Newmark Security plc

("Newmark" or the "Group")

Final Results for the year ended 30 April 2014

Newmark Security plc (AIM:NWT), a leading provider of electronic and physical security systems, today announces its final results for the year ended 30 April 2014.

Financial Highlights:

- Turnover increased by 4.7% to £19.2 million (2013: £18.3 million)
- Gross margin decreased slightly to 38.8% overall (2013: 40.4%), but this was after exceptional development cost provisions of £852K (2013: £483K). Gross margin prior to these provisions was 43.2% (2013: 43.0%)
- Profit from operations was £984k (2013: £202k),
- Profit from operations before exceptional items was £1.84 million (2013: £2.48 million)
- Exceptional items related to impairment provision against development costs of £0.85 million (2013: impairment provisions of £0.48million against development costs and £1.77 million against goodwill)
- Earnings per share of 0.19 pence (2013: 0.03 pence). Earnings per share before impairment provisions was 0.38 pence (2013: 0.54 pence)
- Cash flow from operating activities £2.13 million (2013: £2.96 million)
- Net cash increased to £1.12 million (2013: £0.65 million)
- Proposed dividend of 0.075 pence per share (2013: 0.0333 pence)

Commenting on the results, Maurice Dwek, Chairman of Newmark , said "The Board is delighted to recommend the payment of a dividend for the year which is more than double the amount of the previous year. As stated in previous years, the timing of our major contracts is dependent upon our customers and therefore turnover can vary significantly year on year. The Board is confident of continuing increased SATEON sales, generating tangible benefits from the restructuring of the electronic division and the broadening of our product offering in all areas. We look forward to another successful year in 2015."

For further information:

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CHAIRMAN'S STATEMENT

Overview

I am pleased to report another year of revenue growth in the year ended 30 April 2014. Group revenue for the year was £19,171k (2013: £18,316k), an increase of 4.7 per cent. Revenue in the electronic division increased by 9.4 per cent from £6,615k to £7,234k, whilst the asset protection division revenue increased by 2.0 per cent in the year from £11,701k to £11,937k.

Profit from operations for the year was £984k (2013: £202k). Profit for the year before exceptional items was £1,836k (2013: £2,476k). The exceptional item in the year was a development cost impairment £852k (2013: development cost impairment £483k and goodwill impairment £1,791k).

Within the electronic division, SATEON has been installed successfully in projects globally, with version 2.6 released in the year and 2.7 launched since the year end. Within Workforce Management Systems (WFM), there has again been healthy revenue from a major retailer although a planned order from a major supermarket chain was delayed at the request of the customer with the balance being delivered in the current financial year. Sales from our US operation more than doubled. Derek Blethyn resigned as managing director in the year and the Board would like to thank him for all his efforts in the past and to wish him every success in the future. Subsequently there has been a restructuring of the division which should place the business in a stronger position going forward.

Safetell acquired the trade and assets of CSI in the year for £118,000 mainly related to inventory and tools. Although turnover was lower than anticipated due to delays in orders from a major customer, it is expected that these orders will be placed in the current year and CSI further expands the product offering of the asset protection division. Turnover in the rest of the asset protection division was lower than the previous year mainly due to the timing of orders from the Post Office and delays with their installation programme which were outside our control.

A full financial review of the results for the year is included within the Strategic Report as set out below:

Financial review

Revenue in the year increased from £18,316,000 to £19,171,000 an increase of 4.7% analysed as follows:

	2013/14 £'000	2012/13 £'000	Increase/ (decrease) %
Electronic division			
Access control	4,060	3,744	8.4
Workforce management	3,174	2,871	10.6
Total electronic division	7,234	6,615	9.4
Asset protection division			
Products	8,719	8,295	5.1
Service	3,218	3,406	(5.5)
Total asset protection division	11,937	11,701	2.0
TOTAL	19,171	18,316	4.7

A detailed review of the activities, results and future developments is set out in the divisional sections below.

Electronic Division

Derek Blethyn resigned as managing director of Grosvenor Technology during the year after 24 years' service with the company and the Board would like to express its thanks for his valued contribution over the years and to wish him well for the future. A new management structure is now fully implemented, with both a new sales and marketing director and operations director. Grosvenor also moved to new modern premises at Stansted in the year with easier access for customers although certain one off costs were incurred in relation to the move and have been written off.

Access Control

Access control revenue grew by 8.4 per cent. during this transition period as SATEON was introduced to new customers and the division has capitalised on additional sales opportunities by upgrading existing customers from JANUS legacy systems.

SATEON has successfully been installed in projects globally, including Imperia Tower in Moscow, IFDS sites across Europe, Californian power stations plus educational facilities in UAE.

Meanwhile, prospects in the UK including 30 St. Mary's Axe ('The Gherkin') are now fully operational and there is a healthy pipeline of projects being commissioned including Brunel University, University of Dundee, European Bank, London, and a substantial contract within the defence industry.

SATEON version 2.6 was released in 2013 and version 2.7 has been launched since the year end featuring a raft of updates that include improved reporting and search functionality and improved integration with two major lift companies. The introduction of version 2.8 in 2014 will see integration with Assa Abloy Aperio offline locks. Assa Abloy is a market leader in security hardware and this improved integration improves ease of specification and increases market potential.

Workforce Management

We continue to benefit with healthy revenue from our longstanding relationship with one of the world's largest retailers as they continue to roll out stores globally. The delivery of terminals mentioned in last year's report to a major UK supermarket retailer was delayed by the customer and was only partly shipped in the year, the balance being shipped after the year end. Sales from our US operation more than doubled during the year such that our original expectations are now being realised. The new management structure is looking to improve cross selling opportunities between access control and workforce management in both product categories.

The development of the lower end IT11 terminal was completed during the year and extends the scope of our product range into more price sensitive areas and applications in new markets. Sales of the IT11 were not significant in the year as customers evaluated the product; however sales have increased in the current year.

Asset Protection Division

Safetell acquired the trade and assets of CSI, a division of Gunnebo UK Limited, on 1 November 2013 for a consideration of £118,000 mainly related to inventory and tools.

CSI sales in the six months since acquisition were £812,000 which was lower than anticipated due to delays in orders from a major supermarket chain which are now expected to be supplied in the current year. The acquisition of CSI will provide significant revenue streams in future years as it has added an additional range of Bullet Resistant (BR) products to our current offering.

Product stream

Product revenue was 5.1 per cent. above last year including the £812,000 revenue from CSI. Excluding CSI, turnover fell 4.7 per cent. principally due to the timing of orders received for time delay cash handling equipment from the Post Office (PO) and delays with installing equipment at PO branches which were outside our control.

This resulted in a reduction in sales of cash handling equipment overall but sales of new cash handling products developed for a high street bank in 2012 increased during the year. Orders for new Eclipse Rising Screens and screen reconfiguration work increased and there was an increase in sales to public sector clients. Eye2Eye sales decreased as a result of a reduction in train station refurbishment programmes but CounterShield sales increased substantially due to increased spending by public sector departments previously affected by budget cuts. Sales of Fixed Glazing and Counter Protection Systems increased as we benefited from a large order of £374K from a foreign embassy based in London. Sales of other non-standard products increased as we develop and introduce new products to existing clients and find new markets.

Service stream

Services sales and profitability were broadly in line with budget. During the period, the reducing number of bank branches in the High Street has had an impact but we enhanced our service offering to these institutions and diversified into larger project work which reduced the impact of pressure on margins from other customers.

The unit costs of servicing our customers is falling. The product stream will enter the more competitive CCTV and access control markets to provide product revenue, as well as additional service revenues. We continue to offer upgrades to Eclipse Rising Screen systems and this will also provide revenue streams going forward.

As mentioned in our interim report we have brought one contract negotiation to a satisfactory conclusion. The second significant contract is in its final stages but a reasonable outcome is expected. We remain confident in finalising the PO Network Transformation support contract.

Cash in transit box

As stated in the interim report, trials of the cash in transit box were successful and the client was impressed with its reliability, functionality and design. However due to their budget cuts, it is unlikely that any substantial order will be received from them in the near future. With developments from competitors and the earlier than anticipated introduction of polymer notes in the UK requiring further development work, the Board decided to write off the remaining development costs of £852,000 in the year.

The tax charge for the year was only 5.6 per cent. due to the availability of tax losses brought forward and research and development allowances.

Balance sheet and cash flow

Further development costs were capitalised in the year but net of impairments and amortisation, intangible assets decreased by £664,000. Inventories increased at the year end with the acquisition of CSI and the requirement for product sales after the year end, whilst trade receivables were higher due to the level of sales in March and April and advance billing of customers on contracts. Trade and other payable were higher for the same reasons.

Overall net assets increased from £10,949,000 to £11,628,000.

Cash flows from operating activities for the year was £2,133,000 (2013: £2,960,000), and overall there was an increase in cash and cash equivalents of £313,000 (2013: £906,000).

Basic earnings per share are shown in the income statement as 0.19 pence (2013: 0.03 pence). However, the earnings per share before impairment review provisions were 0.38 pence (2013: 0.54 pence)

Dividend

In view of the results for the year, the Board is pleased to recommend an increased dividend payment for the year ended 30 April 2014 of 0.075 pence per share (2013: 0.0333 pence).

Employees

The Board would like to welcome the staff of CSI and to express its appreciation to all staff for their continuing efforts during the year, which are reflected in the results.

Outlook

The Board is delighted to recommend the payment of a dividend for the year which is more than double the amount of the previous year. As stated in previous years and as exemplified above, the timing of our major contracts is dependent upon our customers and therefore turnover can vary significantly year on year. The Board is confident of continuing increased SATEON sales, generating tangible benefits from the restructuring of the electronic division and the broadening of our product offering in all areas. We look forward to another successful year in 2015.

M DWEK
Chairman

4 August 2014

CONSOLIDATED INCOME STATEMENT for the year ended 30 April 2014

	Note	2014 £'000	2013 £'000
Revenue		19,171	18,316
Cost of sales – including exceptional development cost impairment		(11,741)	(10,921)
Gross profit		7,430	7,395
Administrative expenses (2013: including exceptional goodwill impairment provision)		(6,446)	(7,193)
Profit from operations before exceptional items		1,836	2,476
Exceptional goodwill impairment		–	(1,791)
Exceptional development cost impairment		(852)	(483)
Profit from operations		984	202
Finance costs		(78)	(131)
Profit before tax		906	71
Tax (charge)/credit	2	(49)	69
Profit for the year		857	140
Attributable to:			
– Equity holders of the parent		857	140

	Note		
Earnings per share			
– Basic (pence)	4	0.19p	0.03p
– Diluted (pence)	4	0.17p	0.03p

All amounts relate to continuing activities.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION at 30 April 2014

Company number: 3339998

	2014 £'000	2013 £'000
ASSETS		
Non-current assets		
Property, plant and equipment	872	809
Intangible assets	8,428	9,092
Total non-current assets	9,300	9,901
Current assets		
Inventories	1,647	1,344
Trade and other receivables	4,078	2,588
Cash and cash equivalents	1,441	1,128
Total current assets	7,166	5,060
Total assets	16,466	14,961
LIABILITIES		
Current liabilities		
Trade and other payables	4,148	3,071
Other short term borrowings	196	294
Corporation tax liability	16	50
Provisions	100	129
Total current liabilities	4,460	3,544
Non-current liabilities		
Long term borrowings	124	184
Provisions	84	84
Deferred tax	170	200
Total non-current liabilities	378	468
Total liabilities	4,838	4,012
TOTAL NET ASSETS	11,628	10,949

Capital and reserves attributable to equity holders of the company		
Share capital	4,504	4,504
Share premium reserve	502	502
Merger reserve	801	801
Foreign exchange difference reserve	(196)	(168)
Retained earnings	5,977	5,270
	11,588	10,909
Non-controlling interest	40	40
TOTAL EQUITY	11,628	10,949

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 April 2014

	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Cash flow from operating activities				
Net profit after tax	857		140	
Adjustments for:				
Depreciation, amortisation and impairment	1,905		3,185	
Interest expense	78		131	
Income tax charge/(credit)	49		(69)	
Operating cash flows before changes in working capital	2,889		3,387	
(Increase) in trade and other receivables	(1,492)		(215)	
(Increase)/decrease in inventories	(303)		176	
Increase/(decrease) in trade and other payables	1,084		(379)	
Cash generated from operations		2,178		2,969
Income taxes paid		(45)		(9)
Cash flows from operating activities		2,133		2,960
Cash flow from investing activities				
Payments for property, plant & equipment	(324)		(249)	
Sale of property, plant & equipment	40		21	
Capitalised development expenditure	(997)		(1,239)	
Purchase of shares in subsidiary	–		(50)	
		(1,281)		(1,517)
Cash flow from financing activities				
Repayment loan notes	–		(105)	
Repayment of bank loans	(153)		(149)	
Repayment of finance lease creditors	(158)		(152)	
Dividends paid	(150)		–	
Interest paid	(78)		(131)	
		(539)		(537)

Increase in cash and cash equivalents	313	906

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Minority interest £'000	Total equity £'000
1 May 2012	4,504	502	801	(175)	5,130	40	10,802
Dividends (note 23)	–	–	–	–		–	
Total comprehensive income	–	–	–	7	140	–	147
30 April 2013	4,504	502	801	(168)	5,270	40	10,949
1 May 2013	4,504	502	801	(168)	5,270	40	10,949
Dividends (note 23)	–	–	–	–	(150)	–	(150)
Total comprehensive income	–	–	–	(28)	857	–	829
30 April 2014	4,504	502	801	(196)	5,977	40	11,628

1. Basis of preparation

The financial information set out above for the years ended 30 April 2014 and 2013 does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006 but is derived from those accounts. Statutory accounts for the year ended 30 April 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts. The auditors' reports were unqualified and did not contain statements under s.498 (2) or (3) Companies Act 2006. The results have been prepared using accounting policies consistent with those used in the preparation of the statutory accounts.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), IFRIC interpretations and the parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention.

The preparation of Financial Statements in conformity with IFRS require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information, including the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2. Taxation

The tax charge is affected by the effect of reliefs on research and development expenditure, and the use of losses brought forward.

3. Segment information

Description of the types of products and services from which each reportable segment derives its revenues The Group has 2 main reportable segments:

- Electronic division – This division is involved in the design, manufacture and distribution of access-control systems (hardware and software) and the design, manufacture and distribution of WFM hardware only, for time-and-attendance, shop-floor data collection, and access control systems. This division contributed 38 per cent. (2013: 36 per cent.) of the Group's revenue.
- Asset Protection division – This division is involved in the design, manufacture, installation and maintenance of fixed and reactive security screens, reception counters, cash management systems and associated security equipment. This division contributed 62 per cent. (2013: 64 per cent.) of the Group's revenue.

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are strategic business units that offer different products and services. The two divisions are managed separately as each involves different technology, and sales and marketing strategies.

Measurement of operating segment profit or loss from operations before tax not including non-recurring losses such as goodwill impairment, and also excluding the effects of share based payments.

Segment assets and liabilities exclude group company balances.

	Electronic 2014 £'000	Asset Protection 2014 £'000	Total 2014 £'000
Revenue			
Total revenue	7,234	11,937	19,171
Revenue from external customers	7,234	11,937	19,171
Finance cost	–	19	19
Depreciation	113	231	344
Amortisation	682	–	682
Impairment	–	852	852
Segment profit before income tax	212	1,841	2,053
Additions to non-current assets	1,111	375	1,486
Reportable segment assets	6,315	5,075	11,390

Reportable segment liabilities	1,054	3,559	4,613

	Electronic 2013 £'000	Asset Protection 2013 £'000	Total 2013 £'000
Revenue			
Total revenue	6,615	11,701	18,316
Revenue from external customers	6,615	11,701	18,316
Finance cost	18	16	34
Depreciation	97	214	311
Amortisation	592	–	592
Impairment	–	483	483
Segment profit before income tax	220	2,468	2,688
Additions to non-current assets	1,002	604	1,606
Reportable segment assets	5,465	4,207	9,672
Reportable segment liabilities	758	2,934	3,692

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities to the Group's corresponding amounts:

	2014 £'000	2013 £'000
Revenue		
Total revenue for reportable segments	19,171	18,316

	2014 £'000	2013 £'000
Profit or loss after income tax expense		
Total profit or loss for reportable segments	2,053	2,688
Corporation taxes	(49)	69
Unallocated amounts – other corporate expenses	(1,147)	(2,617)
Profit after income tax expense (continuing activities)	857	140

	2014 £'000	2013 £'000
Assets		
Total assets for reportable segments	11,390	9,672
PLC	112	208
Goodwill on consolidation	4,964	5,081
Group's assets	16,466	14,961
Liabilities		
Total liabilities for reportable segments	4,613	3,692
PLC	219	310
Liabilities of discontinued activities	6	10

Group's liabilities	4,838	4,012

	Reportable segment totals 2014 £'000	Adjustments 2014 £'000	Group totals 2014 £'000	Reportable segment totals 2013 £'000	Adjustments 2013 £'000	Group totals 2013 £'000
Other material items						
Capital expenditure	1,486	2	1,488	1,606	73	1,679
Depreciation and amortisation	1,026	27	1,053	903	8	911
Impairment	852	–	852	483	1,791	2,274

Geographical information:

	External revenue by location of customers 2014 £'000	External revenue by location of customers 2013 £'000	Non-current assets by location of assets 2014 £'000	Non-current assets by location of assets 2013 £'000
UK	16,283	16,026	9,266	9,876
Europe	1,148	1,209	–	–
USA	1,356	878	34	25
Other countries	384	203	–	–
	19,171	18,316	9,300	9,901

4. Earnings per share

	2014 £'000	2013 £'000
Numerator		
Earnings used in basic and diluted EPS – continuing operations	857	140
	No.	No.
Denominator		
Weighted average number of shares used in basic EPS – continuing operations	450,432,316	450,432,316
Weighted average number of share warrants	29,250,000	30,000,000
Weighted average number of share options	26,042,424	–
Weighted average number of shares and share options	505,724,740	480,432,316

In 2013 employee options were excluded from the calculation of diluted EPS as their exercise price was greater than the weighted average share price during the year (ie. they were out-of-the-money) and therefore it would not be advantageous for the holders to exercise these options.

The basic earnings per share before impairment provisions has also been presented since, in the opinion of the directors, this provides shareholders with a more appropriate measure of earnings derived from the Group's businesses. It can be reconciled to basic earnings per share as follows:

	2014 pence	2013 pence
Basic earnings per share (pence) – basic	0.19	0.03
Impairment provisions of goodwill and development costs	0.19	0.51
Earnings per share before impairment provisions	0.38	0.54

	2014 £'000	2013 £'000
Reconciliation of earnings		
Profit used for calculation of basic earnings per share	857	140
Impairment provisions of goodwill and development costs	852	2,274
Earnings before impairment provisions	1,709	2,414

5. Dividends

The directors are proposing a final dividend of 0.075 pence per ordinary share (2013: 0.0333 pence) totaling £337,824 (2013:£150,000).