Newmark Security plc

("Newmark" or the "Group")

Preliminary Results for the year ended 30 April 2016

Newmark Security plc (AIM:NWT), a leading provider of electronic and physical security systems, today announces its preliminary results for the year ended 30 April 2016.

Financial Highlights:

- A period of investment for long term benefit
- Significant cash position of £4.3million (2015: £4.2 million)
- Proposed maintained dividend of 0.10 pence per share (2015: 0.10 pence)
- Turnover decreased by 4.5% to £21.8 million (2015: £22.9 million)
- Gross margin decreased slightly to 41.7% overall (2015: 42.5%)
- Profit from operations was £1,198k (2015: £2,268k)
- Earnings per share of 0.26 pence (2015: 0.48 pence)
- Cash flow from operating activities was £1.76 million (2015: £4.58 million)
- Net cash increased to £4.14 million (2015: £3.95 million)

Commenting on the results, Maurice Dwek, Chairman of Newmark, said "As previously reported, revenue from the Asset Protection Division was lower for the year under review due to lower volumes of some major customer programmes. Group operating profits were also affected by new market and product developments, including the costs of opening the new office in Hong Kong.

The opportunity pipeline however continues to grow, and although the conversion into sales has been slower than hoped, we have seen robust growth in certain product lines.

The Group retains a significant cash position and the Board remains optimistic about trading in future years and has therefore maintained the proposed dividend for the year at the same level as last year".

For further information:

Newmark Security plc

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Overview

I am pleased to present the Group accounts for the year ended 30 April 2016. Group revenue for the year was £21,823k (2015: £22,854k), which, whilst representing a decrease of 4.5%, was in line with expectations following the completion of some major customer programmes. Revenue in the electronic division increased by 0.8% from £7,577k to £7,639k, whilst the asset protection division revenue decreased by 7.2% in the year from £15,277k to £14,184k. Profit from operations for the year was £1,198k (2015: £2,268k).

Within the electronic division, the revenues from JANUS continued to decline following Microsoft's discontinued support for the 16-bit operating system on which our software runs, however both SATEON Pro and SATEON Enterprise saw significant increases in revenue. The high-end SATEON Enterprise offering continued to be the system of choice for many global end users across a number of prestigious sites. SATEON version 2.9 was released which included SATEON Faces to enable on site facial recognition and verification along with further integrations.In June 2016, SATEON version 2.10 was launched offering completely new 'Installer' and 'Advanced Search' features which streamline both the installation and management of the system. Workforce Management revenue declined in the year following the completion of a major programme for one of the world's largest supermarket chains in the previous year and the slowdown of the rollout across the estate of one of the world's largest apparel retailers.

The lower revenue in the asset protection division was principally due to the forecast declining nature of the Post Office programme for the installation of Time Delay Cash Handling equipment. CSI, which was acquired in November 2013, has now been fully integrated within the Safetell operation and increased revenue by 24.4 % compared to the previous year.

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 decreased from £22.9m to £21.8m a decrease of 4.5% analysed as follows:

	2015/16 £'000	2014/15 £'000	Increase/ (decrease) %
Electronic division			
Access control	4,361	4,113	6.0

Workforce management	3,278	3,464	(5.4)
Total electronic division	7,639	7,577	0.8
Asset protection division			
Products	10,721	12,191	(12.1)
Service	3,463	3,086	12.2
Total asset protection division	14,184	15,277	(7.2)
TOTAL	21,823	22,854	(4.5)

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

Electronic division

Access Control

The year under review saw a clear divergence in sales of the JANUS and SATEON product lines. This was due to Microsoft's discontinued support for 32-bit (and earlier) operating systems, which adversely affects the 16-bit operating system that JANUS runs on, revenues from that product line continued to decline.

SATEON Pro and SATEON Enterprise both saw significant increases in revenue during the year. The high-end Enterprise offering continued to be the Advanced Access Control system of choice for many global end users across a number of prestigious sites including multi-national banks, public transport and infrastructure providers, defence contractors and a host of commercial sites across numerous vertical sectors.

Revenues were further bolstered by the trend for clients to migrate from JANUS to SATEON platforms. As legacy hardware can be used with SATEON, there is no need to rewire a site when upgrading to SATEON and end-users can benefit from future-proofing without significant capital expenditure requirements. Technical and marketing tools have been developed and released to drive this upsell campaign and as a result a healthy pipeline of JANUS/SATEON upgrade opportunities has been developed.

During the year, SATEON version 2.9 was released which included SATEON Faces to enable on site facial recognition and verification along with further integrations. Integrations into SALTO and Aperio wireless locks launches SATEON into the burgeoning wireless market and increases our integrators' chances of winning large hotel and education projects. We have achieved this by dramatically reducing the time and cost associated with hard-wired projects, allowing integrators to install systems into a large number of doors in a shorter amount of time.

SATEON version 2.10 was released in June 2016 and offers completely new 'Installer' and 'Advanced Search' features which will streamline both the installation and management of the system, providing integrators and end users alike a simpler, yet richer experience.

Overseas, SATEON was adopted by a major Cruise Line in the US, with further revenues expected during the current financial year as the roll-out continues. Projects and pipeline continue to grow in the Middle East and it is expected that head count will be increased locally to support this region. During the year a sales office was opened in Hong Kong which increased overhead costs in the year.

Workforce Management

Revenues in the UK business declined by 9.8% compared with prior year to £2,511,000, largely as a result of a decline in sales in the RS series of legacy hardware and the natural slowdown of the rollout across the estate of one of the world's largest apparel retailers, which had bolstered sales in previous years. New partners in the UK, US and Australia came on-stream in the year and it is expected that revenues will increase as these channels begin to re-sell the Grosvenor proposition.

The US continues to offer perhaps the greatest incremental revenue opportunity with the existing IT Terminal range. Accordingly, we have scaled up our US sales and marketing resource in this direction. A new US specific website has been launched and a number of business development activities are underway to leverage our position in that market and attract new channel partners across North America.

Workforce Management partners in the US will be the first to benefit from the Alliance Partner Programme, being launched this summer. Designed to increase both customer loyalty and share of wallet, the programme comprises a number of innovative elements which will be ground-breaking within the 'Access and Attendance' sectors. The programme will be rolled out across all customers and l regions during the course of the year.

Asset Protection Division

Product stream

Revenue was 12.1% lower than the previous year principally due to the forecast decline of the Post Office programme for installation of Time Delay Cash Handling equipment. Revenue for new Eclipse Rising Screens and screen reconfiguration work decreased by 36.2% after the branch refurbishment programme for a long term customer was completed during the year. CounterShield revenue increased by 44.8% as a result of a substantial order received from a Local Authority in London. Despite the declining Post Office contract, revenue of Cash Handling products to high street financial institutions increased by 71.5%.

Revenue includes £2,435,000 generated from the trade and assets of CSI acquired in November 2013 which was an increase of 24.4% compared to the previous year. CSI has now been fully integrated within the Safetell operation.

Revenue of Fixed Glazing and Counter Protection Systems increased by 45.0% and revenue for Secure Doors increased 54.8% as a direct result of a large branch refurbishment programme by a long standing customer within the financial sector. However, revenue for Secure Walling Systems decreased by 58.2% after a major supermarket chain cancelled plans to open new stores. Revenue of other non-standard products decreased by 42.7% after a branch closure programme by a large financial institution was suspended. Export revenue increased substantially after receiving an order for 25 Ballistic Doors for a hotel project in Iraq.

Recertification of ballistic resistant products is planned for the current financial year and this will enable us to be more competitive in local, as well as international markets. Additional successful blast product testing was undertaken at the Government's Centre for the Protection of National Interest (CPNI) in June 2016.

Service stream

Revenue in the Service Division was the highest in five years with an increase of 12.2% on the previous year. This was the result of pneumatic upgrade work on rising screens that have provided security to many financial institutions for over 25 years. We still see an appetite to retain these systems with the benefit and safeguards they provide to staff in robbery situations.

We continue to explore other revenue streams and whilst initial growth may be slow, we see cost benefits in clients using our multifaceted services. We are confident we shall be able to offer these broader services nationally over the next few years.

The company has invested in improved IT over the last year and we anticipate a fall in administration costs whilst revenue capture systems improve, resulting in further margin improvements.

Taxation

The tax credit for the year was due to the availability of accumulated tax losses brought forward, research and development allowances and the lower future tax rate in the UK reducing the deferred tax balance brought forward.

Statement of financial position and cash flow

Further development costs were capitalised in the year and intangible assets increased by £162,000 net of amortisation. Trade receivables were £619,000 higher than the previous year due to the timing of sales in the months approaching the year end compared with the previous year. Trade and other payables were similar to last year.

Net assets increased from £13,592,000 to £14,457,000.

Cash generated from operating activities in the year was £1,758,000 (2015: £4,580,000), with the prior year figure including the benefit of the recovery of exceptionally high receivables at April 2014. Overall there was an increase in cash and cash equivalents of £96,000 (2015: £2,760,000).

Basic earnings per share was 0.26 pence (2015: 0.48 pence).

Dividend

In view of the results for the year, the Board is pleased to recommend the maintenance of the dividend payment for the year ended 30 April 2016 of 0.10 pence per share (2015: 0.10 pence).

The key dates for the proposed dividend are as follows:

- Ex-div date of 22 September 2016
- Record date of 23 September 2016
- Payment date of 10 October 2016

Employees

The Board would like to express its appreciation to all staff for their continuing efforts during the year.

Outlook

Along with many other businesses following the Brexit vote, the Group could be affected by a lack of confidence in the economy by our customers in the UK, potentially resulting in delays in spending by those customers. However, the benefit to exports should outweigh additional material cost of imports. Overall it is too early to forecast the impact.

We recently issued a forecast update which stated that operating profit for the current year would be significantly lower than last year. This reflected the fact that the strategy of material investment in new products, new customer acquisition and new geographies has taken longer to be realised than originally anticipated. The opportunity pipeline continues to grow but the conversion into sales has been slower than hoped.

A number of new products are to be launched during the current financial year including the SATEON advanced range and a new Android based terminal for workforce management, which the Board are optimistic will resonate with potential customers.

The Group retains a significant cash position and the Board remains optimistic about trading in future years and has therefore maintained the proposed dividend for the year at the same level as last year.

M DWEK
Chairman
16 August 2016

CONSOLIDATED INCOME STATEMENT
for the year ended 30 April 2016

	Note	2016 £'000	2015 £'000
Revenue		21,823	22,854
Cost of sales		(12,725)	(13,142)
Gross profit		9,098	9,712
Administrative expenses		(7,900)	(7,444)
Profit from operations		1,198	2,268
Interest received		11	-
Finance costs		(13)	(16)
Profit before tax		1,196	2,252
Tax credit/(charge)	2	31	(109)
Profit for the year		1,227	2,143
Attributable to:			
– Equity holders of the parent		1,227	2,143

Earnings per share			
– Basic (pence)	4	0.26p	0.48p
– Diluted (pence)	4	0.25p	0.45p

All amounts relate to continuing activities.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 April 2016
Company number: 3339998

	2016 £'000	2015 £'000
ASSETS		
Non-current assets		
Property, plant and equipment	738	905
Intangible assets	8,859	8,697
Total non-current assets	9,597	9,602
Current assets		
Inventories	1,406	1,440
Trade and other receivables	3,715	3,130
Cash and cash equivalents	4,299	4,202
Total current assets	9,420	8,772
Total assets	19,017	18,374
LIABILITIES		
Current liabilities		
Trade and other payables	3,865	3,990
Other short term borrowings	99	143
Corporation tax liability	1	1
Provisions	106	100
Total current liabilities	4,071	4,234
Non-current liabilities		
Long term borrowings	64	113
Provisions	100	100
Deferred tax	325	335
Total non-current liabilities	489	548
Total liabilities	4,560	4,782
TOTAL NET ASSETS	14,457	13,592

Capital and reserves attributable to equity holders of the company

Share capital	4,687	4,602
Share premium reserve	553	549
Merger reserve	801	801
Foreign exchange difference reserve	(173)	(182)
Retained earnings	8,549	7,782
	14,417	13,552
Non-controlling interest	40	40
TOTAL EQUITY	14,457	13,592

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 April 2016

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Cash flow from operating activities				
Net profit after tax	1,227		2,143	
Adjustments for:				
Depreciation, amortisation and impairment	1,201		1,263	
Net interest expense	2		16	
Income tax (credit)/charge	(31)		109	
Operating cash flows before changes in working capital	2,399		3,531	
(Increase)/decrease in trade and other receivables	(706)		1,098	
Decrease in inventories	35		220	
(Decrease) in trade and other payables	(115)		(114)	
Cash generated from operations		1,613		4,735
Income taxes received/ (paid)		145		(155)
Cash flows from operating activities		1,758		4,580
Cash flow from investing activities				
Payments for property, plant & equipment	(205)		(288)	
Sale of property, plant & equipment	43		-	
Capitalised development expenditure	(945)		(1,089)	
		(1,107)		(1,377)
Cash flow from financing activities				
Share issues	89		145	
Repayment of bank loans	-		(52)	
Repayment of finance lease creditors	(182)		(182)	
Dividends paid	(460)		(460)	

Net interest paid	(2)		(16)	
		(555)		(443)
Increase in cash and cash equivalents		96		2,760
Cash and cash equivalents at beginning of year		4,202		1,441
Exchange gain on cash and cash equivalents		1		1
Cash and cash equivalents at end of year		4,299		4,202

Cash and cash equivalents for purposes of the statement of cash flow	2016 £'000	2015 £'000
Cash available on demand	4,299	4,202
Significant non-cash transactions are as follows:		
Financing activities		
Assets acquired under finance leases	90	170

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
1 May 2014	4,504	502	801	(196)	5,977	40	11,628
Share issues in year	98	47	-	-	-	-	145
Dividends	–	–	–	–	(338)	–	(338)
Total comprehensive income	–	–	–	14	2,143	–	2,157
30 April 2015	4,602	549	801	(182)	7,782	40	13,592
1 May 2015	4,602	549	801	(182)	7,782	40	13,592
Share issues in year	85	4	–	–	–	–	89
Dividends	–	–	–	–	(460)	–	(460)
Total comprehensive income	–	–	–	9	1,227	–	1,236
30 April 2016	4,687	553	801	(173)	8,549	40	14,457

1. Basis of preparation

The financial information set out above for the years ended 30 April 2016 and 2015 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 2015 have been delivered to the Registrar of Companies and those for 2016 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 35 per cent. (2015: 33 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 65 per cent. (2015: 67 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. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

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

Segment assets and liabilities exclude group company balances.

	Electronic 2016 £'000	Asset Protection 2016 £'000	Total 2016 £'000
Revenue			
Total revenue	7,639	14,184	21,823
Revenue from external customers	7,639	14,184	21,823
Net finance cost	–	2	2
Depreciation	122	271	393
Amortisation	783	–	783
Segment profit before income tax	(452)	2,809	2,357
Additions to non-current assets	1,005	231	1,236
Reportable segment assets	6,776	7,168	13,944
Reportable segment liabilities	1,632	2,822	4,454

	Electronic 2015 £'000	Asset Protection 2015 £'000	Total 2015 £'000
Revenue			
Total revenue	7,577	15,277	22,854
Revenue from external customers	7,577	15,277	22,854
Net finance cost	–	13	13
Depreciation	133	283	416
Amortisation	820	–	820
Segment profit before income tax	48	3,377	3,425
Additions to non-current assets	1,164	417	1,581
Reportable segment assets	7,071	6,155	13,226
Reportable segment liabilities	1,536	3,080	4,616

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

	2016 £'000	2015 £'000
Revenue		
Total revenue for reportable segments	21,823	22,854

	2016 £'000	2015 £'000
Profit or loss after income tax expense		
Total profit or loss for reportable segments	2,357	3,425
Corporation taxes	31	(109)
Unallocated amounts – other corporate expenses	(1,161)	(1,173)
Profit after income tax expense (continuing activities)	1,227	2,143

	2016 £'000	2015 £'000
Assets		
Total assets for reportable segments	13,944	13,226
PLC	109	184
Goodwill on consolidation	4,964	4,964
Group's assets	19,017	18,374
Liabilities		
Total liabilities for reportable segments	4,454	4,616
PLC	106	166
Group's liabilities	4,560	4,782

	Reportable Segment Totals 2016 £'000	PLC 2016 £'000	Group Totals 2016 £'000	Reportable Segment Totals 2015 £'000	PLC 2015 £'000	Group Totals 2015 £'000
Other material items						
Capital expenditure	1,236	4	1,240	1,581	7	1,588
Depreciation and amortisation	1,176	25	1,201	1,236	27	1,263

Geographical information:

	External revenue by	Non-current assets by

	location of customers		location of assets	
	2016	2015	2016	2015
	£’000	£’000	£’000	£’000
UK	18,299	19,682	9,573	9,560
Netherlands	265	253	–	–
Sweden	124	364	-	-
Belgium	206	227	-	-
Austria	145	193	-	-
Other Europe	379	278	-	-
USA	1,473	1,150	24	42
Middle East	704	368	-	-
Other countries	228	339	–	–
	21,823	22,854	9,597	9,602

4. Earnings per share

	2016	2015
	£’000	£’000
Numerator		
Earnings used in basic and diluted EPS – continuing operations	1,227	2,143
	No.	No.
Denominator		
Weighted average number of shares used in basic EPS – continuing operations	464,249,624	450,634,239
Weighted average number of dilutive share warrants	14,050,885	15,879,057
Weighted average number of dilutive share options	10,470,065	7,803,770
Weighted average number of shares for dilutive EPS	488,770,573	474,317,066

5. Dividends

The Directors are proposing a final dividend of 0.10 pence per ordinary share (2015: 0.10 pence) totaling £468,732 (2015: £460,182)