Newmark
SECURITY PLC

Interim Report

for the six months ended 31 October 2019

Newmark
SECURITY PLC

CHAIRMAN'S STATEMENT

I am pleased to announce the Group's unaudited interim results for the six months ended 31 October 2019 ("H1 2019"), a period of continued growth and profitability.

There was an increase in Group revenue of 3.3% to £10,147,000 (H1 2018: £9,822,000), which included an increase in revenue within the Electronic Division of 40.7% to £7,114,000 (H1 2018: £5,056,000). This continued and extended the strong performance from the previous financial year. Within this figure, revenue from Human Capital Management increased by 60.2% to £4,851,000 (H1 2018: £3,028,000), whilst Access Control revenues increased by 11.6% to £2,263,000 (H1 2018: £2,028,000). Revenue in the Asset Protection Division decreased by 36.4% to £3,033,000 (H1 2018: £4,766,000). The overall increase in revenue, combined with the cost cutting measures in the previous year, resulted in an operating profit of £686,000 (H1 2018: £486,000). Earnings per share from continuing operations were 0.23 pence (H1 2018: 0.09p).

Electronic Division– Grosvenor Technology

Revenue £7,114,000 (H1 2018: £5,056,000)

Grosvenor Technology has two main activities: Human Capital Management and Access Control. Following significant growth in FY 2018, and following the trend of the last two years, Grosvenor Technology continued to display good performance, with the period delivering the highest revenues generated to date in a single half-year period. This was largely due to the continued ramp-up of major US customers in the Human Capital Management division.

Human Capital Management ("HCM")

Revenue increased by 60.2% to £4,851,000 (2018: £3,028,000)

HCM sales in North America delivered the most significant growth, with revenues at £3,093,000 (H1 2018: £1,468,000), an increase of 111%. This growth was in line with management's expectations as major US clients continued the roll out of Grosvenor Technology's 'next generation' hardware.

Following another successful round of trade shows, the number of enquiries from Tier 1 target customers increased during the period and negotiations began with two new major US based HCM software providers. Both clients have expressed interest in the Android timeclock, the GT-10.

During the period, the US business was rebranded as 'GT Clocks' and a number of marketing activities, including the launch of a new website, were conducted. GT Clocks is felt to be a more relevant name for the US market. The messaging focuses on the provision of timeclocks alongside the relevant services to both manage and maintain the devices remotely, but also – increasingly, the secure management of clients' data.

The Company has continued to increase its resources in marketing and business development in North America to further take advantage of the opportunity that exists for additional revenues from both timeclocks and services in that region.

Grosvenor's UK HCM business serves the rest of the world ("RoW"), outside North America. RoW HCM sales also showed growth, increasing by 13% to £1,758,000 (H1 2018: £1,560,000). This increase was as a result of a general uplift across a number of customers largely based across Europe, as opposed to significant growth from any single client.

Continued development of Cloud platforms

In the HCM markets generally, growth continues to be facilitated through the technology 'drivers' of high-speed internet availability and the subsequent mass shift to Cloud based computing. This shift means that the traditionally challenging to serve and highly fragmented Small and Medium-Sized Business ("SME/SMB") market is now within the reach of HCM providers, who were previously more focused on a lower volume, yet higher value, of Enterprise level end clients.

As a consequence of this shift, the provision of the Company's own HCM services increased across all clients – with the number of 'edge' devices connected remotely to our cloud provisioned software, rising to over 3,500 units by the close of the period. Grosvenor Technology's overarching long-term strategy remains the increase of recurring revenues through the provision of a higher proportion and number of software sales under a subscription model. This is generally known as Software as a Service (SaaS).

Internal software development has continued to focus on the provision of these added services on an 'as a service' basis, increasingly cloud-based, aiding software vendors to reap additional value from their hardware post-deployment. During the period, we increased the resource dedicated to developing our HCM software platforms with a Cloud and API first approach.

This shift from 'On Premise' to 'Cloud SaaS' also affords the opportunity of an alternative or additional business model where Software, Services and Terminals are bundled as a 'Clock as a Service' (ClaaS) offering, generating further long-term recurring revenue potential.

Access Control

Revenue increased by 12% to £2,263,000 (2018: £2,028,000)

Overall, Access Control revenues increased 12%, with revenues of £2,263,000 compared to £2,028,000 in the corresponding period of the previous year.

As previously reported, the Janus product is no longer installed in 'new' systems as the platform utilises an historic and now unsupported version of the MS Windows™ operating system. That said, with our Janus to Sateon upgrade programme now closed, legacy sites continue to expand and add our products. This, combined with a number of price increases, has led to Janus revenues in the period increasing to £845,000, a rise of 48% compared to £570,000 in the corresponding period last year.

We completed the launch of our new Security Management System (SMS) - Janus C4, which was delivered in conjunction with our software development partner based in Slovakia. The market is beginning to move away from stand-alone Access Control solutions towards integrated Access Control, Intruder, CCTV and Fire and Building Management within a single platform, such as with SMS. The solution has been well received by both existing and prospective customers, with strong pipeline growth and early sales of £83,000 in the period. As with all new Access Control sales, there is an inevitable lag between pipeline generation and revenue recognition.

In addition to acquiring new partners, we are in the early stages of migrating existing Sateon customers to the platform. To help facilitate this, we are investing further resources in our training function, which will be completed towards the end of the financial year.

With focus now on Janus C4, Sateon revenues decreased to £1,335,000 from £1,458,000 in the corresponding period, a fall of 8.4%. Development of Sateon software is now limited to critical bug fixes and maintenance. Sateon product family sales continue to be bolstered by sales of the OEM variant of the Sateon Advance, which allows third parties to utilise the hardware in a non-proprietary way on their own access control platforms. We added a second OEM customer during the period and continue to have exploratory conversations with a number of global third-party access control providers in the US and EMEA.

Asset Protection Division – Safetell

Revenue £3,033,000 (2018: £4,766,000)

Safetell revenue was 36% lower than the corresponding period last year. This was as a result of the expected reduction in the volume of work relating to the Post Office Network Transformation and the continued shrinkage in demand from high street banks and buildings societies, along with reduced project work in the Service Division. Compared with the same period last year this has resulted in reduced revenue in Products by 38% and Service by 34%.

As a result of declining sales in this division and the lack of repeat programmes of refurbishment from our long-term and traditional customers, a business reorganisation plan was implemented in the last quarter of 2019 financial year, resulting in staff reductions and other cost saving measures.

During the first half of the current financial year, we have seen the results of the reorganisation being reflected in the performance of the division delivering improved gross margins and adding to the profitability of the Group.

Once the business reorganisation was completed, a series of strategic reviews were undertaken to refocus efforts in sales and marketing for both the Products and Service divisions. With increases in crime rates and a continued threat of terrorism, management believe that there are continued significant opportunities for Safetell. Following the reviews, management have identified new markets, products and customers that complement Safetell's existing product range.

Management have also identified an opportunity to align the Product and Service resources. Wherever possible, the central teams have been combined in order to increase efficiency and effectiveness whilst keeping any Product or Service expertise as required.

Anton Pieterse, Managing Director of Safetell, resigned on 30 November 2019, after serving 11 years with a focus on the Products side of the business. I would like to thank Anton for his long period of service. Paul Lovell takes on the role of Managing Director. Paul joined Safetell in 1991 working in various capacities and developing the Service Division from its inception until today. Paul is a trained accountant, qualifying with KPMG, and has built up a wealth of experience throughout his career that will benefit and support Safetell through this period of change.

Balance sheet and cash flow

During the period, we have recognised the rights of use assets and related liabilities in accordance with IFRS 16 *Leases*. This has had a significant impact on the opening balance sheet with £1.2m being recognised as assets and liabilities with a £25,000 differential being adjusted in reserves.

Within working capital, we have consistent inventory levels compared to the year-end position, increased trade debtors in line with the trading levels and reduced current liabilities, due to timing of supplier payments and some impact of reduced trading levels within Safetell. We continue to utilise our financing facility to support our working capital requirements.

During the period, we have utilised £0.1m of deferred tax assets and recognised deferred tax assets of £0.5m both in relation to tax losses that we envisage utilising over the short to mid-term.

Directors

Brian Beecraft retired on 31 October after 21 years with the Group. The Board thanks him for his tremendous efforts over that period and wish him a happy retirement. Graham Feltham has been appointed as Group Finance Director following Brian's retirement. The Board is pleased to welcome Graham to the Group.

Outlook

The Board is pleased with the growth achieved in the first half of the year and the continued Group profitability. The Electronic Division has achieved improved revenue growth and, whilst its performance is expected to be slightly first half weighted, it is anticipated that the profitability of this division will continue in the second half. The Group's smaller Asset Protection Division's revenue is also expected to be weighted in the first half of the year, as in previous years, due to seasonality factors and therefore having a corresponding impact on full year operating profit for that division. However, once the initiatives of the reorganisation and strategic review are fully embedded, Safetell's performance is expected to improve in the following year. Overall, the Board expects the Group to show a marginal reduction in revenue for the full year when compared to last year but with an improved level of operating profit.

M DWEK

Chairman

30 January 2020

Newmark
SECURITY PLC

CONSOLIDATED INCOME STATEMENTS
For the six months ended 31 October 2019

	Notes	Unaudited Six months ended 31 October 2019 £'000	Unaudited Six months ended 31 October 2018 £'000	Audited Year ended 30 April 2019 £'000
Revenue		10,147	9,822	19,583
Cost of sales		(5,926)	(5,891)	(11,878)
Gross profit		4,221	3,931	7,705
Administrative expenses		(3,535)	(3,445)	(7,419)
Profit from operations before exceptional items		686	486	638
Exceptional impairment provision of development costs		–	–	–
Exceptional redundancy cost		–	–	(352)
Profit from operations		686	486	286
Finance costs		(38)	(25)	(72)
Profit before tax		648	461	214
Tax credit/(charge)	2	434	(29)	(25)
Profit/(loss) for the period/year		1,082	432	189
Attributable to:				
– Equity holders of the parent		1,082	432	189
Earnings per share				
– Basic (pence)	3	0.23	0.09	0.04
– Diluted (pence)	3	0.23	0.09	0.04

Newmark
SECURITY PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2019

	Unaudited Six months ended 31 October 2019 £'000	Unaudited Six months ended 31 October 2018 £'000	Audited Year ended 30 April 2019 £'000
Profit for the period/year	1,082	432	189
Foreign exchange gains on retranslation of overseas operation	(13)	1	1
Total comprehensive income for the period/year	1,069	433	190
Attributed to:			
– Equity holders of the parent	1,069	433	190

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 October 2019

	Unaudited 31 October 2019 £'000	Unaudited 31 October 2018 £'000	Audited 30 April 2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,471	486	491
Intangible assets	4,775	4,737	4,753
Deferred tax	449	-	-
Total non-current assets	6,695	5,223	5,244
Current assets			
Inventory	2,527	2,199	2,599
Trade and other receivables	3,870	4,356	3,262
Cash and cash equivalents	406	658	1,041
Total current assets	6,803	7,213	6,902
Total assets	13,498	12,436	12,146
LIABILITIES			
Current liabilities			
Trade and other payables	3,222	3,667	3,987
Other short term borrowings	814	1,192	796
Total current liabilities	4,036	4,859	4,783
Non-current liabilities			
Long term borrowings	1,154	115	149
Provisions	100	100	100
Deferred tax	–	5	–
Total non-current liabilities	1,254	220	249
Total liabilities	5,290	5,079	5,032
TOTAL NET ASSETS	8,208	7,357	7,114
Capital and reserves attributable to equity holders of the company			
Share capital	4,687	4,687	4,687
Share premium reserve	553	553	553
Merger reserve	801	801	801
Foreign exchange difference reserve	(145)	(132)	(132)
Retained earnings	2,272	1,408	1,165
	8,168	7,317	7,074
Minority interest	40	40	40
TOTAL EQUITY	8,208	7,357	7,114

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2019

	Notes	Unaudited Six months ended 31 October 2019 £'000	Unaudited Six months ended 31 October 2018 (restated) £'000	Audited Year ended 30 April 2019 £'000
Cash flow from operating activities				
Net profit after tax from ordinary activities		1,082	432	189
Adjustments for: Depreciation, amortisation and impairment		332	357	619
Interest expense		13	25	72
Gain on sale of property, plant and equipment		(47)	(20)	(32)
Income tax (credit)/expense	2	(434)	29	25
Operating profit before changes in working capital and provisions		946	823	873
(Increase)/decrease in trade and other receivables		(601)	(1,506)	(414)
(Increase)/decrease in inventories		(113)	(586)	(991)
(Decrease)/increase in trade and other payables		(356)	572	937
Cash generated from operations		(124)	(697)	405
Income taxes paid		–	(4)	(45)
Cash flows from operating activities		(124)	(701)	360
Cash flow from investing activities				
Acquisition of property, plant and equipment		(203)	(117)	(196)
Sale of property, plant and equipment		28	20	53
Research and development expenditure		(167)	(173)	(333)
		(342)	(270)	(476)
Cash flow from financing activities				
Acquisition and repayment of leased assets		(205)	(31)	(87)
Proceeds from invoice discounting		72	616	246
Interest paid		(38)	(25)	(72)
		(171)	560	87
Decrease in cash and cash equivalents		(637)	(411)	(29)
Cash and cash equivalents at beginning of period/year		1,041	1,069	1,069
Exchange difference on cash and cash equivalents		2	–	1
Cash and cash equivalents at end of period/year		406	658	1,041

Newmark
SECURITY PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 May 2019	4,687	553	801	(132)	1,165	40	7,114
Impact of IFRS 16 Lease transition	–	–	–	–	25	–	25
Profit for the period	–	–	–	–	1,082	–	1,082
Other comprehensive income	–	–	–	(13)	–	–	(13)
Total comprehensive income for the period	–	–	–	(13)	1,107	–	1,094
As at 31 October 2019	**4,687**	**553**	**801**	**(145)**	**2,272**	**40**	**8,208**
At 1 May 2018	4,687	553	801	(133)	976	40	6,924
Profit for the period	–	–	–	–	432	–	432
Other comprehensive income	–	–	–	1	–	–	1
Total comprehensive income for the period	–	–	–	1	432	–	433
As at 31 October 2018	4,687	553	801	(132)	1,408	40	7,357

Newmark
SECURITY PLC

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2019 and 31 October 2018 does not constitute the Group's statutory financial statements for those periods within the meaning of Section 434(3) of the Companies Act 2006 and has neither been audited or reviewed pursuant to guidance issued by the Auditing Practices Board. The annual financial statements of Newmark Security PLC are prepared in accordance with IFRSs as adopted by the European Union. The principal accounting policies used in preparing the interim results are those that the Group expects to apply in its financial statements for the year ended 30 April 2020 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2019.

During the period IFRS 16 Leases was adopted and, as previously disclosed, £1.2m of right of use assets and liabilities were recognised on 1 May 2019 with £25k being adjusted through retained earnings. In accordance with the standard the lease payments are set off against the lease liability with both depreciation and interest relating to the right of use assets being recognised through the income statement.

The comparative financial information for the year ended 30 April 2019 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2019 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2019 was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-498(3) of the Companies Act 2006.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed consolidated financial statements.

2. TAXATION

The tax credit includes a utilisation of deferred tax asset relating to losses of £0.1m and a recognition of deferred tax asset related to previously unrecognised losses of £0.5m. The recognition of the deferred tax assets relating to tax losses is dependent on management's best estimates of future profitability and the probability of utilising these losses against the profits.

3. EARNINGS PER SHARE

The earnings per share has been calculated based on the weighted average number of shares in issue during the period, which was 468,732,316 shares (2018: 468,732,316).

4. DIVIDENDS

No interim dividend is proposed (2018: Nil).

Newmark
SECURITY PLC

NOTES

NOTES

Newmark
SECURITY PLC

NOTES