

Interim Report

for the six months ended 31 October 2021



Company number: 3339998

CHAIRMAN'S STATEMENT

I am pleased to announce the Group's unaudited interim results for the six months ended 31 October 2021 ("H1 FY22").

Both Grosvenor and Safetell have seen year on year revenue growth in the first six months of the year. In Grosvenor, our People and Data Management Division, there have been increases in both the Human Capital Management (HCM) and Access Control (AC) businesses. Easing of lockdown and travel restrictions have made it easier for our teams to attend sites in both a sales and installation capacity and we have been able to meet with key customers and suppliers in person again to continue to foster our strong relationships. In Safetell, our Physical Security Solutions division, there has been growth in projects and supply work as we continue to reduce our reliance on our legacy banking sector products.

The Group has continued to be proactive at finding solutions for its customers despite the continued COVID issues and the global supply chain challenges pushing up componentry and freight prices. These underlying factors, along with strategic projects taken at lower margins, have meant that the first half has been a loss-making period. We expect to finish the year ahead of last year in terms of revenue but expect that the loss position will be increased against the prior year. However, we have instigated a number of initiatives to improve profitability and cashflows which have already resulted in reduced losses for Q2 versus Q1.

In September 2021 we welcomed our new Chief Financial Officer, Paul Campbell-White, into the business and Paul has already begun to add value to the Group in this short space of time.

Post the half year, at our AGM in November, the shareholders approved a share reorganisation of the business which resulted in a fifty-fold reduction in the number of shares in circulation.

Group performance

	Six months 31 October 2021 £'000	Six months 31 October 2020 £'000	Increase/ (decrease) £'000	Percentage change %
People and Data Management division	7,129	5,560	1,569	28%
Physical Security Solutions division	2,568	2,297	271	12%
Group revenue	9,697	7,857	1,840	23%

There was an overall increase in Group revenue of 23.4% to £9,697,000 (H1 FY21: £7,857,000). Revenue has been strong throughout the first half, led by the growth in the US HCM business which was especially good against the back drop of continued COVID restrictions and the global supply chain issues resulting in longer product lead times. Gross profit in value terms is also up year on year although the gross profit percentage has fallen by four points to 33.2% (H1 FY21: 37.2%). This is predominantly driven by two large HCM contracts at the start of the year which had lower margins, combined with an increase in the Access Control sales which are at a lower percentage profit. The two HCM projects undertaken at reduced margins were seen as strong strategic projects to build long-term relationships with both the software house and the end user.

Administrative expenses have increased by 29.4% to £3,855,000 (H1 FY21: £3,143,000). This is as a result of two main themes, 1) the cost saving initiatives actioned in the first half of last year during the worst part of the COVID pandemic including furloughing staff and a 10% pay cut among the staff not being replicated in the first half of this year and 2) the first six months of this year has seen administrative costs increase as the business is gearing up for increased future activity in line with its business plan. The Group has made an H1 FY22 operating loss before exceptional items of £637,000 (H1 FY21: loss of £50,000). For H1 FY22, the Group made a loss per share of 0.17 pence (H1 2020: loss per share of 0.05p).

People and Data Management Division – Grosvenor Technology

	Six months 31 October 2021 £'000	Six months 31 October 2020 £'000	Increase/ (decrease) £'000	Percentage change %
People and Data Management division				
Legacy Janus	843	701	142	20%
Sateon Advance	558	629	(71)	(11%)
Janus C4	270	91	179	197%
Total Access Control	1,671	1,421	250	18%
HCM US	4,209	2,605	1,604	62%
HCM ROW	1,249	1,534	(285)	(19%)
Total HCM	5,458	4,139	1,319	32%
Division total	7,129	5,560	1,569	28%

HCM revenue increased by 32% to £5,458,000 (H1 FY21: £4,139,000)

It has been a strong first half of the year in the HCM business, with the US market being particularly successful with revenue of £4,209,000 (H1 FY21: £2,605,000), a 62% increase. This has been driven by contracts with large US software providers.

We have continued to build on our strong relationships with our existing customers and are engaging with several Tier 1 target HCM software providers and potential clients. They are speaking to us about the possibility of GT Clocks (the Company's trading name in the US) providing its next generation hardware and, due to the easing in the travel restrictions, we have completed more face to face meetings again. We also delivered the first orders for our newest Clock (GT8), which launched in April 2021.

In our Rest of World HCM business, we have also continued negotiations with several Tier 1 clients for both products and services. Whilst we have seen a 19% reduction in revenue in this area, we have onboarded some key staff to lead the growth of this sector moving forwards.

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. Our hardware, electronics, and embedded software teams have been working on updates to our facial recognition and temperature detection software and our next clock. 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, c. 5,400 'edge' devices globally were connected to our platform and we expect this number to more than double by the end of the financial year. The upgraded version of our Cloud provisioning software is due to be launched in Spring 2022 which will further drive subscription growth.

Access Control

Revenue increased by 18% to £1,671,000 (H1 FY21: £1,421,000)

Revenues from our Access Control lines of business have been another success story for the first half of the year. Easing of UK lockdown restrictions have undoubtedly helped us as we are now able to attend client premises to complete project installations.

Janus C4, our Security Management System (SMS), which is still fairly new into the market, has seen continued year on year revenue growth of 197%, to £270,000. 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.

Our legacy Janus product range has seen increased revenue of 20% to £843,000. Although this platform is no longer installed in 'new' systems as it is based on a now unsupported version of a MS Windows™ Web browser, we have seen increased need for expansion and maintenance packs from existing customers.

Sateon (our previous flagship access control platform) sales have continued to decrease during the period in line with management expectations. A reduction was always anticipated as the focus of the sales and business development activity has been on Janus C4. 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 2021 £'000	Six months 31 October 2020 £'000	Increase/ (decrease) £'000	Percentage change %
Physical Security Solutions division				
Projects	1,540	1,221	319	26%
Maintenance and call outs	747	906	(159)	(18%)
Supply only	281	170	111	65%
Division total	2,568	2,297	271	12%

Safetell revenue has been another positive with sales revenue 12% higher than the corresponding period last year at £2,568,000. The Safetell management team continues to transform the business and the last six months has seen the introduction of new product lines, new strategic partnerships struck, and new clients onboarded. 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.

Our project revenue has shown 26% year on year growth at £1,540,000. In a short space of time, we have forged strong experience in the design and installation of security screens in the retail sector and have worked with most of the large supermarket chains in the year to date. We have also completed phase 1 of a large project with a major police force.

We have installed our first entrance control product during the period and have continued to grow our maintenance contract with a large petrol retailer by an additional 100 sites. We have also negotiated a new rising screen maintenance contract with a large UK bank which commenced in November 2021. Our autodoor maintenance contract with a large University has also increased, with additional sites now onboarded. We continue to build on existing relationships in this sector as well as targeting specific projects with new partners.

The company's website has been refreshed in the period and additional features added. There is increased technical information, easier product offering navigation and information along with making it mobile optimised. This will become a larger part of the sales arsenal over time as more customer interactive features are intended.

Safetell has agreed a key strategic step of appointing a new full time Managing Director to replace Paul Lovell, who left the business at the end of June 2021. Nick Shannon will commence his role in February 2022 and has strong sector experience including recent roles within G4S Secured Solutions and Chubb Fire and Safety. We would like to place on record our thanks to Bob Darke, our interim Managing Director, who has done an excellent job of guiding the management team throughout the past six months and has made significant strides to improve various areas of the business.

Balance sheet and financing

The Group utilised £448,000 of its £600,000 UK overdraft facility at the balance sheet date, although it also had £211,000 of cash in the US. Subsequent to the balance sheet date this overdraft facility has been increased to £700,000 until the end of March 2022 in order to provide additional headroom as the Company navigates the unprecedented global supply chain challenges.

Short term borrowings have risen as we drew down on our UK invoice discounting facility during the period. This facility has recently been increased to £1.7 million.

The Group has had to utilise its invoice discounting facility along with some of the overdraft as a result of the losses incurred and the increase in inventories within Grosvenor. At the balance sheet date overall Group inventory stood at £3.7 million, a £1.3 million increase from the prior year and £0.6 million more than at the 30 April 2021 balance sheet. The increase in inventory was required in order to minimize disruption to our supply chain and to fulfil our growing HCM orders.

Outlook

The outlook is still difficult to predict as we continue to deal with the effects of the COVID pandemic and the global supply chain issues that have gone hand in hand with this. However, based on current pipeline and estimates, we anticipate that revenue will be ahead of last year as we continue to grow our US HCM revenues. Unfortunately, this is not expected to be reflected in the net profit/(loss) which we are anticipating will be below last year. This is due to continued pressure on margins as the supply chain issues push up purchase and freight costs, coupled with additional administrative costs as we have setup the business for further future growth.

We continue to manage our cash position carefully and are in regular contact with our bank. We are currently exploring setting up a US invoice discounting facility as a result of the strong US growth and are also looking at other financing options to ensure we remain well placed to deal with the uncertainties.

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

27 January 2022

CONSOLIDATED INCOME STATEMENT
For the six months ended 31 October 2021

	Unaudited Six months ended 31 October 2021 £'000	Unaudited Six months ended 31 October 2020 £'000	Audited Year ended 30 April 2021 £'000
Revenue	9,697	7,857	17,658
Cost of sales	(6,474)	(4,933)	(11,029)
Gross Profit	<u>3,223</u>	<u>2,924</u>	<u>6,629</u>
Administrative expenses	(4,043)	(3,143)	(6,667)
(Loss)/ profit from operations before exceptional items	(637)	(50)	79
Exceptional redundancy costs	(183)	(169)	(181)
Other exceptional costs	-	-	64
(Loss)/profit from operations	(820)	(219)	(38)
Finance costs	(59)	(48)	(88)
(Loss)/profit before tax	<u>(879)</u>	<u>(267)</u>	<u>(126)</u>
Tax credit	104	18	297
(Loss)/profit for the period/year	<u>(775)</u>	<u>(249)</u>	<u>171</u>
Attributable to:			
- Equity holders of the parent	<u>(775)</u>	<u>(249)</u>	<u>171</u>
Earnings per share			
- Basic (pence)	2 (0.17)	(0.05)	0.04
- Diluted (pence)	2 (0.17)	(0.05)	0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2021

	Unaudited Six months ended 31 October 2021 £'000	Unaudited Six months ended 31 October 2020 £'000	Audited Year ended 30 April 2021 £'000
(Loss)/ profit for the period/year	(775)	(249)	171
Foreign exchange on the retranslation of overseas operation	43	(59)	(196)
Total comprehensive income for the period/year	<u>(732)</u>	<u>(308)</u>	<u>(25)</u>
Attributable to:			
- Equity holders of the parent	<u>(732)</u>	<u>(308)</u>	<u>(25)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 October 2021

	Unaudited 31 October 2021 £'000	Unaudited 31 October 2020 £'000	Audited 30 April 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,058	1,123	1,088
Intangible assets	5,630	5,237	5,505
Deferred tax	205	328	206
Total non-current assets	6,893	6,688	6,799
Current assets			
Inventory	3,689	2,405	3,125
Trade and other receivables	4,188	3,581	4,438
Cash and cash equivalents	211	1,696	484
Total current assets	8,088	7,682	8,047
Total assets	14,981	14,370	14,846
LIABILITIES			
Current liabilities			
Trade and other payables	3,306	3,270	3,782
Bank overdraft	448	-	-
Other short-term borrowings	1,604	601	627
Total current liabilities	5,358	3,871	4,409
Non-current liabilities			
Long term borrowings	1,965	2,405	2,047
Provisions	100	100	100
Total non-current liabilities	2,065	2,505	2,147
Total liabilities	7,423	6,376	6,556
TOTAL NET ASSETS	7,558	7,994	8,290
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	(259)	(165)	(302)
Retained earnings	1,736	2,078	2,511
Total attributed to equity holders	7,518	7,954	8,250
Non-controlling interest	40	40	40
TOTAL EQUITY	7,558	7,994	8,290

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2021

	Unaudited Six months ended 31 October 2021 £'000	Unaudited Six months ended 31 October 2020 £'000	Audited Year ended 30 April 2021 £'000
Cash flow from operating activities			
Net (loss) / profit after tax from ordinary activities	(775)	(249)	171
Adjustments for: Depreciation, amortisation and impairment	606	453	1,033
Exceptional items	183	169	117
Interest expense	55	48	88
Gain on sale of property, plant and equipment	2	(3)	(5)
Share based payment	-	-	13
Income tax (credit)/expense	(104)	(18)	(297)
Operating (loss)/profit before changes in working capital and provisions	(33)	400	1,120
(Increase)/decrease in trade and other receivables	(445)	(357)	(805)
(Increase)/decrease/in inventories	(545)	115	(652)
(Decrease)/increase in trade and other payables	(87)	35	582
Cash generated from operations before exceptional items	(1,110)	193	245
Exceptional items	(183)	(169)	(244)
Cash generated from operations	(1,293)	24	1
Income taxes received	374	397	369
Cash flows from operating activities	(919)	421	370
Cash flow from investing activities			
Acquisition of property, plant and equipment	(265)	(88)	(272)
Sale of property, plant and equipment	-	5	-
Research and development expenditure	(417)	(228)	(744)
	(682)	(311)	(1,016)
Cash flow from financing activities			
Bank loans received	-	2,000	2,000
Bank overdraft received	448	-	-
Principal paid on lease liabilities	(267)	(111)	(487)
Proceeds/(repayments) from invoice discounting	1,226	(863)	(905)
Interest paid on lease liabilities	(39)	(32)	(37)
Interest paid	(16)	(16)	(51)
	1,352	978	520
(Decrease)/increase in cash and cash equivalents	(249)	1,088	(126)
Cash and cash equivalents at beginning of period/year	484	620	620
Exchange differences on cash and cash equivalents	(24)	(12)	(10)
Cash and cash equivalents at end of period/year	211	1,696	484

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 2021	4,687	553	801	(302)	2,511	8,250	40	8,290
(Loss) for the period	-	-	-	-	(775)	(775)	-	(775)
Other comprehensive income	-	-	-	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
At 30 April 2020	4,687	553	801	(106)	2,327	8,262	40	8,302
(Loss) for the period	-	-	-	-	(249)	(249)	-	(249)
Other comprehensive (loss)	-	-	-	(59)	-	(59)	-	(59)
Total comprehensive income for the year	-	-	-	(59)	(249)	(308)	-	(308)
As at 31 October 2020	4,687	553	801	(165)	2,078	7,954	40	7,994

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2021 and 31 October 2020 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 2022 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2021.

The comparative financial information for the year ended 30 April 2021 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 2021 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 468,732,316 shares (H1 FY21: 468,732,316).

3. DIVIDENDS

No interim dividend is proposed (H1 FY21: Nil).