Newmark
SECURITY PLC

Interim Report

for the six months ended 31 October 2023

Company number: 03339998

HIGHLIGHTS

Interim Results for the six months ended 31 October 2023 ("H1 FY24")

Increasing sales pipeline has both divisions on track to deliver full year revenue growth

Financial highlights:

- Revenue down 2% to £10.4 million (H1 FY23: £10.6 million)
- Gross profit of £3.9 million (H1 FY23: £4.1 million)
- Underlying revenue up 11% after stripping out the impact of the anticipated loss of UKG in FY23. Underlying gross profit in H1 FY24 increased by £0.2 million
- EBITDA of £0.8 million (H1 FY23: £1.1 million)
- Loss after tax of £0.1 million (H1 FY23 profit: £0.5 million)
- Loss per share of 0.54 pence (H1 FY23: earnings per share of 4.89 pence)
- Investment in research and development of £0.2 million (H1 FY23: £0.3 million)
- Net assets of £8.0 million (31 October 2022: £8.2 million)

Key business highlights:

Grosvenor Technology

- Human Capital Management (“HCM”) annual subscription-based recurring revenues increased by 77 % year-on-year (“YOY”) to £2.3 million and positively contributed to profit margins
- Underling YOY revenue growth for HCM North America was 8%, whilst the Rest of the World (“ROW”) saw growth of 42%
- Won three new HCM clients in North America and expanded Florida facility to cater for increase in direct fulfilment
- Access Control’s new Janus C4 Security Management System achieved YOY revenue growth of 16%

Safetell

- Sales of entrance control products grew 100%
- Fulfilled a large order of protection screens for one of the UK’s ‘big four’ supermarket chains
- Rolled out five new ballistic protection systems for a new money exchange client, with 22 more planned
- Multiple new contracts for auto door maintenance covering universities, a major convenience retailer and a train station operator

CHAIRMAN'S STATEMENT

I am pleased to announce the Group's unaudited interim results for the six months ended 31 October 2023 ("H1 FY24" or the "Period").

Operational highlights:

Group performance

Revenue	**Six months to 31 October 2023**	**Six months to 31 October 2022**	**Increase/ (decrease)**	**Percentage change**
	£'000	**£'000**	**£'000**	**%**
People and Data Management division	7,629	8,415	(786)	(9)%
Physical Security Solutions division	2,737	2,210	527	24%
Group revenue	**10,366**	**10,625**	**(259)**	**(2%)**

Group revenue decreased by 2% YOY to £10.4 million (H1 FY23: £10.6 million), primarily due to the People and Data Management division losing its partner UKG in FY23. This impact was partly offset by strong growth in the Physical Security Solutions division.

As referenced in our FY23 results, our partnership with UKG in our HCM business came to an end which had been anticipated for some time, as further recapped below. Excluding the impact of UKG from prior year comparatives (H1 FY23 revenue of £1.3 million and gross margin of £0.5 million), the Group delivered underlying revenue growth in H1 FY24 of £1.0 million (11%) and a £0.2 million underlying increase in gross profit. There was minimal trading from UKG in H2 FY23.

Gross profit percentage decreased slightly to 37.2% (H1 FY23: 38.9%) due to small declines in both the People and Data Management and Physical Security Solutions divisions. These have been caused by a combination of higher labour and amortisation costs as well as product mix timing.

Administrative expenses increased by 5% to £3.8 million (H1 FY23: £3.6 million) driven by additional headcount and inflationary cost rises. Profit from operations was £0.1 million (H1 FY23: £0.5 million). Finance costs during the period were £0.18 million (H1 FY23: £0.15 million). This increase resulted from additional invoice financing borrowings to support higher working capital requirements and higher interest rates.

For H1 FY24, the Group made a loss per share of 0.54 pence (H1 FY23: earnings per share of 4.89 pence).

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

Revenue information

	Six months to 31 October 2023	**Six months to 31 October 2022**	**Increase/ (decrease)**	**Percentage change**
	£'000	**£'000**	**£'000**	**%**
People and Data Management division				
HCM North America	3,887	4,875	(988)	(20%)
HCM ROW	2,134	1,507	627	42%
Total HCM	6,021	6,382	(361)	(6%)

Janus C4	1,181	1,022	159	16%
Sateon Advance	404	838	(434)	(52%)
Legacy Janus	23	173	(150)	(87%)
Total Access Control	1,608	2,033	(425)	(21%)
Division total revenue	**7,629**	**8,415**	**(786)**	**(9%)**

Human Capital Management

The HCM division recorded revenue of £6.0 million (H1 FY22 £6.4 million) during the Period. As highlighted above, this slight reduction was expected due to the ending of the UKG contract, which was due to reduce over time following the merger in 2020 between Ultimate Software, our original HCM partner and Kronos, a competitor in time clock products. As previously disclosed, the timing for this was uncertain but it was a testament to the quality of services provided by our team that this only happened in Q3 of the last financial year.

Notwithstanding this, Grosvenor has seen an excellent performance across its HCM business lines. Removing UKG's contribution of £1.3 million to last year's revenue, underlying YOY revenue growth for North America was 8%, while the ROW saw growth of 42% to £2.1 million.

In terms of strategy, the business has continued the rollout of GT Connect and the transition to a 'hardware-enabled software and services' business, with a focus on selling its customers a wrapped subscription to build stronger recurring revenues. Annual subscription-based recurring revenues increased by 77% YOY to £2.3 million and positively contributed to profit margin.

The business has continued to expand its network of HCM partners across its geographies with the switch to GT Connect. Where partners have previously been using competitor clock products, GT has been displacing the competition through its entry-level devices wrapped with recurring revenue services, which underscores the strength of our proposition and strategy. The other benefit for customers is the superior cybersecurity of the single GT Connect ecosystem, with it achieving ISO 9001 certification.

In North America, the business has recently won three new HCM clients with extensive reach which will help drive revenues in the second half of the year. As with any new HCM client, it will take time before they reach their full potential. The business has been aligning itself to grow revenues from direct fulfilment and has added additional capacity to its Florida facility to enable this. Grosvenor has been trading in the United States for over a decade and has built a reputation for excellent products and customer service. It is pleasing to see the progress being made in this very large market which has huge potential for us.

The ROW has continued the positive trend from last year, demonstrating significant growth (up 42%) primarily due to an increase in the share of client expenditure. The business also works with several multi-national retailers and has been successfully migrating them to the new GT platform and negotiating new contracts.

Access Control

After a strong start to the year, some contract negotiations have slowed due to higher interest rate conditions and customers deciding to prolong their decisions. This led to revenue decreasing by 21% to £1.6 million (H1 FY23: £2.0 million).

Despite this slowdown in decision making, Janus C4, our new Security Management System (SMS), has seen continued YOY revenue growth of 16%, to £1.2 million. The increase in sales is from net client installations as well as upgrades from our legacy Sateon and Janus ranges, which has happened for multiple university customers.

Public sector customers have been quicker to make procurement decisions than the private sector, which is reflected in the new contracts signed with hospitals and blue light services. At the same time, the team has continued to focus on building its sales pipeline and is anticipating a stronger second half. Looking ahead, the business is on track to complete the development of its next generation access control product in the next financial year.

Physical Security Solutions division – Safetell

Revenue information

	Six months to 31 October 2023 £'000	Six months to 31 October 2022 £'000	Increase/ (decrease) £'000	Percentage change %
Physical Security Solutions division				
Products	1,839	1,483	356	24%
Service	898	727	171	24%
Division total revenue	**2,737**	**2,210**	**527**	**24%**

Safetell's revenue increased by 24% to £2.7 million compared to the corresponding prior period. This increase has been driven by strong growth in both Products and Service and also reflects the strategy to further diversify Safetell's product offering by bringing auto door and entrance control into the product portfolio to counter the impact of fewer physical bank branches and post offices.

Gross margins have decreased from 41.9% in H1 FY23 to 37.7% in H1 FY24. This is primarily due to product mix timing with higher margins forecast for the second half of the year (FY24) compared to the prior year which had lower margins in H2. Safetell's management has also continued to optimise the operations team and develop a structure that delivers contracts more efficiently, which will support margins going forward.

Further reviewing Safetell's performance, sales orders of entrance control products grew 100% in the period, supported by new contracts with a blue-chip banking group and a distribution centre, the latter of which is part of a growing pipeline of sales opportunities in this area of logistics. This has been helped by our strategy of sourcing alternative product manufacturers in China that offer a high-quality product at a substantially lower price than our traditional European providers.

A large Protection Screens order for one of the UK's 'big four' supermarket chains was fulfilled in the period and the business is in the final stages of contract negotiations with another constituent of this group. Safetell also rolled out five new ballistic protection systems for a new money exchange client, with a further 22 planned for next year. Safetell continues to provide secure screen, counters and doors to multiple police forces in the UK and successfully installed a secure wall around an operations room for a major UK utility company during the period.

The business's auto door maintenance strategy continues to gain traction with new customers including two universities, a major convenience retailer and a rolling pilot contract with a train station operator, covering over 250 stations.

Balance sheet and financing

Inventory decreased during the period by £0.4 million to £3.7 million at 31 October 2023 due to a reduction of certain components being held as the global supply chain challenges experienced in the last two financial years start to ease.

Cash at 31 October 2023 was £0.01 million, down £0.6 million during the period since 30 April 2023. The Group had an unused £0.4 million UK overdraft facility at the balance sheet date.

Total borrowings decreased by £0.3 million in the period to £5.6 million at the balance sheet date due to CBILS loan and lease repayments. The UK invoice financing facility remains at £2.3 million and the US invoice financing facility remains at $2 million.

Current trading

The Group returned to profit after tax in Q2 FY24 after a strong trading performance and it expects this trend to continue into the second half of the financial year. The Group's existing financing facilities are sufficient to execute its current plans and both divisions are anticipating stronger sales in the second half, supported by a good spread of public and private sector contracts. As such, we expect both divisions to achieve FY24 revenue growth despite the loss of the UKG contract in FY23.

Outlook

It has been another successful period for Newmark with both divisions continuing to execute their strategies and build a better platform for growth. This was evident by HCM's annual subscription-based recurring revenues increasing by 77% YOY and sales of entrance control products growing 100% at Safetell.

What is also evident is the quality of our product and services, which is reflected in the number of blue-chip clients we continue to win across public and private sectors. Our sales pipeline is expanding and we are on track for stronger second half, with both divisions set to deliver full year revenue growth.

Whilst we are watchful of the macroeconomic outlook and pending elections, the people and data security market continues to grow and we are confident that the Group is in a stronger position to capitalise on the opportunities this will bring. We look forward to updating the market on our further progress at the full year.

M DWEK

Chairman

25 January 2024

CONSOLIDATED INCOME STATEMENT
For the six months ended 31 October 2023

	Note	Unaudited Six months ended 31 October 2023 £'000	Unaudited Six months ended 31 October 2022 £'000	Audited Year ended 30 April 2023 £'000
Revenue		10,366	10,625	20,314
Cost of sales		(6,510)	(6,491	(12,676)
Gross Profit		3,856	4,134	7,638
Administrative expenses		(3,801)	(3,616)	(7,354)
Profit from operations		55	518	284
Finance costs		(181)	(147)	(348)
(Loss)/profit before tax		(126)	371	(64)
Tax credit		75	87	417
(Loss)/profit for the period/year		(51)	458	353
Attributable to:				
- Equity holders of the parent		(51)	458	353
Earnings per share				
- Basic (pence)	2	(0.54)	4.89	3.77
- Diluted (pence)	2	(0.54)	4.89	3.69

Newmark
SECURITY PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 October 2023

	Unaudited Six months ended 31 October 2023 £'000	Unaudited Six months ended 31 October 2022 £'000	Audited Year ended 30 April 2023 £'000
(Loss)/profit for the period/year	(51)	458	353
Foreign exchange on the retranslation of overseas operation	73	147	(22)
Total comprehensive income for the period/year	22	605	331
Attributable to:			
- Equity holders of the parent	22	605	331

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 October 2023

	Unaudited 31 October 2023 £'000	Unaudited 31 October 2022 £'000	Audited 30 April 2023 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	2,818	2,115	2,914
Intangible assets	5,281	5,615	5,450
Deferred tax	454	406	454
Total non-current assets	8,553	8,136	8,818
Current assets			
Inventory	3,712	3,880	4,150
Trade and other receivables	4,506	4,504	4,978
Cash and cash equivalents	7	63	581
Total current assets	8,225	8,447	9,709
Total assets	16,778	16,583	18,527
LIABILITIES			
Current liabilities			
Trade and other payables	3,120	3,212	4,559
Other short-term borrowings	3,370	2,390	3,402
Total current liabilities	6,490	6,142	7,961
Non-current liabilities			
Long term borrowings	2,217	2,151	2,537
Provisions	100	100	100
Total non-current liabilities	2,317	2,251	2,637
Total liabilities	8,807	8,393	10,598
TOTAL NET ASSETS	7,971	8,190	7,929
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	(108)	(12)	(181)
Retained earnings	1,998	2,121	2,029
Total attributed to equity holders	7,931	8,150	7,889
Non-controlling interest	40	40	40
TOTAL EQUITY	7,971	8,190	7,929

CONSOLIDATED CASH FLOW STATEMENTS
For the six months ended 31 October 2023

	Unaudited Six months ended 31 October 2023 £'000	Unaudited Six months ended 31 October 2022 £'000	Audited Year ended 30 April 2023 £'000
Cash flow from operating activities			
Net (loss)/profit after tax from ordinary activities	(51)	458	353
Adjustments for: Depreciation, amortisation and impairment	713	569	1,201
Finance costs	181	147	348
Gain on sale of property, plant and equipment	(3)	(15)	(37)
Share based payment	20	14	27
Corporation tax credit	(75)	(87)	(417)
Operating profit before changes in working capital and provisions	785	1,086	1,475
Decrease/(increase) in trade and other receivables	358	(525)	(999)
Decrease/(increase) in inventories	438	103	(167)
(Decrease)/increase in trade and other payables	(1,439)	106	1,384
Cash generated from operations	142	770	1,693
Corporation tax recovered	189	-	400
Cash flows from operating activities	331	770	2,093
Cash flow from investing activities			
Acquisition of property, plant and equipment	(181)	(173)	(405)
Sale of property, plant and equipment	3	15	37
Acquisition of intangible assets	(170)	(304)	(462)
	(348)	(462)	(830)
Cash flow from financing activities			
Bank loans paid	(200)	(200)	(400)
Principal paid on lease liabilities	(206)	(184)	(394)
(Repayments)/proceeds from invoice financing	(12)	(34)	290
Interest paid	(137)	(127)	(299)
	(555)	(545)	(803)
(Decrease)/increase in cash and cash equivalents	(572)	(237)	460
Cash and cash equivalents at beginning of period/year	581	153	157
Exchange differences on cash and cash equivalents	(2)	147	(36)
Cash and cash equivalents at end of period/year	7	63	581

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	(181)	2,029	**7,889**	40	**7,929**
Profit for the period	-	-	-	-	(51)	**(51)**	-	**(51)**
Other comprehensive income	-	-	-	73	-	**73**	-	**73**
Transactions with owners								
Share based payment	-	-	-	-	20	**20**	-	**20**
Total comprehensive income for the year	-	-	-	73	(31)	**42**	-	**42**
As at 31 October 2023	**4,687**	**553**	**801**	**(108)**	**1,998**	**7,931**	**40**	**7,971**
At 1 May 2022	4,687	553	801	(159)	1,649	**7,531**	40	**4,571**
Profit for the period	-	-	-	-	458	**458**	-	**458**
Other comprehensive income	-	-	-	147	-	**147**	-	**147**
Transactions with owners								
Share based payment	-	-	-	-	14	**14**	-	**14**
Total comprehensive income for the year	-	-	-	147	472	**619**	-	**(732)**
As at 31 October 2022	**4,687**	**553**	**801**	**(12)**	**2,121**	**8,150**	**40**	**8,190**

NOTES TO THE ACCOUNTS

1. BASIS OF ACCOUNTS

The financial information for the six months ended 31 October 2023 and 31 October 2022 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 2024 and are unchanged from those disclosed in the Group's Annual Report for the year ended 30 April 2023.

The comparative financial information for the year ended 30 April 2023 ("FY23") included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for FY23 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for FY23 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 loss per share figure has been calculated based on the weighted average number of shares in issue during the period, which was 9,374,647 shares (H1 FY23: 9,374,647).

3. DIVIDENDS

No interim dividend is proposed (H1 FY23: Nil).