IndigoVision Group plc (“IndigoVision” or “The Group”)

Final results for the year ended 31 December 2016

IndigoVision (AIM: IND.L), a leader in intelligent networked video security systems for government, critical infrastructure, transport, city monitoring and casinos, announces its results for the year ended 31 December 2016.

Financial Highlights

- Revenues of $46.0m (2015: $47.1m)
- Underlying operating profit[1] $0.4m (2015 operating loss: $0.7m)
- Profit before tax $0.1m (2015: loss $0.7m)
- Net cash balance of $6.2m (2015: $2.8m)
- Adjusted earnings per share[2] 9.0 cents (2015: 0.0 cents) before deferred tax
- Diluted loss per share 37.3 cents (2015 loss per share: 6.5 cents)
- Proposed final dividend of 3.0 pence per share (2015: 2.5 pence per share)

Operating Highlights

- Management action returned the business to operating profitability in 2016:
    - New senior management and strengthened sales leadership in the Americas and EMEA
    - Overheads before foreign exchange gains/losses reduced by 7% to $23.2m (2015: $25.0m)
- Large project wins:
    - Healthcare
    - Education
    - Banking
    - Safe cities
    - Casinos
- Restructure of hardware design capability completed in January 2016
- Successful launch of three-tiered Control Center software in November 2016
- Sale volumes of software licenses, cameras and encoders all increased by over 25% year-on-year.

Marcus Kneen, Chief Executive, commented

“The results for 2016 were a good improvement on 2015, notwithstanding falling prices across the market as a whole. The tiered camera offering we introduced last year has been well received and we have now extended this concept to software, enabling IndigoVision’s products to be competitive in all sectors of the market. We look forward to making further progress in 2017, with a strengthened team, broader product offering, and new market opportunities.”

[1] Underlying operating profit represents operating profit of $0.06m prior to the exceptional bad debt provision of $0.30m

2 Adjusted earnings per share is based on the loss after tax of $2.79m prior to the exceptional bad debt provision of $0.30m and the deferred tax asset adjustment of $3.16m

Notes to editors

About IndigoVision

IndigoVision designs and manufactures high performance, video security systems for a wide range of users from large scale and complex security installations to small, eight camera systems. From video capture and transmission to analysis and storage, IndigoVision networked video security systems provide the best quality and most secure video evidence, using market leading compression technology to minimise network bandwidth usage and reduce storage costs.

Enquiries to:

IndigoVision Group plc	Marcus Kneen (CEO)	+44 (0) 131 475 7200
	Chris Lea (CFO)	
N+1 Singer, Nominated Advisor	Sandy Fraser	+44 (0) 131 603 6873

Shareholder information

Our website can be accessed at www.indigovision.com and contains substantial information about our business. The website also carries copies of prior year accounts and stock exchange announcements.

Shareholder calendar

18 May 2017	Annual General Meeting
25 May 2017	Dividend paid

Chairman's Statement

During 2016, the Group continued to make progress and adjust to new market conditions. Performance improved as the year progressed - second half sales were 11% higher than the first half - and second half underlying operating profits were $0.63m, compared with an operating loss of $0.28m in the first half. Underlying operating profit in 2016 amounted to $0.36m, an improvement of $1.11m over the prior year.

Progress to date, and the strong cash position, has encouraged the board to recommend to shareholders an increased dividend and a final dividend of 3.0 pence per share is proposed, 20% higher than last year.

Financial results

Revenue for the year ended 31 December 2016 was $46.0m (2015: $47.1m). Sales volumes increased by over 25% but this was offset by lower unit prices.

Notwithstanding the reduction in unit selling prices, gross margins were broadly maintained, averaging 50.9% for 2016, compared with 51.4% the previous year. Overheads, before the exceptional bad debt provision of $0.3m, were 7% lower at $23.2m (2015: $25.0m) as savings previously made were maintained.

The group returned to operating profit in the second half of 2016 and, as expected, the second half performance exceeded first half losses. The underlying operating profit for 2016 amounted to $0.36m, a substantial improvement from losses of $0.74m in 2015.

In recent months, the Group has undertaken a review of its balance sheet and its internal controls. Following this review, and an assessment based on current information of the likely recoverability of certain receivables dating back to 2014, an additional bad debt provision of $0.30m has been recognised. As these amounts do not relate to recent trading results of the Group, they have been disclosed separately within administrative expenses and are added back in the calculation of underlying operating profit. Net of this increase in the bad debt provision, the operating profit for the year was $0.06m (2015: operating loss of $0.74m)

The group continues to benefit from research and development tax credits which resulted in a net current tax credit of $0.37m (2015: $0.75m).

The group has substantial historic UK tax losses, which amounted to $26.9m as at 31 December 2016. As intimated with the interim results, the group has re-assessed the likely rate of future utilisation of these losses over the medium term in the light of recent trading results, planned reductions in future UK corporation tax rates and the continuing availability of research and development tax credits. As a result, the carrying value of the Group's deferred tax asset has been reduced by $3.16m to $1.69m. This non-cash reduction has been charged to the profit and loss account in 2016.

Adjusted earnings per share (before the deferred tax asset adjustment) amounted to 9.0 cents (2015: 0.0 cents). The fully diluted loss per share was 37.3 cents (2015: 6.5 cents).

The net cash balance at 31 December 2016 was a healthy $6.20m (2015: $2.76m), with the increase primarily due to improved working capital management. The Group had borrowings of $0.05m at 31 December 2016 (2015: $nil), and has available a bank overdraft facility of $4.0m, which was not utilised during the year.

Sales and Markets

Sales volumes of software licenses, cameras and encoders all increased by between 26% and 28% year on year, with cameras benefitting from a broadening of the range and the introduction of a variety of products with differing price points.

Regionally, EMEA accounted for $22.5m or 49% of sales (2015: $19.4m, 41%). Within this, the Middle East region grew by 34%. The UK market performed well, in local currency terms, but the strengthening US dollar resulted in a 13% reduction in the dollar value of sterling local currency sales, and the strong dollar similarly impacted revenues across the EMEA region as a whole.

Sales in the combined Americas region declined 19% year on year, largely due to reduced activity in the oil driven economies of Latin America. The exceptions to this were the safe cities projects in Latin America, where the Group enjoys a strong market share, and the casino sector in North America. USA senior management has been changed and continues to be strengthened, with recruitment continuing in a number of US regional sales territories to ensure a fully distributed sales team.

Asia Pacific had a steady year, with sales increasing 3% to $5.2m (2015: $5.0m). The new sales team in Australia is rebuilding market share, with a strong focus on cities, universities and traffic systems.

Products

IndigoVision's product strategy remains the design and sale of a software-led complete end-to-end video security solution, inclusive of video management software, cameras, encoders, storage devices and integration to security and operational systems. There are few competitors that provide such a full end-to-end solution, and buyers value the system reliability inherent in the complete solution, as well as the ease of one-stop sourcing.

Three enhanced versions of Control Center 13, IndigoVision's video management software, were released in 2016. In November, the Group launched a three–tier version of Control Center 14, which is expected to open up segments of the market where IndigoVision has not operated historically. This broadening of the product offering is expected to create additional sales opportunities and to help to reduce the volatility which arises from the Group's exposure to individually large projects.

During 2016, the Group launched 45 new products, including 23 cameras and 11 network video recorders. Capital investment in environmental test chambers increased the hardware testing capacity by 50%, enabling the group to bring new products to market more quickly.

Board Changes

As reported at the half year, after nine years with the Group, the last four of which were as CFO, Holly McComb stepped down from the Board on 31 May 2016. The Board are grateful to Holly for her contribution. Holly's successor, Chris Lea, was appointed as a Director on 19 May 2016 and took up his role as CFO on 4 July 2016.

Dividends

In view of the return to operating profitability for the year as a whole, and the improved cash balances, the Board is recommending a dividend of 3.0 pence per share (2015: 2.5 pence per share). The dividend, if approved, will be paid on 25 May 2017 to shareholders on the register on 21 April 2017.

Current trading and outlook

The return to profitability in 2016 is very positive, as is the evidence that IndigoVision is adapting well to changed market conditions.

The Group continues to strengthen its software development team and aims to launch three further releases of its Control Centre software in 2017, offering increased features and functionality for the benefit of its customers.

The start of 2017 was quiet, but sales and orders strengthened markedly in February. The immediate outlook looks encouraging and the group continues to invest in strengthening the sales team in its key markets. The Board therefore currently expects that 2017 will see IndigoVision report further progress.

Hamish Grossart

Chairman

1 March 2017

Consolidated statement of comprehensive income

For the year ended 31 December 2016

		2016 $'000	2015 $'000
Revenue	-	**45,923**	47,093
Cost of sales		**(22,558)**	(22,881)
Gross profit		**23,365**	24,212
Research and development expenses		**(3,358)**	(4,399)
Selling and distribution expenses		**(15,574)**	(15,834)
Administrative expenses	-	**(4,605)**	(4,786)
Foreign exchange gain		**231**	64
Operating profit /(loss)		**59**	(743)
Analysed as:			
Underlying operating profit/(loss)		**359**	(743)
Exceptional bad debt expense		**(300)**	-
Financial expense		**-**	(10)
Profit/(loss) before tax		**59**	(753)
Income tax (charge)/credit		**(2,851)**	269
Loss for the period attributable to equity holders of the parent		**(2,792)**	(484)
Analysed as:			
Underlying profit for the period attributable to equity holders of the parent		**672**	1
Exceptional bad debt expense		**(300)**	-
Deferred tax adjustment		**(3,164)**	(485)
Other comprehensive income			
Foreign exchange translation differences on foreign operations		**(510)**	(509)
Total comprehensive loss for the year attributable to equity holders of the parent		**(3,302)**	(993)
Basic loss per share (cents)		**(37.3)**	(6.5)
Diluted loss per share (cents)		**(37.3)**	(6.5)
Adjusted profit per share (cents)		**9.0**	0.0

Consolidated balance sheet

As at 31 December 2016

	2016 $'000	2015 $'000
Non-current assets		
Property, plant and equipment	**1,236**	1,443
Intangible assets	**22**	72
Deferred tax	**1,687**	4,852
Total non-current assets	**2,945**	6,367
Current assets		
Inventories	**8,072**	9,494
Trade and other receivables	**12,772**	12,575
Cash and cash equivalents	**6,203**	2,763
Total current assets	**27,047**	24,832
Total assets	**29,992**	31,199
Current liabilities		
Trade and other payables	**9,990**	7,668
Provisions	**138**	137
Total current liabilities	**10,128**	7,805
Non-current liabilities		
Provisions	**45**	45
Other non-current liabilities	**33**	3
Total non-current liabilities	**78**	48
Total liabilities	**10,206**	7,853
Net assets	**19,786**	23,346
Equity		
Called up share capital	**120**	120
Share premium account	**2,684**	2,684
Other reserve	**8,080**	8,080
Translation reserve	**(341)**	169
Profit and loss account	**9,243**	12,293
Total equity attributable to equity holders of the parent	**19,786**	23,346

Group statement of changes in equity

For the year ended 31 December 2016

Group	Share capital $'000	Share premium $'000	Other reserve $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 31 December 2014	119	2,666	8,080	678	13,371	24,914
Total comprehensive income						
Loss for the year	-	-	-	-	(484)	(484)
Difference on translation	-	-	-	(509)	-	(509)
Total comprehensive income	-	-	-	(509)	(484)	(993)
Transactions with the owners of the Company						
Share options exercised by employees	1	18	-	-	-	19
Equity-settled transactions, including deferred tax effect	-	-	-	-	(21)	(21)
Dividends paid to equity holders	-	-	-	-	(573)	(573)
Total transactions with the owners of the company	1	18	-	-	(594)	(575)
Balance at 31 December 2015	120	2,684	8,080	169	12,293	23,346
Total comprehensive income						
Loss for the year	-	-	-	-	(2,792)	(2,792)
Difference on translation	-	-	-	(510)	-	(510)
Total comprehensive income	-	-	-	(510)	(2,792)	(3,302)
Transactions with the owners of the Company						
Equity-settled transactions, including deferred tax effect	-	-	-	-	28	28
Dividends paid to equity holders	-	-	-	-	(286)	(286)
Total transactions with the owners of the Company	-	-	-	-	(258)	(258)
Balance at 31 December 2016	**120**	**2,684**	**8,080**	**(341)**	**9,243**	**19,786**

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 $'000	2015 $'000
Cash flows from operating activities		
Loss for the year	**(2,792)**	(484)
Adjusted for:		
Depreciation and amortisation	**906**	1,124
Financial expense	**-**	10
Share based payment expense	**38**	9
Foreign exchange	**(231)**	267
Loss/(gain) on disposal of fixed assets	**104**	(25)
Income tax credit	**1,435**	(269)
Decrease in inventories	**1,422**	902
Decrease in trade and other receivables	**491**	5,105
Increase/(decrease) in trade and other payables	**2,304**	(5,010)
Increase in provisions	**1**	-
Cash generated from operations	**3,678**	1,629
Income taxes repaid	**708**	(15)
Net cash inflow from operating activities	**4,386**	1,614
Cash flows from investing activities		
Interest paid	**-**	(10)
Acquisition of property, plant and equipment	**(663)**	(819)
Acquisition of intangible assets	**(41)**	(15)
Proceeds from the sale of fixed assets	**4**	-
Net cash outflow from investing activities	**(700)**	(844)
Cash flows from financing activities		
Proceeds from the issue of share capital	**-**	19
Dividends paid	**(286)**	(573)
Net cash outflow from financing activities	**(286)**	(554)
Net increase in cash and cash equivalents	**3,400**	216
Cash and cash equivalents at 31 December	**2,763**	2,559
Effect of exchange rate fluctuations on cash held	**40**	(12)
Cash and cash equivalents at 31 December	**6,203**	2,763

Notes to the accounts:

1. Principal activities

The principal activity of the Group continues to be the design, development, manufacture and sale of networked video security systems. Cameras, encoders, network video recorders and software are designed both internally and with technology partners and manufactured in Asia and Europe. The Group's end to end IP video security systems allow full motion video to be transmitted worldwide, in real time, with digital quality and security, over local or wide area networks, wireless links or the internet, using market leading compression technology to minimize usage of network bandwidth

2. Basis of preparation and accounting policies

The financial statements are presented in US Dollars, rounded to the nearest thousand. They are preared on a historical cost basis.

The accounting policies used in preparing the financial statements are set out in note 1 of the IndigoVision Group plc Annual Report 2016.

3. Annual accounts

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2016 but is derived from those accounts. The statutory accounts of IndigoVision Group plc for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

4. Segement reporting

Following a review of the current board reporting which is used in decision-making, in assessing performance and capital allocation, the format of the segment note (including comparatives) has been changed to reflect the current reporting position. The Board is seen as the Chief Operating Decision Maker and has determined that the segment reporting format is geographical based on the Group's management and internal reporting structure.

The Board reviews the Group's internal reporting in order to assess performance and to allocate resources. The Board assesses the performance of the following geographical sales regions: primarily Europe, the Middle East and Africa; the Americas and Asia Pacific and has therefore determined these as the operating segments.

The Board considers the performance of the operating segments based on regional sales and company-wide gross margin before warranty costs. The operating segments derive their revenue from the sale of software, hardware products and services. Capital is not allocated to geographical regions and substantially all of the Group's income and expenditure is incurred by its UK trading subsidiary, IndigoVision Limited. The information currently provided to the Board is measured in a manner which is consistent with the financial statements.
Segment information is also presented in the respect of the Group's products and services which have different economic characteristics, including the sale of end-to-end video security solutions, consultancy services and multi-year software upgrade plans.

Operating segments

Regional Sales	**2016 $'000**	2015 $'000
Europe, Middle East and Africa	**22,491**	19,396
Americas	**18,269**	22,671
Asia Pacific	**5,163**	5,026
	45,923	47,093

All sales are to third parties and all segment results are from continuing activities. The gross margin earned in each region is comparable and the majority of overheads are incurred centrally and are therefore unallocated to each region.

Revenues derived from external customers based in the UK were $6,675,000 (2015: $7,556,000)

Analysis of revenue

	2016 $'000	2015 $'000
Revenues from:		
Products/solutions	**43,107**	44,432
Support services	**220**	207
Software Upgrade Contracts	**2,596**	2,454
	45,923	47,093

5. Operating profit/(loss)

	2016 $'000	2015 $'000
Operating profit/(loss) is stated after charging:		
Depreciation and amortisation	**906**	1,124
Exceptional bad debt expense	**300**	-
Net write down of inventories to realisable value	**499**	598
Allowance for doubtful trade receivables	**22**	437
Research & development expenditure	**3,358**	4,399
Share based payment expense	**38**	9
Redundancy costs	**122**	-
Fees payable to the Group's auditor:		
Audit of these financial statements (Group and Company)	**15**	18
Audit of subsidiary companies	**29**	34
All other services	**-**	-

The exceptional bad debt charge relates an assessment of the likely recoverability of certain receivables dating back to 2014 following a review.

6. Income Taxes

	2016 $'000	2015 $'000
Current tax (credit)/expense		
UK tax	**(373)**	(526)
UK tax - prior year adjustment	**40**	(246)
Overseas tax	**20**	13
Overseas tax – prior year adjustment	**-**	5
	(313)	(754)
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	**2,361**	45
Reduction in tax rates	**308**	157
Adjustments relating to prior year trading losses	**495**	283
	3,164	485
Total income tax charge/(credit) in income statement	**2,851**	(269)

The whole of the deferred tax charge for the year of $3.16m has been designated as an adjusting item.

The Group trades principally through its UK subsidiary, IndigoVision Limited. The current tax credit relates to research and development expenditure at 14.5%

The deferred tax expense of $2.36m arises principally in relation to the reassessment of the recoverability of UK tax losses of $26.9m as at 31 December 2016. The extent to which a deferred tax asset is recognised is dependent on estimates of future trading over an extended period of time and the extent to which research and development costs may be eligible for research and development tax credits in the future. The Group anticipates increasing its investment in research and development proportional to sales growth.

Based on the Group's trading assumptions the deferred tax asset will begin being realised from 2019 onwards, when the Group starts to generate taxable profits and will be realised over a period of five years. As a result, the deferred tax asset has been valued based upon a future UK Corporation tax rate of 17%.

There are a number of forecast scenarios showing potential recovery of the deferred tax asset over periods between three and 12 years, dependent upon a number of factors such as forecast sales growth and profitability, together with the level of research and development expenditure and the future UK tax regime.

The deferred tax asset is denominated in sterling and as such is subject to exchange rate fluctuations. Such exchange rate movements are dealt with as part of the deferred tax expense for the year.

7. Earnings per share

	2016 $'000	2015 $'000
Earnings per share		
Loss for the year attributable to equity shareholders (basic and diluted)	**(2,792)**	(484)
Exceptional bad debt expense	**(300)**	-
Deferred tax adjustment	**3,164**	485
Adjusted profit for the year attributable to equity shareholders	**672**	1

	Cents	Cents
Basic earnings per share	**(37.3)**	(6.5)
Diluted earnings per share	**(37.3)**	(6.5)
Adjusted earnings per share	**9.0**	0.0

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for each period were calculated as follows:

	2016 Number of shares	2015 Number of shares
Issued ordinary shares at start of year	**7,610,756**	7,604,756
Effect of weighted average of shares issued during the year from exercise of employee share options	**-**	4,451
Effect of purchase of own shares	**(134,238)**	(134,238)
Weighted average number of ordinary shares for the year – for earnings per share	**7,476,518**	7,474,969
Effect of share options in issue	**-**	-

The calculation of adjusted earnings per share for the year ended 31 December 2016 was based on the loss attributable to equity shareholders of $2,792,000 (2015 loss: $484,000), to which the deferred tax expense of $3,164,000 (2015: $485,000) and the exceptional bad debt expense of $300,000 (2015: $nil) have been added back and a weighted average number of ordinary shares during the year ending 31 December 2016 of 7,476,518 (2015: 7,474,969), calculated as shown above.

Adjusted earnings per share has been presented as the movements related to deferred tax are dependent on a series of assumptions with associated inherent uncertainties which introduce substantial volatility in the deferred tax income/expense from year to year. The Board believes an adjusted earnings per share measure is required to reflect its view of the underlying performance and to align more closely with management targets and rewards.