,665	12,057
Liabilities			
Current liabilities	9,422	10,840	9,515
Non-current liabilities	-	-	-
Total liabilities	9,422	10,840	9,515
Net assets	3,706	3,825	2,542
Equity			
Issued share capital	5,162	5,036	5,036
Retained earnings	(1,691)	(1,250)	(2,902)
Reserves	235	39	408
Total equity	3,706	3,825	2,542
Total equity and liabilities	13,128	14,665	12,057

This Statement is to be read in conjunction with the Notes to the Financial Statements.

Statement of Changes in Equity

For the period ended 30 September 2015

	Note	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 \$000	Group Audited year ended 31-Mar-15 \$000
Equity at the beginning of the period		2,542	5,137	5,137
Profit/(loss) on ordinary activities after taxation		1,211	(1,125)	(2,777)
Movement in foreign currency translation reserve		(247)	(187)	182
Total comprehensive income for the year, net of tax		964	(1,312)	(2,595)
Ordinary shares issued	5	126	-	-
Movement in share based payment reserve	5	74		
Equity at the end of the period		3,706	3,825	2,542

This Statement is to be read in conjunction with the Notes to the Financial Statements.

Cash Flow Statement

For the period ended 30 September 2015

Note	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 \$000	Group Audited year ended 31-Mar-15 \$000
Cash flows from operating activities			
Operating cash inflows	31,223	31,679	60,130
Operating cash outflows	(30,275)	(31,347)	(63,243)
Net cash (used in)/provided by operating activities	948	332	(3,113)
Cash flows from investing activities			
Investing cash inflows	174	1,710	1,710
Investing cash outflows	(225)	(352)	(313)
Net cash (used in)/provided by investing activities	(51)	1,358	1,397
Cash flows from financing activities			
Financing cash inflows	-	-	-
Financing cash outflows	-	(451)	(534)
Net cash outflows from financing activities	-	(451)	(534)
Net increase in cash and cash equivalents	897	1,239	(2,250)
Cash and cash equivalents at the beginning of the period	(356)	1,653	1,654
Foreign exchange effects	(247)	(187)	240
Cash and cash equivalents at the end of the period	294	2,705	(356)

This Statement is to be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

1. Basis of Preparation

Fronde Systems Group Limited (the 'Parent') is registered under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993.

The Parent and its subsidiaries comprise the Fronde Group (the 'Group'). The Parent is not an 'exempt company' under the Companies Act 1993.

The Group is a profit-oriented entity and its consolidated financial statements have been prepared in accordance with NZ IAS 34 'Interim Financial Reporting' and other applicable reporting standards.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with the accounting policies and methods of computation used in the preparation of the comparative figures.

These interim financial statements should be read in conjunction with the financial statements and related notes contained in the Group's audited Annual Report for the year ended 31 March 2015.

2. Reconciliation of profit for the period to net cash flows from operating activities

	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 \$000	Group Audited year ended 31-Mar-15 \$000
Profit/(loss) after tax for the period	1,211	(1,125)	(2,777)
<i>Add/(less) non-cash items and non-operating items</i>			
(Profit)/Loss on disposal of non-current assets	-	-	180
Depreciation and amortisation of non-current assets	206	292	533
Share based payment expense	201	-	-
Increase / (decrease) in current tax balances	(556)	(1,008)	(1,039)
(Increase) / decrease in deferred tax balances	-	-	(522)
Changes in net assets and liabilities:			
Decrease/(increase) in current receivables	128	(436)	(308)
Decrease/(increase) in other current assets	(443)	423	529
(Decrease)/increase in current payables	438	700	395
(Decrease)/increase in other liabilities	(237)	1,486	(104)
Net cash inflow from operating activities	948	332	(3,113)

3. Interest

	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 \$000	Group Audited year ended 31-Mar-15 \$000
Included in revenue:			
Interest received	7	6	7
Included in finance costs:			
Interest paid	54	37	109

4. Unrealised foreign exchange gain/loss

Expenditure includes \$519k of unrealised foreign exchange gains. At 30 September 2014, \$323k of unrealised foreign exchange gains and at 31 March 2015, \$154k of unrealised foreign exchange losses.

5. Share based payments

Under the sale and purchase agreement for the acquisition of Online One by Fronde Australia Pty Ltd in April 2013, the Group agreed to issue the Seller of the Online One business an additional consideration of up to 533,372 shares in the parent company Fronde Systems Group by way of a three year earn-out, based on the achievement of agreed earnings targets for the combined Australian Business.

On 12 August 2015, the company entered into a Deed of Variation which altered the provisions of the earn-out arrangements, with targets based on generating recurring revenue and also extending the period until 31 March 2017.

In accordance with the Deed of Variation 80,006 shares were issued on 30 September 2015, and a provision was made for an additional 56,670 shares that are assessed as likely to be issued under this agreement prior to 31 March 2017.

Expenditure for the six months to 30 September 2015 includes a charge of \$200k reflecting the value of these shares. This is made up of \$126k for the shares issued and \$74k as a provision for the shares assessed as likely to be issued in future periods.

6. Bank Loans

	Group Unaudited half year ended 30-Sep-15 \$000	Group Unaudited half year ended 30-Sep-14 0	Group Audited year ended 31-Mar-15 \$000
Secured			
Bank overdraft	808	-	685
Current portion of term loans	-	123	40
	808	123	725

7. Segment Reporting

Operating segments

Results are reported for four segments, being the Group's main business units in New Zealand, Technology Products and Technology Services, the Group's business activities in Australia, and a "Corporate and other" amount containing revenues and expenses that were not allocated to any other operating segment. Disclosure of revenues and results on a segment basis is set out below and is consistent with the format of reporting presented to the "chief operating decision maker". The segment result includes depreciation and foreign exchange movements.

Fronde's segments offer different products and services to different customers. These can be described as consulting services, sale of third party licences and software and network managed services. An analysis of the Group's revenue from its major products and services is included in the table below. All internal transactions are eliminated on consolidation.

The information presented to the "chief operating decision maker" does not include balance sheets separated to the level of segments. Balance sheet information is reported at the level of Parent and Group to the "chief operating decision maker" and is therefore not presented below.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1.

Group (unaudited)

For the half year ended 30 September 2015

	NZ Products \$000	NZ Services \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total Group \$000
Operating revenue by Business Unit						
Revenue from consulting services	6,023	14,244	1,927	8	-	22,201
Revenue from sale of third party licences	4,386	191	4,617	(4)	-	9,190
Software and network managed services	238	172	236	30	(484)	192
Total Segment Revenue	10,646	14,607	6,780	34	(484)	31,583
External customers	10,465	14,482	6,616	21	-	31,583
Internal customers	182	125	164	13	(484)	-
Segment result	2,990	3,809	1,931	(7,939)	420	1,211

Group (unaudited)

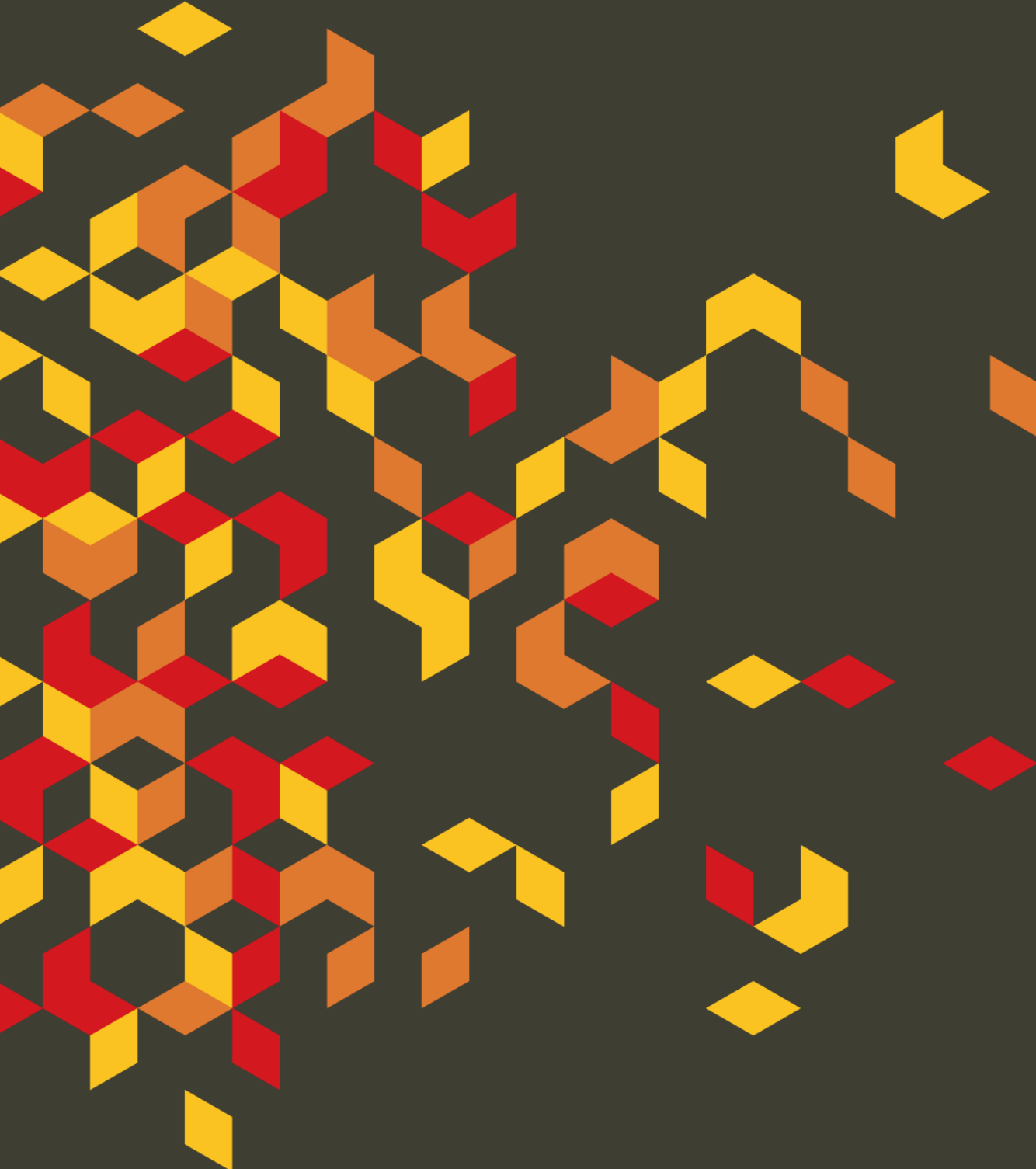
For the half year ended 30 September 2014	NZ Products \$000	NZ Services \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total Group \$000
Operating revenue by Business Unit						
Revenue from consulting services	6,050	16,687	1,637	-	-	24,374
Revenue from sale of third party licences	2,085	225	4,647	2	-	6,958
Software and network managed services	301	38	106	61	(249)	256
Total Segment Revenue	8,435	16,950	6,391	62	(249)	31,589
External customers	8,285	16,933	6,321	49	-	31,589
Internal customers	150	17	69	13	(249)	-
Segment result	1,799	4,972	1,808	(10,037)	333	(1,125)

Group (Audited)

For the year ended 31 March 2015	NZ Products \$000	NZ Services \$000	Australia \$000	Corporate and other \$000	Eliminations \$000	Total Group \$000
Operating revenue by Business Unit						
Revenue from consulting services	11,834	30,891	3,157	-	-	45,882
Revenue from sale of third party licences	5,738	567	6,958	5	-	13,267
Software and network managed services	580	123	358	90	(748)	402
Total Segment Revenue	18,151	31,581	10,472	95	(748)	59,552
External customers	17,757	31,531	10,194	69	-	59,552
Internal customers	394	50	278	26	(748)	-
Segment result	4,360	8,990	2,714	(18,509)	(332)	(2,777)

8. Significant events after reporting date

There are no other events subsequent to balance date requiring disclosure in the financial statements.



 **Fronde**
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