EDISON

Newmark Security

H115 results

Revitalised strategy delivering growth

Tech hardware & equipment

The recent H115 results demonstrate that the strategic programme of actions instigated by Newmark Security's new management is beginning to drive growth. As well as being desirable in itself, these activities reduce the dependence on any individual customer. The shares continue to trade at a significant discount to peers on all metrics.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/12	13.1	0.4	0.12	0.00	24.6	N/A
04/13	18.3	2.3	0.54	0.03	5.5	1.1
04/14	19.2	1.8	0.38	0.08	7.8	2.5
04/15e	21.8	2.5	0.49	0.08	6.0	2.8

Note: *PBT and EPS are normalised (fully diluted), excluding intangible amortisation, exceptional items and share-based payments.

Programme of strategic renewal

Since her appointment in April 2013, CEO Marie-Claire Dwek has instigated a sequence of changes that make more use of the group's existing assets by strengthening the sales activity, developing new channels to market, encouraging closer ties between divisions, introducing products for complementary market segments and making a small acquisition. The combination of these steps makes the group less reliant on contracts from the Post Office, which, while they have made a welcome contribution to FY13, FY14 and H115 results, are expected to taper off between FY16 and FY20. We note that H215 performance is likely to be weaker than H115; however, we raise our FY15 PBT estimate by £0.5m to £2.5m.

H115 results demonstrate success of strategy

During H115 revenues grew by 34% (£3.0m) year-on-year to £11.9m. The CSI business, which was acquired in November 2013, contributed £1.2m of this increase. Organic sales growth was 21%. Asset Protection sales benefitted from branch refurbishment programmes for longstanding customers in the financial sector and higher levels of sales to the Post Office. Delivery and installation of products for this long-term programme are not on a regular schedule, so the associated turnover can vary significantly from year to year. More modest growth in the Electronic Division was driven by increased sales of workforce management products. Pre-exceptional operating profit rose by 76% to £1.6m despite increased costs associated with the investment in additional sales, marketing and product development personnel in both divisions to support future growth. The board has reaffirmed its commitment to a progressive dividend strategy.

Valuation: Discount to peers appears unwarranted

Newmark Security's shares are trading at a significant discount to those of its peers; the discount is substantially greater than that warranted by the relatively low market capitalisation and lack of liquidity.

19 March 2015

Price	**2.95**
Market cap	**£13m**

Net cash (£m) at 31 Oct 2014	2.1
Shares in issue	450.4m
Free float	37.1%
Code	NWT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.5)	53.3	66.2
Rel (local)	(3.4)	42.1	58.0
52-week high/low		3.2p	1.6p

Business description

Newmark Security provides electronic and physical security systems that focus on the safety and security of a company's personnel and its assets.

Next event

Prelims	August 2015

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Edison profile page

Newmark Security is a research client of Edison Investment Research Limited

Investment summary

Company description: Keeping personnel and assets secure

Newmark Security is an established niche provider of electronic and physical security systems to blue-chip customers, predominantly in the UK. Historically half its revenues were from asset protection products, including fixed and rising security screens, of which it is the dominant provider. The other half were from the sale of time and attendance (T&A) terminals to OEMs, where it also benefits from high UK market share and from the sale of access control systems. This market is more competitive. In the short term, growth is being driven by a revitalised sales force under the guidance of CEO Marie-Claire Dwek. This is augmented with the development of new products taking the group into complementary markets and by acquisitions, starting with CSI in 2013.

Financials: Strong sales pipeline supports FY15e growth

During H115 revenues grew by 34% (£3.0m) year-on-year to £11.9m. The CSI business, which was acquired in November 2013, contributed £1.2m of this increase. Organic sales growth was 21%. Asset Protection sales benefitted from branch refurbishment programmes for longstanding customers in the financial sector and higher levels of sales to the Post Office. Delivery and installation of products for this long-term programme are not on a regular schedule, so the associated turnover can vary significantly from year to year. More modest growth in the Electronic Division was driven by increased sales of workforce management products. Pre-exceptional operating profit rose by 76% to £1.6m despite increased costs associated with the investment in additional sales, marketing and product development personnel in both divisions to support future growth. The balance sheet is strong, with £2.1m net cash at end H115, equivalent to 16% of the current market capitalisation. Noting that revenues are expected to be weaker in the second half, our revised estimates model a 14% increase in group revenues to £21.8m during FY15e, supported by a strong sales pipeline for access control systems and higher levels of sales to the Post Office. We expect this to generate a 39% rise in pre-exceptional pre-tax profit to £2.5m.

Valuation: Continuing to trade at a discount to peers

Newmark Security's shares are trading at a significant discount to those of its peers on all metrics. Our scenario analysis shows that revenue growth in the Electronic division arising from actions instigated by Marie-Claire Dwek since her appointment as CEO in April 2013 has the potential to offset the eventual tapering in revenues from Post Office contracts. Our analysis also indicates that with no Electronics division growth and a tapering in Post Office revenues to half of the FY15e level, the shares would still be trading at a discount to peers greater than that warranted by the lack of liquidity.

Sensitivities: Reliance on Post Office contracts reducing

- Uncertainty regarding the timescales associated with the installation of cash-handling equipment for the Post Office and associated follow-on orders. However, the various sales initiatives instigated by Marie-Claire Dwek reduce the group's dependence on this customer.
- The company's financial performance in future could be hampered by a slower-than-expected economic recovery and protracted curbs on government spending.
- Concentrated share ownership structure: 29.9% Dwek family and 14.7% the Reid estates.
- Dependence on mainland European suppliers of cash-handling equipment.

Company description: Securing personnel and assets

Newmark Security provides electronic and physical security systems, which focus on the safety and security of a company's personnel and assets. The company has two wholly owned divisions: Asset Protection and Electronic which accounted for 66% and 34% of H115 revenues respectively. The Asset Protection division, Safetell, provides fixed and reactive security screens, reception counters, cash management systems and associated security equipment. The Electronic division, which comprises Grosvenor Technology and Newmark Technology, provides state-of-the-art open architecture solutions for access control, and workforce management terminals for use with time and attendance systems.

Newmark Security listed on AIM in 1997. In 2000, the group acquired Safetell, which was founded in 1984 and has been supplying rising security screen systems since 1987. In 2002, it acquired Grosvenor Technology, which was founded in 1989 to develop access control and security management systems. It acquired Custom Micro Products in 2004. This was merged with Grosvenor, complementing the latter's existing capability with customised hardware for OEMs. In November 2013 it acquired Gunnebo Security Installations (originally Chubb Security Installations [CSI]), a division of Gunnebo, which provides bullet-resistant and anti-attack security screens, counterwork, security doors, security glazing, cash scoops, night pay hatches and other bespoke physical security products. This business has been integrated with Safetell.

Both divisions subcontract their manufacturing: Grosvenor to specialist electronic manufacturing companies in Hungary and Poland, and Safetell to operations in the UK. Grosvenor's main site for development of access control systems is in Stansted. Its workforce management product facility and UK distribution centre for all Grosvenor products is in Poole, with an office in Florida. Safetell is based in Dartford. The group as a whole employs over 150 people.

Revitalising the strategy

Marie-Claire Dwek's appointment as CEO in April 2013 heralded a period of renewal for the group. While the strategy set down by the former executive chairman (now non-executive chairman) Maurice Dwek is being broadly maintained, Marie-Claire has instigated a sequence of changes that make more use of the group's existing assets. This includes strengthening the sales activity, developing new channels to market, encouraging closer ties between the group's divisions, introducing products for complementary market segments and making a small acquisition, which is expected to be the first of a sequence of transactions. The combination of these steps makes the group less reliant on contracts from the Post Office, which, while they have made a welcome contribution to FY13, FY14 and H115 results, are expected to taper off between FY16 and FY20.

Under Marie-Claire's leadership, new sales directors have been appointed to both the Electronic and the Asset Protection divisions, and a group marketing manager engaged for the first time. The Electronic division's UK sales force has been reorganised on a geographic basis, giving greater efficiency, and strengthened with additional personnel. New campaigns have begun to target specific key vertical markets where the Electronic division has previously experienced significant success. There has been greater management intervention in the US operation, supporting a 26% rise in sales through the US office during H115. New routes to market are being developed, for example communicating directly to installers of access control systems via a new internet customer portal, rather than working through distributors. Working directly with the installers leads to improved margins. The Asset Protection division is building on developing sales overseas and has started exporting to the Middle East. The Electronic division has signed an exclusive distribution agreement with a major systems integrator in the Middle East.

The new products introduced to access complementary market segments include SATEON Pro, an access control product aimed at the mid-tier market segment. We note much closer collaboration between divisions under the new regime. For example, Safetell has incorporated concepts from Grosvenor when designing cash deposit devices, joint product marketing programmes are being encouraged and the new ITac door controller will be sold to workforce management customers and OEMs as well as traditional access control customers.

Asset Protection division

Products

Safetell's security screens protect staff and assets from violence and aggression. Key elements of the offer are:

- **Eclipse rising screens:** This is Safetell's core product, first introduced in 1986. Eclipse is supplied primarily to retail banks, building societies, post offices and petrol retailers, where staff who handle large amounts of money come into contact with members of the public. The screen provides protection for counter staff against armed robbery. It is concealed in the counterwork, enabling transactions to be handled across an open desk and eliminating the need for inhibiting grills or glazing. Staff activate the screen when they suspect or perceive a threat. In less than a second, powerful pneumatics raise a bullet-resistant steel barrier from the counter to the ceiling. All screens in the premises are triggered at the same time to create a secure zone separate from the public area. As well as installing Eclipse rising screens, Safetell offers a full installation package, including bullet-proof wall panels and doors, counterwork, queue barriers and CCTV.
- **CounterShield:** This provides protection against violence for staff in non-cash environments such as interview and reception areas for housing associations, local government housing offices, benefits offices and hospital accident and emergency areas. The use of fixed glazing to separate staff from the public has become less acceptable in these environments, because the existence of this barrier and the communication problems it creates can provoke aggression. Staff activate CounterShield when they feel under threat, causing the safety screen to move into position in less than a second.
- **Eye2Eye:** This is a ticket counter that provides ballistic protection for staff and enables ticket authorities to comply with the Disability Discrimination Act's requirements for public services to be offered on an equal basis for all. It is primarily installed in railway stations.
- **FlexiGlaze:** This is a generic product name for Safetell's range of fixed-glass protection screens. These are available in full bullet-resistant format and in anti-physical attack formats, which withstand violent attack from a variety of weapons. The screens ensure staff protection, while retaining light and visible transaction spaces for both retail and administrative functions.
- **Cash handling:** Safetell supplies a range of cash-handling safes. These devices improve branch security and cashier efficiency by minimising the amount of cash held in tills. They also enable cashiers to remain at their position at the counter if they need to top up or reduce the amount of cash held in their till. Safetell sources some product from third parties in mainland Europe. It has an exclusive contract to distribute these products in the UK. Some product, for example, the networked cash-deposit devices, is designed in-house.

CSI acquisition

In November 2013, Safetell acquired the trade and assets of Gunnebo Security Installations, (originally Chubb Security Installations [CSI]), a division of Gunnebo UK, for a consideration of £118k, payable in cash, which related primarily to inventory and tools. The acquisition extends Safetell's product range to include bullet-resistant screens and other products including security doors, ATM walls, cash scoops and night pay hatches. It also expands Safetell's customer base, for example taking it into the UK retail sector and export markets, and the CSI relationship was instrumental in Safetell winning a substantial contract with an embassy in London.

Services

Many Safetell customers also sign up to service and maintenance contracts, which are typically three to five years. Additionally, Safetell has won significant tranches of work to service locks, access control, CCTV cameras and voice and queue management systems. It has begun to actively target CCTV service and locksmithing contracts. In a year without the distorting effect of large Post Office contracts, service sales would account for around half of Safetell's revenues.

Asset protection market

The customer base is predominantly in the UK. Historically Safetell has avoided export markets because of the high cost of transporting product, and cultural differences precluding adoption elsewhere in Europe but as discussed above it is now building on CSI's contacts to develop these markets. End-user clients include banks and building societies, police forces and the Post Office, local authorities and government departments, forecourt retailers and supermarket chains. More than 2,000 Eclipse rising screens have been installed. The route to market is fairly complex, involving both end-users and contractors.

There are two key events driving the purchase of Safetell's products. First, a health and safety or security assessment may decide that security screens are needed in a particular location to protect personnel and assets. Secondly, a branch, for example of a building society, may need remodelling, either through participation in a refurbishment programme, a corporate rebranding or relocation. Management estimates that Safetell has almost 100% of the rising screen market, as its former competitor, Ritzenthaler, has exited the market. Avon Armour offers a similar product to CounterShield, although this product is currently a small proportion of divisional sales as a result of local government cuts. While there are some competitors for the cash-handling products, the Post Office, which is the main customer, has decided to standardise on product from Safetell. There is one competitor servicing rising screens, although it is much smaller that Safetell and unable to offer a nationwide service. There are numerous other businesses in the UK that offer fixed security glazing. These include Avon Armour, Bastion and Promat Securiglass.

Electronic division

Grosvenor Technology provides access control solutions and data collection products for workforce management and time and attendance (T&A) applications. Grosvenor designs and sells complete access control solutions, which include Intelligent Door Controllers (IDCs) and management software modules, as well as lower-margin cards and readers, which it purchases from third parties to create a complete solution for customers.

Access control products

JANUS

JANUS has been Grosvenor's flagship product for more than 20 years and has been installed at nearly 10,000 sites. The core software controls networks of IDCs, which may number 1,000 or more in a large system. It provides access control functions, alarm monitoring, and incident and engineering logs. It can be integrated with CCTV switching, digital and network video recording, T&A functionality, intruder and other critical business systems, to become an integral part of electronic security across a wide corporate environment. It is sold as a package combining software and Grosvenor's IDCs. The JANUS architecture means it is very difficult to develop browser-based and non-English variants, so a next-generation product, SATEON, has been developed. Ultimately SATEON is expected to become Grosvenor's main access control brand as JANUS customers gradually upgrade to take advantage of SATEON's newer technology and richer feature set, although the JANUS software brand will continue to be sold and supported for many years.

Historically, JANUS has targeted the high end of the access control market, serving more demanding requirements. End-user clients for JANUS include BAE Systems, BSkyB, Bank of America/Merrill Lynch, Morrisons, the Ministry of Defence, Network Rail, Tyco and numerous universities. The route to market involves a network of dealers and specialist security installers.

SATEON

SATEON is multi-lingual, so it can be easily installed in geographies where English is not the native language. It is 100% browser-based, thus appealing to larger corporations that do not permit applications to be installed on client PCs, and is easily scalable. Its modern graphical user interface supports features such as navigable graphic maps showing the location of events and incidents. It runs on an SQL database platform, making it easier to integrate into third-party applications. It is more cost-competitive than JANUS, which is helpful in tender situations. As JANUS only supports English, adoption was restricted to the UK and a few geographies such as the Middle East, where installers are familiar with English. SATEON's multi-lingual capabilities enable Grosvenor to sell the system in most territories in the world.

Grosvenor continues to invest in SATEON development. Versions 2.7 and 2.8 of the high-end SATEON Enterprise product were released during H115. Further features will be included in versions 2.9 and 2.10, which are scheduled for release in July 2015 and December 2015 respectively. Adding greater functionality to SATEON extends the potential customer base.

New products

Historically, Grosvenor has focused on the high end of the access control market, but this is relatively restricted in size, is dependent on construction rates, and has become more competitive as mid-tier players have moved into the segment. Grosvenor is responding to this by developing a new product based on SATEON Enterprise for the mid-tier segment, SATEON Pro. This was launched in early H215 and presents an opportunity for generating recurring revenue through repeat business and SaaS (software as a service) agreements thus reducing the dependence on project work where the timing of revenues is difficult to predict. Grosvenor is also developing a new door controller, ITac, scheduled for launch in calendar H115, which is currently being prototyped. ITac will offer similar cost advantages to Grosvenor's existing EZ product, but with higher functionality, including the ability to connect directly to the host system over the internet and to handle 100,000 users at one door. It will meet the new IEC/BS EN 60839-11-1:2013 standard for access control products, which took effect from the end of calendar 2013. The circuit boards will be contained within plastic boxes to protect them from static damage during installation, thus improving reliability.

Access control market

The key driver for the installation of access control is the desire of an organisation to maintain control over building security in an efficient manner. While this is a high priority for most organisations irrespective of revenue, demand is still linked to the economic cycle, with fewer installations linked to new buildings or major refurbishments or installation upgrades taking place when the economic environment is weak.

The access control market is fairly competitive. Direct competitors include majors such as Tyco Fire & Security, Lenel and Honeywell. Certification by Underwriters Laboratories, which carries out safety checks on products and equipment, enables Grosvenor to target the US market. Certification was granted in FY13.

Time and attendance products

Grosvenor offers T&A terminals and associated embedded software, which enables OEM partners to easily interface their own software with Grosvenor's T&A terminals to build complete workforce management systems. Grosvenor has an established customer base in the UK and Western Europe, which has been selling workforce terminals as part of its T&A solutions for many years. Grosvenor has also made sales to the US for a significant period, strengthening its presence in the region by establishing an office in Florida in H112. Development of the lower end IT11 terminal was completed during FY14, extending the product range into more price-sensitive applications and geographies including Turkey and Russia. We note that it takes a significant time from beginning to promote the product in a new geography to selling material product volumes, since the typical development cycle for an OEM partner to integrate with Grosvenor's terminals is eight to 12 months, and longer for larger or more complex projects.

Customers include one of the world's largest retailers and a major UK supermarket retailer.

Time and attendance market

Monitoring employee attendance in an efficient manner is also a high priority for organisations, a task that has become more difficult as more employers offer flexible working hours. Here also, while this is a high priority for most organisations, demand is linked to the economic cycle.

The T&A hardware market is smaller than the access control market. Management estimates that the UK market is approximately £6m pa, with Grosvenor having a one-third share. The key strength of Grosvenor's offer is the embedded software provided with the terminals, which makes it easy to integrate them into a system; the terminals are designed with 'plug and play' components to give customers flexibility without the cost of customised components; the terminals may be installed by personnel without specialist training, and once installed can be monitored and maintained remotely over the internet. According to management, the only serious competitors are Far Eastern and US imports. The Asian products are aimed mainly at the lower-priced segment of the market, and some of the US competitors can be slow to adopt new technology. Neither competitor therefore appears to be a serious threat. In our opinion, customers are highly unlikely to switch supplier once they have invested time and money integrating Grosvenor's OEM terminals into their complete solutions.

Electronic division customers

Clients include BAE Systems, BSkyB, Bank of America/Merrill Lynch, M&S, Morrisons, Network Rail, Tesco, UK Air Traffic Control, government departments and numerous universities. SATEON has been successfully installed in projects worldwide including 30 St Mary Axe (the Gherkin), Imperia Tower in Moscow, IFDS (International Financial Data Services) sites across Europe, power stations in California and educational facilities in the UAE. The route to market involves a network of dealers and specialist security installers.

Management

Since 1997, the group has been led by its chairman, Maurice Dwek, a successful entrepreneur, who co-founded Dwek Group, which listed in 1973, and went on to be chairman of Arlen and Owen & Robinson. In April 2013 Maurice stepped back from an executive to a non-executive role when his daughter, Marie-Claire Dwek, became CEO. Marie-Claire already has several years' experience of the electronic security sector, having worked as a marketing director before changing to property investment and management for Motcomb Estates from 2001 onwards. This work brought her extensive experience of identifying potential assets for acquisition and optimising the return on those assets. She is supported in her role by executive director Brian Beecraft, who has been group finance director since 1998. Marie-Claire has assumed direct responsibility for the group's

Electronic division following the resignation of executive director and MD of the Electronic division, Derek Blethyn, in September 2013.

Sensitivities

- Economic slowdown and government cutbacks adversely affect refurbishment programmes for banks and building societies, local government offices, academic institutions and businesses generally. The company's financial performance in future could be hampered by a slower-than-expected economic recovery and protracted curbs on government spending.
- The contracts awarded by the Post Office to supply and install cash-handling equipment do not specify timescales for either product delivery or installation. The time that elapses before product is installed is also important as this affects when follow-on orders will be received. Since the customer does not have a regular schedule for delivery or installation, it is not possible to predict the revenues associated with the programme in any single financial year with precision. Exposure to changes in the timing of contracts from the Post Office will reduce as the volume of activity related to this client tapers off between FY16 and FY20. We note that the contracts received to date do not include sufficient equipment to complete installation across the Post Office branch network.
- The majority of the cash-handling equipment supplied to the Post Office is purchased from third parties in mainland Europe. The group would not be able to substitute equivalent product if there was a problem. Given the volumes of equipment involved, it would not be rational for the suppliers to voluntarily terminate supply.
- 29.9% of shares are held by the Dwek family. 14.7% of shares are held on behalf of the estates of Mr A Reid and Mrs GAB Reid. In March 2015, the estate reduced its stake from 29.2% (to 14.7%) to help satisfy continuing institutional demand, noting that it was not inclined to effect any further sale of securities in the short to medium term.

Valuation

Comparison against peersExhibit 1: Comparison against listed peers

Company	Market cap (£m)	Current EV/S	Current EV/ EBITDA	Current P/E
ADT Corp/The	4,403	3.2x	6.2x	18.2x
Assa Abloy AB	13,567	2.9x	15.8x	23.5x
Axis Communications AB*	1,832	3.5x	23.8x	34.1x
Kaba Holding AG	1,468	2.0x	12.8x	21.9x
Mobotix AG	120	1.9x	12.0x	23.4x
Napco Security Technologies Inc	72	1.5x	17.7x	22.1x
Synectics PLC	26	0.4x	4.0x	532.8x
Tyco International Plc	11,775	1.7x	11.0x	17.8x
Mean		2.0x	10.3x	21.1x
Newmark Security	13	0.5x	2.7x	5.8x

Source: Bloomberg, Edison Investment Research. Note: Prices at 13 March 2015. Grey shading indicates exclusion from mean. *Target of cash bid by Canon.

Newmark Security's shares are trading at a significant discount to those of its peers on all metrics, even if a substantial discount is applied to reflect the lack of liquidity implied by Newmark's very small market capitalisation, which is further restricted by the Dwek family and Reid estate holdings.

Since some of the initiatives to drive sales growth are still at an early stage, for example the new SATEON Pro product was not available until early H215, we are not publishing estimates beyond FY15. Instead we present a scenario analysis that takes our FY15 Electronic division estimates as a starting point, applies a range of CAGR rates for the three years from FY16 to FY18 and calculates the resultant incremental EPS, while assuming that Asset Protection revenues and profits remain unchanged. This shows that, with a CAGR of 20.0% per year, an incremental EPS of 0.35p may be achieved.

Exhibit 2: Scenario analysis – Electronic division

Electronic division CAGR over three years (%)	0.0	5.0	7.5	10.0	12.5	15.0	17.5	20.0
Electronic division revenues (£k)	7,800	9,029	9,690	10,382	11,106	11,863	12,653	13,478
Electronic division operating profit (£k)	675	1,049	1,251	1,462	1,683	1,913	2,154	2,406
Incremental EPS (p)		0.07	0.12	0.16	0.20	0.25	0.30	0.35

Source: Edison Investment Research

We also model the impact of a delay in achieving growth in the Electronic division combined with a reduction in revenues for the Asset Protection division associated with a tapering in the value of the contracts awarded by the Post Office and a change in mix. As noted previously, delivery and installation of products for this long-term programme are not on a regular schedule, so the associated turnover can vary significantly from year to year. Our estimates include £6.3m revenues attributable to the Post Office during FY15e compared with an estimated £5.0m in FY14 and £5.5m in FY13. There are further potential revenues associated with the ongoing Post Office network transformation programme of main and local post offices and Crown Office refurbishment programme, payable over five or six years from FY16 onwards. There is also potential for additional programmes with the Post Office during this period, and also for service call-out fees once the equipment being supplied under the two ongoing programmes has been installed. Our scenario analysis takes our existing FY15 estimates as the base case and adjusts the Asset Protection revenues in £1,000k decrements, while keeping Electronics' division revenues constant. The analysis indicates that with a reduction in Post Office revenues to half the FY15e level, the shares would still be trading at a discount to peers greater than that warranted by lack of liquidity. We note that earnings growth in the Electronics division (Exhibit 2) has the potential to offset the tapering in revenues from the Post Office. We note also the potential for growth in non-Post Office related sales in the Asset Protection division from FY16 onwards, though this is excluded from our analysis.

Exhibit 3: Scenario analysis – Asset Protection division

	Base case	Less £1000k	Less £2,000k	Less £3,000k	Less £4,000k	Less £5,000k
Group revenues (£k)	21,800	20,800	19,800	18,800	17,800	16,800
Group operating profit (£k)	2,486	1,415	1,289	1,163	1,037	911
EPS (p)	0.49	0.27	0.25	0.22	0.20	0.17
Reduction in EPS (p)	-	0.21	0.24	0.26	0.29	0.31
P/E (x)	6.0	10.9	11.8	13.4	14.8	17.4

Source: Edison Investment Research

Financials

Exhibit 4: Segmental analysis

	FY10	FY11	FY12	FY13	FY14	FY15e
Electronic division revenues (£k)	6,325	6,142	6,039	6,615	7,234	7,800
Asset Protection division revenues (£k)	7,467	6,510	7,055	11,701	11,937	14,000
Electronic division operating profit (£k)	1,402	903	688	238	212	675
Asset Protection division operating profit (£k)	919	531	456	2,967	2,712	2,828

Source: Newmark Security, Edison Investment Research

H115 results

P&L

During H115 revenues grew by 34% (£3.0m) year-on-year to £11.9m. The CSI business, which was acquired in November 2013, contributed £1.2m of this increase. Organic sales growth was 21%.

Asset Protection sales, which grew by 32% after stripping out the CSI contribution, benefitted from branch refurbishment programmes for longstanding customers in the financial sector and higher levels of sales to the Post Office. Delivery and installation of products for this long-term programme are not on a regular schedule, so the associated turnover can vary significantly from year to year. More modest (6%) growth in the Electronic Division was driven by increased sales of workforce management products associated with major projects with a blue-chip retailer and a supermarket chain. Sales of Access Control products showed only a marginal increase as the new SATEON Pro product was not released until early H215.

Pre-exceptional operating profit rose by 76% to £1.6m despite increased costs associated with the investment in additional sales, marketing and product development personnel in both divisions to support future growth. The board has reaffirmed its commitment to a progressive dividend strategy.

Cash flow and balance sheet

Net operating cash flow grew by £0.5m year-on-year to £1.4m. The substantial improvement in operating profit was partially offset by an unusually high level of receivables at the period end. This relates to the timing of sales. At £0.5m, investment in product development was half that in H114, reflecting the decision to terminate development of the cash-in transit product. Net cash increased from £1.1m at end FY14 to £2.1m at 31 October 2014.

FY15 estimates

Exhibit 5: Revisions to estimates

	EPS (p)			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2014	0.38	N/A	N/A	1.8	N/A	N/A	2.9	N/A	N/A
2015e	0.39	0.49	N/A	2.0	2.5	N/A	3.1	3.6	N/A

Source: Edison Investment Research

While noting that H115 performance is likely to be stronger than we expect for H215, we raise our FY15 estimates. These look for continued growth in Access Control sales based on the healthy pipeline of projects being commissioned, which include Brunel University, the University of Dundee, the European Bank, London and a substantial contract within the UK defence sector. Workforce management sales are expected to be lower year-on-year as the contract for the major UK supermarket is completed. We model strong growth in revenues for the Asset Protection division, supported by contracts from the Post Office generating an estimated £6.3m of sales and a repeat £4m order from a longstanding customer in the financial services sector. This order extends from November 2014 to October 2017. Allowing for a 4.6pp reduction in gross margin to reflect a higher proportion of lower-margin revenues from the CSI business and the adoption of a more flexible approach to pricing in the Electronic division to gain traction in new markets, our estimates show a 14% increase in group revenues to £21.8m, generating a 39% rise in pre-exceptional pre-tax profit to £2.5m. We model a 10% increase in dividend to 0.0825p/share.

We assume the board will continue to invest significantly in product development and that working capital levels will not be distorted by large orders falling at the end of FY15. Our estimates show FY15 free-cash flow doubling to £2.2m, equivalent to 0.5p/share and net cash rising to £2.9m (22% of current market capitalisation.

We are not including estimates for FY16 at present because of the uncertainty associated with determining the likely growth rate for the Electronic division or the value of revenues from the Post Office at this stage. We have therefore included two scenario analyses in our valuation – one exploring potential profits growth arising from growth initiatives in the Electronic division, the other exploring the impact on profits of a tapering in revenues associated with the Post Office.

Exhibit 6: Financial summary

£'000	2012	2013	2014	2015e
Year end 30 April				
PROFIT & LOSS				
Revenue	13,094	18,316	19,171	21,800
Cost of Sales	(7,632)	(10,438)	(10,889)	(13,377)
Gross Profit	5,462	7,878	8,282	8,423
EBITDA	1,278	3,387	2,889	3,611
Operating Profit (pre amort. of acq intangibles & SBP)	559	2,476	1,836	2,492
Amortisation of acquired intangibles	0	0	0	0
Share-based payments	0	0	0	0
Exceptionals	(370)	(2,274)	(852)	0
Operating Profit	189	202	984	2,492
Net Interest	(127)	(131)	(78)	(40)
Profit Before Tax (norm)	432	2,345	1,758	2,452
Profit Before Tax (FRS 3)	62	71	906	2,452
Tax	115	69	(49)	(245)
Profit After Tax (norm)	547	2,414	1,709	2,206
Profit After Tax (FRS 3)	177	140	857	2,206
Average Number of Shares Outstanding (m)	450.4	450.4	450.4	450.4
EPS - normalised (p)	0.12	0.54	0.38	0.49
EPS - normalised fully diluted (p)	0.12	0.54	0.34	0.44
EPS - FRS 3 (p)	0.04	0.03	0.19	0.49
Dividend per share (p)	0.0000	0.0333	0.0750	0.0825
Gross Margin (%)	41.7	43.0	43.2	38.6
EBITDA Margin (%)	9.8	18.5	15.1	16.6
Operating Margin (before GW and except.) (%)	4.3	13.5	9.6	11.4
BALANCE SHEET				
Fixed Assets	11,408	9,901	9,300	9,817
Intangible Assets	10,699	9,092	8,428	8,828
Tangible Assets	709	809	872	989
Current Assets	5,993	5,060	7,166	8,341
Stocks	1,520	1,344	1,647	1,777
Debtors	2,373	2,588	4,078	3,255
Cash	2,100	1,128	1,441	3,309
Current Liabilities	(5,767)	(3,544)	(4,460)	(3,790)
Creditors including tax, social security and provisions	(3,620)	(3,250)	(4,264)	(3,649)
Short term borrowings	(2,147)	(294)	(196)	(141)
Long Term Liabilities	(832)	(468)	(378)	(530)
Long term borrowings	(424)	(184)	(124)	(276)
Other long term liabilities	(408)	(284)	(254)	(254)
Net Assets	10,802	10,949	11,628	13,839
CASH FLOW				
Operating Cash Flow	2,022	2,969	2,178	3,688
Net Interest	(127)	(131)	(78)	(40)
Tax	92	(9)	(45)	0
Capital expenditure	(135)	(228)	(284)	(284)
Capitalised product development	(1,131)	(1,239)	(997)	(1,200)
Acquisitions/disposals	0	(50)	0	0
Financing	(124)	0	0	(55)
Dividends	(125)	0	(150)	(338)
Net Cash Flow	472	1312	624	1771
Opening net debt/(cash)	943	471	(650)	(1121)
HP finance leases initiated	0	0	0	0
Other	0	(191)	(153)	0
Closing net debt/(cash)	471	(650)	(1121)	(2,892)

Source: Company accounts, Edison Investment Research

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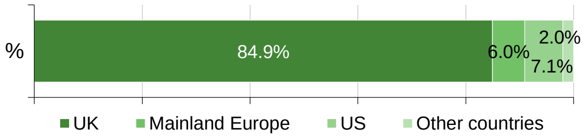
Revenue by geography



CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 13-15e	-4.4%	ROCE 14	11.6%	Gearing 14	N/A	Litigation/regulatory	◖
EPS 11-15e	25.2%	Avg ROCE 12-15e	10.1%	Interest cover 14	23.5x	Pensions	○
EBITDA 13-15e	3.2%	ROE 14	14.7%	CA/CL 14	1.6x	Currency	○
EBITDA 11-15e	25.3%	Gross margin 14	43.2%	Stock days 14	31	Stock overhang	●
Sales 13-15e	9.1%	Operating margin 14	9.6%	Debtor days 14	78	Interest rates	○
Sales 11-15e	14.6%	Gr mgn / Op mgn 14	4.5x	Creditor days 14	79	Oil/commodity prices	○

Management team

Chairman: Maurice Dwek

Maurice Dwek was chairman and co-founder of Dwek Group in 1963, which listed on the London Stock Exchange in 1973. In 1988, Dwek Group had a turnover of £38m, generating profits before tax of £4.1m, and was sold to a management buy-out team. In 1989, Maurice became chairman of Arlen (electronics) and Owen & Robinson (sports footwear, retail and jewellery shops). He resigned as chairman of both companies in 1992, but was reappointed as chairman of Owen & Robinson in 1996, when he rescued the business from administration by arranging a placing and open offer and re-listing the company on the Official List of the London Stock Exchange. He retired from the board of Owen & Robinson in 1996 to concentrate on Newmark, where he was appointed chairman in 1997.

Group finance director: Brian Gordon Beecraft

Brian Beecraft qualified as a chartered accountant in 1973. In 1985, he joined United Transport International, the transport division of BET, where he became group financial controller in 1990, responsible for all aspects of financial control and accounting for the group. In 1994, he left United Transport following the acquisition of BET by Rentokil and worked as a freelance financial consultant for four years, before joining the Newmark board in 1998 as finance director.

CEO: Marie-Claire Dwek

In her early career, Marie-Claire worked in the electronic security sector as marketing director, before changing to property investment and management for Motcomb Estates from 2001 onwards. She was appointed CEO in April 2013.

Principal shareholders	(%)
E Dwek (beneficial interest)	16.8
Investec on behalf of the estate of the late Mr A Reid and Mrs GAB Reid	14.7
M Dwek (chairman)	13.1
M Rapoport (non-executive director)	3.8

Companies named in this report

ADT Corp (ADT:US), Assa Abloy (ASSAB:SS), Axis Communications (AXIS:SS), Kaba Holding (KABN:SW), Mobotix (MBQ:GR), NAPCO Security Technologies (NSSC:US), Synectics (SNX:LN), Tyco International (YC:US).