

30 November 2010

Nasstar plc

Preliminary Results for the year ended 30 September 2010

Nasstar plc ('Nasstar' or the 'Company'), the hosted desktop cloud computing provider, is pleased to announce its preliminary results for the year ended 30 September 2010.

Summary

- 20% increase in sales to £2.4m (2009: £2.0m)
- EBITDA* profit of £0.3m (2009: loss £0.4m)
- Reduced loss after tax of £0.3m (2009: loss £0.94m)
- 40% increase in live Hosted Desktop subscribers in the year from 1,149 to 1,600
- 50 Partners signed up as at 30 September 2010 (2009: 16)
- £0.34m new equity raised during the year

*Earnings before interest, taxation, depreciation, amortisation and share-based payments

Chairman's Statement

I am pleased to report that we have made good progress this year with an increase in sales of 20% to £2.4m. As well as achieving this strong sales growth, the Company has released a new version of Hosted Desktop and attracted new Partners wishing to take the product to market. Nasstar is now a 'pure play' hosted desktop company with a focused channel route to market.

Nasstar's strategy is now built on the twin pillars of intellectual property development and commercialisation of that intellectual property through channel Partner distribution. Our vision is to achieve volume sales through our Partners whilst continuing to enhance the value of our Hosted Desktop application.

Our sales pipeline is substantial and there are some opportunities which we are working on that would deliver significant increases in current volume. Patience is a difficult but important quality to maintain when you are early to market with a product that has large potential but which takes time for mainstream acceptance to catch up with the early adopters. In this respect it has been difficult to predict when the market for Hosted Desktop will enter the mainstream, a task made more difficult due to the challenges brought about by a tough economic environment during the early stages of marketing the product, which has slowed down the desire of businesses to adopt transformational changes to their IT structure. However, our focus is simple – to do the best job we can to ensure that we are placed in the best position to capitalise on the market when adoption of Hosted Desktop moves to the mainstream. We are seeing more evidence that the market is finally moving forward as we had hoped. We are confident in our strategy of IP development and Partner distribution and we are confident that sales of Nasstar Hosted Desktop will continue to grow. We look forward to 2011 with enthusiasm.

Lord Daresbury
Chairman
30 November 2010

Chief Executive's Review

This year, we have continued with our vision of becoming a leader in the provision of hosted desktop cloud computing whilst also working on strengthening the Company's financial position. To achieve our vision we have focused on two key areas - developing our intellectual property ("IP") in Hosted Desktop and distributing that IP through Partners.

In terms of our IP development we have made a lot of progress this year, releasing Hosted Desktop version 7, which delivers the benefits of Windows 7 and Microsoft Office Professional 2010, as well as further developments on the management portal used by Partners and customers to manage aspects of the service. We continue to enhance the IP with new developments focused on making Hosted Desktop a scalable platform for aggregating business applications and web content filtering. The App Store which we are developing will give customers the ability to choose certain applications on-demand, making Hosted Desktop even more flexible.

In respect of our route to market, whilst we retain direct relationships with existing customers and continue to manage opportunities which had already entered the sales pipeline by the summer of this year, all potential sales are now being channeled through our Partners. There are a number of reasons for this approach. Firstly, we now have sufficient Partners who have been trained to handle sales opportunities and, secondly, our Partners add value through additional services and support. Whilst our margins are slightly lower with channel distribution, our volume will be greater and we will free our resources to continue to develop our IP in the product. We have over 50 Partners, mostly based in the UK but some are established overseas.

The above strategy makes Nasstar a 'pure play' hosted desktop company focused on IP development with volume distribution through Partners both in the UK and overseas.

Financial review

Sales grew during the year with turnover and subscriber numbers increasing 20% and 40% respectively. We reduced losses by £640,000 from £942,000 to £302,000 and turned EBITDA positive. This turnaround from the previous year has been brought about by a reduction in costs and an increase in sales.

We raised a further £337,500 before expenses in February 2010 from a placing to provide additional working capital.

Employees

We are fortunate to benefit from a very hard-working and skilled team of employees who believe in our vision and pursue it with passion and professionalism. During the year we have maintained fairly constant levels of technical resource though we have recruited additional technical staff since the year end. We anticipate recruiting additional technical resource as the business grows and as we continue to develop our intellectual property and grow the subscription base.

Partner programme

During the year we increased the number of Partners. We are working closely with our Partners on converting sales opportunities from a large sales pipeline that has been built up and that continues to expand. The Partner programme gives the Company geographical reach both in the UK and overseas and we now have over 50 Partners, 5 of whom are based overseas. We believe that there is no need to increase significantly the number of Partners that we deal with. Rather, we will concentrate on delivering sales through the Partners that we do have, reviewing their performance and, where necessary, selecting new Partners on their ability to deliver subscriber growth.

Hosted Exchange

Our Hosted Exchange subscriber base has remained fairly stable and we have maintained our high standards of service. We own the domain hostedexchange.com and this comes high in Google search results; invariably occupying a top 3 position. From the first quarter of 2011, we will begin migrating our hosted exchange users to a new hosted exchange 2010 platform, such a platform being built using the latest version of Microsoft Exchange. We have entered into an agreement with a third party to provide this service and we do not therefore anticipate any substantial capital expenditure in respect of the hosted exchange platform. What matters is that we continue to provide the highest levels of service to customers and promote Nasstar Hosted Desktop to the exchange subscriber customer base. In essence we are outsourcing the infrastructure for hosted exchange so that we can focus all our resources, both technical and capital, on growing our Hosted Desktop business because we believe that that is the key to maximising the value of our business.

(b) Market review

The cloud computing market

Cloud computing is a very broad market and, at its broadest, the term 'cloud computing' is being used to describe any service delivered over the internet. A purist would consider cloud computing to have certain essential characteristics including usage-based payment and multi-tenanted architecture – the idea of physical infrastructure and software applications being shared by multiple customers. Cloud computing is part of a larger trend of more and more services being delivered online and converging in the cloud, such as music, TV, radio and telephone. To understand where Nasstar Hosted Desktop fits in this arena it is necessary to set out a brief overview of this 'cloudscape'.

Infrastructure as a Service (IaaS)

The cloud computing alternative to traditional hosting offers customers, usually service providers, the opportunity to rent servers, processing power and storage rather than buying the servers and locating them in a data centre. Providers of Infrastructure as a Service include companies such as Rackspace, Amazon Web Services and Microsoft with its Azure product. Amazon Web Services are in the market to supply processing power and storage which a customer can rent on-demand. Microsoft's Azure platform aims to compete with Amazon Web Services, offering customers the ability to buy on-demand Microsoft operating systems, processing power and storage from a Microsoft data centre. Certain hardware manufacturers such as HP are also in the cloud computing space by offering services bundled up with their hardware. It seems clear that the traditional boundaries of hardware manufacture, software vendor and data centre operator are being eroded at a fast pace with everything converging as a service 'in the cloud'. The expression "Platform as a Service" (PaaS) is used to describe a cloud service that offers the customer the ability to host applications on a platform that you buy on-demand. In this respect it is covered by the broad description afforded to IaaS.

Software as a Service (SaaS)

This is where Nasstar Hosted Desktop sits. The two key defining characteristics of SaaS are (1) the software is delivered online, hosted by a SaaS provider, rather than being installed on a local machine or server, and (2) payment is on a usage basis rather than buying a perpetual software licence. SaaS provides an alternative to traditional software delivery which was in a box with the customer investing capital in a perpetual right to use that version of the software (usually with annual fees for support and maintenance of the software). With SaaS you are paying for what you use on a monthly basis and the fees cover support and maintenance of the application. In the SaaS market we see traditional box software vendors such as Sage and Microsoft now offering their applications on a SaaS basis. There are also SaaS providers that have been set up on day one as SaaS only, such as Salesforce.com. Google offers SaaS providing hosted applications such as Google Apps and Google Mail.

Nasstar Hosted Desktop is a SaaS provider (though some industry commentators also refer to what we do as Desktop as a Service (DaaS)), delivering a hosted Windows desktop online together with Microsoft Office Professional, Outlook Exchange email and other applications that the customer uses; all delivered online and accessed through a web browser or on a Windows mobile device, iPhone, iPad or other access device.

In terms of 'hosted desktop', the market is predicted to grow at a fast rate. Gartner released a research note in March 2009 which predicted a growth in 'hosted virtual desktops from 500,000 units to 49 million units worldwide by 2013, creating a global market worth US\$65 billion per annum by 2013.

Putting market research and predictions to one side, we are at the coal face. Our experience is that the market has been slower to adopt hosted desktop than we envisaged, largely in my view due to the challenges facing SMEs during tough economic times. However, we are now experiencing a much stronger sales pipeline and seeing some much shorter sales cycles and this evidence indicates that the market is finally heading in the direction of going mainstream.

Nasstar Hosted Desktop - background and developments

Nasstar Hosted Desktop was first launched in 2004. Since then the Company has continued to develop the service, focusing on scalability, user experience and flexibility. A number of new features have been added to Nasstar Hosted Desktop in 2010 with the release of Hosted Desktop 7, that delivers the benefits of Windows 7, Microsoft Office Professional 2010, a wide choice of web browsers, multiple languages and a number of other applications. Development continues including an 'app store' that will enable customers and Partners to add certain additional applications through point and click within the management portal. We are also developing content filtering options that plug-in to the web browsing functionality of Hosted Desktop.

Competition

There are a number of UK companies that offer hosted desktop or a virtual desktop service. Larger companies that could be said to offer an alternative include Google with their Google Apps or Microsoft with their online services and Office 365 product. The latter provides different options that include hosted exchange, sharepoint and online office apps as well as the ability to purchase a full Office Professional desktop license to install on a local machine. We are confident that in terms of the quality of Nasstar Hosted Desktop and our ability to distribute through Partners we are in a very strong position. Although some of the larger players offer SaaS solutions, Nasstar Hosted Desktop is a platform for delivering applications from multiple vendors in the cloud – not just Microsoft, but Open Office, Sage, Quickbooks and many other applications. We believe that this approach puts Nasstar Hosted Desktop in a strong proposition because (a) the whole solution is cloud based, and (b) customers are buying a service and invariably need software from multiple vendors. Nasstar Hosted Desktop is an application but also a service and as such we believe it offers more than a single software vendor can offer.

Outlook

The market for hosted desktop has been slower than I originally expected over the last two years. As noted by the Chairman, it is always difficult when your business is an early driver for a new product to know when the market will begin to commoditise. It is still early days for the Hosted Desktop market but the signs of a faster moving market are now showing with a shorter sales cycle for some opportunities and the number and size of enquiries rising significantly. The key now is converting the ever growing sales pipeline into real business and in that respect we are very excited about our prospects for 2011. We are very well placed to win new business and we view the future with confidence.

Charles Black
Chief Executive Officer
30 November 2010

Consolidated statement of comprehensive income

for the year ended 30 September 2010

	Note	2010 £000	2009 £000
Revenue		2,350	2,018
Cost of sales		(1,108)	(912)
Gross profit		1,242	1,106
Operating and administrative expenses		(1,358)	(1,734)
Exceptional items		-	(91)
Share-based payments		(42)	(33)
Total operating and administrative expenses		(1,400)	(1,858)
Operating loss		(158)	(752)
Finance expense		(144)	(190)
Loss before taxation		(302)	(942)
Taxation		-	3
Loss for the year and total comprehensive income for the year attributable to shareholders		(302)	(939)
Loss per share:			
Basic and diluted	2	(0.9)p	(5.6)p

All amounts relate to continuing operations.

Consolidated statement of financial position

30 September 2010

	2010	2009
	£000	£000
Assets		
Non-current assets		
Goodwill	844	844
Intangible assets	226	196
Property, plant and equipment	287	415
Deferred taxation	175	175
	<hr/> 1,532	<hr/> 1,630
Current assets		
Trade and other receivables	460	468
Cash and cash equivalents	5	400
	<hr/> 465	<hr/> 868
Total assets	<hr/> 1,997	<hr/> 2,498
Equity and liabilities		
Capital and reserves attributable to equity holders of the parent		
Share capital	357	319
Share premium	2,706	2,404
Merger reserve	662	662
Retained deficit	(2,475)	(2,215)
Total equity	<hr/> 1,250	<hr/> 1,170
Non-current liabilities		
Interest-bearing loans and borrowings	98	94
Current liabilities		
Interest-bearing loans and borrowings	157	162
Trade and other payables	492	1,072
	<hr/> 649	<hr/> 1,234
Total equity and liabilities	<hr/> 1,997	<hr/> 2,498

Consolidated statement of changes in equity

	Share Capital	Share Premium	Merger Reserve	Retained Deficit	Total Equity
	£000	£000	£000	£000	£000
At 1 October 2008	161	1,472	662	(1,309)	986
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	-	(939)	(939)
Total comprehensive income for the year	-	-	-	(939)	(939)
Shares issued in year	158	932	-	-	1,090
Share-based payment recognised in equity	-	-	-	33	33
At 1 October 2009	319	2,404	662	(2,215)	1,170
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	-	(302)	(302)
Total comprehensive income for the year	-	-	-	(302)	(302)
Shares issued in year	38	302	-	-	340
Share-based payment adjustment	-	-	-	42	42
At 30 September 2010	357	2,706	662	(2,475)	1,250

Consolidated statement of cash flows

Year ended 30 September 2010

	2010 £000	2009 £000
Cash flow from operating activities		
Operating loss before taxation	(158)	(752)
Adjustments for:		
Depreciation and amortisation	417	400
Share-based payments	42	33
Corporation taxes paid	-	3
Net cash flow from operating activities before changes in working capital	301	(316)
Decrease in trade and other receivables	8	65
(Decrease)/increase in trade and other payables	(580)	172
Net cash flow generated from operating activities	(271)	(79)
Investing activities		
Payments for intangible assets	(168)	(160)
Payments for property, plant and equipment	(151)	(277)
Net cash flow from investing activities	(319)	(437)
Financing activities		
Issue of ordinary shares	340	1,090
Proceeds from lease-finance arrangements	73	239
Repayment of lease-finance arrangements	(175)	(288)
Proceeds from new bank loan	101	-
Interest paid	(144)	(190)
Net cash flow from financing activities	195	851
Net (decrease)/increase in cash and cash equivalents in the year	(395)	335
Cash and cash equivalents at the beginning of the year	400	65
Cash and cash equivalents at the end of the year	5	400

1 Basis of preparation

Whilst the financial information included in this announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement does not contain sufficient information to comply with IFRS. The Company will publish full financial statements in January 2011 that comply with IFRS.

The financial information set out in the announcement does not constitute the Company's statutory accounts for the year ended 30 September 2010 or the year ended 30 September 2009. The financial information for the year ended 30 September 2009 is extracted from the statutory accounts of Nasstar plc. The auditors, Gerald Edelman, reported on those accounts; their report was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The 2010 accounts have been prepared on a basis consistent with the accounting policies set out in the 2009 accounts.

2 Loss per share

The calculation of the basic loss per share arising is based upon the loss after tax attributable to ordinary shareholders of £302,000 (2009: loss £939,000) and a weighted average number of shares in issue for the year of 34,185,643 (2008: 16,776,227).

The diluted loss per share in 2010 and 2009 is the same as the basic loss per share as the losses have an anti-dilutive effect.

3 Dividends

The directors have not paid a dividend for the year.

4 Annual General Meeting

The Company's Annual General Meeting will be held on 12 January 2011 at 10.30 a.m. at the Company's registered office.