Tribal Group plc ("Tribal")

Preliminary Results year ended 31 December 2016

Tribal, a leading provider of software and services to the international education management market, announces preliminary results for the year ended 31 December 2016.

Financial Highlights

- Significantly improved trading performance, ahead of consensus
- Adjusted operating profit for the year up 88% to £4.7m* (2015: £2.5m*) on revenue, as anticipated, of £90.3m (2015: £106.7m); statutory loss of £1.2m (2015: £45.5m loss)
- Annual recurring revenue increased by 7% to £32.4m
- Annualised operational efficiencies achieved of £9.0m, including £5.8m in year savings; further efficiencies anticipated in 2017
- Strong operational cash inflow during the year of £8.3m (2015: cash outflow of £6.2m) and year end net cash of £8.8m (2015: net debt of £32.5m)
- Sound financial footing, following fund raising and sale of Synergy business early in the year

* Adjusted operating profit is in respect of continuing operations and is stated excluding "Other Items" charges of £4.6m (2015: £47.8m). Other Items include Share-based Payments, Deferred Contingent Consideration, Amortisation of IFRS3 Intangibles, Profit on sale of Synergy, and Restructuring and associated costs

Operational Highlights

- New Board appointments and management team refreshed during the year
- Group strategy refocussed, delivering a new vision and mission; a new operating model with a simplified organisational structure; and an enhanced product strategy
- Sales capability rebuilt and sales momentum returned; significant new contract wins achieved and healthy sales backlog at year end
- Group increasingly well positioned to take advantage of market opportunity

Ian Bowles, Chief Executive, commented:

"While there remains much to do in driving operational efficiency, I see the business momentum built in 2016 continuing into 2017 and beyond. Our software and services portfolio, market leading position and international customer base provides a strong platform from which to build sustainable shareholder value."

Ends

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CHAIRMAN'S STATEMENT

Reflecting on my first full year as Chairman, I am pleased to report that the Group is on a sound financial footing, and has addressed many of its operational challenges. Shareholder value is now being rebuilt in a sustainable manner.

For the year to 31 December 2016, Tribal Group achieved an adjusted Operating Profit, of £4.7m on a revenue of £90.3m (2015: operating profit of £2.5m profit on a revenue of £106.7m).

The combined impact in 2016 of the expiry of the Ofsted Schools contract, the closure of the SLS business, and the disposal of Synergy was a reduction in revenue of £16.4m, and reduced profit contribution of £3.3m compared with 2015. Furthermore, capitalised development costs are significantly lower in 2016 at £1.1m (2015: £4.1m). This reflects the Group's revised product strategy and capitalisation predominantly in respect of new product and platform redevelopment, with all other product development costs being expensed.

However, annualised operational efficiencies of £9.0m have been realised, of which £5.8m are in-year savings, which has driven improved financial performance without impacting the Group's ability to serve its customers or drive its business forward.

Adjusted Earnings per Share increased to 1.9p (2015 – 0.9p), despite a rights issue and other fund-raising activity during the year. Overall, the company made a Statutory Loss of £1.2m (2015 – loss of £45.5m), mainly due to "Other Items" of costs related to previous acquisitions and ongoing restructuring.

In March 2016, I was delighted to confirm Ian Bowles' appointment as Chief Executive Officer, followed by Mark Pickett's appointment as CFO in June 2016. They have swiftly evaluated the business capabilities and markets, and developed a strategic plan that reflects our ambitions for the business. With a refreshed management team, this strategy is being implemented, and will drive efficiencies and meet customers' aspirations for next-generation, cloud-based applications.

Tribal is a leading international provider of Student Management Systems to universities, colleges and schools in the UK, Australia and New Zealand markets as well as elsewhere in the world. We serve a large installed customer base, including many of the world's leading universities and colleges, from which we generate significant recurring annual support revenues; in 2016, there was a 7% increase in recurring revenue to £32.4m, which now represents more than half of the revenues from our Student Management Systems business. In Quality Assurance Services (QAS) we have focussed on optimising delivery efficiencies as we move to the successful conclusion of the Ofsted Early Years contract which concludes in March 2017; our other quality assurance contracts, including North America and the Middle East, continue to trade well.

Following a challenging year in 2015, the new board and executive management team undertook the rebuilding of the Group. The Group's financial position has been restored, providing both financial stability and the funds to invest in the growth of the business. A review of the Group's operations and strategy confirmed that Tribal's software and services portfolio and its market leading position and international customer base provide a strong platform around which to build sustainable shareholder value.

In 2016, the company secured a number of significant contract wins in the Higher Education sector, including, in the UK, the University of the Arts London and Massey and Waikato universities in New Zealand, as well as in newer markets for Tribal, including Malaysia, Canada and Hungary.

Looking to the Future

In 2017, I expect Tribal to continue to secure new clients in Student Management Systems, with a strong pipeline of new opportunities in Higher Education, and the prospect of continued improvement in sales performance.

Revenues will be lower in 2017, as the Early Years contract, performed by our QAS business, will end in March 2017, to be taken back in-house by Ofsted. This will have a significant impact on 2017 outturn, but the adverse effect will, in part, be mitigated by opportunities that exist in other markets for QAS, such as the Middle East and Asia Pacific. In addition, the Group has a sales order backlog of £113.8m (2015: £121.3m), of which £58.1m is expected to be delivered and recognised is 2017.

We expect to realise further cost efficiencies in 2017, which, accretive to the cost efficiencies achieved in 2016, will continue to drive improvements in the overall profitability. At the same time, Tribal is developing a next generation, cloud-based platform for Student Management Systems and is well positioned to leverage its full its suite of offerings as it develops data analytic products to provide greater student insight to improve student engagement.

Although there remains much to do, I see the momentum built in 2016 continuing into 2017 and beyond, as the Group continues to drive cost efficiencies in the business and increasingly looks to take advantage of an international market for Student Management Systems.

Dividends

The Board believes that the payment of dividends is important. It has pursued a progressive dividend policy in recent years, and it is our intention to continue this policy in the future once financial performance supports the payment of a dividend. However, as 2016 has been a year of inward focus to rebuild the company finances, the Board has concluded that no dividend will be declared in respect of 2016.

Board Changes

Ian Bowles joined the Group as Chief Executive Officer on 1 March 2016, having become a Board member on 17 February. Mark Pickett joined the Group as the Chief Financial Officer, being appointed to the Board on 30 June 2016.

Steve Breach, who had been Group Finance Director since his appointment in January 2010, stood down at the end of June 2016 after many years' valuable service. At the end of October 2016, David Egan stood down, having served as a non-executive director and Chairman of the Audit Committee, for 2 years. Since his appointment in April 2014, David guided the company through intensely challenging times. The Board would like to thank David for his contribution to the company and wishes him well for the future.

It was with great sadness that we lost Duncan Lewis, who acted as a Non-Executive Director from June 2015 to the time of his death in March 2016.

I would also like to thank all our employees for their hard work and commitment to the company. The Group has undergone significant change in 2016 and new leadership inevitably brings uncertainty. The support of the employees has been invaluable in bringing the company through this challenging period.

Outlook and Current Trading

We expect overall market conditions and demand for student management systems to remain stable in 2017. While the timing of deal closures and achievement of implementation milestones remains difficult to predict, we are well positioned to continue to benefit from the demand for student systems and upgrades. We have already secured several software and service contract wins in the early part of the 2017. We will continue the focus on reducing our cost base and improving operating efficiency.

Given the factors described above, I expect continued improvement in our profitability during the current year.

Richard Last

Chairman

BUSINESS REVIEW

Significant changes to the Board, a refreshed management structure, and a renewed strategic direction has continued to maintain Tribal as a market leader. Sales momentum has returned, we have gained new customers, and the future development of a next generation, cloud-based platform for Student Management Systems (SMS) will provide a long-term roadmap for new and existing customers.

As a result of the 2015 performance, the Group faced significant financial and operational challenges. In 2016 we have taken decisive action to address these challenges.

The rights issue and directors' share subscription in March and the sale of the Synergy business, completed in April, raised a total of £38.5m (net of costs), and restored the Group's financial position, providing both financial stability and the funds to invest in the growth of the business.

In May, the listing of Tribal's ordinary shares on the Official List was cancelled and the shares were admitted to the Alternative Investment Market (AIM). This followed the Board's decision that AIM is a more appropriate market on which to develop Tribal, bringing the benefit of lower costs, and administration and regulatory requirements that are more appropriate to the Group's size.

Following the appointment of Richard Last as Chairman, and Roger McDowell as Senior Independent Director in November 2015, Ian Bowles was appointed to the Board in February 2016 and became the new Chief Executive Officer on 1 March, and Mark Pickett joined the Board as Chief Financial Officer on 30 June.

The impact of these actions began to materialise through the year, and we can report that financial stability has been successfully restored, coupled with a significantly improved trading performance for 2016 which has left the Group in a stronger, net cash position at the end of the financial year.

Tribal Group has started 2017 well with several significant contract wins. Quality Assurance Solutions (QAS) business has been awarded a contract to provide inspections of 160 schools across Dubai and the Northern Emirates, on behalf of the Ministry of Education (MoE) of the United Arab Emirates, worth over £3m. The Student Management Systems (SMS) business have also won contracts at: the University of Sheffield, for new Student Management System initially worth £4.5m over 3 years; an expansion to the British Council contract to deliver Tribal's cloud-based SMS to additional their English Language centres; and an expansion of the existing New South Wales (NSW) Australia state department contract to deliver additional functionality to schools and TAFEs this year.

Though there remains much to do, the Group is becoming increasingly well positioned to take advantage of the international market for Student Management Systems & Services.

2016 in summary

In the first half of the year, the Group's operations and strategy were reviewed; this reaffirmed that Tribal's software and services portfolio, market leading position and international customer base provide a strong platform around which to build long term shareholder value. A revised strategy was implemented, building a new vision and mission for the Group, a new operating model and product strategy for Student Management Systems, refreshed management team, and a revised organisational structure which provides clear lines of accountability and responsibility.

We also identified areas where we can more effectively align the Group's resources to deliver material cost efficiencies and improve margin without impacting the Group's ability to serve our customers or drive our business forward. We implemented a cost reduction plan and achieved £5.8m of in-year savings, and annualised cost savings of £9.0m by the end of 2016. This has been a key factor in achieving improved profits in 2016, despite the anticipated fall in revenue. We continue to drive further operational efficiencies, and expect further cost savings to be delivered in 2017.

We have made good progress in the year, but there remains a great deal of work to do to ensure we execute our strategy effectively and develop ever closer customer relationships, which will deliver value for all of our stakeholders.

In our chosen regional markets and sectors, overall activity levels for the replacement or enhancement of Student Management Systems remain stable and we continue to see a steady stream of new customer opportunities in the Higher Education sector.

Following the UK Government's decision to permit universities, subject to certain conditions, to increase student numbers, we anticipate that the trend of Higher Education institutions becoming more commercially-focused will continue, and expect future market opportunities to develop in the area of data analytics as universities seek competitive advantage through improvement of the Student Experience. We believe Tribal Group is well positioned to take advantage of this shift in market focus due to its experience in data analytics and Student Barometers gained in its i-graduate line of business.

Fiscal pressures and the need for efficiencies in the Further Education, Vocational Learning and Schools sectors, coupled with initiatives to reform and restructure these areas, will continue to drive demand over the longer term.

Product & Services Strategy

Tribal has a broad portfolio of functionally-rich Student Management Systems at the core of our business, and we will continue to deliver market-leading solutions.

In 2016, we commenced development of a next generation, cloud-based platform for Student Management Systems in the Higher Education and Further Education & Colleges sectors. We are building modular applications using a common architecture and industry standard technology stack, that we will sell to existing and new customers. We will continue to support and invest in all our current product set and safeguard our customers' investment in their existing systems. We have also continued with the development of a new product for schools (SchoolEdge), and sustained our market-leading product for employers and training providers (Maytas), as well as developing complementary service offerings on our Data & Analytics tools, particularly focussed on the Student Experience.

Notwithstanding the expiry of the Ofsted contracts, Quality Assurance Solutions continues to have opportunities to grow and develop its business both in the UK and, more widely, to build on our existing contracts in the Middle East and the USA. We have broadened the offerings beyond School Inspections to include Performance Benchmarking and Professional Development & Training.

We will also seek to bring our services to market more cohesively across our chosen education sectors and geographic markets.

Organisational Structure

Tribal's organisational structure has been simplified to drive improved customer focus, more agile management, responsiveness to local needs, and clear accountability across our business. The beneficial impact of these changes is beginning to materialise, with the new regional organisation structure enabling us to drive efficiencies in our business, reduce overlap and duplication in our development activities, and achieve better multi-product skilling of our implementation resources to simplify and reduce our overheads.

Our UK regional management team has been realigned, and a leadership team has been appointed in APAC. We have also enhanced our sales and marketing leadership. Tribal will continue to go to market globally in the Higher Education sector, reflecting the fundamental characteristics of the university market, but delivery of customer projects will be driven regionally to retain close customer focus.

Our sales capability was rebuilt in 2016, following the loss of sales momentum during 2015, and as a result we secured a number of new customer wins during the year. Our task now is to sustain our new business trajectory, whilst also re-establishing effective account management practices. At the end of 2016 and the early part of 2017 we have secured new contract wins with the University of the Arts London and the University of Sheffield.

We have managed the business through three segments, which are split between UK, APAC and the Rest of the World (RoW):

- The Student Management Systems business focuses on the following market sectors: Higher Education, Further Education Colleges & Employers (referred to in Australia as VET), and Schools , and across 3 main markets, UK,

Australia and New Zealand. Product/Offerings are split between License, Support & Maintenance, Implementation, and Hosting & Cloud Operations;
- i-graduate relates to student surveys and analytics, and includes i-graduate, Performance Benchmarking, Specialist Learning Solutions (non-core, and closed in 2015) and Careers Advice (non-core, and closed in 2015);
- Quality Assurance Solutions, including inspection and review services which support the assessment of educational delivery, and includes the Ofsted Schools (ended in August 2016) and Early Years inspection contracts (ending in March 2017).

Cost Reduction

Our overall workforce has reduced by almost 18% to a total headcount of 1,089, down from 1,323 at 31 December 2015.

Of these reductions, around 30% resulted from both the disposal and closure of businesses and winding down of the Ofsted contract, the remaining 70% being the result of specific actions taken to further reduce our costs during the first half of the year, in part to reinvest in the business. The cost savings relating to the cost reduction program achieved £5.8m of in-year savings in 2016, with annualised cost savings, including other, non-headcount related reductions, of £9.0m.

In addition, we have identified further opportunities for cost savings which will drive continued margin improvement in 2017 and beyond.

Divisional Performance

As detailed above, we managed the business through three segments, being Student Management Systems (SMS), i-graduate and QAS, which are split between UK, APAC and RoW. Towards the end of 2016, management reporting began to align with the new organisational structure.

The Student Management Systems segment comprises the previous Product Development and Customer Services (PD&CS) and Implementation Lines of Business, and relates to all SMS software products that are sold across the market sectors in which we operate.

The i-graduate (previously Professional & Business Solutions) segment was renamed in 2016 as Specialist Learning Solutions (SLS) and Careers Advice had closed in 2015. The QAS segment remained as before.

The operating profit of these three segments has previously been calculated by aggregating all central overhead costs (excluding Group costs), using a general allocation methodology to calculate a central cost allocation for each division which, when applied to the gross margin, resulted in a divisional operating profit. Group costs include Board costs and global roles, and are shown as unallocated corporate expenses of £3.5m (2015: £3.8m).

From the beginning of 2017, we have changed the basis of cost allocation for each of the Lines of Business. We determined that the previous methodology allocated Central costs (which include Finance, HR, Legal, IT, Corporate Services, Marketing and Office costs) in a way that did not represent the level of resource utilised by that business, and accordingly did not provide sufficient insight into the underlying profitability of the Line of Business. We have therefore implemented the following change:

- The segmental analysis of Adjusted Operating Profit will allocate all directly attributable and controllable direct and overhead costs to its business segment; this includes sales costs, attributable office costs, management costs relating to those individuals working directly in that line of business, and product development costs
- Central & Group costs will be the cost of all supporting services which are not attributable to a particular line of business. Central/Group costs include Finance, HR, Legal, IT, General (non-Line of Business specific) Marketing costs, Corporate Services, attributable offices costs and Board of Director costs.

The Central & Group costs will therefore represent the aggregate of all costs which support the Lines of Business, and which are not directly and specifically attributable to each Line of Business. This provides greater transparency into the underlying profitability of each business.

As we have formally moved to this reporting from 1 January 2017, the segmental reporting below is shown in the previous format. For comparison purposes, the analysis is shown by market sector, below, using the existing cost allocation methodology, and the 2016 numbers are also shown using the cost allocation approach in effect from 1 January 2017.

	Revenue (£000s)		Adjusted Operating Profit (original)[1] (£000s)		Adjusted Operating Profit (revised)[2] (£000s)
	2016	2015	2016	2015	2016
Student Management Systems	61,007	62,701	4,724	3,163	12,021
i-graduate	8,534	13,622	901	229	1,007
Quality Assurance Solutions	20,714	30,402	2,532	2,900	6,537
Total Lines of Business	90,255	106,725	8,157	6,292	19,565
Central / Group costs[3]	–	–	(3,469)	(3,758)	(14,877)
	90,255	106,725	4,688	2,534	4,688

1. Adjusted Operating Profit (original) represents the original costs allocation methodology used for accounts to 31 December 2016

2. Adjusted Operating Profit (revised) represents the cost allocation methodology used from 1 January 2017

3. Central/Group: for Adjusted Operating Profit (original), these are costs previously described as Unallocated Corporate expenses. For Adjusted Operating Profits (revised), this represents all costs which are not directly attributable or controllable by the Line of Business. Costs include Finance, HR, Legal, IT, General (non-Line of Business specific) Marketing costs, Corporate Services and Board of Director costs including all attributable office costs.

Student Management Systems

The SMS division delivers software (licence and development fees), implementation services and related software support (maintenance fees).

Software and related support includes the enhancement and development of existing and new software products. The principal revenues generated are either delivery and development of software licenses or annually recurring support and maintenance revenues associated with the installed software.

Implementation services delivers the technical implementation of our software products at customer sites, typically working alongside customer teams. Implementation projects vary in length, and range from a small number of days, to more than two years for more complex projects. Revenues are typically based on day rate fees, although we sometimes operate under fixed fee contracts for defined implementation scopes.

	Revenue £'000	
	2016	2015
Licence and development fees	10,840	14,010
Implementation	12,430	12,472
Maintenance fees	32,420	30,304
Other	5,317	5,835
Revenue	61,007	62,701
Of which:		
Higher Education	28,771	28,558
Further Education	16,221	18,677
Schools	16,015	15,466

	61,007	62,701
Of which:		
UK	47%	57%
International	53%	43%
	100%	100%
Adjusted Segment Operating	4,724	3,163
Profit Adjusted Operating Profit	7.7%	5.0%
Margin Capitalised Product		
Development Expenditure	1,098	4,083

Student Management Systems revenues decreased by 3.2% to £61.0m (2015: £63.0m).

Adjusted operating profit was £4.7m (2015 : £3.2m) and the adjusted operating margin was 7.7% (2015: 5.0%).

The capitalised development costs were £1.1m in 2016 (2015: £4.1m). In 2016, limited capitalisation has taken place, in light of the significant impairments arising in 2015. Reflecting the Group's revised product strategy, it is considered appropriate that the cost of development work relating to statutory/ regulatory updates, local requirements of new territories entered when undertaking work for the first time, bespoke/one- off projects, and Support & Maintenance work is now expensed as incurred, with capitalisation taking place predominantly in respect of new product/platform redevelopment. Accordingly, the capitalised development cost of £1.1m in 2016 relates only to the redevelopment of the SchoolEdge platform (2015: £4.1m, of which £0.7m related to SchoolEdge development).

Higher Education

Within the Higher Education sector, there were significant new customer wins; these include Massey University and the University of Waikato in New Zealand; the University of the Arts London (UAL) whose revenue will start to be recognised in 2017, Tavistock & Portman NHS Trust in the UK; Universiti Teknologi Petronas (UTP) and Institut Teknologi Petroleum Petronas (INSTEP) in Malaysia; Carleton University, Canada; and Central European University in Hungary, a private university based in Budapest.

We also moved to Preferred Bidder status at the University of Sheffield, a major UK Russell Group university, and the contract was signed in early 2017.

In Australia, we continue to benefit from the acquisition, in March 2015, of Callista, which is performing ahead of our expectations.

Across our university customer base, retention rates remained high, and as a result, our Annual Recurring Revenue base has continued to grow. Maintenance fees in the period were £32.4m (2015: £30.3m), an increase of 7%.

As a result of delayed deal closures at the end of 2015, our Higher Education implementation services activities experienced a slow start to 2016. However, university deal closure momentum has improved over the year, and utilisation levels have improved, enhancing operating margins later in the year. We won a significant implementation contract at Bristol University to upgrade the existing SITS implementation, and Massey University has moved to the next stage of its implementation programme with a major software licence drawdown in the period.

Further Education and Schools

In the Further Education (referred to as VET in Australia/New Zealand) and Schools sectors, the New South Wales Student Administration and Learning Management (SALM) programme has continued to deploy successfully, covering both TAFEs (Further Education colleges) and Schools in New South Wales. Currently, over 1,000 schools are now live on the system (from 229 at 31 December 2015), and work is continuing on the planning for the remaining 1,100 locations. All

138 TAFE campus locations are successfully deployed and are live on our EBS Student Management system. However, in June 2016, the NSW Government made a public announcement that they will be reviewing their student enrolment system and will look to implement a new, cloud-based solution for 2018 enrolments. Tribal continues to discuss the future solution with TAFE NSW but, regardless, TAFE NSW will be a customer through into 2018, and the schools' element of SALM will continue as planned.

Our other schools Student Management product, SchoolEdge (previously called HumanEdge, when acquired by Tribal) is performing well and exhibiting good customer retention rates. We are now well advanced in bringing a refreshed, Cloud-based architected schools management system to this market.

Within our Campus business in the Further Education sector, we are pleased to have recently extended our work with the British Council and have commenced implementation at both UTP and Instep in Malaysia.

Work Based Learning, which provides education software to employers for Professional Learning, had a number of notable contract wins in 2016 including John Lewis, Boots and Wolseley.

i-graduate

	Year ended 31 December	
	2016	2015
Analytics	4,976	4,865
Career advice and guidance	–	808
Other	3,558	8,098
Revenue	8,534	13,771
Of which:		
UK	75%	88%
International	25%	12%
	100%	100%
Adjusted segment operating profit	901	229
Adjusted operating margin	11%	2%

The i-graduate division provides a range of services for managers of universities, colleges and schools, so they are able to assess and enhance the quality of the education they provide, and improve their operational performance. Services provided by this division are:

Analytics:

- Student experience analytics (including the international student barometer survey)

Other:

- Operational benchmarking and analytics
- Transformation and change advisory services
- Information management services
- Specialist learning management solutions
- Specialist support services to enhance the provision of education and training.

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

i-graduate revenue in the period was £8.5m (2015: £13.8m), a reduction of 38% as we closed our Specialist Learning Solutions and Careers Advice businesses during 2015. International revenues represented 25% (2015: 12%) of total income.

i-graduate adjusted operating profit was £0.9m (2015: £0.2m), and adjusted operating margins were 11% (2015: 2%).

Our analytics work comprising student experience analytics and performance benchmarking, on which our strategic focus for this segment is based, performed well, supported by a NZD $5m contract extension to our benchmarking work in the New Zealand college sector, and a contract with the Lancaster Group of Universities.

Quality Assurance Solutions

	Year ended 31 December £'000	
	2016	2015
Ofsted contract revenues	11,620	19,610
Other	9,094	10,872
Revenue	20,714	30,482
Of which:		
UK	70%	80%
International	30%	20%
	100%	100%
Adjusted segment operating profit	2,532	2,900
Adjusted operating margin	12%	10%

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

Our Quality Assurance Solutions revenue declined in the period, as previously indicated. Revenue was £20.7m (2015: £30.5m), a reduction of 32%. International revenues represented 30% (2015: 20%) of total income. QAS adjusted operating profit was £2.5m (2015: £2.9m), and adjusted operating margins were 12% (2015: 10%). Non-Ofsted revenues fell to £9.1m (2015: £10.9m), mostly due to lower revenues during the retendering of the NCETM contract (National Centre for Excellence in the Teaching of Maths), in which we were successful in the award of the new contract.

The reduction in Ofsted contract revenues reflects the successful conclusion of our schools assurance work during 2015. Our "Early Years" assurance work will continue until March 2017 at which point the contract will revert back to Ofsted. We have continued to focus on optimising delivery efficiencies during this run off period, which is reflected in our improved operating margins in that area of the business. Our other work includes quality assurance contracts in North America and the Middle East, which continue to trade well.

Geographic Performance

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

	Revenue £'000	
	2016	2015
UK	46,469	72,350
Asia Pacific	31,819	23,699
North America and rest of the world	11,967	10,676
	90,255	106,725

Tribal's revenues in the UK have reduced in scale due to two main factors: the expiry of contracted work for Ofsted Schools, revenue of £0.2m (2015: £3.5m), and the disposal/closure of non-core business, including Synergy, Specialist Learning Solutions (SLS) and Careers Advice in 2015, which had revenue of £1.6m and £0.2m respectively in 2016 (2015: £6.3m and £3.5m).

In the Asia Pacific (APAC) region, revenues increased mainly as a result of new contracts in New Zealand (Massey University and University of Waikato), strong performance from Callista and the SALM contract. Reported sterling revenue also benefited positively by approximately £600k due to exchange rate movements.

Consistent with the increasing scale of activities in Australia, the headcount in the APAC region has grown during 2016. As UK service activities have been scaled back, headcount has been adjusted accordingly.

	Headcount As at 31 December	
	2016	2015
UK	741	996
Asia Pacific	323	309
North America and rest of the world	25	18
	1,089	1,323

Reporting in 2017

In 2017 our products and services in respect of Student Management Systems will be split between License, Support & Maintenance (which were previously combined in PD&CS), Implementation and Hosting/Cloud Services (separating Hosting and other related services from Implementation); they will continue to be reported against the three market sectors described above.

In respect of i-graduate (previously Professional & Business Solutions) division, Performance Benchmarking will move to QAS in 2017.

The QAS division will remain as before, but with the addition of Performance Benchmarking in 2017.

Ian Bowles

Chief Executive Officer

FINANCIAL REVIEW

The Group achieved a significantly improved trading result on lower revenue. Financial stability was restored, following a fully subscribed rights issue and the disposal of Synergy. Annually recurring revenues increased to £32.4m compared to £30.3m in 2015. A program of cost reduction delivered £9.0m of annualised cost efficiencies. Net cash improved by £41.3m.

Overview

In the year ending 31 December 2016, the Group's revenue from continuing operations was £90.3m (2015: £106.7m). Adjusted Operating Profit increased by 88% to £4.7m (2015: £2.5m) and adjusted operating profit margin improved to 5.2% (2015:2.3%). To improve understanding of the underlying performance of the business, these numbers are adjusted for certain items, including Share-based Payments, as detailed below.

Adjusted profit before tax was £4.2m (2015: £1.5m) and adjusted diluted earnings per share were 1.9p (2015: 0.9p). The company made a statutory loss after tax of £1.2m (2015: loss of £45.5m).

At the end of the year the Group had net cash of £8.8m (2015: net debt of £32.5m).

Result of Operations

Revenue

	Year ended 31 December £m	
	2016	2015
Revenue	90.3	106.7

Revenue as expected was lower by 15% at £90.3m in the year (2015: £106.7m). The key factors were: QAS revenue reduced to £20.7m (2015: £30.5m) mostly due to the expiry of the Ofsted schools inspection contract in August 2015 which contributed revenues of £8.4m in 2015; revenues from Synergy, disposed of in March 2016, fell to £1.6m (2015: £6.3m); revenues following the closure of the SLS and Careers Advice business in 2015 fell to £0.2m in 2016 (2015: £3.5m).

Across our university and college customer base, retention rates remained high, and as a result, our Annual Recurring Revenue base has increased by 7% in 2016, to £32.4m (2015: £30.3m). Software licences and development fees reduced in the year to £10.8m (2015: £14.2m). Annually Recurring Revenues now represent 53% of the total revenue from our Student Management Systems business (2015: 48%).

International revenues continued to increase; in 2016, revenue from outside the UK was £43.8m (2015: 34.4m), and increase of 27%, and representing 48% of our total revenues (2015: 32%).

Adjusted Operating Profit

	Year ended 31 December £m	
	2016	2015
Adjusting operating profit	4.7	2.5

The Adjusted Operating Profit was £4.7m (2015: £2.5m). Higher margin recurring revenues and improved operational efficiencies drove an increase in Gross Profit Margin to 43% (2015: 36%), and a program of headcount reduction and other cost savings was implemented during the year which delivered £5.8m of in-year savings. This will benefit future periods with annualised cost savings of £9.0m.

There was a negative impact of £5.8m on earnings in 2016 compared to 2015, as a combined result of the expiry of the Ofsted contract in 2015, the closure of the non-core SLS and Careers Advice business, and the disposal of Synergy in March 2016.

Additionally, the improved Adjusted Operating Profit is after a reduction in capitalised development costs compared to the prior year which materially impacted 2016 performance.

Capitalised development costs are significantly lower in 2016 at £1.1m (2015: £4.1m), reflecting the Group's revised product strategy and capitalisation treatment, with the majority of development costs expensed in the current year (see Development Costs below).

The impact on Adjusted Operating Profit of foreign exchange movement was a gain of £0.7m (2015: gain of £0.2m).

Items excluded from adjusted profit figures

Certain items not directly related to the trading business or regarded as exceptional in nature have been removed from the adjusted profit figure and disclosed as "Other Items" on the Income Statement. The main adjustments are as follows:

- Share-based Payments
  In 2016, Share-based payment charges (including employer related taxes) of £1.0m (2015: credit of £0.4m) are excluded from the Adjusted Operating profit. In 2015, these charges were included in the overall trading numbers, but given the variance in the level of charge, the amounts will now be shown under "Other Items" to provide greater understanding of the Group's underlying performance, and accordingly the 2015 number are restated. The charges in the current year relate to the matching shares granted as part of the rights issue and share subscriptions in April 2016 (£0.5m) and the Long Term Incentive Plan options (LTIPs) which were granted to the new executive management team at the end of June 2016 (£0.4m) plus employer related taxes (£0.1m).

- Deferred Contingent Consideration
  The movement in deferred consideration of a £0.6m charge (2015: credit of £1.0m) represents changes in the deferred contingent consideration payments expected to be paid as part of the earnouts on acquisitions. During the year, a final payment was made in respect of deferred consideration payable on the acquisition of i-Graduate, which resulted in an additional charge of £0.6m, and the expected fair value of the settlement of deferred consideration relating to Sky Software (now renamed Tribal Campus) resulted in no overall charge.

  In March 2017, Tribal signed a variation to the Share Purchase Agreement with the vendors of Tribal Campus, which amended the terms of the deferred contingent consideration payments. Under the variation, it was agreed that a combination of cash, shares and share options would be paid/issued in full and final settlement of all contingent obligations under the Agreement. The impact of this variation has been reflected in these financial statements.

- Amortisation of IFRS3 Intangibles
  The amortisation charge in relation to IFRS3 intangible assets of £1.9m (2015: £1.7m) arose from separately identifiable assets recognised as part of previous acquisitions. The assets principally relate to software and customer relationships and are amortised over their expected life which was determined in the year the acquisition took place.

- Profit on sale of Synergy
  The Synergy business was disposed of for a net consideration of £19.4m (after adjustments for working capital). Goodwill of £19.1m was apportioned to the disposal resulting in a profit on disposal of £0.3m recognised in the year (see Disposal of Synergy, below).

- Restructuring and associated costs
  These costs relate to the restructuring of the Group's operations. The restructuring program was executed in the first half of 2016 and amounts include a charge for redundancy costs of £1.2m (including the costs of termination of the previous Executive Directors' employment contracts of £0.3m) and consolidation of the Group's office portfolio of £0.5m.

Statutory loss for the year

The statutory loss for the year reduced in 2016 to £1.2m (2015: £45.5m). The prior year loss included an impairment charge of £38.8m to goodwill and £8.0m in relation to capitalised product development expenditure. Management have performed an impairment review at 31 December 2016 and no impairment charge is required in the year ended 31 December 2016.

Development Costs

	2016 (£m)	2015 (£m)
SchoolEdge	1.1	0.7
Other Products	–	3.4
Capitalised Development Cost	1.1	4.1

The capitalised development cost fell significantly in 2016 to £1.1m (2015: £4.1m), which relates only to the development of the SchoolEdge platform. Reflecting the Group's revised product strategy, it is considered appropriate that the cost of development work relating to statutory/regulatory updates, local requirements of new territories when undertaking work for the first time, and bespoke or one-off projects, is now expensed as incurred, with capitalisation taking place predominantly in respect of new product and platform redevelopment where the Group expects ongoing future revenue to be received.

Disposal of Synergy

On 1 April 2016, the Group disposed of its Synergy children's services management information system business to Servelec Group plc for total consideration of £20.3m (£19.4m after adjustments for working capital).

During 2016, the Synergy business generated revenues of £1.6m (2015: £6.3m) The business delivered an operating profit £0.7m in 2016 (2015: £2.7m), stated before allocation of costs of central support services which have not transferred to Servelec Group plc. These non-transferring activities include IT services, HR, finance, legal, marketing and head office costs.

It is noted that two of the Group's directors, Richard Last and Roger McDowell, are also directors of Servelec Group plc. Given the conflict arising, neither director participated in the Board's consideration of the disposal of Synergy. Additionally, the Group has provided warranties and indemnities against certain liabilities as part of the disposal. The Group believes that the likelihood of a material liability arising from such warranties provided is remote.

Net Finance Costs

Overall financing costs were £1.0m (2015: £2.1m). Financing costs on the Group's loan facility decreased to £0.6m (2015 -£1.1m) following the streamlining of banking facilities to better match the Group's ongoing requirements. The Group now has available a revolving credit line of £25m with Lloyds Banking Group and Clydesdale Bank, incorporating overdraft facilities and bank guarantee lines, committed until June 2018. Other financing costs reduced to £0.4m (2015: £1.0m) following reductions in the unwinding of discounts on deferred consideration and the fees associated with the waiver of loan covenants.

Key Performance Indicators (KPIs)

The Group monitors its performance using the following KPIs:

- Revenue: £90.3m (2015: £106.7m)
- Adjusted: Operating margin: 5.2% (2015: 2.3%)
- Backlog: £113.8m (2015: £121.3m)
- Staff Retention: 84% (2015: 86%)
- Adjusted Operating profit: £4.7m (2015: £2.5m)
- Annually Recurring Revenue: £32.4m (2015: £30.3m)
- Cash Conversion: 115% (442)%
- Revenue per Employee: £87k (2015: £85k)

Going concern

Following the strengthening of the balance sheet, the Directors are confident that the Group has sufficient financial resources for its foreseeable requirements being a period in excess of 12 months from the approval of the annual report and financial statements. Tribal maintains appropriate cash balances, and has a revolving credit facility of £25m that is committed until June 2018 of which £6.5m is allocated for trading guarantees with customers as at 31 December 2016.

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

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

Taxation

The corporation tax on Adjusted Profits was £0.9m (2015: £0.6m) and the adjusted effective tax rate was 21% (2015: 42%). This includes the impact of higher rates of taxation arising in overseas jurisdictions.

The corporation tax on Statutory Profits was £0.3m (2015: credit of £1.9m) and the effective tax rate was 34% (2015: credit of 4%).

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

Share Capital

On 4 April 2016, the company undertook a successful rights issue, resulting in the issuance of 94,849,241 shares. On 19 April, a further 5,681,817 subscription shares were issued. As at 31 December, there were 195,380,299 shares issued.

Earnings per share

Adjusted diluted earnings per share from continuing operations before other costs, the results of businesses disposed of, and intangible asset impairment charges and amortisation, which reflects the Group's underlying trading performance, increased to 1.9p (2015: 0.9p).

The weighted average number of shares outstanding (in '000s) for dilution calculations was 168,755 (2015: 94,435).

Shareholder returns & dividends

The Board of Directors continues to believe that the payment of dividends is important, and has pursued a progressive dividend policy in recent years. It is the Board's intention to continue this policy when it is supported by the financial performance. In light of the rights issue in 2016 and taking into account the requirement to sustain the level of investment in the business to drive further shareholder value, the Board has concluded that no dividend will be declared in respect of 2016.

Impact of IFRS15

The Group is required to implement a new accounting standard, IFRS 15 'Revenue from contracts with customers', from 1 January 2018. The Group is currently assessing the new standard and does not expect to be able to quantify the impact of any potential changes until later in 2017. Our initial work indicates that there may be changes to the timing of the recognition of license-related revenue. It is not anticipated that there will be significant changes to the timing of the recognition of Implementation or Support & Maintenance revenue.

Net Cash and Cashflow

	Year ended 31 December £m	
	2016	2015
Net Cash/(debt)	8.8	(32.5)

The Group moved to a net cash position during the year with an end of year balance of £8.8m (2015: net debt £32.5m) primarily due to proceeds from the rights issue, directors' share subscriptions and the disposal of Synergy, which together totalled £38.5m, net of costs. The other main movements in cashflow were as follows:

- Net Cash generated from operating activities

  Operating cash inflow for the period was £8.3m (2015: outflow of £6.2m), which included improvement in working capital requirements of £1.6m. Free Cash Flow (calculated as Operating cash flow less Capital Expenditure less Capitalised Development was £5.9m (2015: £(13.0)m)

- Capital Expenditure

  Capital expenditure totalled £2.4m (2015: £6.8m), comprising £1.1m (2015: £4.1m) on software product development and £1.3m (2015: £2.7m) on replacement of IT systems and equipment and office premises.

- Acquisitions & Deferred Considerations

  The Group made a total net payments £3.0m during the year in relation to the deferred consideration obligations of previous acquisitions being Campus £0.7m, Callista £0.9m, iGrad £1.7m and a receipt of £0.4m in relation to Human Edge following the return of funds held on escrow.

Sales Order Backlog

The sales order backlog relates to the total value of orders which have been signed on or before, but not fully delivered by, 31 December 2016. This represents the best estimate of business expected to be delivered and recognised in future periods, and is based on the Total Contract Value (TCV) signed between Tribal and the customer, even though customer contracts may contain clauses which, under certain circumstances, may permit customers to reduce their commitment at a future date. Software Support & Maintenance (S&M) revenues are typically subject to annual renewal; due to the high renewal rates, two years of S&M revenues are included in the backlog calculation.

The total sales order backlog of the Group as at 31 December 2016 was £113.8m (2015: £121.3m).

Pension Obligations

As a consequence of certain contract awards, some employees participate in defined benefit pension schemes, the largest of which relates to the Ofsted Early Years inspection contract we entered during the year ended December 2010. Across these pensions schemes, the combined deficit calculated under IAS19 at the end of the year totalled £1.7m (2015: surplus of £0.1m), with gross assets of £10.2m (2015: £8.7m) and gross liabilities of £11.9m (2015: £8.6m). Total actuarial losses recognised in the consolidated statement of comprehensive income are £1.7m (2015: £0.2m). The Ofsted Early

Years contract expires in March 2017, and those individuals working directly on the contract will transfer to Ofsted, under the Transfer of Undertakings (Protection of Employment) act (TUPE). Under the terms of the contract, they may elect to transfer their pension plan from Tribal to Ofsted.

Financial Risks

The financial risks, which increased as a result of the Group's financial position as at 31 December 2015, have now reduced as a result of management actions in the first half of 2016. The main financial risks the Group faces relate to the availability of funds to meet business needs, where a trading downturn puts a strain on the operating cash flow, credit risk arising from contractual delays or scope changes, fluctuations in interest rates, and foreign exchange risk.

Funding arrangements

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

On 30 June 2016, the Group agreed amendments to the terms of its banking facilities which remain committed until June 2018. The size of the overall credit facility has been reduced from £50million to £25million of which £6.5 million is committed for trading guarantees with customers. The level of the facility is more appropriate for the Group balance sheet. The most significant change to the agreement is that the maximum permissible leverage ratio (measured as the ratio of net debt to EBITDA) must not exceed 2x (previously 3x). The definition of EBITDA has also been defined to exclude certain non-cash and one-off trading impacts that have unfavourable impacts on the calculation. For the foreseeable future, the Group is forecast to operate within the bank covenant requirements set out in the facility agreements, amended with effect from 30 June 2016, after taking in to account reasonably possible downside changes in trading performance .

Credit risk

The Group seeks to reduce the risk of bad debts arising from non-payment by our customers. This risk is closely monitored by the Credit & Collections team, which form part of Group Finance.

Interest Rate risk

At the end of 2016, Tribal had no bank loan indebtedness (2015: debt of £32.5m). However, the Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, and forward rate agreements and interest swaps may be used, where appropriate, to achieve the desired mix of fixed and floating rate debt. We have no open derivatives at 31 December 2016.

Foreign exchange risk

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

Tribal's principal currency exchange exposure is to the Australian dollar although as at 31 December 2016, the Group was also exposed to movements in the rates between Sterling and the US dollar, South African Rand, and New Zealand dollar.

The Group Finance team oversees management of foreign exchange risk, and policies and procedures approved by the Board. Where appropriate, forward foreign exchange contracts and options reduce potential financial exposure to an acceptable level. There were no open contracts at the year end.

Contract risk

The Group seeks to reduce the risk on contracts including the risk of failure to deliver, legal claims and onerous financial terms. This risk is mitigated through the use of appropriate legal resource to review contracts and an internal control process for contract approval.

Effect of the decision of the UK to exit the European Union

We do not expect the decision of the UK to exit the European Union (Brexit) to have an adverse impact in the short term on demand for Student Management Systems, and the longer term potential impact remains to be seen and is dependent upon the exit terms agreed. Following the outcome of the Brexit vote, the Group saw some additional benefit in earnings due to the fall in the value of UK Sterling.

Mark Pickett

Chief Financial Officer

Consolidated Income Statement

For the year ended 31 December 2016

	Note	Adjusted £'000	Other items (see note 3) £'000	Year ended 31 December 2016 Total £'000	(Restated*) Adjusted £'000	(Restated*) Other items (see note 3) £'000	Year ended 31 December 2015 Total £'000
Revenue		90,255	–	90,255	106,725	–	106,725
Cost of sales		(51,408)	–	(51,408)	(68,676)	–	(68,676)
Gross profit		38,847	–	38,847	38,049	–	38,049
Total administrative expenses		(34,159)	(4,625)	(38,784)	(35,515)	(47,756)	(83,271)
Operating profit/(loss)	2	4,688	(4,625)	63	2,534	(47,756)	(45,222)
Investment income	4	66		66	49		49
Finance costs	3,5	(595)	(398)	(993)	(1,083)	(1,041)	(2,124)
Profit/(loss) before tax		4,159	(5,023)	(864)	1,500	(48,797)	(47,297)
Tax (charge)/credit	6	(889)	596	(293)	(626)	2,487	1,861
Profit/(loss) for the year from continuing operations		3,270	(4,427)	(1,157)	874	(46,310)	(45,436)
Discontinued operations							
Loss from discontinued operations		–	–		–	(80)	(80)
Profit/(loss) for the year		3,270	(4,427)	(1,157)	874	(46,390)	(45,516)
Earnings per share							
From continuing operations							
Basic and diluted	7	1.9p	(2.6)p	(0.7)p	0.9p	(49.0)p	(48.1)p
From continuing and discontinued operations							
Basic and diluted	7	1.9p	(2.6)p	(0.7)p	0.9p	(49.0)p	(48.2)p

All activities are from continuing operations

* In the current period the share based payment charge and movement in the associated employer related taxes accrual has been reclassified so to disclose in Other items. The 2015 comparatives have been restated.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Loss for the year	(1,157)	(45,516)
Other comprehensive income/(expense):		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension schemes	(1,706)	(169)
Deferred tax on measurement of defined benefit pension schemes	290	34
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	3,070	(720)
Other comprehensive income/(expense) for the year net of tax	1,654	(855)
Total comprehensive income/(expense) for the year attributable to equity holders of the parent	497	(46,371)

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Consolidated Balance Sheet

As at 31 December 2016

	Note	2016 £'000	(Restated*) 2015 £'000
Non-current assets			
Goodwill	8	21,316	38,311
Other intangible assets	9	14,214	14,784
Property, plant and equipment		1,981	3,431
Retirement benefit surplus		–	88
Deferred tax assets		3,881	3,213
Accrued income		169	1,126
		41,561	60,953
Current assets			
Inventories		83	133
Trade and other receivables	10	15,810	20,195
Accrued income		3,605	4,664
Current tax assets		84	–
Cash and cash equivalents (excluding bank overdrafts)		10,260	3,896
		29,842	28,888
Total assets		71,403	89,841
Current liabilities			
Trade and other payables	11	(7,066)	(7,043)
Accruals		(8,204)	(9,671)
Deferred income		(19,352)	(21,730)
Current tax liabilities		(1,266)	(169)
Borrowings		(1,427)	(2,160)
Provisions		(941)	(3,845)
		(38,256)	(44,618)
Net current liabilities		(8,414)	(15,730)
Non-current liabilities			
Borrowings		–	(34,207)
Other payables	11	(1,026)	–
Deferred tax liabilities		(1,877)	(2,119)
Deferred income		(818)	(646)
Retirement benefit obligations		(1,725)	–
Provisions		(211)	(2,091)
		(5,657)	(39,063)
Total liabilities		(43,913)	(83,681)
Net assets		27,490	6,160
Equity			
Share capital		9,769	4,743
Share premium		14,989	21
Other reserves		20,879	20,503
Accumulated losses		(18,147)	(19,107)
Total equity attributable to equity holders of the parent		27,490	6,160

* In the current period the Group has reclassified its accrued and deferred income balances, so to disclose between current and non-current assets and liabilities respectively. This has no impact on the results for the previous year.

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2015	4,743	21	25,757	24,126	54,647
Loss for the year	–	–	–	(45,516)	(45,516)
Other comprehensive loss for the year	–	–	–	(855)	(855)
Dividends	–	–	–	(1,794)	(1,794)
Use of own shares to settle share-based payment scheme vesting	–	–	1,970	–	1,970
Credit to equity for share-based payments	–	–	(904)	(1,364)	(2,268)
Tax on charge to equity for share-based payments	–	–	–	(24)	(24)
Transfer from merger reserve	–	–	(6,320)	6,320	–
At 31 December 2015 and 1 January 2016	4,743	21	20,503	(19,107)	6,160
Loss for the year	–	–	–	(1,157)	(1,157)
Other comprehensive income for the year	–	–	–	1,654	1,654
Acquisition of own shares	–	–	(91)	–	(91)
Issue of equity share capital	5,026	17,091	–	–	22,117
Costs associated with issue of share capital	–	(2,123)	–	–	(2,123)
Charge to equity for share-based payments	–	–	876	–	876
Tax on charge to equity for share-based payments	–	–	–	54	54
Transfer from merger reserve	–	–	(409)	409	–
At 31 December 2016	9,769	14,989	20,879	(18,147)	27,490

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Net cash from/(used in) operating activities	13	8,274	(6,216)
Investing activities			
Interest received		66	49
Gross proceeds from disposal of Synergy	12	19,421	–
Costs associated with disposal of Synergy	12	(872)	–
Purchases of property, plant and equipment		(443)	(1,679)
Expenditure on intangible assets	9	(1,932)	(5,138)
Payment of deferred consideration for acquisitions net of cost acquired		(3,374)	(4,510)
Repayment of Escrow (in respect of Human Edge)		357	–
Net cash inflow/(outflow) from investing activities		13,223	(11,278)
Financing activities			
Interest paid		(460)	(811)
Purchase of own shares		(91)	–
Gross proceeds on issue of shares		22,117	–
Costs associated with issue of shares		(2,123)	–
Equity dividend paid		–	(1,794)
Fees for waiver of loan covenant		–	(200)
(Repayment)/draw down of borrowings and loan arrangement fees		(34,500)	12,912
Net cash (used in)/from financing activities		(15,057)	10,107
Net increase /(decrease) in cash and cash equivalents		6,440	(7,387)
Cash and cash equivalents at beginning of year		1,736	9,345
Effect of foreign exchange rate changes		657	(222)
Cash and cash equivalents at end of year		8,833	1,736

Notes to the Financial Statements

1. General Information

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

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the company's annual general meeting.

Whilst the financial information included in this preliminary announcement has been completed in accordance with International Financial Reporting Standards (IFRSs), this announcement itself does not contain sufficient information to comply with IFRSs.

The financial information has been prepared on the historical cost basis, except for financial instruments.

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

The full financial statements which comply with IFRSs will be posted to shareholders on or around 21 April 2017 and are available to members of the public at the registered office of the Company from that date, and are now available on the Company's website: www.tribalgroup.com.

2. Business segments

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

Student Management Systems ("SMS") represents the delivery of software and subsequent maintenance and support services (previously Product Development and Customer Services) and the activities through which we deploy and configure our software for our customers (previously Implementation Services);

i-graduate (previously Professional and Business Solutions), representing a portfolio of performance improvement tools and services, including analytics, benchmarking and transformation services; and

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

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

	Revenue		**Adjusted Segment Operating Profit**	
	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000	Year ended 31 December 2016 £'000	(Restated*) Year ended 31 December 2015 £'000
Student Management Systems	61,007	62,701	4,724	3,163
i-graduate	8,534	13,622	901	229
Quality Assurance Solutions	20,714	30,402	2,532	2,900
Total	90,255	106,725	8,157	6,292
Unallocated corporate expenses			(3,469)	(3,758)

Adjusted operating profit	4,688	2,534
Amortisation of IFRS 3 intangibles	(1,912)	(1,686)
Other items	(2,713)	(46,070)
Operating profit/(loss)	63	(45,222)
Investment income	66	49
Finance costs	(993)	(2,124)
Loss before tax	(864)	(47,297)
Tax (charge)/credit	(293)	1,861
Loss for the year from discontinued operations	–	(80)
Loss after tax and discontinued operations	(1,157)	(45,516)

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

* As reported to the Chief Executive Officer, in the current period the share based payment charge and movement in the associated employer related taxes accrual are reported as Other items. The 2015 comparatives have been restated.

Revenues of approximately 13% (2015: 18%) have arisen within our QAS segment from the Group's largest customer and revenues of approximately 7% (2015: 6%) have arisen within our SMS segment from the Group's second largest customer.

Geographical information

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

	2016 £'000	2015 £'000
UK	46,469	72,350
Asia Pacific	31,819	23,699
North America and rest of the world	11,967	10,676
	90,255	106,725

Non-current assets

	2016 £'000	(Restated*) 2015 £'000
UK	19,171	41,090
Asia Pacific	22,376	19,853
North America and rest of the world	14	10
	41,561	60,953

* In the current period the Group has reclassified its accrued and deferred income balances, so to disclose between current and non-current assets and liabilities respectively. This has no impact on the results for the previous year.

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

Continuing operations

	2016 £'000	2015 £'000

Licence and development	10,840	14,504
Implementation	12,430	11,717
Maintenance	32,420	30,513
Other Systems related	5,317	5,967
i-graduate	8,534	13,622
Quality Assurance Solutions	20,714	30,402
	90,255	106,725

3. Other items

	2016 £'000	(Restated*) 2015 £'000
Profit on sale of Synergy (see note 12)	301	–
Other items as (charges)/credits to income statement		
– Acquisition costs	–	(198)
– Gain on bargain purchase	–	405
– Repayment of Escrow (in respect of the acquisition of Human Edge)	357	–
– Movement in deferred contingent consideration**	(607)	1,020
Acquisition related costs	(250)	1,227
– Impairment of goodwill	–	(38,802)
– Impairment of development costs and related charges	–	(7,989)
Impairment charges	–	(46,791)
– Onerous contracts	115	294
– Costs on closure of SLS business	(33)	(823)
– Property related	136	210
– Share based payments (including employer related taxes)*	(1,036)	350
– Restructuring and associated costs	(1,946)	(537)
Other exceptional items	(2,764)	(506)
Other administrative costs	(2,713)	(46,070)
– Amortisation of IFRS 3 intangibles	(1,912)	(1,686)
Total administrative expenses	(4,625)	(47,756)
– Unwinding of discounts	(205)	(585)
– Bank arrangement fees written off	(244)	–
– Fees associated with waiver of loan covenant	51	(456)
Other financing items	(398)	(1,041)
	(5,023)	(48,797)
Tax on other items	596	2,487
	(4,427)	(46,310)

* In the current period the Group's share based payment charge and movement in the associated employer taxes accrual have been reclassified so to disclose in Other items. The 2015 comparatives have been restated.

** Included in movement in deferred contingent consideration are £42,000 of professional fees incurred.

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

Profit on sale of Synergy; on 1 April 2016, the Group disposed of its Synergy children's services management information systems business to Servelec Group plc for total consideration of £20.3m (£19.4m after adjustments for working capital). Subsequent to the allocation of goodwill of £19.1m and costs arising in respect of the disposal, a profit on disposal of £0.3m was recognised in the period. Further information is provided in note 12.

Acquisition costs: during the period, a final payment was made in respect of deferred consideration payable on acquisition of i-graduate, which resulted in a true up of the amounts provided (£0.6m additional charge). In addition, a further true up in respect of the Campus acquisition resulted in an additional £0.2m charge. Acquisition costs also includes a £0.4m repayment of escrow in relation to Human Edge which was not previously held as a receivable on the balance sheet.

Other exceptional items: amounts principally reflect the costs arising in respect of the restructuring of the Group's operations. The restructuring program was executed in the first half of 2016 and associated costs provided for. Amounts include provision for redundancy costs, consolidation of the Group's office portfolio as well as the costs of termination of the previous executive directors' employment contracts.

Share based payments: In 2016 share based payments have been disclosed in Other items, 2015 comparatives have been restated. The numbers above include the movement in associated employers taxes accrual.

Amortisation of IFRS3 intangibles: amortisation arising on the fair value of intangible assets acquired is separately disclosed as other items. (2016 – £1.9m: (2015 – £1.7m)).

Financing charges: consistent with the treatment of movements in deferred consideration, the unwind of the discount on deferred consideration is separately presented as other financing costs in the income statement (2016 – £0.2m: 2015 – £0.6m). In addition, costs of £0.2m were incurred in respect of previously capitalised bank arrangement fees written off following the revised financing agreement entered into during the year.

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

4. Investment income

	2016 £'000	2015 £'000
Net interest receivable on retirement benefit obligations	12	34
Other interest receivable	54	15
	66	49

5. Finance costs

	2016 £'000	2015 £'000
Interest on bank overdrafts and loans	310	695
Amortisation and write off of loan arrangement fees	60	272
Other interest payable	225	116
Financing costs	595	1,083
Unwinding of discounts	205	585
Bank arrangement fees written off	244	–
Fees associated with waiver of loan covenants	(51)	456
Other financing costs	398	1,041
Total financing costs	993	2,124

6. Tax

	2016 £'000	2015 £'000
Current tax		
UK corporation tax	116	354
Overseas tax	690	173
Adjustments in respect of prior years	309	(1,262)
	1,115	(735)
Deferred tax		
Current year	(816)	(2,125)
Adjustments in respect of prior years	(6)	999
	(822)	(1,126)
Tax charge/(credit) on losses	293	(1,861)

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

	2016 £'000	2015 £'000
Loss before tax on continuing operations	(864)	(47,297)
Tax credit at standard rate of 20% (2015: 20.25%)	(173)	(9,578)
Effects of:		
Overseas tax rates	140	(134)
Expenses not deductible for tax purposes	180	65
Non-deductible goodwill impairment	-	7,776
Adjustments in respect of prior years	272	(263)
Additional deduction for R&D expenditure	(87)	(16)
Share schemes	–	(8)
Movement in tax provision	116	159
Utilisation of unrecognised tax losses	(358)	–
Effect of changes in tax rates	203	138
Tax expense/(credit) for the year	293	(1,861)

In addition to the amount charged to the income statement a current tax credit of £nil (2015: £195,000) and a deferred tax credit of £54,000 (2015: charge of £219,000) has been recognised directly in equity during the year in relation to share schemes. A deferred tax credit of £290,000 (2015: £34,000) has been recognised in the Consolidated Statement of Comprehensive Income in relation to Defined Benefit pension schemes.

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

The income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 20% (2015: blended rate of 20.25%). This rate reflects the reduction of the UK corporation tax rate from 21% to 20% from 1 April 2015. Tax for other jurisdictions is calculated at the prevailing rates prevailing in the respective jurisdictions.

Further reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. This will reduce the Group's future tax charge accordingly. The deferred tax balances at 31 December 2016 have been calculated based on these rates.

7. Earnings per share

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

	2016 thousands	2015 thousand
Weighted average number of shares outstanding:		
Basic weighted average number of shares in issue	168,755	94,435
Weighted average number of shares outstanding for dilution calculations	168,755	94,435

Diluted earnings per share only reflects the dilutive effect of share options for which performance criteria have been met. Previous share incentive schemes vest based on cumulative EPS for a three year period with the earliest vesting based on the Group's results for the three years to 31 December 2016. None of the 721,171 remaining share options that were issued in 2014 met the performance criteria.

In regards the diluted loss per share in 2015 and 2016, all potentially dilutive ordinary shares, including options and deferred shares, are anti-dilutive as they would decrease the loss per share.

611,620 nil cost options granted to Mark Pickett, Group Chief Financial Officer will vest on 29 June 2017 as this award is only subject to a time-limit condition. In addition all 3,405,996 Matching share options granted to Richard Last and Roger McDowell are also subject to a time-limit condition. These will vest equally on 1 January 2017, 1 January 2018 and 1 January 2019.

The maximum number of potentially dilutive shares, based on options that have been granted but have not yet met vesting criteria, is 5,367,189 (2015: 1,531,955). In addition there are a further 3,405,996 (2015: nil) potentially dilutive matching share options that have been granted but have not yet met vesting criteria as at 31 December 2016.

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

	2016			2015		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Net loss	(1,157)	n/a	(1,157)	(45,436)	(80)	(45,516)
Earnings per share						
Basic and diluted	(0.7)p	n/a	(0.7)p	(48.1)p	(0.1)p	(48.2)p
Adjusted earnings per share						
Basic and diluted	1.9p	n/a	n/a	0.9p*	n/a	n/a

	(Loss)/profit for the year		Earnings per share	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Loss for the year attributable to equity shareholders	(1,157)	(45,516)	(0.7)p	(48.2)p
Add back: discontinued operations	–	80	–	0.1p
Loss for the year from continuing operations	(1,157)	(45,436)	(0.7)p	(48.1)p

Add back:				
Amortisation of IFRS intangibles (net of tax)	1,354	1,197		
Impairment of goodwill	–	38,802		
Disposal of Synergy	(301)	–		
Repayment of Escrow	(357)	–		
Bank arrangement fees written off	244	–		
Share based payments	858	(279)		
Gain on bargain purchase	–	(405)		
Impairment of development costs (net of tax)	–	6,323		
Unwinding of discounts	205	585		
Other items (net of tax)	1,817	1,107		
Movement in deferred contingent consideration	607	(1,020)		
Total adjusting items (net of tax)	4,427	46,310	2.6p	49.0p
Adjusted earnings	3,270	874	1.9p	0.9p

*The adjusted basic and diluted earnings per share figures for 2015 have been restated as the share based payment charge and movement in the associated employer related taxes accrual has been reclassified so to disclose in Other items.

8. Goodwill

	2016 £'000	2015 £'000
Cost		
At beginning of year	119,542	120,239
Allocation of goodwill to disposal of Synergy business	(19,107)	–
Exchange differences	2,112	(697)
At end of year	102,547	119,542
Accumulated impairment losses		
At beginning of year	81,231	42,429
At end of year	81,231	81,231
Net book value		
At end of year	21,316	38,311
At beginning of year	38,311	77,810

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

	2016 £'000	2015 £'000
Student Management Systems	17,782	34,777
i-graduate	3,534	3,534
	21,316	38,311

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

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use risk adjusted cash flow projections based on the financial budget approved by management for the period to 31 December 2017. The budget was prepared based on past experience, strategic plans and management's expectation for the markets in which they operate including adjustments for known contract ends (i.e. Ofsted Early Years), contract related inflationary increases and planned cost savings. The budget was extrapolated over an eight-year period with a growth assumption of 2% per annum. Cash flows beyond the budget and extrapolation period were calculated into perpetuity using a growth rate of 2%.

This growth rate is in line with the expected average UK economy long term growth rate.

The cash flows projections are discounted at a post-tax discount rate of 12% (2015: 14%). The single discount rate, which is consistently applied for all CGUs, is determined with reference to internal measures and available industry information and reflects specific risks relevant to the Group.

In 2015 the Group suffered a significant downturn in its performance over the course of that year which, together with conservative estimates of the future trading of the Group, led to material impairments totalling £38.8m being recorded across the CGUs as follows: SMS £23.6m, i-graduate £5.5m and QAS £9.7m. QAS was fully impaired.

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

SMS is the largest segment and also the most sensitive The discount rate for 2016 would need to increase to 17.3% for an impairment to occur and the growth rate reduce to (3.8)% per annum. For i-graduate the discount rate for 2016 would need to increase to 21.2% for an impairment to occur and the growth rate reduce to (8.1)% per annum. The Directors do not feel these scenarios are likely to occur due to the significant increase required to the discount rate; the Group's strong Backlog of £113.8m relating to the Total Contract Value of booked sales orders which have not yet been delivered (including 2 years Support & Maintenance, where it is contracted on an annually recurring basis); and, the Group's Annually Recurring Revenue of £32.4m from software related maintenance fees in SMS.

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

9. Other intangible assets

	Software	Customer contracts & relationships	Development costs	Business systems	Software licences	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2015	6,747	6,600	29,633	4,735	–	47,715
Written off	–	–	(3,268)	(11)	–	(3,279)
Additions	292	185	4,083	1,055	–	5,615
Disposals	–	–	(403)	(86)	–	(489)
Exchange differences	(405)	(172)	(30)	(5)	–	(612)
At 31 December 2015 and 1 January 2016	6,634	6,613	30,015	5,688	–	48,950
Transfers	–	–	–	–	1,369	1,369
Additions	–	–	1,098	764	70	1,932
Disposals	–	–	(6,994)	–	(35)	(7,029)
Exchange differences	1,242	529	360	18	–	2,149
At 31 December 2016	7,876	7,142	24,479	6,470	1,404	47,371
Amortisation						
At 1 January 2015	924	3,423	16,100	4,019	–	24,466
Written off	–	–	(3,268)	(11)	–	(3,279)
Charge for the year	1,248	438	3,364	398	–	5,448
Impairment loss	–	–	7,989	–	–	7,989
Disposals	–	–	(359)	–	–	(359)
Exchange differences	(44)	(61)	5	1	–	(99)
At 31 December 2015 and 1 January 2016	2,128	3,800	23,831	4,407	–	34,166
Transfers	–	–	–	–	1,084	1,084
Charge for the year	1,422	490	1,411	162	166	3,651
Disposals	–	–	(6,504)	–	(25)	(6,529)
Exchange differences	489	168	122	6	–	785
At 31 December 2016	4,039	4,458	18,860	4,575	1,225	33,157
Carrying amount						
At 31 December 2016	3,837	2,684	5,619	1,895	179	14,214
At 31 December 2015	4,506	2,813	6,184	1,281	–	14,784

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

Disposals of development cost of net book value of £490,000 correspond to the sale of the Synergy business (see note 12). Included within Business Systems are finance systems with a carrying value of £1.6m (2015: £0.9m). Each system is being amortised over a period of three to five years and have an average of three years left. Upgrades to our finance systems, AX2012 and Longview phase II, are due to commence amortisation in January 2017 following a successful rollout to the business.

10. Trade and other receivables

	2016 £'000	2015 £'000
Amounts receivable for the sale of services	14,373	17,700
Allowance for doubtful debts	(1,578)	(655)
	12,795	17,045
Amounts recoverable on contracts	–	42
Other receivables	209	263
Prepayments	2,806	2,845
	15,810	20,195

11. Trade and other payables

Current	2016 £'000	2015 £'000
Trade payables	677	2,274
Other taxation and social security	3,309	3,405
Other payables	1,453	1,364
Deferred consideration	1,627	–
	7,066	7,043
Non - current		
Deferred consideration	1,026	–
Total	8,092	7,043

Other payables are split as follows:

	2016 £'000	2015 £'000
Goods received not invoiced	246	424
Funds restricted in use	212	262
Other creditors	995	678
	1,453	1,364

12. Disposal of Synergy

On 1 April 2016 the Group disposed of its Synergy children's services management information system business to Servelec Group plc.

The net assets of the Synergy business at the date of disposal were as follows:

	£'000
Intangible assets	490
Tangible assets	219
Trade and other receivables	1,796
Trade and other payables	(3,364)
Attributable goodwill	19,107
Net assets	18,248
Cash consideration	19,421
Costs associated with the disposal	(872)

Two of the Group's directors, Richard Last and Roger McDowell are also directors of Servelec Group plc; given the conflict arising in respect of the disposal of Synergy to Servelec, neither director participated in the Board's consideration of the disposal of Synergy.

Additionally, the Group has provided warranties and indemnities against certain liabilities as part of the disposal. The Group believes that a material liability arising from such warranties provided is remote.

During 2016, the Synergy business generated revenues of £1.6m (2015: £6.3m), which all related to the Student Management Systems segment, and included £1.0m (2015: £4.1m) of recurring software maintenance revenues.

The Synergy business delivered an operating profit £0.7m in 2016 (2015: £2.7m), stated before allocation of costs of central support services which have not transferred to Servelec Group plc. These non-transferring activities include IT services, HR, finance, legal, marketing and head office costs. Additionally, the operating profit for 2016 is stated before exceptional charges of £nil (2015: £1.0m).

13. Notes to the cash flow statement

	2016 £'000	2015 £'000
Operating profit/(loss) from continuing operations	63	(45,222)
Operating loss from discontinued operations	–	(80)
Gain on disposal of Synergy (note 12)	(301)	–
Depreciation of property, plant and equipment	1,506	1,532
Impairment of goodwill	–	38,802
Amortisation and impairment of other intangible assets	3,651	13,437
Share based payments	876	(298)
Movement in deferred consideration	566	(1,020)
Other non-cash items	(486)	(516)
Operating cash flows before movements in working capital	5,875	6,635
Decrease in inventories	50	478
Decrease in receivables	4,139	5,701
Decrease in payables	(2,295)	(17,203)
Net cash from/(used in) operating activities before tax	7,769	(4,389)
Tax received/(paid)	505	(1,827)
Net cash from/(used in) operating activities	8,274	(6,216)

Net cash from/(used in)operating activities before tax can be analysed as follows:

	2016 £'000	2015 £'000
Continuing operations (excluding restricted cash)	7,819	2,045
Decrease in restricted cash	(50)	(6,354)
	7,769	(4,309)
Discontinued operations	–	(80)
	7,769	(4,389)