

15 September 2022

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

Interim results for the six months ended 30 June 2022

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 2022.

Key Highlights:

• **Financial**

- Revenue £5.5 million (H1 2021: £7.7 million)
- Gross profit margin 49.3% (H1 2021: 39.6%)
- Adjusted EBITDA £606,000 (H1 2021: £929,000)¹
- Post-tax profit £101,000 (H1 2021: £430,000)
- Cash generated from operating activities £1,120,000 (H1 2021: £1,669,000)
- Net funds at 30 June 2022 increased to £2.5 million (31 Dec 2021: net funds £1.5 million)²
- Diluted EPS 0.17p earnings (H1 2021: 0.74p)

• **Operational**

- Continued strong cash generative performance
- Significant growth at QRO with revenues up over 30%
- Rail market challenging but spares, repairs services revenues back to pre-Covid levels
- Significantly improved gross profit margin reflects increased content of higher margin engineering and support services and lower cost base
- All expiring RTS software licenses and support renewed with increased number of users
- Order book at 30 June 2022 £6 million (31 Dec 2021: £7 million)

1. Earnings before financial income and expenses, tax, depreciation, amortisation, and share based payment charges

2. Total net funds comprise cash and cash equivalents less interest-bearing loans and borrowings (including lease liabilities)

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

"The Board anticipates the Group will make further progress in the second half year and deliver a satisfactory and cash generative performance for year"

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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Chairman's statement

I am pleased to report that for the six months to 30 June 2022 the Group continued to trade both profitably and cash generatively. While lower than the corresponding period in 2021, revenues for the six months to 30 June 2022 were £5.5 million (H1 2021: £7.7 million).

Adjusted EBITDA for the period was £606,000 (H1 2021: 929,000), and profit after tax £101,000 (H1 2021: £430,000). The Group generated net cash from operations of £1.1 million (H1 2021: £1.7 million) with cash balances closing at £3.0 million (31 Dec 21: £2.3 million) with net funds of £2.5 million (31 Dec 21: £1.5 million).

These results reflect the present challenging conditions within the UK market rail market that I outlined in my last Chairman's Statement, and that last year's revenues were weighted towards the first six months.

Business overview

Petards continues to focus upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications, the principal markets for which are;

- **Rail**

- *eyeTrain* software driven video camera and sensor-based systems for on-train applications marketed to global train builders and UK rolling stock owners and operators, providing critical data on and off-train to improve operational and rail safety performance; and
- *RTS* real-time safety critical software supporting the UK rail network, and infrastructure rail asset management, logistics, planning and business workflow SaaS software for UK rail prime contractors using the RTS Rail Ops and Asset Management Services suite of applications.

- **Traffic**

Systems marketed under the QRO name whose brands include ProVida, NASBox and Q-Box, to UK and overseas law enforcement agencies:

- Automatic Number Plate Recognition (ANPR) for intelligence-led policing on a national and cross border level, and other ANPR applications, and
- UK Home Office approved mobile speed enforcement systems.

- **Defence**

Electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence (MOD).

Operating review

The Group results for the first half of 2022 represent the third consecutive reporting period that the Group has returned a pre-tax profit, improved the gross profit margin, and been cash generative.

The rail sector continues to be challenging and the first half year saw a marked reduction in *eyeTrain* revenues, although those from spares, repairs and services recovered to levels last seen pre-Covid. However, we are experiencing a higher level of activity in enquiries and tenders for rolling stock refurbishment and upgrade programmes, which is increasing our order prospects. Refurbishment and upgrade contracts are anticipated to be the precursor to securing future larger contract awards.

This month will be the first time since 2018 that InnoTrans, the world's largest trade fair focused on the rail transport industry, will be held in Berlin. As in the past, Petards will be exhibiting and fielding a strong team encompassing both *eyeTrain* and *RTS*. We are pleased with the resumption of this event and look forward to welcoming both existing and potential new customers to our stand.

Our rail-based customers continue to be cautious in the placement of new business, which is delaying orders and is against a background of gradually recovering passenger numbers, together with the complexities relating to the implementation of the UK's new rail operating model, Great British Railways, and its funding.

RTS continued to progress and is investing in additional business development resource and software engineering capability to pave the way for planned new product launches. During the first six months it secured the renewal of all its existing software licence and maintenance contracts expiring in the period and increased the number of SaaS user licences.

Our investment strategy to expand the RTS portfolio of rail infrastructure related software products has progressed according to plan, and in the fourth quarter of 2022 it will be launching its newly developed real-time remote working and reporting modules. These will extend its Rail Operations and Asset Management Services suites of software and will significantly enhance the ease and speed of reporting by on-site and trackside field service rail personnel, increasing efficiency and safety.

QRO continued to perform well achieving revenue growth of 31% over the comparable period in 2021, and a highly satisfactory result. Q-Box, a cost effective in-vehicle ANPR solution launched by QRO earlier in the year, has attracted a high level of customer interest and over £750k of Q-Box orders were secured by the half year end.

Although QRO's first half was affected by supply chain capacity issues, action has been taken to address this and another strong performance is expected for the full year.

Our defence business traded above expectations in terms of revenue and margins and delivered a good result for the first half of the year. Activities in the period included the delivery of new equipment to the RAF as part of the JETS threat simulator systems five-year framework contract secured last year. Specialist engineering services provided included the Challenger 2 VICS engine and transmission management system survey programme, and the support of vital MOD communication equipment in the UK and overseas.

Following overseas trials earlier this year and building upon previous work with the British Army's Armoured Trials and Development Unit, further trials of Petards' eyeCraft 360 are planned for later this year and into 2023.

Financial review

Operating performance

Revenues for the six months ended 30 June 2022 totalled £5.5 million (H1 2021: £7.7 million). Revenues for the period were only slightly below those achieved in the second half of 2021, whereas the first half of 2021 had benefitted from revenues of £1.8 million from two individual shipments of equipment, one relating to Rail and one to Defence.

The Group's overall gross profit margin increased significantly to 49.3% (H1 2021: 39.6%), sustaining the improvements achieved over the past two years or so since management acted to re-align eyeTrain's cost base. The improvement in the first six months of 2022 reflected those cost reductions as well as the growth in revenues of higher margin spares, repairs, and engineering services across the Group.

Administrative expenses were broadly unchanged at £2.6 million (H1 2021: £2.6 million).

Adjusted EBITDA for the period was £606,000 (H1 2021: £929,000), and with amortisation and depreciation charges at similar levels to the comparable period in 2021, the Group generated an operating profit of £125,000 (H1 2021: £454,000). Net financial expenses, which predominantly relate to the Group's term loan and lease liabilities, remained at £24,000 (H1 2021: £24,000).

After a nil tax charge (H1 2021: nil), the Group's profit after tax was £101,000 (H1 2021: £430,000) and the basic and diluted earnings per share were 0.18p and 0.17p respectively (H1 2021: basic and diluted profit of 0.75p and 0.74p respectively).

Cash, cash flow and net debt

The Group continued its recent record of strong cash generative performance, generating net cash from operating activities in the period of £1.1 million (H1 2021: £1.7 million).

After repayment of debt and interest of £0.1 million, cash balances increased to £3.0 million (31 December 2021: £2.3 million). Net funds at 30 June 2022, after deducting term loan and lease liabilities, grew to £2.5 million from £1.5 million at 31 December 2021.

With two years remaining on its undrawn £2.5 million 3-year overdraft facility and with its existing cash resources, the Group has sufficient capacity to fund organic growth and its working capital requirements.

Acquisitions

Acquisitions continue to be a part of the board's strategy and we have reviewed several businesses which would complement the Group activities. Some of these companies have yet to recover to their pre-Covid earnings levels and as a result agreeing values remains the challenge in the present climate.

Outlook

The Group's activities generally performed well during the period to 30 June 2022, apart from eyeTrain where delays in order placement for new systems reduced revenues. The Group's order book at 30 June 2022 of £6 million reflects this lower eyeTrain order intake.

While UK rail passenger journeys have recovered from the extreme lows of 2020 and doubled in the year to March 2022, they were still less than two thirds of those undertaken pre-Covid. We believe that until such time as the Great British Railways model is operational, UK train operators are likely to remain restricted in the placement of new business, particularly for larger orders. However, there are smaller opportunities which are presently under discussion with existing customers.

Despite this background, the Board anticipates the Group will make further progress in the second half year and deliver a satisfactory and cash generative performance for year.

Raschid Abdullah

15 September 2022

Condensed Consolidated Income Statement

for the six months ended 30 June 2022

	Note	Unaudited 6 months ended 30 June 2022 £000	Unaudited 6 months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Revenue		5,521	7,692	13,574
Cost of sales		(2,801)	(4,647)	(7,482)
Gross profit		2,720	3,045	6,092
Administrative expenses		(2,601)	(2,591)	(5,530)
Other income		6	-	8
Adjusted EBITDA*		606	929	1,534
Amortisation of intangibles		(313)	(297)	(603)
Depreciation of property, plant and equipment		(77)	(99)	(193)
Amortisation of right of use assets		(91)	(63)	(136)
Share based payment charges		-	(16)	(32)
Operating profit		125	454	570
Financial expenses		(24)	(24)	(68)
Profit before tax		101	430	502
Income tax	4	-	-	363
Profit for the period attributable to equity shareholders of the company		101	430	865
Other comprehensive income		-	-	-
Total comprehensive income for the period		101	430	865
Earnings per ordinary share (pence)				
Basic	9	0.18	0.75	1.51
Diluted	9	0.17	0.74	1.47

* Earnings before financial income and expenses, tax, depreciation, amortisation and share based payment charges

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2022

	Share capital £000	Share premium £000	Treasury shares £000	Equity reserve £000	Retained earnings £000	Total equity £000
At 1 January 2021 (audited)	575	1,624	-	14	4,715	6,928
Profit for the period	-	-	-	-	430	430
Total comprehensive income for the period	-	-	-	-	430	430
Equity settled share based payments	-	-	-	-	16	16
At 30 June 2021 (unaudited)	575	1,624	-	14	5,161	7,374
At 1 January 2021 (audited)	575	1,624	-	14	4,715	6,928
Profit for the year	-	-	-	-	865	865
Total comprehensive income for the year	-	-	-	-	865	865
Purchase of treasury shares	-	-	(103)	-	-	(103)
Equity settled share based payments	-	-	-	-	32	32
At 31 December 2021 (audited)	575	1,624	(103)	14	5,612	7,722
At 1 January 2022 (audited)	575	1,624	(103)	14	5,612	7,722
Profit for the period	-	-	-	-	101	101
Total comprehensive income for the period	-	-	-	-	101	101
At 30 June 2022 (unaudited)	575	1,624	(103)	14	5,713	7,823

Condensed Consolidated Statement of Financial Position at 30 June 2022

		Unaudited 30 June 2022 £000	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
ASSETS				
Non-current assets				
Property, plant and equipment		656	761	686
Right of use assets		316	324	366
Intangible assets		3,720	4,341	4,031
Investments		5	5	5
Deferred tax assets		396	522	396
		<u>5,093</u>	<u>5,953</u>	<u>5,484</u>
Current assets				
Inventories		1,488	2,738	1,659
Trade and other receivables	5	2,285	1,890	1,989
Cash and cash equivalents		3,019	3,549	2,277
		<u>6,792</u>	<u>8,177</u>	<u>5,925</u>
Total assets		<u>11,885</u>	<u>14,130</u>	<u>11,409</u>
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		575	575	575
Share premium		1,624	1,624	1,624
Treasury shares		(103)	-	(103)
Equity reserve		14	14	14
Retained earnings		5,713	5,161	5,612
Total equity		<u>7,823</u>	<u>7,374</u>	<u>7,722</u>
Non-current liabilities				
Interest-bearing loans and borrowings	8	120	463	284
		<u>120</u>	<u>463</u>	<u>284</u>
Current liabilities				
Interest-bearing loans and borrowings	8	382	374	483
Trade and other payables	6	3,560	5,919	2,920
		<u>3,942</u>	<u>6,293</u>	<u>3,403</u>
Total liabilities		<u>4,062</u>	<u>6,756</u>	<u>3,687</u>
Total equity and liabilities		<u>11,885</u>	<u>14,130</u>	<u>11,409</u>

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2022

	Unaudited 6 months ended 30 June 2022 £000	Unaudited 6 months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Cash flows from operating activities			
Profit for the period	101	430	865
Adjustments for:			
Depreciation of property, plant and equipment	73	99	193
Amortisation of right of use assets	95	63	136
Amortisation of intangible assets	313	297	603
Profit on disposal of right of use assets	-	(8)	(8)
Financial expenses	24	24	68
Equity settled share-based payment expenses	-	16	32
Income tax charge/(credit)	-	-	(363)
	<hr/>	<hr/>	<hr/>
Operating cash flows before movement in working capital	606	921	1,526
Change in inventories	170	(366)	713
Change in trade and other receivables	(296)	740	641
Change in trade and other payables	640	359	(2,596)
	<hr/>	<hr/>	<hr/>
Cash generated from operations	1,120	1,654	284
Tax received	-	15	461
	<hr/>	<hr/>	<hr/>
Net cash from operating activities	1,120	1,669	745
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities			
Acquisition of property, plant and equipment	(43)	(99)	(118)
Sale of right of use assets	-	8	8
Capitalised development expenditure	-	(21)	(17)
	<hr/>	<hr/>	<hr/>
Net cash outflow from investing activities	(43)	(112)	(127)
	<hr/>	<hr/>	<hr/>
Cash flows from financing activities			
Bank loan repaid	(125)	(125)	(250)
Interest paid on lease liabilities	(12)	(14)	(18)
Interest paid on loans and borrowings	(7)	(10)	(122)
Principal paid on lease liabilities	(185)	(61)	(27)
Other interest and foreign exchange losses	(6)	(2)	(25)
Purchase of treasury shares	-	-	(103)
	<hr/>	<hr/>	<hr/>
Net cash outflow from financing activities	(335)	(212)	(545)
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	742	1,345	73
	<hr/>	<hr/>	<hr/>
Total movement in cash and cash equivalents in the period	742	1,345	73
Cash and cash equivalents at 1 January	2,277	2,204	2,204
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	3,019	3,549	2,277
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 AIM, a market operated by the London Stock Exchange. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2022 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 2021 ('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 2021 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.

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.

4. Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2022 based on the estimated tax provision required for the year ending 31 December 2022 (H1 2021: nil).

5. Trade and other receivables

	Unaudited 6 months ended 30 June 2022 £000	Unaudited 6 months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Trade receivables	1,974	1,734	1,683
Other receivables and prepayments	311	156	306
	<u>2,285</u>	<u>1,890</u>	<u>1,989</u>

6. Trade and other payables

	Unaudited 6 months ended 30 June 2022 £000	Unaudited 6 months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Trade payables	843	1,487	606
Contract liabilities	1,366	1,621	69
Non-trade payables and accrued expenses	1,351	2,811	2,245
	<u>3,560</u>	<u>5,919</u>	<u>2,920</u>

7. Interest-bearing loans and borrowings

Current liabilities

	Unaudited 6 months ended 30 June 2022 £000	Unaudited 6 months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Bank loan	250	250	250
Lease liabilities	132	124	233
	<u>382</u>	<u>374</u>	<u>483</u>

Non-current liabilities

	Unaudited 6 months ended 30 June 2022 £000	Unaudited 6 months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Bank loan	-	250	125
Lease liabilities	120	213	159
	<u>120</u>	<u>463</u>	<u>284</u>

8. 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 2022	Unaudited 6 months ended 30 June 2021	Audited Year ended 31 December 2021
Earnings			
Profit+ for the period (£000)	<u>101</u>	<u>430</u>	<u>865</u>
Number of shares			
Weighted average number of ordinary shares ('000)	<u>56,528</u>	<u>57,528</u>	<u>57,441</u>

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 period attributable to the shareholders by the assumed weighted average number of shares in issue.

	Unaudited 6 months ended 30 June 2022	Unaudited 6 months ended 30 June 2021	Audited Year ended 31 December 2021
Earnings			
Profit for the period (£000)	<u>101</u>	<u>430</u>	<u>865</u>
Number of shares			
Weighted average number of ordinary shares ('000)	<u>57,832</u>	<u>57,791</u>	<u>58,744</u>