24 September 2020

Petards Group plc
("Petards", "the Group" or "the Company")

Interim results for the six months ended 30 June 2020

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its interim results for the six months ended 30 June 2020.

Key Highlights:

- **Operational**
  - Order book at 30 June 2020 over £12 million (H1 2019: £15 million)
  - First half 2020 *eyeTrain* revenues impacted by COVID-19 related factors
  - All other Group operational performances ahead of H1 2019
  - QRO acquisition of NASBox ANPR technology rights for £149,000
  - Significant reduction in the Group's on-going cost base

- **Financial**
  - Revenue £7.1 million (H1 2019: £8.9 million)
  - Gross margin 34.4% (H1 2019: 35.9%)
  - Adjusted EBITDA £337,000 (H1 2019: £625,000)[1]
  - Adjusted post-tax loss £164,000 (H1 2019 profit: £65,000)[2]
  - Post-tax loss £469,000 (H1 2019: profit £65,000)
  - Cash generated from operating activities £1,802,000 (H1 2019: £584,000 cash used)
  - Net funds at 30 June 2020 increased to £1.0 million (31 Dec 2019: net debt £0.5 million)
  - Renewal of Group's banking facilities to June 2022
  - Diluted EPS 0.82p loss (H1 2019: 0.11p earnings)

1. Earnings before financial income and expenses, tax, depreciation, amortisation, share based payment charges and exceptional restructuring costs.
2. Adjusted for exceptional restructuring costs of £305,000.

Commenting on the current outlook, Raschid Abdullah, Chairman, said:

"The Group's strong cash performance in the first half of 2020 has strengthened the balance sheet and its undrawn £0.75 million revolving credit facility was renewed in June for a further two years. The closing order book at 30 June 2020 of over £12 million continues to provide a solid base to build upon, although given the uncertain business environment the provision of forward guidance remains extremely challenging."

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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Chairman's statement

Given the extremely challenging trading conditions I referred to in my last statement, the Group made solid progress in the first six months of 2020. While the results for the period were below our expectations at the start of the year and have been affected by the COVID-19 pandemic, they are much improved compared with those reported for the second half of 2019.

Revenues for the six months to 30 June 2020 totalled £7.1 million and while down on the same period last year (H1 2019: £8.9 million), they were ahead of those for the second half of 2019. More importantly the Group recorded adjusted earnings before interest, tax, depreciation, amortisation, share based payment charges and restructuring costs ("Adjusted EBITDA") of £337,000 and generated net cash from operations of £1.8 million, an improvement over the results of the preceding six months (6 months 31 Dec 2019: EBITDA loss £906,000; net cash generated £0.7 million).

The Group closed the first half year with a strong cash position, with cash balances of £2.2 million and net funds of £1.0 million (31 Dec 2019: £0.8 million cash balances and £0.5 million net debt).

Business overview

Petards' operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications, the main markets for which are:

- Rail Technology – software driven video and other sensing systems for on-train applications sold under the *eyeTrain* brand to global train builders, integrators and rail operators, and web-based real-time safety critical integrated software applications supporting the UK rail network infrastructure sold under the RTS brand;
- Traffic Technology – Automatic Number Plate Recognition (ANPR) systems for lane and speed enforcement and other applications, and UK Home Office approved mobile speed enforcement systems, sold under the QRO and *ProVida* brands to UK and overseas law enforcement agencies and commercial customers; and
- Defence Services – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence (MOD).

Operating review

Against the backdrop of COVID-19, the first six months of 2020 included some aspects which adversely affected the performance of the Group's business, primarily revenues and order intake relating to *eyeTrain* systems. However, the period closed with increased revenues and profits for all of the Group's other areas of business, together with a record order intake at QRO and the acquisition of a new product line.

The Group's *eyeTrain* revenues in the first half experienced delays due to customer driven production re-scheduling, and reduced spares volumes due to fewer train services running post lock down and the dramatic reduction in passenger numbers. Following on from the cost reductions commenced in 2019, and given the changed market conditions in 2020, a further significant reduction in *eyeTrain*'s cost base has been undertaken at a cost of £305,000, to realign it to the supply of our present product range. Productivity is a key measurement and we continue to explore areas where this metric can be further improved.

The Department for Transport (DfT) has recently announced the end of the UK rail franchising system that has been in place for almost a quarter of a century. Until a new system of operating is put in place, train operators have been placed on transitional contracts first initiated following the pandemic. Together with yet to be published recommendations from the Williams' Review, this lack of certainty for the industry is likely to affect the demand and timing of orders for new trains. However, undoubtedly some level of orders will continue to be placed and we were pleased to finalise an initial two-year maintenance contract with Siemens Mobility UK for the provision of technical and software support, servicing and repairs for *eyeTrain* systems fitted to Siemens Desiro City trains used on Thameslink and Moorgate services.

RTS's software business performed well in the period, with revenues two-thirds higher than in the same period in 2019. It benefits from a high level of recurring revenues and underpinned these when in May it secured the renewal of an existing software support services contract with one of its major rail infrastructure customers. The renewed contract commenced in June 2020 and extends support for a further four years to June 2024.

QRO had an exceptional first half year and has been growing its Traffic Technology product portfolio through both technology acquisitions and in-house development. Revenues from systems and support services were up by 34% and its profit contribution to the Group was up threefold on the same period in 2019. These increased revenues came from both systems supply and from service and support activities, primarily in support of UK Police Forces, and during the period QRO expanded its facilities at its Northamptonshire site to support this and future growth.

As was announced in May, QRO acquired the software and hardware intellectual property rights to Nexus ANPR Smart Box ("NASBox") for £149,000 cash plus an on-going royalty, with the first post-acquisition sales being that month. The NASBox solution creates a fully compliant and cost effective roadside ANPR system when interfaced with commercial off-the-shelf cameras, such as QRO's latest competitively priced ANPR camera offering. Orders and sales to date have been pleasing and we consider NASBox to be a valuable addition to the Group's portfolio that will provide opportunities to continue the growth in Traffic Technology.

Defence Services also delivered higher revenues and profit contribution in the period than in the first six months of 2019. The Group's core engineering service contracts with the MOD continue to provide the bedrock of Defence Services revenues, with the growth having arisen in two areas. The first was the earlier than scheduled delivery of just over half of the £1.1 million contract for electronic countermeasures equipment for a MOD programme to which I referred in the 2019 Annual Report. The second related to higher levels of engineering services for a specific mobile radio systems project.

The Group has been seeking to develop its Defence Services offering and encouragingly the MOD recently confirmed that the *eyeCraft360* spherical video systems developed by Petards had completed successful trials in partnership with the British Army's Armoured Trials and Development Unit. It is hoped that the successful completion of the trials will generate increased interest in *eyeCraft360* and that this leads to it becoming an essential component in providing the best available protection for military personnel in the UK and other approved markets.

Financial review

Operating performance

Revenues for the six months ended 30 June 2020 totalled £7.1 million (H1 2019: £8.9 million). As reported above, revenue increases for Traffic Technology, Defence Services and Rail infrastructure software were insufficient to offset the reduction in deliveries of *eyeTrain* systems and spares.

The Group gross profit margin was slightly lower at 34.4% (H1 2019: 35.9%). Of the two *eyeTrain* projects on which cost provisions were taken at the 2019 year-end, one was fully installed within the revised cost budget, and the other is on target to be similarly completed. However, the much lower than usual margin on these projects affected the overall gross profit margin in the first half.

Before exceptional restructuring costs of £0.3 million, administrative expenses were down 15% to £2.6 million (H1 2019: £3.1 million) reflecting the measures taken to date to reduce *eyeTrain* headcount. At 30 June 2020 £170,000 of the restructuring costs had been settled in cash with the balance being paid in the second half of the year.

Adjusted EBITDA for the period was £337,000 (H1 2019: £625,000), and with amortisation and depreciation charges at similar levels to the prior year, the Group incurred an operating loss of £468,000 after exceptional restructuring charges (H1 2019: £114,000 profit). Net financial expenses, which predominantly relate to the Group's term loan and lease liabilities, totalled £38,000 (H1 2019: £49,000).

After a net tax credit of £37,000 (H1 2019: £nil), the Group's loss after tax was £469,000 (H1 2019: £65,000 profit). The tax credit related to the recognition of the Group's net deferred tax assets at the newly enacted rate of 19% effective from April 2020, and differences in the rate at which recognised tax losses were surrendered for R&D credits during 2020. The basic and diluted loss per share was 0.82p (H1 2019: earnings of 0.11p).

Cash, cash flow and net debt

The Group generated net cash from operating activities in the period of £1.8 million (H1 2019: £0.6 million cash used) after the payment of restructuring costs. This positive cash performance reflected a reduction in working capital of £0.7 million and the benefit of R&D tax credit receipts of £1.0 million.

The overall increase in cash for the period was £1.3 million (H1 2019: £1.3 million decrease) and as anticipated, cash outflows from investing activities were much lower than the first half of 2019. Investment in development expenditure totalled £0.1 million (H1 2019: £0.5 million) and the initial £0.1 million instalment was paid in respect of the acquisition of the NASBox intellectual property rights.

After repayments of debt and interest of £0.2 million (H1 2019: £0.2 million), cash balances increased to £2.2 million at 30 June 2020 (31 Dec 2019: £0.8 million).

Net funds at 30 June 2020, after deducting the Group's term loan and lease liabilities, had also much improved and totalled £1.0 million (December 2019: £0.5 million net debt).

Outlook

While to date 2020 has certainly proved to be an extremely challenging period as being experienced by many other companies, I am pleased that progress is being made by the Group. Other than the impact of the pandemic and delays on its *eyeTrain* business, the Group's operations returned a good performance in the first half of 2020. Further action was taken to reduce the cost base of the *eyeTrain* business in the first half, the benefits of which are expected to filter through in the final quarter of the year.

The strong order performance in Traffic Technology from the Police sector seen in the first half year is expected to continue in the coming months. Bid levels within Defence Services have improved, and there remain some potential business opportunities for *eyeTrain*.

The Group's strong cash performance in the first half of 2020 has strengthened the balance sheet and its undrawn £0.75 million revolving credit facility was renewed in June for a further two years. The closing order book at 30 June 2020 of over £12 million continues to provide a solid base to build upon, although given the uncertain business environment the provision of forward guidance remains extremely challenging.

Raschid Abdullah

24 September 2020

Condensed Consolidated Income Statement
for the six months ended 30 June 2020

	Note	**Unaudited 6 months ended 30 June 2020 £000**	Unaudited 6 months ended 30 June 2019 £000 Restated*	Audited Year ended 31 December 2019 £000
Revenue		**7,092**	8,851	15,706
Cost of sales		**(4,655)**	(5,677)	(10,863)
Gross profit		**2,437**	3,174	4,843
Administrative expenses		**(2,905)**	(3,060)	(6,130)
Adjusted EBITDA**		**337**	625	(281)
Amortisation of intangibles		**(315)**	(336)	(639)
Depreciation of property, plant and equipment		**(107)**	(109)	(204)
Amortisation of right of use assets		**(67)**	(51)	(133)
Share based payment charges		**(11)**	(15)	(30)
Exceptional restructuring costs	6	**(305)**	-	-
Operating (loss)/profit		**(468)**	114	(1,287)
Financial income		**4**	-	1
Financial expenses		**(42)**	(49)	(176)
(Loss)/profit before tax		**(506)**	65	(1,462)
Income tax	7	**37**	-	1,269
(Loss)/profit for the period attributable to equity shareholders of the company		**(469)**	65	(193)
Other comprehensive income		**-**	-	-
Total comprehensive (expense)/income for the period		**(469)**	65	(193)
(Loss)/earnings per ordinary share (pence)				
Basic	11	(0.82)	0.11	(0.34)
Diluted	11	(0.82)	0.11	(0.34)

* Details of the prior year restatement are provided at Note 5.

** Earnings before financial income and expenses, tax, depreciation, amortisation, share based payment charges and exceptional restructuring costs.

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2020

	Share capital £000	Share premium £000	Equity reserve £000	Retained earnings £000	Total equity £000
At 1 January 2019 (audited)	575	1,617	14	5,885	8,091
Prior year adjustment, net of tax*	-	-	-	(450)	(450)
Adjusted balance at 1 January 2019 (audited)	575	1,617	14	5,435	7,641
Profit for the period as previously stated	-	-	-	206	206
Prior year adjustment, net of tax*	-	-	-	(141)	(141)
Total comprehensive income for the period as restated	-	-	-	65	65
Equity settled share based payments	-	-	-	15	15
At 30 June 2019 as restated (unaudited)	**575**	**1,617**	**14**	**5,515**	**7,721**
At 1 January 2019 (audited)	575	1,617	14	5,435	7,641
Loss for the year	-	-	-	(193)	(193)
Total comprehensive expense for the year	-	-	-	(193)	(193)
Equity settled share based payments	-	-	-	30	30
At 31 December 2019 (audited)	**575**	**1,617**	**14**	**5,272**	**7,478**
At 1 January 2019 (audited)	**575**	**1,617**	**14**	**5,272**	**7,478**
Loss for the period	-	-	-	(469)	(469)
Total comprehensive expense for the period	-	-	-	(469)	(469)
Exercise of share options	-	7	-	-	7
Equity settled share based payments	-	-	-	11	11
At 30 June 2020 (unaudited)	**575**	**1,624**	**14**	**4,814**	**7,027**

* Details of the prior year restatement are provided at Note 5.

Condensed Consolidated Statement of Financial Position
at 30 June 2020

	Note	**Unaudited 30 June 2020 £000**	Unaudited 30 June 2019 £000 Restated*	Audited 31 December 2019 £000
ASSETS				
Non-current assets				
Property, plant and equipment		**894**	906	973
Right of use assets		**397**	460	466
Intangible assets		**4,699**	4,797	4,733
Deferred tax assets		**469**	390	528
		6,459	6,553	6,700
Current assets				
Inventories		**2,420**	2,941	2,430
Trade and other receivables	8	**3,580**	4,139	3,798
Cash and cash equivalents		**2,174**	815	827
		8,174	7,895	7,055
Total assets		**14,633**	14,448	13,755
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		**575**	575	575
Share premium		**1,624**	1,617	1,617
Equity reserve		**14**	14	14
Retained earnings		**4,814**	5,515	5,272
Total equity		**7,027**	7,721	7,478
Non-current liabilities				
Interest-bearing loans and borrowings	10	**784**	1,140	338
		784	1,140	338
Current liabilities				
Interest-bearing loans and borrowings	10	**364**	375	1,014
Trade and other payables	9	**6,458**	5,212	4,925
		6,822	5,587	5,939
Total liabilities		**7,606**	6,727	6,277
Total equity and liabilities		**14,633**	14,448	13,755

* Details of the prior year restatement are provided at Note 5.

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2020

	Unaudited 6 months ended 30 June 2020 £000	Unaudited 6 months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Cash flows from operating activities			
(Loss)/profit for the period	**(469)**	65	(193)
Adjustments for:			
Depreciation of property, plant and equipment	**116**	105	204
Amortisation of right of use assets	**58**	55	133
Amortisation of intangible assets	**315**	336	639
Exceptional restructuring costs	**305**	-	-
Financial income	**(4)**	-	(1)
Financial expenses	**42**	49	176
Equity settled share-based payment expenses	**11**	15	30
Income tax (credit)/charge	**(37)**	-	(1,269)
Operating cash flows before movement in working capital	**337**	625	(281)
Change in inventories	**10**	607	1,118
Change in trade and other receivables	**(632)**	(1,674)	(379)
Change in trade and other payables	**1,291**	(250)	(425)
Cash generated from operations	**1,006**	(692)	33
Tax received	**966**	108	109
Payments in respect of exceptional restructuring costs	**(170)**	-	-
Net cash from operating activities	**1,802**	(584)	142
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(23)**	(27)	(263)
Acquisition of right of use assets	**-**	-	(5)
Acquisition of intellectual property rights	**(80)**	-	-
Capitalised development expenditure	**(131)**	(457)	(696)
Interest received	**4**	-	1
Net cash outflow from investing activities	**(230)**	(484)	(963)
Cash flows from financing activities			
Bank loan repaid	**(125)**	(125)	(250)
Interest paid on lease liabilities	**(11)**	(12)	(25)
Interest paid on loans and borrowings	**(20)**	(37)	(53)
Principal paid on lease liabilities	**(65)**	(60)	(117)
Other interest and foreign exchange	**(11)**	-	(24)
Proceeds from exercise of share options	**7**	-	-
Net cash outflow from financing activities	**(225)**	(234)	(469)
Net increase/(decrease) in cash and cash equivalents	**1,347**	(1,302)	(1,290)
Total movement in cash and cash equivalents in the period	**1,347**	(1,302)	(1,290)
Cash and cash equivalents at 1 January	**827**	2,117	2,117
Cash and cash equivalents	**2,174**	815	827

Notes to the financial statements

1. Reporting entity

Petards Group plc (the 'Company') is incorporated and domiciled in England and its shares are publicly traded on the Alternative Investment Market ('AIM') of the London Stock Exchange. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the 'Group').

Copies of these interim financial statements will be available on the Company's website (www.petards.com) and from the Company's registered office at Parallel House, 32 London Road, Guildford, GU1 2AB.

2. Basis of preparation

As permitted, these interim financial statements have been prepared in accordance with AIM Rules for Companies and are not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS. They should be read in conjunction with the Group's last annual consolidated financial statements as at and for the financial year ended 31 December 2019 ('last annual financial statements'). They do not include all of the financial information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in the Group's financial position and performance since the last annual financial statements. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2019 set out in these interim statements are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Impact of accounting standards to be applied in future periods

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to 31 December 2020 (the date on which the Company's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The Group does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

The Board has reviewed the continuing effect of Covid-19 on the Group's business and has concluded that there is no material effect on areas requiring significant judgements and estimates.

4. Amendments to IFRS 16: Covid-19-Related Rent Concessions

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy certain criteria. No rent concessions have been provided in respect of any of the Group's leases and therefore this amendment has no impact on the results for the period.

5. Prior year adjustment

The Group's 2019 annual consolidated financial statements included a prior year adjustment concerning a costing error identified in respect of the installation element of a project that had been on-going since the latter part of 2016. This error led to the profits taken at 31 December 2018 and 30 June 2019 to be overstated. The impact was to reduce the previously reported profit after tax for the year ended 31 December 2018 by £450,000 and that for the six months ended 30 June 2019 by £141,000, and reduced equity by the same amounts. The June 2019 adjustment reduced gross profit by £141,000 with a corresponding reduction in work in progress and there was no tax effect arising.

6. Exceptional restructuring costs

During the six-month period to 30 June 2020 the Group restructured the cost base of certain parts of the business. The cost of this exercise was £305,000 of which £170,000 was settled before 30 June 2020.

7. Taxation

A tax credit of £37,000 (H1 2019: £nil) has been recognised in the Condensed Consolidated Income Statement for the six months to 30 June 2020 based on the estimated tax provision required for the year ending 31 December 2020. This comprised a £62,000 credit arising from recognising the Group's net deferred tax assets at 19%, the corporation tax rate enacted in March 2020, rather than the previously enacted rate of 17% that was to apply from 1 April 2020, and a charge of £25,000 relating to tax losses surrendered for R&D credits in 2020.

8. Trade and other receivables

	Unaudited 6 months ended 30 June 2020 £000	Unaudited 6 months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Trade receivables	**3,076**	3,872	2,592
Corporation tax recoverable	**96**	-	942
Other receivables and prepayments	**408**	267	264
	3,580	4,139	3,798

9. Trade and other payables

	Unaudited 6 months ended 30 June 2020 £000	Unaudited 6 months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Trade payables	**1,471**	2,241	2,251
Contract liabilities	**2,580**	1,401	1,320
Non-trade payables and accrued expenses	**2,407**	1,570	1,354
	6,458	5,212	4,925

10. Interest-bearing loans and borrowings

Current liabilities

	Unaudited 6 months ended 30 June 2020 £000	Unaudited 6 months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Bank loan	**250**	250	881
Lease liabilities	**114**	125	133
	364	375	1,014

Non-current liabilities

	Unaudited 6 months ended 30 June 2020 £000	Unaudited 6 months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Bank loan	**500**	750	-
Lease liabilities	**284**	390	338
	784	1,140	338

11. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of shares in issue.

	Unaudited 6 months ended 30 June 2020	Unaudited 6 months ended 30 June 2019	Audited Year ended 31 December 2019
Earnings			
(Loss)/profit for the period (£000)	**(469)**	65	(193)
Number of shares			
Weighted average number of ordinary shares ('000)	**57,524**	57,468	57,468

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options that would decrease earnings per share or increase loss per share from continuing operations, and is calculated by dividing the adjusted profit for the year attributable to the shareholders by the assumed weighted average number of shares in issue. Due to the loss for the period, share options in issue in 2020 had an anti-dilutive effect.

	Unaudited 6 months ended 30 June 2020	Unaudited 6 months ended 30 June 2019	Audited Year ended 31 December 2019
Earnings			
(Loss)/profit for the period (£000)	**(469)**	65	(193)
Number of shares			
Weighted average number of ordinary shares ('000)	**57,524**	59,695	57,468