Craneware

Craneware plc
("Craneware" or the "Company")
Half Yearly Report

22 February 2010 - Craneware plc (AIM: CRW.L), the leader in automated revenue integrity solutions for the US healthcare market, is pleased to announce its half year results for the six months ended 31 December 2009.

Financial Highlights H1 2010 (all figures in US dollars)

- Total of $25.0m of contracts signed in the half (H109: $21.8)
  - 25% increase in revenues to $13.3m (H109: $10.6m)
  - Future revenues under contract increasing to $71.8m (FY09: $60.1m).
- EBITDA[1] increased 36% to $3.4m (H109: $2.5m).
- EBITDA[1] margin increased to 26% (H109: 24%).
- Profit before taxation increased by 28% to $3.3m (H109: $2.6m).
- Basic EPS increased by 18% to $0.092 (H109: $0.078).
- Interim dividend of 4.7 pence per share (FY09 Interim dividend 1.8p; FY09 Total dividend 4.7p), total dividend for FY10 expected to be in line with stated progressive dividend policy.

[1.] *EBITDA refers to earnings before interest, tax, depreciation, amortisation and share based payments*

Operational Highlights H1 2010

- Launch and first sales of fifth product, Supplies ChargeLink™.
- Product attachment rate increased to 1.5 (FY09: 1.4).
- Signed reseller agreement with McKesson and secured first sales.
- New multi-year contract signed with North Shore-LIJ Health System, the largest integrated healthcare system in New York State.

Keith Neilson, CEO of Craneware commented:

"We have been pleased with our strong performance in the first half of this year, which has seen the broadening of our product set, the increase of our customer base and the strengthening of our market position.

"Legislative and fiscal pressures are continuing to focus our customers on revenue integrity, a niche of the US IT healthcare market, of which we are at the forefront. These market dynamics combined with the quality of our software and our focus on customer support means we have secured another record half of sales, the main benefit of which will be seen in future years.

"With our sixth product due to launch this calendar year and our ongoing focus on sales execution, we are confident in our ability to achieve significant revenue and earnings growth and we continue to look to the future with confidence."

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About Craneware
Craneware (AIM: CRW.L) is the leader in automated revenue integrity solutions that improve financial performance for healthcare organisations. Craneware's market-driven, SaaS solutions help hospitals and other healthcare providers more effectively price, charge and code for services and supplies associated with patient care. This optimises reimbursement, increases operational efficiency and minimises compliance risk. By partnering with Craneware, clients achieve the visibility required to identify, address and prevent revenue leakage. To learn more, visit craneware.com.

Chairman's Statement

Craneware has delivered another strong six months of growth and profitability, increasing revenues by 25% to $13.3m and EBITDA[1] by 36% to $3.4m. Importantly, our new products continue to gain traction in the market and we have seen the average product attachment rate increase from 1.4 at 30 June 2009 to 1.5 in the current half.

With the US healthcare market facing increasing levels of legislation and growing fiscal pressures there are compelling external factors adding further to Craneware's long-term growth potential. As one of the most highly respected software providers to the US healthcare industry, Craneware occupies a central position in the emerging industry segment of Revenue Integrity. Craneware's move to focus its product ranges into this new market segment is giving clarity to its product positioning and strengthening its marketing, as evidenced by record sales this half.

The Board believes Craneware has an extending market opportunity ahead of it. Of the 5,815 hospitals in the U.S, over half still have no automated chargemaster management solution, the area in which Craneware is an established market leader, while the new product families are in markets with low penetration.

Building on recent years' product launches, this half saw the launch of Supplies ChargeLink, a new product in our Supply Management family. We believe the potential market for this product to be significant, with more than half of US hospitals believing they are not fully reimbursed for their supplies and over three-quarters having no automated process to attempt to do so. The first contracts have been secured for the new product following the launch in December 2009 and extensive marketing is currently on-going. New product momentum will continue through 2010, which will see the launch of our sixth product; a solution within our Strategic Pricing family.

In tandem with our focus on direct sales and product development, is our channel partnership strategy. The partnerships Craneware has in place, such as the reseller agreement with McKesson are augmenting the Company's own sales team and extending Craneware's market reach. This half saw the first sales of the Company's products with McKesson's systems.

In conjunction with the growth plans described above, the Board continues to assess potential acquisition opportunities in line with our stated M&A policy.

As always, the commitment of the entire Craneware team to customer service is the foundation on which the Company's success is built and I would like to thank our employees for their tireless efforts and our customers for their tremendous loyalty and support.

The Board believes Craneware is extremely well-positioned in a high growth market and therefore continues to view the future with confidence.

George Elliott, Chairman
19 February 2010

Operational Review

Introduction

Craneware's strong performance in the half has resulted from a continued focus on sales execution supported by increased marketing initiatives. We continue to invest considerably in our product set, the benefits of which will flow through in future years and the half saw the successful launch in December 2009 of our fifth product, Supplies ChargeLink. Market dynamics continue to work in our favour and we believe our market opportunity to be expanding.

Market Developments: *Increased regulation and industry reform continue to drive growth*

The US healthcare system continues to undergo unprecedented levels of change and public scrutiny, which combined with the global economic downturn, means healthcare organisations are experiencing extraordinary fiscal and legislative pressures. These factors have resulted in healthcare management teams increasing their focus on making the process and information technology changes that will deliver more value to their organisations for the services they provide.

This focus is expected to contribute to high industry growth rates. The US Healthcare IT market, boosted by the American Recovery and Reinvestment Act (ARRA) of 2009 is the largest of the global healthcare IT markets, with double digit growth rates expected for the next seven years.

Key industry trends continue to drive demand for Craneware's solutions. Central to these trends are proposed healthcare reforms which are expected to introduce increased regulation in areas such as insurance coverage, reimbursement, and the industry competitive environment. These areas combined with previously introduced legislation including healthcare compliance audits, have resulted in an industry acutely focused on information technology to help manage reform.

Sales and Marketing: *Focused on Revenue Integrity*

During the first half of this year Craneware focused its products within the newly defined industry segment of Revenue Integrity, an area which is growing in industry recognition. Several PR and marketing initiatives are currently ongoing to reinforce Craneware's position as the industry leader within this market.

We continue to strengthen our sales team and processes, formalising our client sales management teams. A new Executive Vice President of Sales has been appointed and additional members have been added to the sales team.

Hires have also been made within the business development and channel partner team, reflecting our focus in this area following the early success of the Premier, Amerinet and McKesson channel partner agreements.

Product Development: *Expansion of the product set*

Building on feedback from our customers we have continued to make enhancements to our current products, increasing areas such as functionality and accessibility. One key area of development has been the integration of our products with McKesson's following the signing of a reseller agreement with the company in September 2009. This work is continuing on schedule and implementation has already begun in the first hospitals to purchase the combined system.

The half concluded with the successful launch and the first customer win of a new product, Supplies ChargeLink™, part of our Supply Management family of products. This software solution helps hospitals better manage and optimise reimbursement for chargeable supplies, automating the manual processes that most hospitals use to align their supply chain, charge capture and billing procedures. The Directors believe the potential market for this new product to be significant, with a recent Healthcare Financial Management Association InstaPoll of members finding that more than 50 percent of U.S. hospitals believe they are reimbursed for less than half of their chargeable supplies. While another report completed by Porter Research found 75 percent of U.S. hospitals currently do not use any automation tools to compare their supply purchase histories with actual billing for supplies.

First to purchase the new software, made generally available in December 2009, was Washington County Regional Medical Center, a 116-bed, non-profit organisation serving east Central Georgia since 1960.

Launch of Value-based Pricing Analysis Product

Development work on our forthcoming, Value-based Pricing Analysis product has progressed well with launch planned for the last quarter of the calendar year. This will be the fourth new product to be launched since our IPO and will bring our total number of products to six. Sitting within our Strategic Pricing family of products, this product will enable hospitals to set appropriate and defensible pricing policies that optimise reimbursement, increase operational efficiency, and minimise compliance risk. The product is anticipated to contribute to revenue by the end of calendar 2010.

Number 1 in KLAS

During the year, the Company's flagship product, Chargemaster Toolkit®, was once again awarded the number one position in its category by the prestigious industry research house KLAS in the U.S., reaffirming Craneware's market leading position for the fourth year in a row.

New Contract Win

We are pleased to announce today a new multi-year contract with North Shore-LIJ Health System, the largest integrated healthcare system in New York State and winner of the 2010 NQF National Quality Healthcare Award. Further information regarding the contract is contained in a separate announcement released this morning. We are delighted to have secured this prestigious organisation in a competitive situation, maintaining our momentum as we move into the second half of the year.

Financial Review

Following on from our trading update on 18 January 2010, we are pleased to report that revenues in the period have increased 25% to $13.3m (H109:$10.6m), which has resulted in a 36% increase to $3.4m in our reported EBITDA[1] (H109: $2.5m).

The increased investment made in sales and marketing during FY09 and continued into this period has resulted in a further increase in the total value of contracts signed during the period. The total value, including renewal activity was $25.0m, a 15% increase over the corresponding period last year (H109: $21.8m) which was our previous record.

With our annuity revenue recognition model the majority of the benefit derived from these contracts has been to increase our visibility over future revenues, which has now increased to $71.8m. Of this future revenue under contract we have already invoiced $13.2m which is recorded as deferred income in the Balance Sheet. The remaining $58.6m will be invoiced in future periods.

Continued control over costs throughout the Company has resulted in net operating expenses increasing by only $1.2m to $8.9m (H109: $7.7m) allowing us to increase our EBITDA[1] margins to 26% (H109: 24%).

During the period, we have made payments in respect of taxation of $0.9m (H109: $0.1m) due to the increased tax charge on our increasing profits and the timing of our advance payments on account. We have also paid out the FY09 final dividend to shareholders of $1.2m (H109: $1.2m).

Even after taking account of these payments we have increased the cash position of the Company to $26.9m (H109: $20.8m) from $26.2m at 30 June 2009.

With the reporting currency (and cash reserves) of the Company being in US Dollars, we have seen a small benefit from the strengthening Dollar during the period on our UK purchases including the salary costs of our UK based employees. The average conversion rate for the

Company during the reporting period was \$1.64/£1 as compared to an average conversion rate in the corresponding period last year of \$1.73/£1.

Dividend

The Board has resolved to pay an interim dividend of 4.7p per ordinary share of the Company (FY09 Interim 1.8p: Total Dividend FY09 4.7p) on 1 April 2010 to those shareholders on the register as at 5 March 2010. The Company intends to propose a final dividend, subject to approval at the Annual General Meeting, such that the total dividend for the FY10 is in line with its stated "progressive" dividend policy. The ex-dividend date is 3 March 2010.

Outlook

We have been pleased with our strong performance in the first half of this year, which has seen the broadening of our product set, the increase of our customer base and the strengthening of our market position. Legislative and fiscal pressures are continuing to focus our customers on revenue integrity, a niche of the US IT healthcare market, of which we are at the forefront. These market dynamics combined with the quality of our software and our focus on customer support means we have secured another record half of sales, the main benefit of which will be seen in future years. With our sixth new product due to launch this calendar year and our ongoing focus on sales execution, we are confident in our ability to achieve significant revenue and earnings growth and we continue to look to the future with confidence.

Keith Neilson, Chief Executive Officer
Craig Preston, Chief Financial Officer
19 February 2010

Craneware PLC
Interim Results FY10
Consolidated Income Statement

	Notes	H1 2010 $'000	H1 2009 $'000	FY 2009 $'000
Revenue		13,256	10,627	22,993
Cost of sales		(1,160)	(637)	(1,381)
Gross profit		12,096	9,990	21,612
Net operating expenses		(8,906)	(7,703)	(16,262)
Operating profit		3,190	2,287	5,350
Analysed as:				
Operating Profit before share based payments, depreciation and amortisation		3,417	2,511	5,812
Share based payments		(46)	(36)	(82)
Depreciation of plant and equipment		(97)	(100)	(204)
Amortisation of intangible assets		(84)	(88)	(176)
Finance income		110	285	520
Profit before taxation		3,300	2,572	5,870
Tax charge		(965)	(616)	(1,422)
Profit for the period		2,335	1,956	4,448
- Basic ($ per share)	1a	0.092	0.078	0.177
- Diluted ($ per share)	1b	0.089	0.074	0.170

Craneware PLC
Interim Results FY10
Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2008	509	9,253	3,041	3,296	16,099
Share-based payments	-	-	36	45	81
Retained Profit for the period	-	-	-	1,957	1,957
Dividend	-	-	-	(1,172)	(1,172)
At 31 December 2008	509	9,253	3,077	4,126	16,965
Share-based payments	-	-	46	(82)	(36)
Options Exercised	3	(3)	-	-	-
Retained Profit for the period	-	-	-	2,491	2,491
Dividend	-	-	-	(745)	(745)
At June 2009	512	9,250	3,123	5,790	18,675
Share-based payments	-	-	46	436	482
Retained Profit for the period	-	-	-	2,335	2,335
Dividend	-	-	-	(1,220)	(1,220)
At 31 December 2009	512	9,250	3,169	7,341	20,272

Craneware PLC
Interim Results FY10
Consolidated Balance Sheet as at 31 December 2009

	Notes	H1 2010 $'000	H1 2009 $'000	FY2009 $'000
ASSETS				
Non-Current Assets				
Plant and equipment		309	408	345
Intangible assets		1,475	989	1,206
Deferred Tax		1,223	1,086	718
Trade and other receivables		25	50	25
		3,032	2,533	2,294
Current Assets				
Trade and other receivables		7,576	7,990	5,187
Cash and cash equivalents		26,917	20,818	26,169
		34,493	28,808	31,356
Total Assets		37,525	31,341	33,650
EQUITY AND LIABILITIES				
Non-Current Liabilities				
Deferred income		11	126	124
		11	126	124
Current Liabilities				
Deferred income		13,172	11,885	10,964
Trade and other payables		4,070	2,365	3,887
		17,242	14,250	14,851
Total Liabilities		17,253	14,376	14,975
Equity				
Called up share capital	2	512	509	512
Share premium account		9,250	9,253	9,250
Other reserves		3,169	3,077	3,123
Retained earnings		7,341	4,126	5,790
Total Equity		20,272	16,965	18,675
Total Equity and Liabilities		37,525	31,341	33,650

Craneware PLC
Interim Results FY10
Consolidated Cashflow Statement for the six months ended 31 December 2009

	Notes	H1 2010 $'000	H1 2009 $'000	FY 2009 $'000
Cash flows from operating activities				
Cash generated from operations	3	3,123	1,068	7,378
Interest received		110	285	520
Tax (paid) / refunded		(851)	(98)	(202)
Net cash from operating activities		2,382	1,255	7,696
Cash flows from investing activities				
Purchase of plant and equipment		(60)	(93)	(134)
Capitalised intangible assets		(354)	(284)	(588)
Net cash used in investing activities		(414)	(377)	(722)
Cash flows from financing activities				
Dividends paid to company shareholders		(1,220)	(1,172)	(1,917)
Net cash used in financing activities		(1,220)	(1,172)	(1,917)
Net (decrease) / increase in cash and cash equivalents		748	(294)	5,057
Cash and cash equivalents at the start of the period		26,169	21,112	21,112
Cash and cash equivalents at the end of the period		26,917	20,818	26,169

Craneware PLC
Interim Results FY10
Notes to the Financial Statements

1. Earnings per Share

(a) Basic

	H1 2010	H1 2009	FY 2009
Profit attributable to equity holders of the Company ($'000)	2,335	1,956	4,448
Weighted average number of ordinary shares in issue (thousands)	25,298	25,123	25,187
Basic earnings per share ($ per share)	0.092	0.078	0.177

(b) Diluted

	H1 2010	H1 2009	FY 2009
Profit attributable to equity holders of the Company ($'000)	2,335	1,956	4,448
Weighted average number of ordinary shares in issue (thousands)	25,298	25,123	25,187
Adjustments for: - share options (thousands)	982	1,213	1,007
Weighted average number of ordinary shares for diluted earnings per share (thousands)	26,280	26,337	26,194
Diluted earnings per share ($ per share)	0.089	0.074	0.170

2. Called up share capital

	H1 2010		H1 2009		FY 2009	
	Number	$'000	Number	$'000	Number	$'000
<u>Authorised</u>						
Equity share capital						
Ordinary shares of 1p each	50,000,000	1,014	50,000,000	1,014	50,000,000	1,014
<u>Allotted called-up and fully paid</u>						
Equity share capital						
Ordinary shares of 1p each	25,297,750	512	25,143,850	509	25,297,750	512

3. Cash flow generated from operating activities
Reconciliation of profit before tax to net cash inflow from operating activities

Group	H1 2010 $'000	H1 2009 $'000	FY 2009 $'000
Profit before tax	3,300	2,573	5,870
Finance income	(110)	(285)	(520)
Depreciation on plant and equipment	97	100	204
Amortisation on intangible assets	84	88	176
Share based payments	46	36	82
Movements in working capital:			
(Increase) / decrease in trade and other receivables	(2,390)	(3,280)	(452)
(Decrease) / increase in trade and other payables	2,096	1,836	2,018
Cash generated from operations	3,123	1,068	7,378

4. Basis of Preparation

The interim financial statements are unaudited and do not constitute statutory accounts as defined in S435 of the Companies Act 2006. These statements have been prepared applying accounting policies that were applied in the preparation of the Group's consolidated accounts for the year ended 30th June 2009. Those accounts, with an unqualified audit report, have been delivered to the Registrar of Companies.

5. Segmental Information

The Directors consider that the Group operates in one business segment, being the creation of software sold entirely to the US Healthcare Industry, and that there are therefore no additional segmental disclosures to be made in these financial statements.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of these statements are set out below.

6. Reporting Currency

The Directors consider that as the Group's revenues are primarily denominated in US dollars the principal functional currency is the US dollar. The Group's financial statements are therefore prepared in US dollars.

7. Currency Translation

Transactions denominated in foreign currencies are translated into US dollars at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into US dollars at rates of exchange ruling at the balance sheet date ($1.6149/£1). Exchange gains or losses arising upon subsequent settlement of the transactions and from translation at the balance sheet date, are included within the related category of expense where separately identifiable, or in general and administrative expenses.

8. Revenue Recognition

The Group follows the principles of IAS 18, "Revenue Recognition", in determining appropriate revenue recognition policies. In principle revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue comprises the value of software license sales, installation, training, maintenance and support services, and consulting engagements. Revenue is recognised when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price has been fixed and determinable; and (iv) collectability is reasonably assured.

For software arrangements with multiple elements, revenue is recognised dependent on whether vendor-specific objective evidence ("VSOE") of fair value exists for each of the elements. VSOE is determined by reference to sales to external customers made on a stand-alone basis. Where there is no VSOE revenue is recognised rateably over the full term of each contract.

Revenue from standard license products which are not modified to meet the specific requirements of each customer is recognised when the risks and rewards of ownership of the product are transferred to the customer.

Revenue from installation and training is recognised as services are provided, and from consulting engagements when all obligations under the consulting agreement have been fulfilled.

Software sub licensed to third parties is recognised in accordance with the underlying contractual agreements. Where separate services are delivered, revenue is recognised on delivery of the service.

The excess of amounts invoiced and future invoicing over revenue recognised, is included in deferred revenue. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within accounts receivable.

9. Intangible Assets – Research and Development Expenditure

Expenditure associated with developing and maintaining the Group's software products are recognised as incurred. Where, however, new product development projects are technically feasible, production and sale is intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete such projects, development expenditure is capitalised until initial commercialisation of the product, and thereafter amortised on a straight-line basis over its estimated useful life. Staff costs and specific third party costs involved with the development of the software are included within amounts capitalised.

10. Impairment Tests

The Group considers whether there is any indication that non-current assets are impaired on an annual basis. If there is such an indication, the Group carries out an impairment test by measuring the assets' recoverable amount, which is the higher of the assets' fair value less costs to sell and their value in use. If the recoverable amount is less than the carrying amount, an impairment loss is recognised.

11. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and short term highly liquid investments. For the purpose of the cash flow statement, cash and cash equivalents comprise of cash on hand, deposits held with banks and short term high liquid investments.

12. Share-Based Payments and Taxation Implications

The Group issues equity-settled share-based payments to certain employees. In accordance with IFRS 2, "Share-Based Payments" equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model as amended to cater for share options in issue where vesting is based on future valuation performance conditions. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The share-based payments charge is shown separately on the income statement and is also included in 'Other reserves'.

In the UK and the US, the Group is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share-based payments", a compensation expense is recorded in the Group's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity against retained earnings.

13. Availability of announcement and Half Yearly Financial Report

Copies of this announcement are available on the Company's website, www.craneware.com. Copies of the Interim Report will be posted to shareholders, downloadable from the Company's website and available from the registered office of the Company shortly.