30 September 2024

Petards Group plc

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

Interim results for the six months ended 30 June 2024

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security, communications and surveillance systems, is pleased to report its interim results for the six months ended 30 June 2024.

Key Highlights:

- **Operational**
    - Completed £2.85 million acquisition of Affini Technology on 13 June
        - £2.52 million in cash and £0.33 million in Petards consideration shares
        - Cash element funded utilising Petards own cash and partial drawdown of its working capital facility
        - acquired Affini balance sheet included cash of £0.46 million
    - Strong sales of QRO's newly launched Harrier AI camera with a mobile variant scheduled for launch later this year
    - Continued cash generative operating performance
    - Order book at 30 June 2024 of £7.1 million (31 Dec 2023: £2.4 million)
    - Several significant contracts wins amounting to c£2.5 million announced post June 2024 for Rail, QRO and Affini

- **Financial**
    - Revenue £4.4 million (H1 2023: £4.4 million)
    - Gross profit margin 49.0% (H1 2023: 47.3%)
    - Adjusted EBITDA profit of £33,000 (H1 2023: £59,000 loss)[1]
    - Operating loss before exceptional items £466,000 (H1 2023: £489,000 loss)
    - Exceptional acquisition costs incurred in period £412,000 (H1 2023: £nil)
    - Post-tax loss £928,000 (H1 2023: £301,000 loss)
    - Cash generated from operating activities £438,000 (H1 2023: £250,000)
    - Net debt at 30 June 2024 £680,000 (31 Dec 2023: net funds £1,241,000)[2]
    - Diluted EPS loss of 1.63p (H1 2023: loss of 0.53p)

[1] Adjusted EBITDA is earnings before depreciation, amortisation, exceptional items, acquisition costs and share based payments
[2] Net funds/(debt) comprise cash and cash equivalents less interest-bearing loans and borrowings (excluding lease liabilities)

Commenting on the current outlook, Raschid Abdullah, Chairman, said:

"The successful acquisition of Affini and the improvement in the Group's order book post June 2024 is encouraging. Order successes announced since June total over £2.5 million across QRO, Affini and Rail.

"We are also pleased with Affini's encouraging start since becoming part of the Group and expect it will be earnings accretive post funding costs in the current year and beyond.

"Recent orders give the Board encouragement that, subject to other expected orders being received in sufficient time, the second half of the year should deliver a much-improved performance, albeit the result for the year may fall short of current market expectations."

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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Chairman's statement

Overview

I am pleased to report that while overall trading in the period to 30 June 2024 for Petards existing businesses remained similar to that for the first half of 2023, before the close of the first half year, on 13 June 2024, the Group had delivered upon a key strategic objective with the successful completion of acquisition of Affini Technology ("Affini").

For the six months ended 30 June 2024, the Group returned a slight improvement in adjusted EBITDA, recording a profit of £33,000 (June 2023: £59,000 loss) on unchanged revenues of £4.4 million (June 2023: £4.4 million). Gross profit margins were also up at 49.0% (June 2023: 47.3%). While Affini's trading under the Group's ownership was only for the last two weeks of the period, it did make a small positive contribution.

During the period, the Group generated cash from operations of £438,000 (June 2023: £250,000). After net cash outflows of £1,987,000 in respect of the acquisition of Affini, the net decrease in the Group's cash was £1,921,000. Net debt excluding lease liabilities at 30 June 2024 was £680,000 (31 Dec 2023: £1,241,000) which represented gearing of 10.3%.

Following its acquisition of Affini, Petards business is now focused upon the development, supply and maintenance of technologies used in advanced security, communications, surveillance and ruggedised electronic applications, the principal markets for which are:

- ***Rail*** – software driven video and other sensing systems for on-train applications sold under the eyeTrain brand to global train builders, integrators and rail operators, and web-based real-time safety critical integrated software applications supporting the UK rail network infrastructure under the RTS brand.

- ***Traffic*** – Automatic Number Plate Recognition (ANPR) systems for lane and speed enforcement and other applications, and UK Home Office approved mobile speed enforcement systems, sold under the QRO and ProVida brands to UK and overseas law enforcement agencies and commercial customers.

- ***Defence*** – engineering services relating to electronic control systems, threat simulation systems, mobile radio systems and other defence related engineering equipment sold predominantly to the UK Ministry of Defence (MOD).

- ***Communications*** – critical wireless communications solutions provider to the transport, blue light, energy defence and construction sectors. Affini's expertise covers the entire life cycle, enabling it to offer an end-to-end service from strategy and design to maintenance and service management.

Operating Review

Trading in the first six months was affected by delays in orders expected to be received and delivered in part in the period. However, I am pleased to say that post 30 June, a number of these orders for Rail and QRO have now been received, although the customer delivery schedules for these now extend into 2025 rather than being fully deliverable in 2024.

While lower than expected, QRO revenues were five per cent up on the same period in 2023 on slightly higher gross margins, but due to delays in forecast orders, this was offset by lower revenues from the Group's Rail and Defence activities. With the majority of revenues for Rail and Defence coming from service, repair and support activities, the gross margin on those was also up on those achieved in the first half of 2023.

QRO's new Harrier AI camera for roadside applications that was launched last December has been well received by customers with strong sales being achieved in the first half year. We are hopeful that the mobile version presently under development, scheduled for launch later this year, will be similarly successful.

The acquisition of Affini provides Petards with a fourth leg to its business, that of critical wireless communications, and also adds a valuable stream of recurring revenues for managed services and maintenance. In addition, while Petards has had a long history of supplying communications equipment and services to the UK MOD, Affini broadens the Group's reach for such services into the transport, blue light, energy and construction sectors. Although it is still early days, we also believe that the Group will benefit from some complementary sales opportunities for both Affini and the rest of the Group in due course.

As I reported in June, the nature of the transaction and the consideration payable changed substantially during the course of negotiations, having until its latter stages been deemed under AIM Rules to be a reverse take-over. While this inevitably led to substantial exceptional acquisition costs being incurred, the Board was very pleased to complete the transaction at a valuation that did not constitute a reverse take-over, and without recourse to a dilutive equity raise at a time when capital markets are challenging.

The consideration paid was £2.85 million, with £2.5 million payable in cash and the balance in new Petards shares. The cash element was financed utilising a combination of Petards own cash and by a partial draw down of its £2.5 million working capital facility. Also worthy of note is that at completion Affini's balance sheet included £0.46 million of cash and its order book was £5 million, having recently secured some significant project orders. Two thirds of that order book related to recurring revenues.

Outlook

While the first half of 2024 has not been easy, the successful acquisition of Affini and the improvement in the Group's order book post June 2024 is encouraging. Order successes announced since June total over £2.5 million across QRO, Affini and Rail.

Given the difficult market conditions in Rail in recent years, those orders were particularly pleasing and had been anticipated for some time. While there remain other prospects still to be awarded that fall into this category, whether it is due to more certainty arising following the election or other factors, it does feel as if rail customers are now starting to approve projects that have been in abeyance for some time.

We are also pleased with Affini's encouraging start since becoming part of the Group and expect it will be earnings accretive post funding costs in the current year and beyond.

Recent orders received, along with others expected in the final quarter, give the Board confidence that the second half of the year should deliver a much-improved performance, albeit the result for the year may fall short of current market expectations.

Raschid Abdullah

30 September 2024

Condensed Consolidated Income Statement
for the six months ended 30 June 2024

	Note	**Unaudited 6 months ended 30 June 2024 £000**	Unaudited 6 months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Revenue		**4,415**	4,403	9,424
Cost of sales		**(2,252)**	(2,320)	(4,669)
Gross profit		**2,163**	2,083	4,755
Administrative expenses		**(3,041)**	(2,572)	(5,940)
Adjusted EBITDA*		**33**	(59)	340
Amortisation of intangibles		**(297)**	(254)	(523)
Depreciation of property, plant and equipment		**(108)**	(69)	(161)
Amortisation of right of use assets		**(94)**	(107)	(185)
Exceptional acquisition costs	9	**(412)**	-	(579)
Exceptional reorganisational costs		**-**	-	(77)
Operating loss		**(878)**	(489)	(1,185)
Finance income		**28**	7	33
Financial expenses		**(78)**	(18)	(46)
Loss before tax		**(928)**	(500)	(1,198)
Income tax	4	**-**	199	148
Loss for the period attributable to equity shareholders of the company		**(928)**	(301)	(1,050)
Other comprehensive income		**-**	-	-
Total comprehensive expense for the period		**(928)**	(301)	(1,050)
Loss per ordinary share (pence)				
Basic	8	**(1.63)**	(0.53)	(1.86)
Diluted	8	**(1.63)**	(0.53)	(1.86)

* Earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2024

	Share capital £000	Share premium £000	Treasury shares £000	Equity reserve £000	Retained earnings £000	Total equity £000
At 1 January 2023 (audited)	575	1,624	(103)	14	6,137	8,247
Loss for the period	-	-	-	-	(301)	(301)
Total comprehensive loss for the period	-	-	-	-	(301)	(301)
At 30 June 2023 (unaudited)	575	1,624	(103)	14	5,836	7,946
At 1 January 2023 (audited)	575	1,624	(103)	14	6,137	8,247
Loss for the year	-	-	-	-	(1,050)	(1,050)
Total comprehensive loss for the year	-	-	-	-	(1,050)	(1,050)
At 31 December 2023 (audited)	575	1,624	(103)	14	5,087	7,197
At 1 January 2024 (audited)	**575**	**1,624**	**(103)**	**14**	**5,087**	**7,197**
Share issue	**42**	**284**	**-**	**-**	**-**	**326**
Loss for the period	**-**	**-**	**-**	**-**	**(928)**	**(928)**
Total comprehensive income for the period	**42**	**284**	**-**	**-**	**(928)**	**(602)**
At 30 June 2024 (unaudited)	**617**	**1,908**	**(103)**	**14**	**4,159**	**6,595**

Condensed Consolidated Statement of Financial Position

at 30 June 2024

		Unaudited 30 June 2024 £000	Unaudited 30 June 2023 £000	Audited 31 December 2023 £000
ASSETS				
Non-current assets				
Property, plant and equipment		**1,316**	604	655
Right of use assets		**894**	129	691
Intangible assets		**4,679**	3,740	3,605
Investments		**5**	5	5
Deferred tax assets		**729**	407	470
		7,623	4,885	5,426
Current assets				
Inventories		**1,766**	1,776	1,735
Trade and other receivables	5	**3,205**	2,201	2,323
Cash and cash equivalents		**199**	1,804	1,241
		5,170	5,781	5,299
Total assets		**12,793**	10,666	10,725
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		**617**	575	575
Share premium		**1,908**	1,624	1,624
Treasury shares		**(103)**	(103)	(103)
Equity reserve		**14**	14	14
Retained earnings		**4,159**	5,836	5,087
Total equity		**6,595**	7,946	7,197
Non-current liabilities				
Interest-bearing loans and borrowings	7	**814**	78	511
		814	78	511
Current liabilities				
Interest-bearing loans and borrowings	7	**1,011**	53	221
Trade and other payables	6	**4,373**	2,589	2,796
		5,384	2,642	3,017
Total liabilities		**6,198**	2,720	3,528
Total equity and liabilities		**12,793**	10,666	10,725

Condensed Consolidated Statement of Cash Flows
for the six months ended 30 June 2024

	Unaudited 6 months ended 30 June 2024 £000	Unaudited 6 months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Cash flows from operating activities			
Loss for the period	**(928)**	(301)	(1,050)
Adjustments for:			
Depreciation of property, plant and equipment	**108**	69	161
Amortisation of right of use assets	**94**	107	185
Amortisation of intangible assets	**297**	254	523
Profit on disposal of property, plant and equipment	**-**	-	(4)
Financial income	**(28)**	(7)	(33)
Financial expenses	**78**	18	46
Equity settled share-based payment expenses	**-**	-	-
Income tax credit	**-**	(199)	(148)
Operating cash flows before movement in working capital	**(379)**	(59)	(320)
Change in inventories	**(6)**	65	106
Change in trade and other receivables	**675**	431	-
Change in trade and other payables	**148**	(366)	(159)
Cash generated from operations	**438**	71	(373)
Tax received	**-**	179	377
Net cash from operating activities	**438**	250	4
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(159)**	(79)	(154)
Acquisition of intangible assets	**-**	-	(30)
Sale of property, plant and equipment	**-**	-	15
Acquisition of subsidiary	**(2,449)**	-	-
Cash with acquired subsidiary	**462**	-	-
Interest received	**28**	7	33
Capitalised development expenditure	**(80)**	(164)	(349)
Net cash outflow from investing activities	**(2,198)**	(236)	(485)
Cash flows from financing activities			
Bank loan repaid	**-**	(125)	(125)
Interest paid on lease liabilities	**(30)**	(9)	(32)
Interest paid on loans and borrowings	**(48)**	(3)	(3)
Principal paid on lease liabilities	**(83)**	(83)	(123)
Other interest and foreign exchange losses	**-**	(6)	(11)
Net cash outflow from financing activities	**(161)**	(226)	(294)
Net decrease in cash and cash equivalents	**(1,921)**	(212)	(775)
Total movement in cash and cash equivalents in the period	**(1,921)**	(212)	(775)
Cash and cash equivalents at 1 January	**1,241**	2,016	2,016
Cash and cash equivalents	**(680)**	1,804	1,241

Notes to the financial statements

1. Reporting entity

Petards Group plc (the ‘Company’) is incorporated and domiciled in England and its shares are publicly traded on AIM, a market operated by the London Stock Exchange. These condensed consolidated interim financial statements (‘interim financial statements’) as at and for the six months ended 30 June 2024 comprise the Company and its subsidiaries (together referred to as the ‘Group’).

Copies of these interim financial statements will be available on the Company’s website (www.petards.com) and from the Company’s registered office at Parallel House, 32 London Road, Guildford, GU1 2AB.

2. Basis of preparation

As permitted, these interim financial statements have been prepared in accordance with AIM Rules for Companies and are not required to comply with IAS 34 ‘Interim Financial Reporting’ to maintain compliance with IFRS. They should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the financial year ended 31 December 2023 (‘last annual financial statements’). They do not include all of the financial information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in the Group’s financial position and performance since the last annual financial statements. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2023 set out in these interim statements are not the Group’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

4. Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2024 based on the estimated tax provision required for the year ending 31 December 2024 (30 June 2023: nil).

5. Trade and other receivables

	Unaudited 6 months ended 30 June 2024 £000	Unaudited 6 months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Trade receivables	**1,530**	1,160	2,104
Corporation tax recoverable	**-**	308	-
Other receivables and prepayments	**1,675**	733	219
	3,205	2,201	2,323

6. Trade and other payables

	Unaudited 6 months ended 30 June 2024 £000	Unaudited 6 months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Trade payables	**997**	506	1,014
Contract liabilities	**1,564**	1,031	727
Non-trade payables and accrued expenses	**1,812**	1,052	1,055
	4,373	2,589	2,796

7. Interest-bearing loans and borrowings

Current liabilities

	Unaudited 6 months ended 30 June 2024 £000	Unaudited 6 months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Overdraft	**879**	-	-
Lease liabilities	**132**	53	221
	1,011	53	221

Non-current liabilities

	Unaudited 6 months ended 30 June 2024 £000	Unaudited 6 months ended 30 June 2023 £000	Audited Year ended 31 December 2023 £000
Lease liabilities	**814**	78	511
	814	78	511

8. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of shares in issue.

	Unaudited 6 months ended 30 June 2024	Unaudited 6 months ended 30 June 2023	Audited Year ended 31 December 2023
Earnings			
Loss for the period (£000)	**(928)**	(301)	(1,050)
Number of shares			
Weighted average number of ordinary shares ('000)	**56,897**	56,528	56,528

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options that would decrease earnings per share or increase loss per share from continuing operations and is calculated by dividing the adjusted profit for the period attributable to the shareholders by the assumed weighted average number of shares in issue.

	Unaudited 6 months ended 30 June 2024	Unaudited 6 months ended 30 June 2023	Audited Year ended 31 December 2023
Earnings			
Loss for the period (£000)	**(928)**	(301)	(1,050)
Number of shares			
Weighted average number of ordinary shares ('000)	**56,897**	57,839	56,528

9. Acquisition of Affini Technology Group Limited

On 13 June 2024, the Company completed the acquisition of 100% of the ordinary shares of Affini Technology Group Limited ("ATGL") and therefore indirectly its wholly owned subsidiary, Affini Technology Limited ("Affini") (together "Affini Group"). Affini Group is a UK based critical communications solutions provider to the transport, blue light, energy, defence and construction sectors.

The following table summarises the provisional fair values of assets acquired, and liabilities assumed at the acquisition date:

	Provisional fair values £000
Net assets acquired:	
Property, plant & equipment	625
Right of use assets	289
Inventories	25
Trade and other receivables	1,558
Cash and cash equivalents	462
Trade and other payables	(1,092)
Lease liabilities	(304)
	1,563
Goodwill	1,290
Total consideration	**2,853**

Directly related acquisition costs totalling £991,000 have been expensed to the income statement of the Group, of which £412,000 was expensed in the six months ended 30 June 2024 and £579,000 in the year ended 31 December 2023.

Management is still assessing the fair value of identifiable intangible assets and will adjust the provisional fair values to recognise identified intangible assets at year end, in line with paragraph 46 of IFRS 3. The recognition of intangible assets identified, net of deferred tax, will have a corresponding reduction in the value of goodwill recognised.

Purchase consideration:	**£000**
Cash paid at completion	2,449
Retention cash	78
Equity consideration	326
Total consideration	**2,853**

The retention cash of £78,000 is payable as certain trade receivables are paid by customers, of which £28,000 has been paid to the Sellers subsequent to 30 June 2024.

The completion equity consideration of 4,176,810 ordinary shares in Petards had a fair value of £326,000 based on the share price of Petards of 7p on the date of the acquisition.

The net cash sum expended on the acquisition in the period ended 30 June 2024 was as follows:

Cash flow:	£000
Cash paid as consideration on acquisition	(2,449)
Cash included in undertaking acquired	462
Net cash outflow on acquisition	**(1,987)**