RNS Half-year/Interim Report

Half-year Report

MALVERN INTERNATIONAL PLC

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Malvern International PLC
("Malvern", or the "Company")

Interim results for the six months ended 30 June 2020

Malvern International plc (AIM: MLVN), the global learning and skills development partner, announces its interim results for the six months ended 30 June 2020.

Strategic and operational highlights

- UK schools closed in line with Covid-19 guidelines from 22 March, impacting operations significantly in H1, with all courses, where possible, delivered online.
- Closure of schools necessitated the acceleration of the roll-out and development of Malvern Online Academy.
- New CEO, Richard Mace, appointed in June 2020 with an immediate focus on the reopening of UK schools, University Pathway courses and reviewing the online offering, together with tight cost control.
- Singapore treated as discontinued activities for the purposes of the financial result in H1 2020, following the closure of activities in the territory in August 2020.

Results

- Like-for-like H1 revenues from continuing operations, which include the UK and Malvern Online Academy, down 30% to £1.37m (H1 2019 like-for-like: £1.94m), impacted by Covid-19.
- Like-for-like H1 loss before tax on continuing operations was £0.44m (H1 2019: profit £0.03m).
- Loss per share on continuing activities of 0.16p (H1 2019: loss 0.01p).[1]
- Loss for the period from discontinued operations[2] (Singapore) of £0.32m (H1 2019: Singapore loss £0.22m), excluding exceptional items in relation to reversal of translation reserves of £0.29m, and net liabilities disposal of £0.28m, as explained in note 7. There will be additional costs relating to Singapore operations in H2 2020, as the operations are continuing to be wound down. These costs fall within the allocated budget to close Singapore.
- Successful restructuring of the Group's financing facilities and fundraising of £1.15m, concluded in June, of which £100,000 was received shortly before the period and used immediately to pay creditors, with the balance of £1.05m was received shortly after the period end.
- Cash as at 30 June was £0.06m (31 December 2019: £0.08m and 30 June 2019: £0.43m).

[1]Calculated using weighted average number of shares in issue during the period 263,776,243 (H1 2019: 254,307,509).

[2]For June 2020 discontinued operations consist of only Singapore operations. Comparatives for June 2019 and December 2019 includes both Malaysia and Singapore operations as discontinued operations.

Current trading and outlook

- Market fundamentals remain sound, and near and medium-term bookings are encouraging.
- University Pathway student numbers are currently over double the number last year and approximately 25% ahead of management's expectations for the current cohort, with over 150 students.
- A new cohort of University Pathway students is due to start in January with courses going ahead either face-to-face or online, depending on the prevailing Covid-19 guidelines.
- Language student numbers are rebuilding, with currently a quarter of the normal expected students for this time of year.
- Strong demand from Gulf region language students for January start, however there remains significant uncertainty around travel restrictions which may delay some students from entering the UK, potentially impacting course start dates.
- Financing activities in June, along with strong cost-control measures, provides the Company with the head-room to continue operating and, unless there is a marked deterioration in the current operating environment position, until activity levels return to normal operations.

Commenting on the results and prospects, Richard Mace, Chief Executive Officer, said:

"I would like to thank all our employees for their resilience and commitment during these very challenging times.

With the language schools and universities now reopened in line with government health and safety guidelines, our sales and marketing team is focused on rebuilding student numbers across the Company as quickly as possible.

The financing activities in June, along with strong cost-control measures, have provided the Company with the head-room to continue operating and, unless there is a marked deterioration in the current operating environment position, until activity levels return to normal operations.

Since my appointment, we have been focused on reopening schools and ensuring the delivery of pre-university courses to Malvern's university partners. In parallel, we have been undertaking a review of the strategy and brand positioning, to ensure that Malvern is well placed to take advantage of the opportunities available as and when operations return to more normal levels.

Covid-19 has necessitated the accelerated development of Malvern Online Academy (MOA), due to the period of closure of our schools during lockdown. MOA continues to provide students language training and professional courses and has become, more than ever, an accepted teaching channel. At a minimum, MOA provides the Company with an insurance should further Covid-19 restrictions be applied, that enables the transfer of all students to remote learning under our standard terms. We believe that, with the right positioning and product offerings, MOA has the potential to become an important division within Malvern's portfolio in the long term in its own right, as well as supporting in-class learning and offering remote follow on courses for students that have completed their studies in one of our schools.

While the long-term education market fundamentals remain unchanged and current bookings are encouraging, the continuing effects of Covid-19 dictate it is appropriate that we remain cautious in our outlook, whilst continuing to invest in and grow the existing business."

This announcement contains information which, prior to its disclosure by this announcement, was inside information for the purposes of the Market Abuse Regulation

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Notes to Editors:

Malvern International is a learning and language skills development partner. Courses are delivered on sites in London, Brighton, and Manchester, at partner campuses, and online through the Malvern Online Academy.

Courses include:

- Language: English language teaching;
- Pathway: pre-University programs;
- Junior: Summer language camps for secondary school students; and
- Online: language and higher education.

Established in the 1980s and admitted to AIM in 2004, Malvern employs 65 people and delivers a wide range of courses. For further investor information go to www.malverninternational.com.

Chief Executive's review

Introduction

Following my appointment on 30 June this year, it would be my wish to present my first report as CEO of Malvern International under less challenging circumstances. That said, having previously run the Group's Manchester school, I was delighted to be invited back into Malvern and take charge of a Company that has a sound business at its core and strong long-term market fundamentals.

Since my appointment, the focus has been on reopening schools, and doing all that can be done to ensure that our services are delivered safely, without any loss of quality to teaching. We have also begun reviewing the business in order to set out a strategy that will see the company trade profitability and deliver value to stakeholders.

Financial and trading review

While Malvern started 2020 with its largest ever order book, the Company's experience of Covid-19 in Singapore in December 2019 gave management an insight in to the disruption that the pandemic could potentially cause to the rest of the business in 2020. As a result, contingency plans were put in place for the whole Group in January 2020 along with strong cost control measures.

Bookings began to be postponed, and to a lesser extent cancelled, throughout Q1 before the government-required closure of schools in March. Students that were already enrolled in our language schools were transferred to online teaching, with the vast majority of administrative staff and some teachers being furloughed for the rest of the financial period.

With an increasing focus on cost control and calls on cash, the pandemic brought into focus the underperforming divisions within the Company. Malvern's operations in Singapore had, for some time, absorbed a disproportionate amount of the Company's financial and management resources. Following a review, the pandemic confirmed and accelerated the Board's decision to close the Singapore school from August 2020. We are currently working with the regulators in Singapore to complete the closure of the school in line with local legislation. As a result, the Singapore operations are considered discontinued activities for the purposes of the accounts for H1 2020.

Like-for-like revenues from continuing operations for H1 were £1.37m (H1 2019: £1.94m). The loss before tax was £0.44m (H1 2019: profit £0.03m). The loss per share on continuing activities was 0.16p (H1 2019: loss 0.01p).

The loss for the period from discontinued operations (Singapore) was £0.32m (H1 2019: Singapore loss £0.22m), excluding exceptional items in relation to reversal of translation reserves of £0.29m, and net liabilities disposal of £0.28m, as explained in note 7. There will be additional costs relating to Singapore operations in H2 2020, as the operations are continuing to be wound down. These costs fall within the allocated budget to close Singapore.

In order to provide sufficient working capital to support Malvern's operations until it reaches cash flow break even, the Company undertook a fundraising towards the period end, raising £1.15m (net) by way of a placing and subscription, of which £100,000 was received shortly before the period end and used immediately to pay creditors, with the balance of £1.05m received shortly after the period end. At the same time the Company agreed the restructuring of its existing debt facility with Boost & Co., providing a two year capital repayment holiday and interest free period subject to certain performance conditions.

Cash balances as at 30 June 2020 were £0.06m (31 December 2019: £0.08m and 30 June 2019: £0.43m).

Strategic review

Following my appointment as CEO, and the closure of Singapore, we have begun the process of reviewing Malvern's strategy so that the Company is well positioned to take advantage of the opportunities available as and when the market returns to normal.

Without a doubt, Covid-19 has been a major disruption to the business. However, unusual circumstances such as these often provide the impetus to reassess operating norms and introduce new ways of conducting business. Our strong cash control measures have highlighted Malvern's ability to operate from a much leaner cost base, without any major change to the quality of delivery.

Malvern Online Academy

Covid-19 has necessitated an acceleration in the development of Malvern Online Academy (MOA), and as a result of the period of closure of in-class teaching during lock-down. Since the reopening of schools, MOA has continued to provide online classes to students unable to physically attend classes as well as offering remote language training and professional courses.

In 2020, online learning has become, more than ever, an accepted teaching channel both in its own right and as part of a wider learning experience. At a minimum, MOA provides the Company with an insurance should further Covid-19 restrictions be applied, with the ability to transfer all students to remote learning under our standard terms.

We believe that, with the right positioning and product offerings, MOA has the potential to become an important division within Malvern's portfolio in the long term. Central to this is our need to invest prudently in people, systems and technology to deliver quality products. We are currently in the process of reviewing our pricing structure, brand positioning and sales and marketing strategy. In addition, we are exploring the range of courses that MOA can offer. This includes add-on subscription-based lessons to support in-class teaching, as well as follow-on courses for students that have completed class-based studies. In a normal year, Malvern has the benefit of over 2,000 students that attend classes at one of our centres, and with whom we build brand equity. This provides a significant after-sales opportunity for our online teaching.

In order to develop our capability, we are currently reassessing our technology platform to enable us to deliver a variety of courses to a wider audience, and deliver classes at varying times of the day to suit different geographies and nationalities.

Language schools

Our language schools in London and Manchester each serve different markets and nationalities. Communicate (Malvern Manchester) has a strong brand position serving largely embassy-sponsored and self-funded students from the Gulf region, while Malvern London attracts students from Latin America, Europe and the Far East. Malvern Brighton, a small boutique school, is being positioned to the same markets as the Manchester school.

Since my appointment, we have begun investing in refreshing the Malvern branding in London and Brighton to support sales and marketing efforts, and reposition the Malvern centres in the market as high-quality, boutique language schools. As part of this we are revisiting our sales and marketing collateral to support sales agents, and to articulate clearly the quality of teaching and learning outcomes.

With the current uncertainty in the industry and our focus on cost-control, Communicate School (Malvern Manchester) has already renegotiated a 12-month rent free period to the end of September 2021. We are currently in negotiation with our landlord with regards to the London school.

University Pathway

With our university partners, University of East London and Wrexham Glyndwr, we are currently providing pathway and pre-university courses to over 150 students, over double the number last year, and approximately 25% above management expectations. We believe the strong uptake is the result of the support we are providing UEL with student visa applications and the quality of our online delivery whilst universities continue to offer streamed and remote learning. Despite the impact of Covid-19, overseas student demand for British university education remains strong. At present, we are expecting a larger cohort for UEL in January than the previous year, even if the University is not fully reopen at the start of 2021.

The success of the courses delivered to UEL in 2019, and the increase of student numbers in 2020 is providing the impetus to invest in our current partnerships and to use our experience to offer our services to other universities, with whom we are currently in discussions. We believe outsourcing pathway courses offers a number of advantages to universities in terms of cost as well as attracting greater numbers of international students into universities, supporting universities own financial and strategic goals.

Juniors

Historically, Malvern has served a largely Italian cohort of government sponsored students. To expand this part of the business, we are broadening our discussions with the Hungarian government's scholarship programme and approaching new regions through our sales team.

Central and shared services

In the last year, Malvern has made a number of improvements to its central shared services, notably to its sales and marketing. With operations now focused in the UK, we have the opportunity to introduce greater efficiencies into the business, streamline our shared functions further, and bring our three centres closer together to share training and deliver consistent, high-quality teaching. We are also reviewing our internal financial reporting systems, which can now be significantly simplified following the closure of Singapore.

A further area where I believe we can improve is in our process and student management systems. To support this, we have recently appointed a new member to the executive team, based out of our Brighton centre, with strong technical, IT and process management expertise. Our plan is to introduce a shared student management and onboarding system, as well as integrate our central sales platform, on which all our sales managers and marketing team are trained.

Recent developments and outlook

The financing activities in June, along with strong cost-control measures, have provided the Company with the head-room to continue operating and, unless there is a marked deterioration in the current operating environment position, until activity levels return to normal.

We continue to have a strong focus on cost control, and remain encouraged by the return of business, which is underpinned by strong long-term market fundamentals.

As previously stated, University Pathway student numbers for H2 are ahead of expectations and we are currently anticipating a further cohort to start in January 2021. Language student numbers are rebuilding, with currently a quarter of the normal expected students for this time of year. At present, we are seeing strong demand from the Gulf region for January starts. However, there remains significant uncertainty around travel restrictions which may delay some students from entering the UK, potentially delaying start dates.

While we focus on rebuilding student numbers across the Company as quickly as possible and to invest in our partnerships and sales and marketing, the continuing effects of Covid-19 dictate it is appropriate that we remain cautious in our current outlook.

Richard Mace

Chief Executive Officer

UNAUDITED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Six months ended 30 June 2020 £'000 Unaudited	Six months ended 30 June 2019 £'000 Unaudited Restated*	Year ended 31 December 2019 £'000 Audited Restated*
Revenue		1,366	1,940	4,704
Cost of services sold & operating expenses		(1,612)	(1,640)	(5,311)
Other income		193	94	85
Operating profit / (loss)		**(53)**	**394**	**(522)**
Finance costs		(178)	(41)	(280)
Depreciation & amortisation		(204)	(328)	(657)
Impairment		-	-	(2,211)
Loss before taxation		**(435)**	**25**	**(3,670)**

	Note			
Income tax charge		-	(60)	(190)
Loss for the period / year from continuing operations[1]		**(435)**	**(35)**	**(3,860)**
Discontinued operations[1]	7	252	(1,483)	(4,508)
Loss for the period / year		**(183)**	**(1,518)**	**(8,368)**
Loss attributable to equity holders		**(183)**	**(1,518)**	**(8,368)**
Loss per share on continuing activities		**Pence**	**Pence**	**Pence**
Basic [2]	4	(0.16)	(0.01)	(1.51)
Diluted [2]	4	(0.16)	(0.01)	(1.51)

*2019 comparatives have been restated to exclude Malaysia and Singapore operations.

[1]Although the total loss for 2019 is as shown in 2019 audited accounts, the split between continuing and discontinued operations is different, as Singapore operations were included within continuing operations in 2019 annual report, but are now included within discontinued operations for the purposes of like for like comparison.

[2]Calculated at the weighted average number of shares in issue during the period at 263,776,243 (H1 2019: 254,307,509).

UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	As at 30 June 2020 £'000 Unaudited	As at 30 June 2019 £'000 Unaudited	As at 31 December 2019 £'000 Audited
Non-current assets			
Property, plant & equipment	104	637	368
Right-of-use assets	2,800	2,859	4,912
Intangible assets	1,419	4,701	1,419
	4,323	**8,197**	**6,699**
Current assets			
Inventory	-	11	6
Debtors	1,413	1,594	751
Prepayments	289	1,404	665
Deferred tax assets	-	190	-
Cash at bank and in hand	63	432	83
	1,765	**3,631**	**1,505**
Total Assets	**6,088**	**11,828**	**8,204**
Non-current liabilities			
Lease liabilities	2,668	2,089	4,580
Term loan	2,515	150	2,438
Convertible loan notes	-	299	-
Warrants	68	-	76
	5,251	**2,538**	**7,094**
Current liabilities			
Trade payables	457	1,283	985
Other payables and accruals	891	396	689
Lease liabilities	344	815	605
Amount due to related parties	-	564	47
Provision for Income Tax	10	115	10
Deferred Income	269	1,387	756
Convertible loan notes	322	-	316
	2,293	**4,560**	**3,408**
Total Liabilities	**7,544**	**7,098**	**10,502**
Equity			
Share capital	10,310	9,364	9,364
Share premium	5,782	5,471	5,431
Reserves	(17,548)	(10,105)	(17,093)
	(1,456)	**4,730**	**(2,298)**
Total Equity and Liabilities	**6,088**	**11,828**	**8,204**

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Share Capital	Share Premium	Retained Earnings	Translation Reserve	Capital Reserve	Convertible Loan Reserve	Total Reserves	Attributable to Equity Holders of the Company
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2019	**9,212**	**5,017**	**(9,196)**	**589**	**171**	**28**	**(8,408)**	**5,821**
Total comprehensive income for the period			(1,518)	(179)			(1,697)	(1,697)
New share issue	152	454						606
Balance at 30 June 2019	**9,364**	**5,471**	**(10,714)**	**410**	**171**	**28**	**(10,105)**	**4,730**
Total comprehensive income for the period			(6,850)	(138)			(6,988)	(6,988)
Direct costs relating to issue of shares		(40)						(40)
Balance at 31 December 2019 / 1 January 2020	**9,364**	**5,431**	**(17,564)**	**272**	**171**	**28**	**(17,093)**	**(2,298)**
Total comprehensive income for the period			(183)	(272)			(455)	(455)
New share issue	946	351						1,297
Balance at 30 June 2020	**10,310**	**5,782**	**(17,747)**	**-**	**171**	**28**	**(17,548)**	**(1,456)**

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June 2020 £'000 Unaudited	Six months ended 30 June 2019 £'000 Unaudited	Year ended 31 December 2019 £'000 Audited
Cash flows from operating activities			
Loss after tax from continuing activities	(435)	(35)	(3,860)
(Loss)/profit after tax from discontinued activities	252	(1,483)	(4,508)
Adjustments for:			
Depreciation & amortisation	204	611	1,172
Impairment	-	1,069	2,876
Fair value movement on warrants	(57)	-	(198)
Fair value movement on convertible loan reserve	6	-	17
Loss on disposal of discontinued operations	(398)	-	1,133
Loss on disposal of tangible assets	-	-	21
Impairment of trade receivables	-	-	190
Impairment of other receivables	-	-	96
Finance cost	178	80	422
Adjustment for deferred tax	-	-	190
Interest paid	(49)	(80)	(405)
Tax paid	-	23	(82)
	(299)	185	(2,936)

Changes in working capital			
(Increase) / decrease in receivables	278	(1,046)	10
Increase in payables	101	942	1,128
(Increase) / decrease in inventories	2	(5)	-
Increase / (decrease) in amounts due to related parties	(43)	66	(508)
Net cash used in operating activities	**39**	**142**	**(2,306)**
Cash flows from investing activities			
Purchase of property, plant and equipment	-	(92)	(72)
Investment in Intangible Assets	-	(185)	(245)
Net cash used in investing activities	**-**	**(277)**	**(317)**
Cash flows from financing activities			
(Decrease) / increase in finance lease liabilities	(259)	-	(502)
New share issue*	100	606	566
Term loan	100	(84)	2,538
Net cash used in financing activities	**(59)**	**522**	**2,602**
Net increase in cash and cash equivalents	**(20)**	**387**	**(21)**
Effect of foreign exchange rate changes on consolidation	-	(60)	(1)
Cash and cash equivalents at beginning of period / year	83	105	105
Cash and cash equivalents at end of period / year	**63**	**432**	**83**

*following the equity fundraising in June 2020, £100k were received before 30 June 2020, and the remaining funds were received after 30 June 2020

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. General information

Malvern International plc (the "Company") is a public limited liability company incorporated in England and Wales on 8 July 2004. The Company was admitted to AIM on 10 December 2004. Its registered office is Witan Gate House, 500-600 Witan Gate West, Milton Keynes MK9 1SH and its principal place of business is in the UK. The registration number of the Company is 05174452.

The principal activities of the Company are that of investment holding and provision of educational consultancy services. The principal activity of the group is to provide an educational offering that is broad and geared principally towards preparing students to meet the demands of business and management. There have been no significant changes in the nature of these activities during the period

2. Significant accounting policies

Basis of preparation

The accounting policies adopted are consistent with those of the previous financial year.

This interim consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34, 'Interim financial reporting'. This interim consolidated financial information is unaudited and is not the Group's statutory financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified, but did include, without qualifying their report, references to which the auditors drew attention by way of emphasis of matter in respect of the preparation of the financial statements on a going concern basis.

The interim consolidated financial information for the six months ended 30 June 2020 is unaudited. In the opinion of the Directors, the interim consolidated financial information presents fairly the financial position, and results from operations and cash flows for the period. Comparative numbers for the six months ended 30 June 2019 are unaudited.

This interim consolidated financial information is presented in £ sterling, rounded to the nearest thousand.

3. Dividend

No interim dividend for this financial year is proposed.

4. Loss per share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the relevant period. The weighted average number of shares in issue during the period was 263,776,243 (2018: 254,307,509).

The diluted loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the relevant period diluted for the effect of share options and warrants in existence at the relevant period. The weighted average number of shares in issue diluted for the effect of share options and warrants in existence during the period was 263,776,243 (H1 2019: 254,307,509).

5. Share capital

On 30 June 2020 the Company announced a placing of new ordinary shares 833,333,334 at a price of 0.15 pence per share to raise net proceeds of £1.15m.

113,057,613 new ordinary shares were issued to creditors for amounts due.

As at 30 June 2020, the total number of Ordinary Shares held in the Company was 1,204,967,240 (30 June 2019: 258,576,293).

6. Subsequent events

Following a review of the operations, the board has decided to close its Singapore operations. The company has agreed with the regulatory education board in Singapore that the majority of existing students will either be taught to the end of their course or transferred to other institutions. For the purposes of financial results in H1 2020, the Singapore operations has been reported as discontinued operations.

7. Discontinued Operations

a. Financial performance of the discontinued operations

	Six months ended 30 June 2020 £'000
Revenue	629
Other Income	104
Expenses	(1,051)
Loss for the period*	**(318)**
Other comprehensive income for the period (note b below)	570
Total comprehensive income for the period	**252**

* There will be additional costs relating to Singapore operations in H2 2020 as the operations are continuing to be wound down. These costs fall within the allocated budget to close Singapore.

b. Details of discontinued operations

	£'000
Carrying amount of net liabilities disposed (note c below)	283
Reclassification of foreign currency translation reserve	287
Other comprehensive income for the period	**570**

c. Net assets/(liabilities) of discontinued operations

	£'000
Property, plant and equipment	2,027
Trade receivables	318
Total assets	**2,345**
Trade creditors	(699)
Lease liability	(1,929)
Total liabilities	**(2,628)**
Net liabilities	**(283)**

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