Interim Report

for the six months ended 31 October 2020

Newmark
SECURITY PLC

Company number: 3339998

CHAIRMAN'S STATEMENT

I am pleased to announce the Group's unaudited interim results for the six months ended 31 October 2020 ("H1 2020"). Despite commencing the period under lockdown conditions, the Group has responded proactively to the global pandemic and has seen trading activity continue to recover strongly as we moved into the second half of the year. We expect to finish the year behind last year in terms of revenue, but we consider that the Group has traded commendably through the period given the circumstances and challenges faced.

The impact of COVID-19 and the related lockdowns and restrictions put in place has impacted the Group in several ways. As a Group we quickly transitioned into working remotely utilising existing technology. We also carried out online training and proactively communicated with our stakeholders. A common factor for both divisions is the delay of some customer projects. The UK's response to COVID-19 has meant that the Access Control line of business, within the People and Data Management division, and the Physical Security Solutions division have been impeded by the ability for installers to attend sites. The impact has not been quite as significant for HCM (Human Capital Management), within our People and Data Management division, which involves us providing technical solutions and hardware without the need for us to physically attend a site.

Revenue	Six months 31 October 2020 £'000	Six months 31 October 2019 £'000	Increase/ (decrease) £'000	Percentage change %
People and Data Management division	5,560	7,114	(1,554)	(22%)
Physical Security Solutions division	2,297	3,033	(736)	(24%)
Group revenue	**7,857**	**10,147**	**(2,290)**	**(22.6%)**

There was a decrease in Group revenue of 22.6% to £7,857,000 (H1 2019: £10,147,000). Revenue has shown a steadily improving trend through the year with a peak month of August benefiting from the UK recovering from the first lockdown and enabling some element of delayed trading activities to be recovered. A series of cost reduction initiatives were implemented by the Group including furloughs, temporary pay cuts and redundancies. This supported gross profit margins at a level of 37.2% (H1 2019: 39.7%). Administrative expenses reduced by 11.1% to £3,143,000 (H1 2019: £3,535,000) from the initiatives mentioned above and other cost savings. The Group made a marginal operating loss before exceptional items of £50,000 (H1 2019: profit of £683,000). For H1 2020 the Group made a loss per share of 0.05 pence (H1 2019: earnings per share of 0.23p).

People and Data Management Division – Grosvenor Technology

	Six months 31 October 2020 £'000	Six months 31 October 2019 £'000	Increase/ (decrease) £'000	Percentage change %
People and Data Management division				
Legacy Janus	701	845	(144)	(17%)
Sateon Advance	629	1,335	(706)	(53%)
Janus C4	91	83	8	10%
Total Access Control	1,421	2,263	(842)	(37%)
HCM Rest of world	1,534	1,758	(224)	(13%)
HCM US	2,605	3,093	(488)	(16%)
Total HCM	4,139	4,851	(712)	(15%)
Division revenue	**5,560**	**7,114**	**(1,554)**	**(22%)**

Our People and Data Management division, Grosvenor Technology, operates in two primary markets: Human Capital Management and Access Control. Following significant growth in the previous three years, Grosvenor Technology revenues decreased by 22% overall, against the corresponding period last year. The reduction in revenues was felt across both lines of business as COVID-19 impacted clients' end-user projects and through the anticipated reduction in HCM sales to Ultimate Software.

Human Capital Management ("HCM")

Revenue decreased by 15% to £4,139,000 (2019: £4,851,000)

HCM sales in North America reduced by £488,000 to £2,605,000, largely because of the previously reported merger of Ultimate Software Group and Kronos ("Ultimate"). Despite this, sales to Ultimate remain higher than anticipated and consequently, revenues have held well.

During the period, Grosvenor Technology onboarded a new client onto its GT4 timeclock, a HCM software company which provides HR and Payroll solutions to over 30,000 businesses. The contract is initially for a period of three years, with a minimum contract value of c£760k over this period.

In a separate win, one of our existing partners has entered into an agreement to supply the GT10, our flagship hardware device, to an international retailer. The project, which we have now started to supply, is expected to last three years and to generate revenues of c. £2.9m.

We continue our engagement with several Tier 1 target HCM software providers and potential clients are speaking to us about the possibility of GT Clocks (the Company's trading name in the US) providing its next generation hardware.

In our Rest of World HCM business, we have also continued negotiations with several Tier 1 clients for both products and services. While we have seen the effects of COVID 19 impacting our revenues, particularly in Europe, revenues were depleted less than anticipated, reducing 13% to £1,534,000 as compared to the corresponding period in the previous year.

Product Development – Hardware and Software

We continue to invest in development of both hardware and software platforms to support our anticipated further growth in the HCM market globally. Development of our latest Android based timeclock, the GT8 which is scheduled to be released in H2 of the current financial year, continued to be a focus for our hardware, electronics, and embedded software teams. Additionally, focus remained on developing added-value services, intended to be provisioned on an 'as a service' basis, increasingly cloud-based, aiding software vendors to reap additional value from their hardware post-deployment.

We continue to see growth in the HCM market being facilitated through the technology 'drivers' of high-speed internet availability and the subsequent mass shift to Cloud based computing. We are developing our HCM software platforms with a Cloud and Application Programming Interface ("API") first approach. A Cloud and API first approach prioritises utilising a Cloud infrastructure along with APIs to provide seamless connectivity and integration between back-end and front-end systems for customers.

During the period, three of our longstanding US HCM clients agreed to subscribe to our Cloud provisioned software, remotely connecting new and/or existing timeclock devices with our platform. By the close of the period, c5,400 'edge' devices globally were connected to our platform.

Access Control

Revenue decreased by 37% to £1,421,000 (H1 2019: £2,263,000)

Revenues from our Access Control lines of business undoubtedly suffered from the impact of the COVID-19 pandemic. The vast majority of sales from our three product families are derived from the UK and the national lockdown that began in March 2020, combined with continued regional restrictions throughout the summer, meant that many of our installation partners were only carrying out essential maintenance, rather than new installs. As a result, demand for products fell dramatically.

Sales of the legacy Janus product range decreased 17%, which was in line with management expectations as this platform is no longer installed in 'new' systems as it is based on a now unsupported version of a MS Windows™ Web browser. There are however, many end-user sites with legacy Janus products in use, and the expansion and maintenance of these sites continue to generate revenues, albeit at a diminishing rate.

Our latest access control platform, which could be considered a Security Management System (SMS) - Janus C4, has enjoyed some growth, with sales increasing 10% in the period, but from a very modest base. The anticipated growth, through onboarding new partners, has been severely hampered by the inability to conduct face to face visits and the lack of new installations taking place during the period.

Sateon (our previous flagship access control platform) sales also decreased during the period. A reduction was always anticipated, given the sales and business development focus on Janus C4, but the fall in demand during this period was higher than original management expectations. Sateon product family sales include an OEM variant of Sateon Advance hardware to third parties for non-proprietary integration with their own access control platforms. The largest of these partners is based in Belgium and has seen its business severely disrupted through the restrictions brought about because of the pandemic.

Physical Security Solutions Division – Safetell

	Six months 31 October 2020 £'000	Six months 31 October 2019 £'000	Increase/ (decrease) £'000	Percentage change %
Physical Security Solutions division				
Projects	1,221	1,425	(204)	(14%)
Maintenance and call outs	906	1,436	(530)	(37%)
Supply only	170	172	(2)	(1%)
Division total	2,297	3,033	(736)	(24%)

Revenue £7,857,000 (H1 2019: £10,147,000)

Safetell revenue was 23% lower than the corresponding period last year. This was as a result of both COVID-19 impact on trading activity and the expected reduction in the volume of work relating to the Post Office Network Transformation. During the period the team adapted quickly and efficiently to minimise the impact of the pandemic in enormously challenging circumstances. Existing client relationships were further cemented, and new project wins were executed with those customers whose businesses remained in operation through the initial UK lockdown.

COVID-19 significantly impacted the ability for our service and technical engineers to work onsite safely during the lockdown and revenues were further hampered by delays to many of our customers' projects. The Company did however, successfully leverage new opportunities because of changing customer needs with regard to creating safe workspaces. Notably, there has been increased demand for products such as hygiene screens and night-pay hatches as our clients seek to create contactless environments to protect staff and their customers alike.

In the previous financial year management had identified new markets, products and customers that complement Safetell's existing offering. Market launch of these new products has been delayed, although other work has been conducted, including the construction of a full demonstration facility, which we look forward to welcoming customers into as restrictions allow.

We continue to maintain a high level of quote activity and a significant order book which includes our expanded product range and a wider customer base which we are looking forward to fulfilling as the year progresses.

Balance sheet and cash flow

Following a detailed review of the potential impact of COVID-19 on the business Newmark entered into a Coronavirus Business Interruption Loan Agreement with HSBC for a loan facility of £2,000,000 at a fixed rate of interest of 4.69% p.a. for a period of six years with the first year being interest free under the Business Interruption Payment Scheme. The facility has been fully drawn down and has enabled the business to continue with core development activities that we consider will support future growth. The drawdown has enabled us to repay our existing invoice discounting facility to reduce interest charges.

The Group holds £1,696,000 of cash with unutilised facilities for invoice discounting and bank overdraft which would provide c. £1,000,000 of additional cash.

Working capital has fluctuated as a direct response to a period of reduction in trade at the start of the period with increased trade activity towards the end of the period. This has resulted in increased trade debtor balances because of improved sales.

A tax cash credit of £0.5m was received as a result of the R&D claim review carried out at the end of the previous financial year countered by £0.1m of tax paid in the US. Lease payments have reduced whilst we discuss terms on our UK leased properties.

Directors

I am pleased to welcome Terence Yap as a new Independent Non-Executive Director following his appointment in May 2020. He has more than 25 years' experience in various industries, including Telecommunications, Security and Smart Cities Development, and is the Chairman of Guardforce AI, a group focusing on delivering technologically innovative security solutions within the Asia Pacific region. Terence further enhances the skill sets across the Board, and we will benefit greatly from his strategic advice as we plan the next phase of Newmark's growth.

Outlook

Despite the challenges facing us, the Board is pleased with the progress the Group has made in the first half of the year. Although the second half of the year is expected to show an improved performance the first half revenue has been impacted along with a reduction in profit margin as costs have not reduced in line with the decrease in revenue contributing to the net loss experienced. The Board has welcomed the Government's initiatives which the Group has utilised, although we have had to make some difficult decisions along the way. As the pandemic unfurled, we worked closely with HSBC and prepared rolling forecasts and scenarios of the potential impacts. We obtained support by way of the CBILS loan based on our early forecasts. Whilst inevitably impacted by the global pandemic and associated restrictions in the UK and internationally, the Group has performed better than we originally anticipated which has enabled investment activities to continue with only slight delays experienced. We have entered the second half of the financial year with far more optimism than at the start of the year which is also helped by the UK securing a Brexit deal. For the full year, the Board expects the Group to show a reduction in revenue compared to last year although this reduction is expected to be materially less than what we experienced in the first half of the year. On behalf of the Board, I would like to extend my thanks for all the hard work and resilience shown from the team throughout this period.

M DWEK

Chairman

25 January 2021

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CONSOLIDATED INCOME STATEMENT
For the six months ended 31 October 2020

	Notes	Unaudited Six months ended 31 October 2020 £'000	Unaudited Six months ended 31 October 2019 £'000	Audited Year ended 30 April 2020 £'000
Revenue		7,857	10,147	18,767
Cost of sales		(4,933)	(5,926)	(11,318)
Gross Profit		2,924	4,221	7,449
Administrative expenses		(3,143)	(3,535)	(7,144)
(Loss)/profit from operations before exceptional items		(50)	686	638
Exceptional redundancy costs		(169)	–	(167)
Other exceptional costs		–	–	(132)
(Loss)/profit from operations		(219)	686	305
Finance costs		(48)	(38)	(74)
(Loss)/profit before tax		(267)	648	231
Tax credit/(charge)	2	18	434	896
(Loss)/profit for the period/year		(249)	1,082	1,127
Attributable to:				
– Equity holders of the parent		(249)	1,082	1,127
(Loss)/earnings per share				
– Basic (pence)	3	(0.05)	0.23	0.24
– Diluted (pence)	3	(0.05)	0.23	0.24

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2020

	Unaudited Six months ended 31 October 2020 £'000	Unaudited Six months ended 31 October 2019 £'000	Audited Year ended 30 April 2020 £'000
(Loss)/profit for the period/year	(249)	1,082	1,127
Foreign exchange on the retranslation of overseas operation	(59)	(13)	26
Total comprehensive income for the period/year	(308)	1,069	1,153
Attributable to:			
– Equity holders of the parent	(308)	1,069	1,153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 October 2020

	Unaudited 31 October 2020 £'000	Unaudited 31 October 2019 £'000	Audited 30 April 2020 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,123	1,471	1,262
Intangible assets	5,237	4,775	5,234
Deferred tax	328	449	329
Total non-current assets	6,688	6,695	6,825
Current assets			
Inventory	2,405	2,527	2,544
Trade and other receivables	3,581	3,870	3,664
Cash and cash equivalents	1,696	406	620
Total current assets	7,682	6,803	6,828
Total assets	14,370	13,498	13,653
LIABILITIES			
Current liabilities			
Trade and other payables	3,270	3,222	3,246
Other short-term borrowings	601	814	1,351
Total current liabilities	3,871	4,036	4,597
Non-current liabilities			
Long term borrowings	2,405	1,154	654
Provisions	100	100	100
Total non-current liabilities	2,505	1,254	754
Total liabilities	6,376	5,290	5,351
TOTAL NET ASSETS	7,994	8,208	8,302
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	(165)	(145)	(106)
Retained earnings	2,078	2,272	2,327
	7,954	8,168	8,262
Minority interest	40	40	40
TOTAL EQUITY	7,994	8,208	8,302

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CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2020

	Notes	Unaudited Six months ended 31 October 2020 £'000	Unaudited Six months ended 31 October 2019 £'000	Audited Year ended 30 April 2020 £'000
Cash flow from operating activities				
Net (loss)/profit after tax from ordinary activities		(249)	1,082	1,127
Adjustments for: Depreciation, amortisation and impairment		453	332	1,022
Exceptional items		169	–	299
Interest expense		48	38	74
Gain on sale of property, plant and equipment		(3)	(47)	(58)
Share based payment		–	–	13
Income tax (credit)/expense	2	(18)	(434)	(896)
Operating profit before changes in working capital and provisions		400	971	1,581
(Increase)/decrease in trade and other receivables		(357)	(601)	290
Decrease/(increase) in inventories		115	(113)	71
Increase /(decrease) in trade and other payables		35	(128)	(675)
Cash generated from operations before exceptional items		193	129	1,267
Exceptional items		(169)	(228)	(362)
Cash generated from operations		24	(99)	905
Income taxes received		397	–	–
Cash flows from operating activities		421	(99)	905
Cash flow from investing activities				
Acquisition of property, plant and equipment		(88)	(203)	(150)
Sale of property, plant and equipment		5	28	43
Research and development expenditure		(228)	(167)	(886)
		311	(342)	(993)
Cash flow from financing activities				
Bank loans received		2,000	–	–
Principal paid on lease liabilities		(111)	(230)	(475)
(Repayments)/Proceeds from invoice discounting		(863)	72	212
Interest paid on lease liabilities		(32)	(23)	(44)
Interest paid		(16)	(15)	(30)
		978	(196)	(337)
Increase/(decrease) in cash and cash equivalents		1,088	(637)	(425)
Cash and cash equivalents at beginning of period/year		620	1,041	1,041
Exchange differences on cash and cash equivalents		(12)	2	4
Cash and cash equivalents at end of period/year		1,696	406	620

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Amounts attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 May 2020	4,687	553	801	(106)	2,327	8,262	40	8,302
(Loss) for the period	–	-	-	-	(249)	(249)	–	(249)
Other comprehensive income	–	–	–	(59)	–	(59)	–	(59)
Total comprehensive income for the period	–	–	–	(59)	(249)	(308)	–	(308)
As at 31 October 2020	4,687	553	801	(165)	2,078	7,954	40	7,994
At 30 April 2019	4,687	553	801	(132)	1,165	7,074	40	7,114
Impact of IFRS 16 Lease transition	–	–	–	–	25	25	–	25
At 1 May 2019 as restated	4,687	553	801	(132)	1,190	7,099	40	7,139
Profit for the period	–	–	–	–	1,082	1,082	–	1,082
Other comprehensive income	–	–	–	(13)	–	(13)	–	(13)
Total comprehensive income for the period	–	–	–	(13)	1,082	1,069	–	1,069
As at 31 October 2019	4,687	553	801	(145)	2,272	8,168	40	8,208

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2020 and 31 October 2019 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 2021 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2020.

The comparative financial information for the year ended 30 April 2020 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2020 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2020 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 nil (H1 2019: £0.1m) and a recognition of deferred tax asset related to previously unrecognised losses of nil (H1 2019: £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 (H1 2019: 468,732,316).

4. DIVIDENDS

No interim dividend is proposed (H1 2019: Nil).

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