Newmark Security

Strategy update

Building up new markets

Tech hardware & equipment

Newmark Security posted a record pre-tax profit in FY15. This benefited from orders from the Post Office and acceleration of a refurbishment programme for another long-term customer, which will not be repeated in FY16. Management has instigated a programme of activities based on geographic expansion, product development and acquisition, which is designed to drive profits growth from FY17 onwards. Our analysis of fair value at £20m (4.3p) assumes that these activities will be able to return the group to FY15 profit levels by FY17.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/14	19.2	1.8	0.34	0.075	9.8	2.3
04/15	22.9	2.3	0.42	0.1	7.9	3.0
04/16e	23.1	1.4	0.24	0.1	13.9	3.0
04/17e	26.0	2.3	0.39	0.1	8.5	3.0

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

Asset Protection sales drive record FY15

The group provides access control systems that are deployed at sites including the British Library to give a safe and energy-efficient environment. It provides time and attendance systems to the world's second-largest fashion retailer and the UK's largest supermarket chain. It is the dominant provider of rapid rising access screens and complementary asset protection products in the UK. For the last three years, group performance has benefited from selling and installing cash-handling equipment for a major Post Office refurbishment programme. This helped deliver record revenues and reported PBT in FY15.

Electronic division sales to drive future growth

Management's strategy for growth includes signing a 10-year contract worth at least $6m over the first five years with a major US channel partner to supply workforce management terminals, opening a sales office in Hong Kong and launching the SATEON Pro mid-tier access control system. This investment in growth is expected to result in a dip in profits during FY16 before returning to FY15 profit levels in FY17. The strategy is intended to reduce the dependence on individual major programmes such as those that benefited FY15.

Valuation: Trading at discount to peers

The shares continue to trade on a prospective P/E multiple that is at a discount to the average for our selected peer group (13.9x annualised to April 2017). Applying a discount of 20% to the peer group P/E to reflect the lack of liquidity gives fair value at £20m (4.3p). The key trigger to close this valuation gap is newsflow showing that the growth initiatives designed to drive a profits recovery by FY17 are delivering results.

25 September 2015

Price	**3.33p**
Market cap	**£15m**

Net cash (£m) at April 2015	3.9
Shares in issue	460.2m
Free float	53%
Code	NWT
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	9.9	8.1	82.2
Rel (local)	8.6	22.7	98.3
52-week high/low		4.9p	1.9p

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

Interims	January 2016

Analysts

Anne Margaret Crow +44 (0)20 3077 5700

Katherine Thompson +44 (0)20 3077 5730

tmt@edisongroup.com

Edison profile page

Newmark Security is a research client of Edison Investment Research Limited

Investment summary

Company description: Security solutions

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 the sale of access control systems, which is a fairly competitive market, and of time and attendance (T&A) terminals to OEMs, where the group benefits from high UK market share. The other half were from asset protection products, including fixed and rising security screens, of which it is the dominant provider. For the last three years, Asset Protection sales have been a higher proportion of the group total because of high levels of cash-handling equipment sales to the Post Office.

Financials: Major contracts drive FY15 profits growth

FY15 revenues rose by £3.7m (19%) year-on-year. £1.1m of the rise was attributable to CSI, acquired in November 2013, and the remainder primarily to the timing of orders received for time-delay cash-handling equipment from the Post Office and acceleration of a refurbishment programme for another long-term customer. Pre-tax profit, adjusted for a £0.9m development write-down in FY14, rose by 28% to £2.3m. Management raised the dividend by 33%. Net cash increased by £2.8m to £3.9m (25% of the current market capitalisation).

As flagged in our March outlook note, the level of activity relating to deliveries of cash-handling equipment to the Post Office is expected to reduce in FY16. In anticipation of this, management has instigated several initiatives to generate growth elsewhere in the group. As a result of these initiatives, we expect FY16 revenues to be similar to FY15, but the additional costs to result in a reduction in profits. Revenue growth in the year beginning May 2016 should return the group to FY15 levels of pre-tax profit as costs stabilise. Net cash is expected to rise from £4.9m at end-FY16 to £8.7m by end-FY18, propelled by the return to profits growth. Since the group is expected to be cash-generative and cash balances are high, we expect management to maintain the dividend at FY15 levels.

Valuation: Trading at a discount to peers

The shares are trading at a significant discount to peers on all metrics. If we apply a discount of 20% to the mean prospective P/E multiple, annualised to year-end April 2017 to reflect the lack of liquidity implied by Newmark's small market capitalisation, which is further restricted by the Dwek family and Reid estate holdings, this gives an indicative P/E ratio of 11.1x. Applying this to our FY17 EPS (normalised, fully diluted) estimate gives fair value at £20m (4.3p). The key trigger to close this valuation gap is newsflow showing that the growth initiatives designed to drive a profits recovery by FY17 are beginning to deliver results.

Sensitivities: Major contracts result in earnings volatility

- The group's future performance could be hampered by an economic slowdown or protracted curbs on government spending.
- The group is still at a scale where the presence or absence of major contracts such as the Post Office Transformation project or a bank branch refurbishment programme makes a significant difference to annual performance. The programme of activities discussed later is intended to increase the number of clients and thus reduce this exposure.
- Risk of new product introduction, especially in the electronic division.
- Pricing and availability of key electronic components, steel and security glass.
- Concentrated share ownership structure: 28.8% Dwek family and 14.5% the Reid estates.

Company description: Securing personnel and assets

Newmark Security provides electronic and physical security systems that focus on the safety and security of a company's personnel and assets. The company has two wholly-owned divisions, Electronic and Asset Protection, which accounted for 33% and 67% of FY15 revenues respectively. Grosvenor Technology, the Electronic division, provides state-of-the-art open architecture solutions for access control, and workforce management systems hardware for use with T&A, shop-floor data collection and access control systems. Safetell, the Asset Protection division, provides fixed and reactive security screens, reception counters, cash management systems and associated security equipment.

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, Newmark acquired Grosvenor Technology, which was founded in 1989 to develop access control and security management systems. Custom Micro Products was acquired in 2004. This was merged with Grosvenor, complementing the latter's existing capability with customised hardware for OEMs. In November 2013 Newmark acquired the business of Gunnebo Security Installations (originally Chubb Security Installations [CSI]), enlarging Safetell's product portfolio and expanding Safetell's customer base.

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 developing 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.

Strategy: Building up new markets

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 developing new geographic markets, 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 made a welcome contribution to FY13, FY14 and FY15 results, are expected to taper off between FY16 and FY20.

Geographic expansion

US: During FY15, Grosvenor's US-based sales and technical resource was enhanced and a healthy pipeline of sales established. In September 2015, Grosvenor signed a contract with a major US channel partner to develop, manufacture and supply a next-generation workforce management terminal. Supply of the new terminals will begin in FY17 and significant revenues will be generated from this customer during FY16 from sales of the existing range of workforce terminals. The contract extends for 10 years with guaranteed revenues in the first five years of US$6m. This is the largest single contract secured to date by Grosvenor Technology. Development costs will be partly funded by the partner. The partner has exclusive access to the custom-built terminal for six months from its launch, with the exception of one existing major customer of Grosvenor. We note the potential for incremental sales from this arrangement.

Asia: In June, Grosvenor opened an office in Hong Kong, which serves as an entry point into the Asian market. The office houses both sales and technical support personnel. Management expects that networks of systems integrators will be established in Japan, South Korea, Singapore and Greater China during FY16.

New products

Historically, Grosvenor focused on the high end of the access control market, but this is relatively restricted in size, depends on construction rates, and has become more competitive as mid-tier players have moved into the segment. Grosvenor has responded to this by developing a new product based on SATEON Enterprise for the mid-tier segment, SATEON Pro. This was launched in H215 and presents an opportunity to generate 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. The move mid-market is expected to elicit interest from a far larger number of installers. Grosvenor intends to work with these directly, rather than through distributors, to enhance margins. It is installing a customer relationship management system to manage this and intends to deploy e-commerce technology to engage with the installers efficiently. Grosvenor continues to enhance the functionality of the SATEON Enterprise system, as discussed on page 5.

During FY15, Safetell introduced new networked point-of-sales cash deposit devices for the retail sector. We note there is much closer cooperation between the two divisions under the new regime, since these asset protection devices incorporate access control concepts from Grosvenor Technology.

In November 2014 Safetell's blast-proof doors completed the certification for the new UK CPNI (Centre for Protection of National Infrastructure) standard, which uses 500kg of explosive at 28 metres, becoming the only manufacturer of steel doors so far to be compliant. The division has already received a material order for these from Iraq.

Acquisition

In November 2013 the group acquired Gunnebo Security Installations, a division of Gunnebo, which enhanced Safetell's product portfolio and expanded its customer base. It provides bullet-resistant and anti-attack security screens, counterwork, security doors, security glazing, cash scoops, night-pay hatches and other bespoke physical security products. The acquisition also expanded Safetell's customer base, for example taking it into the UK retail sector and export markets. CSI generated £2.0m revenues in FY15 and £0.8m during the six months between the date of acquisition and the end of FY14. The consideration paid was £0.1m, payable in cash, which mainly comprised the value of inventory and tools acquired.

Products and markets

Electronic division

Access control products

Grosvenor designs and sells complete access control solutions, which include SATEON software and Intelligent Door Controllers (IDCs) as well as lower-margin cards and readers, which it purchases from third parties to create a complete solution for customers. SATEON software controls networks of IDCs, which may number 1,000 or more in a large system. The core functionality provides access control, alarm monitoring, and incident and engineering logs. In addition, as it runs on an SQL database platform it is easy to integrate into third-party applications such as CCTV switching, digital and network video recording, T&A monitoring, and intruder monitoring, thus becoming an integral part of electronic security across a wide corporate environment. For example, forced door messages are sent directly from SATEON via third-party video monitoring software to rotate a specific CCTV camera to monitor the intrusion. Integration with third-party HR databases means that new employees are automatically enrolled with their individual access privileges, reducing duplication of tasks for HR and Security. This is particularly important for educational establishments where several thousand students need to be enrolled and issued with access cards over a very short timeframe. The system is able to monitor which employees are in any particular section, issuing an alert if there is no fire marshall or first aider, and switching off the lights and air conditioning automatically when the area is unmanned. If there is a fire, SATEON can text an up-to-date staff rosta to the fire marshall, unlock doors to allow for an easy and safe evacuation, turn on sprinkler systems and ensure that pathways to fire exits are lit. SATEON 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.

Grosvenor continues to invest in SATEON development. Versions 2.7 and 2.8 were launched during FY15. Version 2.7 included improved reporting and search functionality and integration with two major elevator companies. Version 2.8 featured new graphical tools, real-time maps, time patterns, custom reports and several integrations including Honeywell's Galaxy Intruder panel, Tyco's Simplex Fire Alarm panel and Assa Abloy's Aperio offline locks. Version SATEON 2.9 launched in August 2015. This has a new 'faces' module that enables photo verification for personnel as they progress through the workplace, a valuable feature offering an additional layer of security where temporary security staff are commonly employed. It also integrates with Salto's offline locking solutions, opening opportunities in the rapidly-developing offline wireless market.

The development of SATEON builds on the JANUS access control software. JANUS was Grosvenor's flagship product for more than 20 years and has been installed at nearly 10,000 sites. However, its underlying architecture meant that it would have been very difficult to develop browser-based and non-English variants, restricting adoption to the UK and a few geographies such as the Middle East, where installers are familiar with English. JANUS customers are gradually upgrading to take advantage of SATEON's newer technology and richer feature set, though the JANUS software will continue to be supported for many years.

Access control market

The key driver for installing access control systems is an organisation's desire to maintain control over building security efficiently. 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.

End-user clients include Argos, BAE Systems, BSkyB, Bank of America/Merrill Lynch, Broadgate Estates, Cambridge Consultants, Crossrail, IFDS (International Financial Data Services) sites across Europe, Imperia Tower in Moscow, Mitsubishi Electric, Morrisons, the Ministry of Defence, the National Gallery, Network Rail, the Royal Albert Hall, the Royal Opera House, 30 St Mary Axe (the Gherkin), UK Air Traffic Control, the V&A Museum, power stations in California and numerous universities including in the UAE. The route to market is primarily through specialist security installers who deal directly with end-users. Historically, the customer-bases for access control and workforce management have been separate. During FY15 Grosvenor has supplied both access control and workforce management products to sites as diverse as the British Library, a food group and a charity.

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.

T&A products

Grosvenor offers a comprehensive range of T&A terminals and associated embedded software. These include simple terminals designed for swipe-and-go clocking on and off through to fully interactive and customisable terminals that interface with OEM partner software. Customers can upgrade to more feature-rich terminals as their HR requirements evolve. The resultant workforce management systems enable businesses to manage their workforces in a non-intrusive manner, while enabling real-time reporting for informed decisions relating to safety, security and effectiveness of their workforce as well as reducing back-office costs. For example, the terminal being developed for the major US workforce management partner will be based on standards-based open architecture so that it can be integrated with third-party software to provide attendance recording, collaborative shift planning, shop floor data collection, health and safety briefings and staff training applications. The terminal will support a wide range of authentication solutions, including fingerprint scanning technology to eliminate employee fraud, and incorporate mobile-inspired touch screen technologies. Protection against data loss is assured through support for both online and offline data collection and an integrated field serviceable, multi-hour back-up battery.

T&A market

Monitoring employee attendance efficiently 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.

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 FY12. End-users include the world's second-largest fashion retailer and the UK's largest supermarket chain. The route to market is typically via value-added resellers (VARs) who work with either installation companies or end-users, though Grosvenor does work directly with end-users on larger contracts with very specific requirements. Grosvenor works with VARs to create a 'white-label' workforce management solution for key emerging markets such as the US.

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. Therefore, none of these 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 systems.

Asset Protection division

Products

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

- **Fast-rising screens:** This is Safetell's core product, first introduced in 1986. The screens are supplied primarily to retail banks, building societies and petrol retailers, where staff who handle large amounts of money come into contact with members of the public. The screens provide protection for counter staff against armed robbery. They are 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 screens when they suspect or perceive a threat. In less than a second, pneumatics-based technology raises bullet-resistant steel barriers from the counters to the ceiling. All screens in the premises are triggered at the same time to create a secure zone separate from the public area.

- **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.
- **Bullet-resistant glazing, counters, doors and walls:** Safetell provides a complete bullet- and attack-resistant system of glazing and associated counters, which is installed together with bullet-resistant walls and internal doors to provide a bullet-resistant enclosure for staff. Safetell also offers external doors that are resistant to fire as well as physical and ballistic attack, and armoured walling to construct protective enclosures for ATMs. The products comply with requisite UK standards for resistance to physical and ballistic attack.
- **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. The networked point-of-sale cash deposit devices provide automatic validation and validation at point-of-sale as well as cash security. This additional functionality frees retail staff from counting and recounting cash. It also gives designated business managers visibility of validated cash secured across a whole store network, by area, by cashier and by transaction, providing live continuous reconciliation for tills. This helps reduce variances and the time spent investigating them. Depending on the customer's banking partner, the devices may help reduce credit time, as there is better visibility of actual cash held. Safetell sources some of the cash-handling product from third parties in mainland Europe. It has an exclusive contract to distribute these products in the UK. Other cash-handling products, for example, the networked cash-deposit devices, are designed in-house.
- **Accessories:** Safetell supplies a range of secure line accessories including cash trays, cash scoops, cash cans, slip bins, quick deposit units, night-pay hatches, bullion trolleys, anti-grab till protection and time-delay pedestals.

Services

Safetell offers a full installation package that includes CCTV from third parties as well as its own protective screens, glazing, wall panels, doors, counterwork and queue barriers. 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 locksmith contracts. Importantly, Safetell is able to offer customers installation services from a team of directly-employed, BS7858 security-vetted technicians and is NACOSS (National Approval Council for Security Systems, now the National Security Inspectorate) Gold accredited. 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 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, A&E departments, pharmacies and GP surgeries, forecourt retailers and supermarket chains. More than 2,000 fast-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. For example, during FY15 sales of fast-rising screens were made to financial institutions that had previously elected to have no security screens and to trade over open counters, after these institutions had reviewed the security risk at branches that fall into high-crime areas. Secondly, a branch, for example of a building society, may need remodelling, either through 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. 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 than 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.

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 became chairman of Arlen and Owen & Robinson in 1989. 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 had 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. We note that the sales and marketing management team has been significantly strengthened since Marie-Claire's appointment, with an operations director and a product manager recruited for the Electronic division.

Sensitivities

- The group's future performance could be hampered by an economic slowdown or protracted curbs on government spending, which would adversely affect refurbishment programmes for banks and building societies, local government offices, academic institutions and businesses generally. We note that sales of fast-rising screens to public sector clients increased during FY15 as the government released money for capital expenditure programmes.
- The group is still at a scale where the presence or absence of major contracts such as the Post Office Transformation project or a bank branch refurbishment programme makes a significant difference to annual performance. The market expansion activities discussed earlier are intended to increase the number of clients and thus reduce this exposure.
- The group has invested significantly in new products for the electronic division. While the risk of introduction has been reduced by carrying out customer trials and ascertaining features required by customers, there remains some uncertainty regarding levels of customer adoption, particularly in new geographic markets.

- Operating performance is affected by the pricing and availability of key electronic components, steel and security glass. Some cash-handling equipment is single-sourced from mainland European suppliers, but given the volumes involved, it would not be rational for third parties to terminate supply.
- 28.8% of shares are held by the Dwek family. 14.5% 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 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 peers

Exhibit 1: Comparison against listed peers

Company	Market cap (£m)	Current EV/S	Next EV/S	Current EV/ EBITDA	Next EV/ EBITDA	Current P/E	Next P/E	P/E annualised to April 2016	P/E annualised to April 2017
ADT Corp/The	3,363	2.8x	2.7x	5.7x	5.4x	15.6x	14.5x	15.0x	13.9x
Assa Abloy AB	12,412	2.6x	2.5x	14.3x	13.2x	21.5x	19.4x	20.8x	18.9x
Axis Communications AB	1,827	3.5x	3.1x	27.5x	22.6x	35.0x	29.9x	-	-
Mobotix AG	114	1.8x	1.6x	11.2x	9.3x	22.0x	16.4x	18.8x	14.8x
Napco Security Technologies Inc	71	1.4x	1.3x	11.8x	9.2x	14.8x	10.9x	16.2x	11.6x
Synectics	32	-	-	-	-	26.1x	11.4x	20.0x	9.7x
Tyco International	9,528	1.5x	1.5x	10.1x	9.3x	15.7x	15.2x	15.4x	14.3x
Mean		2.3x	2.1x	10.6x	9.3x	19.3x	14.6x	17.7x	13.9x
Newmark Security	16	0.4x	0.4x	3.9x	3.0x	13.9x	8.5x	13.9x	8.5x

Source: Bloomberg, Edison Investment Research. Note: Grey shading indicates exclusion from mean. Prices at 24 September 2015.

Newmark Security's shares are trading at a significant discount to those of its peers on all metrics. If we apply a discount of 20% to the mean prospective P/E multiple, annualised to year-end April 2017 to reflect the lack of liquidity implied by Newmark's small market capitalisation, which is further restricted by the Dwek family and Reid estate holdings, this gives an indicative P/E ratio of 11.1x. Applying this to our FY17 EPS (normalised, fully diluted) estimate gives fair value at £20m (4.3p). The key trigger to close this valuation gap is newsflow showing that the growth initiatives designed to drive a profits recovery by FY17 are beginning to deliver to results.

Financials

Exhibit 2: Divisional analysis

£000s	FY13	FY14	FY15	FY16e	FY17e	FY18e
Electronic division revenues	6,615	7,234	7,577	10,100	13,147	15,500
Asset Protection division revenues	11,701	11,937	15,277	13,027	12,838	12,051
Group revenues	**18,316**	**19,171**	**22,854**	**23,127**	**25,985**	**27,551**
Electronic division operating profit	238	212	48	804	2,210	3,330
Asset Protection division operating profit	2,967	2,712	3,390	1,726	1,207	846
Central costs	(729)	(1,089)	(1,170)	(1,127)	(1,155)	(1,184)
Exceptional costs	(2,274)	(852)	0	0	0	0
Group operating profit margin (%)*	13.5	9.6	9.9	6.1	8.7	10.9
Group operating profit	**202**	**984**	**2,268**	**1,403**	**2,262**	**2,992**

Source: Edison Investment Research. Note: *Before deducting amortisation of goodwill and exceptionals.

Earnings

FY15 revenues rose by £3.7m (19%) year-on-year. Asset Protection revenues rose by £3.3m (28%) to £15.3m. 80% of total Asset Protection revenues were attributable to product sales, the rest to services. £1.1m of the divisional revenue rise was attributable to CSI, which was acquired in November 2013 and generated £2.0m revenues in total. The remainder of the revenue rise was attributable primarily to the timing of orders received for time-delay cash-handling equipment from the Post Office and accelerated installation of equipment at Post Office sites during H2 to meet the customer's targets. There was also benefit from orders for fast-rising screens and screen reconfiguration work after a long-term customer accelerated its branch refurbishment programme. Electronic division revenues rose by £0.3m (5%) to £7.6m. The bulk of divisional growth was related to a rise in sales of workforce management systems. This was positively affected by deliveries under a longstanding relationship with one of the world's largest retailers as it continues to roll-out Grosvenor systems in its stores, and the completion of a long-term project for the UK's largest supermarket chain, which was carried over from FY14. Access control revenues showed only modest growth as the planned enhancements to the SATEON product range were not available throughout the year.

Higher levels of cash-handling equipment sales resulted in group gross margin (before deducting the £0.9m development write-down in FY14) declining by 0.7pp to 42.5%. Central costs were held at FY14 levels. Pre-tax profit, before deducting the £0.9m development write-down in FY14, rose by 28% to £2.3m. Noting the high levels of profitability, management raised the dividend by 33%.

Management instigated several growth initiatives during FY15, most notably opening a sales office in Hong Kong and launching SATEON PRO. In addition, the recent agreement with a major US channel partner for the exclusive supply of a workforce management terminal is expected to generate material sales from FY16 onwards: existing IT31 and IT51 terminals during FY16 and custom-built product thereafter. These sales initiatives are intended to compensate for an anticipated decline in the level of revenues relating to deliveries of cash-handling equipment to the Post Office from FY16 onwards, which is expected to create a year-on-year reduction in sales of asset protection products from FY15 to FY18. The renewal of service contracts with two longstanding customers, one of which is a large facilities management company that supports one of the high street financial institutions, underpins Asset Protection service revenues during our forecast period.

As a result of these initiatives, we expect FY16 revenues to be similar to FY15, but the additional cost to result in a reduction in profits. Revenue growth during FY17, which is expected to benefit from substantial sales of SATEON PRO and stronger sales channels in the US for both access control and workforce management products, should return the group to FY15 levels of pre-tax profit, though we note that both SATEON PRO sales and access control sales in the US are relatively new activities. Since the group is expected to be cash-generative and cash balances are high, we expect management to maintain the dividend at FY15 levels.

Cash flow and balance sheet

Net cash increased by £2.8m during FY15 to £3.9m (25% of current market capitalisation). Working capital fell by £1.0m, primarily because trade receivables were substantially lower following an unusually high level at the end of FY14 arising from advance billing of customers and high levels of sales immediately prior to the year end, but also because of a review of purchasing policy within the electronic division, which resulted in a £0.2m inventory reduction. Capital expenditure and capitalised development were similar to FY14 levels. Net assets rose by £2.0m to £13.6m.

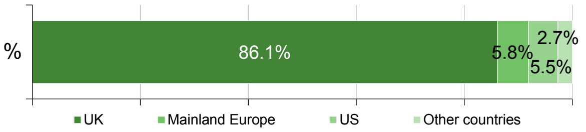
We expect the group to remain highly cash-generative throughout the forecast period, despite the expected dip in profits during FY16. Working capital requirements are expected to remain at FY15 levels during FY16, rising in FY17 as the group returns to strong revenue growth. Both capital expenditure and capitalised development are expected to be similar to FY14 levels throughout the forecast period. Net cash is expected to rise from £4.9m at end-FY16 to £8.7m by end-FY18, propelled by the return to profits growth.

Exhibit 3: Financial summary

£000s	2013	2014	2015	2016e	2017e	2018e
Year end 30 April						
PROFIT & LOSS						
Revenue	18,316	19,171	22,854	23,127	25,985	27,551
Cost of Sales	(10,438)	(10,889)	(13,142)	(13,791)	(15,229)	(15,804)
Gross Profit	7,878	8,282	9,712	9,336	10,756	11,747
EBITDA	3,387	2,889	3,531	2,666	3,525	4,255
Operating Profit (pre amort. of acq intangibles & SBP)	2,476	1,836	2,268	1,403	2,262	2,992
Amortisation of acquired intangibles	0	0	0	0	0	0
Share-based payments	0	0	0	0	0	0
Exceptionals	(2,274)	(852)	0	0	0	0
Operating Profit	202	984	2,268	1,403	2,262	2,992
Net Interest	(131)	(78)	(16)	(15)	(10)	(5)
Profit Before Tax (norm)	2,345	1,758	2,252	1,388	2,252	2,987
Profit Before Tax (FRS 3)	71	906	2,252	1,388	2,252	2,987
Tax	69	(49)	(109)	(139)	(225)	(299)
Profit After Tax (norm)	2,414	1,709	2,143	1,249	2,027	2,689
Profit After Tax (FRS 3)	140	857	2,143	1,249	2,027	2,689
Average Number of Shares Outstanding (m)	450.4	450.4	450.6	460.2	460.2	460.2
EPS - normalised (p)	0.54	0.38	0.48	0.27	0.44	0.58
EPS - normalised fully diluted (p)	0.54	0.34	0.42	0.24	0.39	0.52
EPS - FRS 3 (p)	0.03	0.19	0.48	0.27	0.44	0.58
Dividend per share (p)	0.033	0.075	0.100	0.100	0.100	0.100
Gross Margin (%)	43.0	43.2	42.5	40.4	41.4	42.6
EBITDA Margin (%)	18.5	15.1	15.5	11.5	13.6	15.4
Operating Margin (before GW and except.) (%)	13.5	9.6	9.9	6.1	8.7	10.9
BALANCE SHEET						
Fixed Assets	9,901	9,300	9,602	9,589	9,576	9,563
Intangible Assets	9,092	8,428	8,697	8,877	9,057	9,237
Tangible Assets	809	872	905	712	519	326
Current Assets	5,060	7,166	8,772	9,778	11,796	14,594
Stocks	1,344	1,647	1,440	1,457	1,780	1,887
Debtors	2,588	4,078	3,130	3,168	3,560	3,774
Cash	1,128	1,441	4,202	5,152	6,457	8,933
Current Liabilities	(3,544)	(4,460)	(4,234)	(4,299)	(4,514)	(4,771)
Creditors including tax, social security and provisions	(3,250)	(4,264)	(4,091)	(4,156)	(4,373)	(4,630)
Short term borrowings	(294)	(196)	(143)	(143)	(141)	(141)
Long Term Liabilities	(468)	(378)	(548)	(548)	(548)	(548)
Long term borrowings	(184)	(124)	(113)	(113)	(113)	(113)
Other long term liabilities	(284)	(254)	(435)	(435)	(435)	(435)
Net Assets	10,949	11,628	13,592	14,519	16,311	18,838
CASH FLOW						
Operating Cash Flow	2,969	2,178	4,735	2,675	3,027	4,191
Net Interest	(131)	(78)	(16)	(15)	(10)	(5)
Tax	(9)	(45)	(155)	0	0	0
Capital expenditure	(228)	(284)	(288)	(250)	(250)	(250)
Capitalised product development	(1,239)	(997)	(1,089)	(1,000)	(1,000)	(1,000)
Acquisitions/disposals	(50)	0	0	0	0	0
Financing	0	0	145	0	0	0
Dividends	0	(150)	(338)	(460)	(460)	(460)
Net Cash Flow	1,312	624	2,994	950	1,307	2,476
Opening net debt/(cash)	471	(650)	(1,121)	(3,946)	(4,896)	(6,203)
HP finance leases initiated	0	0	0	0	0	0
Other	(191)	(153)	(169)	0	0	0
Closing net debt/(cash)	(650)	(1,121)	(3,946)	(4,896)	(6,203)	(8,679)

Source: Edison Investment Research, company accounts

EDISON

Contact details	Revenue by geography
58 Grosvenor Street London W1K 3JB UK +44 (0)20 7355 0070 www.newmarksecurity.com	

Management team

Chairman: Maurice Dwek

Maurice Dwek was chairman and co-founder of Dwek Group in 1963, which listed on LSE 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 LSE. He retired from Owen & Robinson's board 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	15.8
Investec on behalf of the estate of the late Mr A Reid and Mrs GAB Reid	14.5
M Dwek (chairman)	12.9
Miton Smaller Companies Fund	8.4
Hargreave Hale	6.3
M Rapoport (non-executive director)	3.7

Companies named in this report

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

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 9258 1161	Wellington +64 (0)48 948 555
Schumannstrasse 34b	280 High Holborn	245 Park Avenue, 39th Floor	Level 25, Aurora Place	Level 15, 171 Featherston St
60325 Frankfurt	London, WC1V 7EE	10167, New York	88 Phillip St, Sydney	Wellington 6011
Germany	United Kingdom	US	NSW 2000, Australia	New Zealand