



Interim Report

for the six months ended 31 October 2022

Company number: 03339998

CHAIRMAN'S STATEMENT

I am pleased to announce the Group's unaudited interim results for the six months ended 31 October 2022 ("H1 FY23").

Group performance

	Six months to 31 October 2022 £'000	Six months to 31 October 2021 £'000	Increase/ (decrease) £'000	Percentage change %
Revenue				
People and Data Management division	8,415	7,129	1,286	18%
Physical Security Solutions division	2,210	2,568	(358)	(14%)
Group revenue	10,625	9,697	928	10%

Group revenue increased by 10% year-on-year to £10.6 million (H1 FY22: £9.7 million), driven by a strong performance in the People and Data Management division with double-digit growth in both Human Capital Management (HCM) and Access Control.

Gross profit in value terms is up year-on-year and the gross profit percentage has substantially increased by over 5.7 percentage points to 38.9% (H1 FY22: 33.2%). This result is due to a combination of H2 FY22 price rises flowing into higher H1 FY23 revenues, product mix and increased higher margin HCM recurring revenues.

Administrative expenses have decreased by 11% to £3.6 million (H1 FY22: £4.0 million) driven by a number of cost-saving initiatives. Operating profit before exceptional items of £0.5 million (H1 FY22: loss of £0.6 million). Finance costs during the period came to £0.15 million (H1 FY22: £0.06 million). This increase resulted from additional invoice financing borrowings to support higher working capital requirements and higher interest rates.

Group's earnings per share reached 4.89 pence (H1 FY22: loss per share of 0.17p).

People and Data Management division – Grosvenor Technology ("Grosvenor")

Revenue information

	Six months to 31 October 2022 £'000	Six months to 31 October 2021 £'000	Increase/ (decrease) £'000	Percentage change %
People and Data Management division				
HCM US	4,875	4,209	666	16%
HCM ROW	1,507	1,249	258	21%
Total HCM	6,382	5,458	924	17%
Janus C4	1,022	270	752	279%
Sateon Advance	838	558	280	50%
Legacy Janus	173	843	(670)	(79%)
Total Access Control	2,033	1,671	362	22%
Division total revenue	8,415	7,129	1,286	18%

Grosvenor – Hardware-enabled software and services

Human Capital Management

The business achieved revenue growth of 17% to reach £6.4 million (H1 FY22 £5.5 million), primarily driven by strong HCM business growth from both the US and Rest of World (ROW) regions as we have been expanding our relationships with Tier 1 software partners.

Our growth is driven by strong market demand for reliable data security solutions and intelligence. We are capitalising on this opportunity to continue winning in the marketplace by being a trusted security partner for our customers, offering cutting-edge, end-to-end solutions. Through our advanced secure cloud control systems of people's access, identity and attendance, we are raising the quality and speed of intelligence creating the new workplace ecosystems.

Key achievements during the period included re-platforming our core cloud control software, GT Connect, and evolving warranty and support services with GT Protect. We have seen substantial progress in our HCM hardware-enabled SaaS strategy with HCM annual recurring revenue increasing by 260% year-on-year to £1.3 million in April 2022 driven by SaaS and ClaaS (clocks as a service).

We continued our successful partnership with major software vendors enabling us to supply directly to their large customer base. We are working with our partners to increase our share-of-wallet acting as their preferred supplier and new partnerships are being established to help us deliver our growth targets. We are pleased to announce we have signed a GT Connect and support contract with one of the largest US retailers based in Mexico in the second half of FY23. This contract will help accelerate our growth in HCM recurring revenues.

Access Control

The Access Control line of business has been another success story for the first half of the year. Revenue increased by 22% to £2.0 million (H1 FY22: £1.7 million).

Janus C4, our Security Management System (SMS), has seen continued year-on-year revenue growth of 297%, to £1.0 million. The onboarding of new partners has been driven by our ability to conduct face-to-face sales visits and conduct installations after many months of disruption. The increase in sales is also due to upgrades from our legacy Sateon and Janus ranges.

Grosvenor Product update

During H1 FY23, Grosvenor has undertaken the following product developments:

- Advanced facial recognition in GT Clocks
- Changed to a modular design for GT Clocks, which reduces development costs for new devices
- The new GT Connect secure cloud control platform, released in the second half of 2023 is highly scalable with modern cloud architecture, advanced multi-tenanted hosting and an enhanced security model operating on a microservices framework
- Accelerated product migration of Janus C4, simplifying transition and released our new advanced driver that enhances the performance at all sites. In addition, we launched our new software support agreement providing additional revenue streams
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Physical Security Solutions division – Safetell - Diversifying our product portfolio

Revenue information

	Six months to 31 October 2022 £'000	Six months to 31 October 2021 £'000	Increase/ (decrease) £'000	Percentage change %
Physical Security Solutions division				
Products	1,483	1,821	(338)	(19%)
Service	727	747	(20)	(3%)
Division total revenue	2,210	2,568	(358)	(14%)

Safetell revenue has decreased by 14% to £2.2 million compared to the corresponding prior period. We are in the process of transforming the division with a revised strategic plan, led by our new, highly experienced management and sales team that is setting the direction for sustainable growth. Our traditional work of installing and maintaining rising screens has continued to be impacted by the reduction in the number of bank and post offices across the country but we have now further diversified our product offering by bringing auto door and entrance control into our product portfolio. The demand for these products has been continuously increasing so we have shifted our product offering to capture this market opportunity.

We have also seen significant demand for our safety screens in the retail sector given the current economic climate and the need to protect their staff. We are pleased with the progress made so far as we delivered two large retail projects in H1 FY23, with another one secured for H2.

Despite the revenue decline in the six months to 31 October 2022, gross margins have increased from 38.7% in H1 FY22 to 41.9% in H1 FY23. This is a result of the implementation of operational efficiencies and cost saving initiatives.

Safetell Product update

A strategic priority in our long-term plan is to grow service and maintenance work in the UK autodoor servicing market, estimated at twice the size of Safetell's traditional target markets.

Major initiatives to strengthen our competitive position in fast-growing security markets have included:

- Focusing on the retail sector following strong market demand
- New strategic partnerships and onboarding of new clients
- Introduction of new product lines
- Investment in human capital, strengthening our sales organisational structure
- Investment in sales and marketing to support the two key areas (automatic door servicing and entrance control)

Balance sheet and financing

Inventory increased during the period by £0.1 million to £3.9 million at 31 October 2022 to secure the purchase and adequate supply of certain components in advance of the usual lead times in response to the continued global supply chain challenges.

Cash at 31 October 2022 was £0.1 million, down £0.1 million during the period since 30 April 2022. The Group has an unused £0.2 million UK overdraft facility at the balance sheet date.

Total borrowings decreased by £0.3 million in the period to £5.1 million at the balance sheet date primarily due to CBILS loan repayments which started in September 2021. Subsequent to the balance sheet date, in January 2023, the UK invoice financing facility was increased by £0.6 million to £2.3 million to provide further working capital headroom as the Group continues to grow. The Group also has a \$2 million US invoice financing facility.

Outlook

I am pleased to announce a strong trading and financial performance over this period which highlights our focus on our strategic priorities, customer service excellence, product innovation and complete product offering. We are effectively managing the supply chain, pricing and spending across our business alongside with our focus on efficiency, resulting in these positive results today.

Looking ahead, we are pleased with our robust commercial pipeline and trajectory of high-margin recurring income reflected in the year-to-date performance. Combined with our cost-saving initiatives, strong global market demand for internet-enabled software control devices and investment in human capital, we expect 2023 to be a year of profitable growth.

M DWEK

Chairman

31 January 2023

CONSOLIDATED INCOME STATEMENT
For the six months ended 31 October 2022

	Unaudited Six months ended 31 October 2022 £'000	Unaudited Six months ended 31 October 2021 £'000	Audited Year ended 30 April 2022 £'000
Note			
Revenue	10,625	9,697	19,145
Cost of sales	(6,491)	(6,474)	(12,726)
Gross Profit	4,134	3,223	6,419
Administrative expenses	(3,616)	(4,043)	(7,633)
Profit/(loss) from operations before exceptional items	518	(637)	(1,090)
Exceptional redundancy costs	-	(183)	(124)
Profit/(loss) from operations	518	(820)	(1,214)
Finance costs	(147)	(59)	(220)
Profit/(loss) before tax	371	(879)	(1,434)
Tax credit	87	104	630
Profit/(loss) for the period/year	458	(775)	(804)
Attributable to:			
- Equity holders of the parent	458	(775)	(804)
Earnings per share			
- Basic (pence)	2 4.89	(0.17)	(0.32)
- Diluted (pence)	2 4.89	(0.17)	(0.32)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2022

	Unaudited Six months ended 31 October 2022 £'000	Unaudited Six months ended 31 October 2021 £'000	Audited Year ended 30 April 2022 £'000
Profit/(loss) for the period/year	458	(775)	(804)
Foreign exchange on the retranslation of overseas operation	147	43	143
Total comprehensive income for the period/year	<u>605</u>	<u>(732)</u>	<u>(661)</u>
Attributable to:			
- Equity holders of the parent	<u>605</u>	<u>(732)</u>	<u>(661)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 October 2022

	Unaudited 31 October 2022 £'000	Unaudited 31 October 2021 £'000	Audited 30 April 2022 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	2,115	1,058	2,088
Intangible assets	5,615	5,630	5,564
Deferred tax	406	205	410
Total non-current assets	8,136	6,893	8,062
Current assets			
Inventory	3,880	3,689	3,983
Trade and other receivables	4,504	4,188	3,979
Cash and cash equivalents	63	211	157
Total current assets	8,447	8,088	8,119
Total assets	16,583	14,981	16,181
LIABILITIES			
Current liabilities			
Trade and other payables	3,211	3,306	3,105
Bank overdraft	-	448	-
Other short-term borrowings	2,930	1,604	2,958
Total current liabilities	6,141	5,358	6,063
Non-current liabilities			
Long term borrowings	2,151	1,965	2,447
Provisions	100	100	100
Total non-current liabilities	2,251	2,065	2,547
Total liabilities	8,392	7,423	8,610
TOTAL NET ASSETS	8,190	7,558	7,571
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	(12)	(259)	(159)
Retained earnings	2,121	1,736	1,649
Total attributed to equity holders	8,150	7,518	7,531
Non-controlling interest	40	40	40
TOTAL EQUITY	8,190	7,558	7,571

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2022

	Unaudited Six months ended 31 October 2022 £'000	Unaudited Six months ended 31 October 2021 £'000	Audited Year ended 30 April 2022 £'000
Cash flow from operating activities			
Net profit/(loss) after tax from ordinary activities	458	(775)	(804)
Adjustments for: Depreciation, amortisation and impairment	569	606	1,248
Exceptional items	-	183	124
Interest expense	147	55	220
Gain on sale of property, plant and equipment	(15)	2	(30)
Share based payment	14	-	7
Income tax (credit)/expense	(87)	(104)	(630)
Operating profit/(loss) before changes in working capital and provisions	1,086	(33)	135
(Increase)/decrease in trade and other receivables	(525)	(445)	(29)
Decrease/(increase) in inventories	103	(545)	(856)
Increase/(decrease) in trade and other payables	106	(87)	(658)
Cash generated from operations before exceptional items	770	(1,110)	(1,408)
Exceptional items	-	(183)	(124)
Cash generated from operations	770	(1,293)	(1,532)
Income taxes received	-	374	871
Cash flows from operating activities	770	(919)	(661)
Cash flow from investing activities			
Acquisition of property, plant and equipment	(173)	(265)	(561)
Sale of property, plant and equipment	15	-	30
Research and development expenditure	(304)	(417)	(766)
	(462)	(682)	(1,297)
Cash flow from financing activities			
Bank loans repaid	(200)	-	(267)
Bank overdraft received	-	448	-
Principal paid on lease liabilities	(158)	(267)	(376)
(Repayments)/proceeds from invoice discounting	(34)	1,226	2,263
Interest paid on lease liabilities	(26)	(39)	(48)
Interest paid	(127)	(16)	(84)
	(545)	1,352	1,488
(Decrease)/increase in cash and cash equivalents	(237)	(249)	(470)
Cash and cash equivalents at beginning of period/year	153	484	484
Exchange differences on cash and cash equivalents	147	(24)	143
Cash and cash equivalents at end of period/year	63	211	157

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Retained earnings	Amounts attributable to owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 May 2022	4,687	553	801	(159)	1,649	7,531	40	7,571
Profit for the period	-	-	-	-	458	458	-	458
Other comprehensive income	-	-	-	147	-	147	-	147
<i>Transactions with owners</i>								
Share based payment	-	-	-	-	14	14	-	14
Total comprehensive income for the year	-	-	-	147	472	619	-	619
As at 31 October 2022	4,687	553	801	(12)	2,121	8,150	40	8,190
At 30 April 2021	4,687	553	801	(302)	2,511	8,250	40	8,290
(Loss) for the period	-	-	-	-	(775)	(775)	-	(775)
Other comprehensive (loss)	-	-	-	43	-	43	-	43
Total comprehensive income for the year	-	-	-	43	(775)	(732)	-	(732)
As at 31 October 2021	4,687	553	801	(259)	1,736	7,518	40	7,558

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2022 and 31 October 2021 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 ending 30 April 2023 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2022.

The comparative financial information for the year ended 30 April 2022 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2021 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2022 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. 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 9,374,647 shares (H1 FY22: 468,732,316).

At the Annual General Meeting held on 10 November 2022, the Company sought shareholder approval for a sub-division and consolidation of the Company's share capital ("Capital Reorganisation"). The shareholders passed the resolution, and as of 11 November 2022, the new ordinary shares were admitted to trading on AIM. As a result of the Capital Reorganisation, each existing ordinary share was subdivided into one new ordinary share of 0.1 pence and one new deferred share of 0.9 pence. Immediately following the sub-division, shareholders received one consolidated ordinary share of 5 pence for every 50 ordinary shares of 0.1 pence.

Prior to the Capital Reorganisation, the Company's ordinary share capital consisted of 468,732,350 ordinary shares of 1 pence, and subsequent to the Capital Reorganisation, the Company's ordinary share capital consists of 9,374,647 ordinary shares of 5 pence with voting rights listed on AIM and 468,732,350 deferred shares of 0.9 pence with no voting rights. The new ordinary shares have the same rights and benefits as the ordinary shares which existed before the consolidation, including voting, dividend and other rights.

3. DIVIDENDS

No interim dividend is proposed (H1 FY22: Nil).