

26 September 2023

Petards Group plc

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

Interim results for the six months ended 30 June 2023

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 2023 (the "Period").

Key Highlights:

- **Financial**
 - Revenue £4.4 million (H1 2022: £5.5 million)
 - Gross profit margin 47.3% (H1 2022: 49.3%)
 - Adjusted EBITDA loss of £59,000 (H1 2022: £606,000 profit)¹
 - Post-tax loss £301,000 (H1 2022: £101,000 profit)
 - Cash generated from operating activities £250,000 (H1 2022: £1,120,000)
 - Net funds at 30 June 2023 £1.7 million (31 December 2022: net funds £1.7 million)²
 - Diluted EPS loss of 0.53p (H1 2022: earnings of 0.17p)
- **Operational**
 - Continued cash generative operating performance
 - Rail and defence markets remained challenging but Rail tendering activities were significantly higher in the Period than in recent years
 - Recent new product launches with first orders already received which include:
 - QRO's new mobile digital video surveillance product on QBOX platform
 - OWL IP ANPR system; and
 - RTS's Mobile digital solution
 - Further QRO and Petards Rail products scheduled to launch in the coming months and 2024
 - Order book at 30 June 2023 of £4 million (31 December 2022: £4 million)
 - The board is encouraged by the fact that vendors' value aspirations are now showing a new realism and it continues to seek and review acquisition opportunities.

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 first half of 2023 proved to be challenging, and while the board is confident of an improved performance in second half year, it now believes that it is likely that the outturn for the year will be below current market expectations.

The Group's businesses have good management teams with strategic plans in place, to achieve growth in 2024 and 2025 with an ungeared balance sheet and the financial resources to support. These include plans for the launch of exciting new products over the coming months, many of which incorporate artificial intelligence and data solutions with increased functionality. The successful deployment of these new products and the improved prospects for acquisitions mean the board remains confident for the future."

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

Petards 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** – 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 under the RTS brand.
- **Traffic** – 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** – engineering services relating to electronic countermeasure protection systems, threat simulation systems and mobile radio systems and other defence related engineering equipment sold predominantly to the UK Ministry of Defence (MOD).

Trading

Trading for the Period proved to be most challenging with good performances from QRO and RTS being offset by disappointing performances from Rail and Defence. The overall result for the Group was a loss after tax of £301,000 (H1 2022: £101,000 profit) on revenues of £4.4 million (H1 2022: £5.5 million).

Adjusted EBITDA for the Period was a loss of £59,000 (H1 2022: £606,000 profit). The Group generated net cash from operations of £0.3 million (H1 2022: £1.1 million), with cash balances closing at £1.8 million (31 December 2022: £2.0 million) and net funds of £1.7 million (31 December 2022: £1.7 million).

Operating Review

Of the Group's businesses, Rail found trading conditions challenging with only one major UK order of note available to be won during the Period within its sector, for which the train builder opted to remain with its incumbent supplier rather than change to Petards Rail. The Rail division relies on the central government budgets and policy at a time when government expenditure has been

constrained and delays in finalising the implementation of strategic policies for Great British Rail (GBR). Slightly against this trend was RTS where demand for its software for trackside working remained at a reasonable level.

The level of activity within the Defence business weakened as the MOD's focus and budget has been on supporting Ukraine in its war with Russia rather than on the types of defence services provided by Petards.

QRO, whose law enforcement customers are also dependant on public expenditure funding, started the year more slowly following its exceptional performance last year. Nevertheless, it has continued to perform well, launching new products and has a strong pipeline of near term order opportunities. It continues to grow its market presence and has recently received a £0.2 million order from a new UK police force customer, further consolidating its position in the UK ANPR market.

During the Period Petards Rail experienced a significant increase in new business opportunities and has issued tenders of £16 million so far this year. Nearly £6 million of this relates to opportunities for which customers are presently indicating first deliveries in 2024 and these are either for upgrades to our existing eyeTrain systems or where Petards has the advantage of being the current supplier.

While there can be no certainty as to how many of these tenders will convert into new business, we anticipate an improving situation, and the board believes that 2024 will be a year of recovery in Petards Rail's financial performance. This is against the background of our lower cost base which has maintained our core operational capabilities whilst supporting our expanding customer service level agreements.

Petards continues to invest in the new products for which there is customer driven support. Recent new product launches for which initial orders have already been received include those from both RTS and QRO. RTS has launched its mobile solution which increases the efficiency of engineering teams by securely providing real time digitised reporting of trackside workers activities back to base.

In addition to QRO's launch in March 2023, of its mobile digital video surveillance product running on its QBOX platform, QRO has added a new UK designed OWL IP ANPR system to its product range. Recognising an increasing desire for UK built cameras, QRO has developed a UK designed and built AI Smart camera that it expects to launch during the fourth quarter of this year.

Working with customers, Petards Rail's new product developments include initiatives designed to improve passenger train door safety and new AI ready cameras. These developments are well advanced with planned launches in early 2024.

Financial Review

Operating performance

Revenues for the Period totalled £4.4 million (H1 2022: £5.5 million), with lower Defence revenues accounting for the majority of the reduction compared with the first half of 2022.

The Group's overall gross profit margin remained robust, albeit that it was down slightly at 47.3% (H1 2022: 49.3%) resulting from higher materials costs at QRO due to inflation. These are kept under constant review by local management and margin improvements are sought through re-design and new product introductions.

Administrative expenses were broadly unchanged at £2.6 million (H1 2022: £2.6 million).

Adjusted EBITDA for the Period was a loss of £59,000 (H1 2022: £606,000 profit), and with amortisation and depreciation charges reducing slightly compared to the first half of 2022, this gave rise to an operating loss of £489,000 (H1 2022: £125,000 profit).

After net financial expenses of £11,000 (H1 2022: £24,000) and a tax credit of £199,000 (H1 2022: nil), arising from the recent confirmation of R&D credits relating to the prior year, the Group's loss after tax for the Period was £301,000 (H1 2022: £101,000 profit). The basic and diluted loss per share was 0.53p (H1 2022: basic and fully diluted profit of 0.18p and 0.17p respectively).

Cash, cash flow and net debt

The Group generated net cash from operating activities in the Period of £0.25 million (H1 2022: £1.1 million).

After repayment of debt and interest of £0.1 million, cash balances at 30 June 2023 were £1.8 million (31 December 2022: £2.0 million). Net funds at 30 June 2023, after deducting lease liabilities, were £1.7 million (31 December 2022: £1.7 million).

The Group presently has an undrawn £2.5 million overdraft facility which along with existing cash resources, gives the Group sufficient capacity to fund organic growth, product development and its working capital requirements.

During the Period the final instalments of the five year loan that funded the acquisition of RTS Solutions in 2018 were made resulting in the Group becoming ungeared with no bank debt.

Acquisitions

The board believes that significant growth for Petards will best be achieved through a combination of organic revenue growth, improved operational performance and selective acquisitions. As I reported in May this year, several businesses have been reviewed which would complement the Group's activities and support its growth. The board is encouraged by the fact that vendors' value aspirations are now showing a new realism and it continues to seek and review acquisition opportunities.

Outlook

The first half of 2023 proved to be challenging, and while the board is confident of an improved performance in second half year, it now believes that it is likely that the outturn for the year will be below current market expectations.

The Group's businesses have good management teams with strategic plans in place, to achieve growth in 2024 and 2025 with an ungeared balance sheet and the financial resources to support. These include plans for the launch of exciting new products over the coming months, many of which incorporate artificial intelligence and data solutions with increased functionality. The successful deployment of these new products and the improved prospects for acquisitions mean the board remains confident for the future.

Raschid Abdullah

26 September 2023

Condensed Consolidated Income Statement

for the six months ended 30 June 2023

	Note	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Revenue		4,403	5,521	10,872
Cost of sales		(2,320)	(2,801)	(5,330)
Gross profit		2,083	2,720	5,542
Administrative expenses		(2,572)	(2,601)	(5,323)
Other income		-	6	6
Adjusted EBITDA*		(59)	606	1,161
Amortisation of intangibles		(254)	(313)	(586)
Depreciation of property, plant and equipment		(69)	(77)	(149)
Amortisation of right of use assets		(107)	(91)	(200)
Share based payment charges		-	-	(1)
Operating (loss)/profit		(489)	125	225
Finance income		7	-	1
Financial expenses		(18)	(24)	(48)
(Loss)/profit before tax		(500)	101	178
Income tax	4	199	-	346
(Loss)/profit for the period attributable to equity shareholders of the company		(301)	101	524
Other comprehensive income		-	-	-
Total comprehensive (expense)/income for the period		(301)	101	524
Earnings per ordinary share (pence)				
Basic	8	(0.53)	0.18	0.93
Diluted	8	(0.53)	0.17	0.91

* 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 2023

	Share capital £000	Share premium £000	Treasury shares £000	Equity reserve £000	Retained earnings £000	Total equity £000
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
At 1 January 2022 (audited)	575	1,624	(103)	14	5,612	7,722
Profit for the year	-	-	-	-	524	524
Total comprehensive income for the year	-	-	-	-	524	524
Equity settled share based payments	-	-	-	-	1	1
At 31 December 2022 (audited)	575	1,624	(103)	14	6,137	8,247
At 1 January 2023 (audited)	575	1,624	(103)	14	6,137	8,247
Loss for the period	-	-	-	-	(301)	(301)
Total comprehensive income for the period	-	-	-	-	(301)	(301)
At 30 June 2023 (unaudited)	575	1,624	(103)	14	5,836	7,946

Condensed Consolidated Statement of Financial Position

at 30 June 2023

		Unaudited 30 June 2023 £000	Unaudited 30 June 2022 £000	Audited 31 December 2022 £000
ASSETS				
Non-current assets				
Property, plant and equipment		604	656	593
Right of use assets		129	316	236
Intangible assets		3,740	3,720	3,829
Investments		5	5	5
Deferred tax assets		407	396	519
		<u>4,885</u>	<u>5,093</u>	<u>5,182</u>
Current assets				
Inventories		1,776	1,488	1,841
Trade and other receivables	5	2,201	2,285	2,502
Cash and cash equivalents		1,804	3,019	2,016
		<u>5,781</u>	<u>6,792</u>	<u>6,359</u>
Total assets		<u>10,666</u>	<u>11,885</u>	<u>11,541</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)	(103)
Equity reserve		14	14	14
Retained earnings		5,836	5,713	6,137
Total equity		<u>7,946</u>	<u>7,823</u>	<u>8,247</u>
Non-current liabilities				
Interest-bearing loans and borrowings	7	78	120	105
		<u>78</u>	<u>120</u>	<u>105</u>
Current liabilities				
Interest-bearing loans and borrowings	7	53	382	234
Trade and other payables	6	2,589	3,560	2,955
		<u>2,642</u>	<u>3,942</u>	<u>3,189</u>
Total liabilities		<u>2,720</u>	<u>4,062</u>	<u>3,294</u>
Total equity and liabilities		<u>10,666</u>	<u>11,885</u>	<u>11,541</u>

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2023

	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Cash flows from operating activities			
(Loss)/profit for the period	(301)	101	524
Adjustments for:			
Depreciation of property, plant and equipment	69	73	149
Amortisation of right of use assets	107	95	200
Amortisation of intangible assets	254	313	586
Profit on disposal of property, plant and equipment	-	-	(15)
Financial income	(7)	-	(1)
Financial expenses	18	24	48
Equity settled share-based payment expenses	-	-	1
Income tax charge/(credit)	(199)	-	(346)
Operating cash flows before movement in working capital	(59)	606	1,146
Change in inventories	65	170	(182)
Change in trade and other receivables	431	(296)	(334)
Change in trade and other payables	(366)	640	(47)
Cash generated from operations	71	1,120	583
Tax received	179	-	-
Net cash from operating activities	250	1,120	583
Cash flows from investing activities			
Acquisition of property, plant and equipment	(79)	(43)	(61)
Acquisition of intangible assets	-	-	(93)
Sale of property, plant and equipment	-	-	20
Interest received	7	-	-
Capitalised development expenditure	(164)	-	(164)
Net cash outflow from investing activities	(236)	(43)	(298)
Cash flows from financing activities			
Bank loan repaid	(125)	(125)	(250)
Interest paid on lease liabilities	(9)	(12)	(24)
Interest paid on loans and borrowings	(3)	(7)	(12)
Principal paid on lease liabilities	(83)	(185)	(248)
Other interest and foreign exchange losses	(6)	(6)	(12)
Net cash outflow from financing activities	(226)	(335)	(546)
Net (decrease)/increase in cash and cash equivalents	(212)	742	(261)
Total movement in cash and cash equivalents in the period	(212)	742	(261)
Cash and cash equivalents at 1 January	2,016	2,277	2,277
Cash and cash equivalents	1,804	3,019	2,016

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 2023 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 2022 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

The £199,000 credit in the Period predominantly relates to enhanced tax deductions for R&D tax claims and losses surrendered for R&D tax credits in respect of the prior year. These claims are recognised when receipt is determined to be probable. No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2023 based on the estimated tax provision required for the year ending 31 December 2023 (H1 2022: nil).

5. Trade and other receivables

	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Trade receivables	1,160	1,974	1,957
Corporation tax recoverable	308	-	179
Other receivables and prepayments	733	311	366
	2,201	2,285	2,502

6. Trade and other payables

	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Trade payables	506	843	782
Contract liabilities	1,031	1,366	671
Non-trade payables and accrued expenses	1,052	1,351	1,502
	<u>2,589</u>	<u>3,560</u>	<u>2,955</u>

7. Interest-bearing loans and borrowings

Current liabilities

	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Bank loan	-	250	125
Lease liabilities	53	132	109
	<u>53</u>	<u>382</u>	<u>234</u>

Non-current liabilities

	Unaudited 6 months ended 30 June 2023 £000	Unaudited 6 months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Lease liabilities	78	120	105
	<u>78</u>	<u>120</u>	<u>105</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 2023	Unaudited 6 months ended 30 June 2022	Audited Year ended 31 December 2022
Earnings			
(Loss)/profit for the period (£000)	<u>(301)</u>	<u>101</u>	<u>865</u>
Number of shares			
Weighted average number of ordinary shares ('000)	<u>56,528</u>	<u>56,528</u>	<u>56,528</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. Due to the loss in the first half of 2023 the share options in issue had an anti-dilutive effect.

	Unaudited 6 months ended 30 June 2023	Unaudited 6 months ended 30 June 2022	Audited Year ended 31 December 2022
Earnings			
(Loss)/profit for the period (£000)	<u>(301)</u>	<u>101</u>	<u>524</u>
Number of shares			
Weighted average number of ordinary shares (‘000)	<u>57,829</u>	<u>57,832</u>	<u>57,830</u>