

Regulatory Story

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Petards Group PLC - PEG Final Results
Released 07:00 10-Apr-2019



RNS Number : 6747V
Petards Group PLC
10 April 2019

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Petards Group plc
("Petards", "the Group" or "the Company")
Final results for the year ended 31 December 2018

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its final results for the year ended 31 December 2018.

Key Highlights:

- **Operational**
 - Order book at 31 December 2018 over £19 million (31 Dec 2017: over £18 million)
 - Order coverage for 2019 in excess of £13 million
 - Acquired RTS Solutions software business focused on UK rail infrastructure
 - Significant orders of over £6.5 million for *eyeTrain* received in H2 2018
 - QRO generated over £1 million of revenues from two new UK police framework agreements of 3 and 4 years respectively, with 3 year extension options
 - Significant investment in our *eyeTrain* automated software applications has created new orders and opened up new business opportunities
- **Financial**
 - Total revenues increased to £20.0 million (2017: £15.6 million)
 - Gross margins 34.5% (2017: 38.6%)
 - Adjusted EBITDA* £2,057,000 (2017: £1,619,000)
 - Operating profit £1,156,000 (2017: £1,245,000 including £362,000 exceptional income)
 - Pre-tax profit £1,126,000 (2017: £1,205,000 including £491,000 net exceptional income)
 - Net funds (cash less debt) £969,000 (31 Dec 2017: £1,286,000)
 - Basic EPS 2.01p (2017: 3.31p)
 - Diluted EPS 1.95p (2017: 2.32p)

* Adjusted EBITDA comprises operating profit adjusted to remove the impact of depreciation, amortisation, exceptional items, acquisition costs and share based payments. A reconciliation of Adjusted EBITDA to operating profit is included on the face of the consolidated income statement.

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

"The Group continues to enjoy a strong order book that provides the Board with good visibility to plan for the future. The order book at 31 December 2018 was over £19 million, of which over £13 million is scheduled for revenue during 2019. Due to customer delivery schedules these are weighted towards the second half of the year. The Group has a strong pipeline of new contracts under negotiation which it is anticipated will add to the orders for delivery in the second half of 2019 and for 2020. These together with the Group's strong market position provides the board with confidence in its prospects for the year ahead.

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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Chairman's statement

I am pleased to report on the Group's annual results for 2018 together with the progress made in meeting our strategic growth objectives. While the development of our new *eyeTrain* software solutions presented some technical challenges, it is gratifying that Petards' market position has been strengthened and that the Group is well positioned to continue to win significant new projects.

Group revenues increased to £20.0 million (2017: £15.6 million) with Adjusted EBITDA* of £2,057,000 (2017: £1,619,000) and profits before tax of £1,126,000 (2017: £1,205,000 that included £491,000 of net exceptional profit). The Group closed 2018 with net funds of £969,000 (2017: £1,286,000). As I reported at the half year stage, the 2018 results reflect the adoption of IFRS 15, the new revenue recognition standard, details of which are set out in note 3 to the financial statements.

Rail products continued to provide the majority of the Group's revenues with around 60% relating to *eyeTrain* in 2018. The majority of the Group's overseas sales also derive from the rail sector with overall Group exports accounting for 23% of revenues. Over the past few years the Group has placed considerable emphasis on establishing a strong position in its home rail market, which is expected to provide good growth prospects over the coming years for train new build and retrofit applications as the train operators continue to increase network capacity. Significant investment was made in 2018 in developing Driver Controlled Operation ("DCO") and Automatic Selective Door Opening ("ASDO") safety critical software systems. ASDO forms a key part of the overall solution to help train operators increase passenger carrying capacity particularly on rail lines with shorter platforms.

QRO's traffic products had an excellent 2018 in its second full year as part of the Group. Following its success in winning two long-term framework agreements with UK police forces, QRO is well positioned to achieve continued growth for its ANPR products and new service agreements. In April 2019 it is moving to larger nearby facilities in Northamptonshire to manage this new business, with plans to expand the product range.

Defence products had a mixed year. Following a strong first half year with a number of good contract wins and related revenues, the second half year proved to be more difficult. The MOD has not presently sought to re-tender the radio catalogue framework agreement previously held by the Group for the past 5 years, which expired in September 2018. While we understand that the MOD will re-tender in due course, this delay means that the large orders received in 2018 are not expected to be repeated in 2019.

RTS Solutions made a maiden contribution to Petards' results following its acquisition in May 2018. I would like to welcome the team at RTS to the Group and look forward to supporting them in the future development of the business. The acquisition affirmed the Board's strategy to pursue ownership of a broader portfolio of products and RTS provides the Group with its first exposure to rail infrastructure. Leeds based RTS supplies real-time software solutions and services that support the operational, maintenance and safety functions of the UK's rail infrastructure. Since its acquisition we have created a business development function to market the software products on a wider basis while at the same time pursuing business with existing customers where we believe there is potential for the provision of additional services.

The importance and contribution that the staff within the Group make cannot be underestimated and 2018 was certainly a challenging year. On behalf of the Board and shareholders I would like to express thanks to all of our management and staff at all levels for their hard work and professionalism and their contribution to the success of the Group. We look forward to their continued support in 2019.

In line with its strategy the Board is reviewing opportunities to increase the Group's market presence which will either be in the form of strategic alliances or the acquisition of complementary organisations, which is its preferred route.

The Group continues to enjoy a strong order book that provides the Board with good visibility to plan for the future. The order book at 31 December 2018 was over £19 million, of which over £13 million is scheduled for revenue during 2019, with customer delivery schedules weighted towards the second half of the year. The Group has a strong pipeline of new contracts under negotiation which it is anticipated will add to the orders for delivery in the second half of 2019 and for 2020. These together with the Group's strong market position provides the Board with confidence in its prospects for the year ahead.

Raschid Abdullah
Chairman

*See Alternative Performance Measures Glossary at the end of this document.

Strategic Report

Business review

Petards' operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications, the main 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 sold under the RTS brand;
- Traffic -Automatic Number Plate Recognition ("ANPR") systems for lane and speed enforcement and commercial 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; and
- Defence - electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence ("MOD").

Operating review

2018 saw the Group continue to secure the majority of orders available for its products placed by new train builders for the UK market. Order intake for *eyeTrain* products was similar to the prior year with recurring revenues for spares and repairs continuing to grow. The acquisition of RTS during the year added to the Group's rail-related software solutions. The Group also secured year-on-year increases in both order intake and revenues for its Traffic and Defence products.

At an operational level the year presented a number of challenges, particularly in respect of the delivery of some complex *eyeTrain* projects. The Group addressed these head-on and it is pleasing that these have been overcome to the satisfaction of our customers, albeit at some higher than anticipated cost.

Order intake for *eyeTrain* products was weighted towards the second half of the year with significant orders being received for delivery in 2019 and 2020 from Bombardier Transportation and Siemens Mobility worth in the region of £6.5 million. The Group's industry experience, the growing number of train types on which *eyeTrain* is installed, our willingness to innovate, and the strong customer relationships built over time, all play a significant role in continuing to secure such projects.

The Group has invested heavily in developing software that provides Automatic Selective Door Operation (ASDO), Driver Controlled Operation (DCO) and Automatic Passenger Counting (APC) systems that integrate with its other *eyeTrain* video systems. The programme required a significant scaling up of our software team with both permanent and contract staff. It has taken longer than originally envisaged, however, the core system is now operational and provides a further differentiator for Petards. It is well suited to retrofit applications and we have been presented with new sales opportunities, some of which we expect to be converted in the coming 12 months.

As more *eyeTrain* projects go into service, revenues from spares and service support are expected to continue to grow. This is a key long-term objective to enhance our customer and product support and we are seeking to reach agreement on service contracts as warranty periods expire.

The UK's demand for new and upgraded rolling stock remains strong and there are a number of major projects for which orders are scheduled to be placed by customers over the course of the next year. If Petards is selected then the majority of these are expected to utilise our existing proven *eyeTrain* software systems developed over the past two years. While the development of new on-board product applications for *eyeTrain* remains core to the Group's strategy, the quantum of spend is presently expected to be much lower in 2019.

Defence products had a strong first half year with the receipt and delivery of £1.5 million in radio equipment orders and the delivery of the £1 million emulator tool for the MOD's transport aircraft. The MOD also extended Petards post design services contract for another two years to the end of 2021, worth an additional £1.1 million. However, regrettably that level of performance was not carried through to the second half of the year. While Petards continues to win some radio business, at the present time the MOD has not as yet re-tendered its radio catalogue framework agreement, previously held by the Group, which expired in September 2018. While we understand that the MOD will re-tender in due course, this delay means that the large orders received in 2018 are not expected to be repeated in 2019. Other than the provision of specialist engineering services, the Group's current defence activities are mainly as a value-added re-seller of radio communications and electronic countermeasures equipment.

Strategic report *(continued)*

Operating review *(continued)*

The strong order and revenue performance of Traffic products continued into the second half buoyed by QRO's success in securing two framework agreements with UK police forces; one with the Cheshire force and a joint one with Thames Valley and Hampshire. While Cheshire has been a longstanding customer, the growth in revenues over the prior year can be attributed to the second agreement. This has been utilised by other forces in England with deliveries worth over £1 million being made during 2018. Commercial sales also increased and customer service support contracts continued to be an important aspect of the business. In April 2019 QRO will be relocating to new premises in Northamptonshire to support its anticipated future growth. The Board is very satisfied with the return on its investment in QRO over the past two years and looks forward to further growth.

The RTS acquisition in May 2018 was the first since QRO joined the Group back in April 2016. The initial and contingent consideration of £1.85 million was paid during the year, including £0.6 million paid on a pound for pound basis for surplus cash in RTS's acquired balance sheet. The consideration was satisfied in cash from the Group's existing cash reserves and a new £1.25 million five year bank term loan. No further consideration is expected to be payable.

RTS adds to Petards' existing capabilities in the rail sector providing the Group with an entry into the UK rail infrastructure market. It brings with it a portfolio of software solutions and recurring revenues. In June 2018 it added significantly to its recurring revenues order book with the renewal of a contract that related to software licences, maintenance and third line support in respect of Network Rail's real time failure and incident management system. The contract will generate annual revenues in excess of £250,000 and runs until June 2023. The final two years are at Network Rail's option which would add to the order book when exercised.

Since its acquisition RTS has made steady progress and contributed £0.2 million to Group profits in the period to 31 December 2018 on revenues of £0.5 million. Investment of £0.1 million was also made in developing a new core module for its software portfolio, the first revenues on which were realised in the period. While customer related project delays had an impact on its financial performance in 2018, those projects remain live and the revenues are expected to be realised during the course of 2019. The Board remains confident that RTS will prove to be a good contributor to Group profits going forward.

Following 2018's positive order intake performance, the Group closed the year with an order book of over £19 million (2017: over £18 million). This provides good coverage of the Group's forward revenues with over £13 million scheduled for recognition during 2019 and a further £5 million for 2020.

Financial review

Operating performance

The year ended 31 December 2018 is the first year that the Group has reported under IFRS 15 "Revenue from contracts with customers" and its implementation has not altered the revenue recognition policy for the majority of the Group's revenue streams. The one area of the Group's business in which the adoption of IFRS 15 has resulted in a change, is that of the work performed relating to the delivery of customer specific development projects.

Prior to the adoption of IFRS 15, the Group recognised such revenue upon achievement of specific pre-agreed, customer-set milestones (other than advance payments) and for which the Group could invoice the customer for payment. Under IFRS 15, work of this nature results in later recognition of the related revenue and predominantly affects *eyeTrain* revenues. The Group has adopted IFRS 15 using the "cumulative effect" method under which comparative information is not restated. The cumulative effect of revising the revenue and profit previously recognised up to 31 December 2017 is shown as an adjustment to brought forward retained earnings, details of which are set out in note 3 to the financial statements, as is the effect of the deferral of revenues that would have been recognised in 2018 had IFRS 15 not been adopted.

Revenues for the year were £20.0 million (2017: £15.6 million) including exports of £4.7 million (2017: £5.3 million). The majority of exports related to shipments of *eyeTrain* system to customers in Germany, Switzerland and Poland, most of which are destined for rail vehicles that will be operated in the UK.

Strategic report (continued)**Financial review (continued)****Operating performance (continued)**

Gross margins for the year remained in line with those reported in the first half year at 34.5%, with the reduction over those achieved in 2017 (38.6%) reflecting both product mix and higher than anticipated project costs. With regards to mix, Defence products comprised almost a third of 2018 total revenues. The increase over the prior year related to additional bought-in lower margin product and this had a dilutive effect on the overall margin. In addition, higher non-recurring project costs were incurred in the implementation of *eyeTrain* projects on two new train platforms, and this work has been completed in the first quarter of 2019. While the benefits will be seen on future new orders, these costs had an effect on the gross margin in 2018. While those higher specific project costs are one-off in nature, the Group has embarked on a programme of margin improvement across its supply chain, which it is expected will drive better returns.

Overall administrative expenses were up to £5,728,000 (2017: £4,770,000). The main increases related to higher amortisation and depreciation charges, the effect of the RTS acquisition and exceptional income of £362,000 netted off against 2017 administrative expenses. Other administrative expenses increased by 4% over the prior year primarily due to higher indirect staff costs and one-off Defence product tendering costs.

Earnings before interest, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges ("Adjusted EBITDA") totalled £2,057,000 up from £1,619,000 in 2017. Operating profits were £1,156,000 against £1,245,000 in 2017 (2017 included £362,000 exceptional income).

Net financial expenses totalled £30,000 (2017: £40,000) albeit that its composition was very different than the prior year which included interest relating to loan notes converted in 2017 of £131,000, and net exceptional financial income of £129,000.

A tax credit of £17,000 for the year (2017: £32,000 credit) included the benefit of research and development tax credits relating to prior years.

Profit after tax was £1,143,000 (2017: £1,237,000) and basic earnings per share 2.01p (2017: 3.31p). The equity issued as a result of the conversion of loan notes in December 2017 had little effect on 2017's basic earnings per share as they were only in issue for two weeks but impacted that of 2018 as they were in issue for the whole year. Fully diluted earnings per share were not affected to the same extent and were 1.95p (2017: 2.32p).

Research and development

The Group continues to invest in its product offering and during 2018 made a significant investment in its rail products. This investment totalled £1,608,000 (2017: £1,290,000) of which £1,444,000 was capitalised (2017: £1,043,000). The capitalised costs relate predominantly to the Group's next generation of *eyeTrain* software products which will sit alongside its existing software portfolio. These new products will support future sales to the Group's most recent new customers as well as those for all ASDO systems, retrofitted DCO systems and integrated APC systems. In addition to *eyeTrain*, the Group invested to support RTS's software development roadmap.

Cash and cash flow

Net cash inflows from operating activities for the year were £2,515,000 (2017: £539,000).

Net cash outflows from investing activities were £3 million comprising the acquisition of RTS, investment in new product development and equipment. Net financing inflows were £1.3 million of which a net £1.1 million concerned the term loan financing of the RTS acquisition.

At 31 December 2018 the Group's net cash and cash equivalents were £2,117,000 up by £793,000 over the year (2017: £1,324,000). The Group also has available to it a £0.75 million 2-year revolving credit facility secured in June 2018.

Strategic report (continued)**Brexit**

In common with most UK companies, Petards would not be immune to any potential adverse impact that a disorderly Brexit might have on the wider economy. However, the Board's current assessment is that the specific sectors in which the Group operates are not significantly exposed to particular Brexit risk, although some impact may be felt in the days immediately following any disorderly Brexit.

Rail products are the main contributor to Group revenues and while almost a quarter of the Group's revenues for 2018 were exported to the EU, the majority related to UK rail projects. The market sectors to which Petards supplies tend to be highly regulated and the Group does not anticipate Brexit will change existing regulations significantly. Like most businesses it can be affected by any inflationary pressures in the supply chain but again these are not considered to be specific to the sectors in which the Group operates. Neither the Group's current order book nor the orders it expects to receive during 2019 contain significant foreign currency exposures. The Group has also been monitoring its major suppliers within its supply chain and they have indicated that they have taken additional measures, such as stocking, to ensure continuity of supply.

The UK Long Term Passenger Rolling Stock Strategy for the Rail Industry published in 2018 continued to express the view that while Brexit impacts remain unknown, the scenarios covered by the "worst case" industry modelling already cater for impacts much worse than the Office of Budgetary Responsibility predictions for Brexit. The overall long term rolling stock outlook remained unchanged from the prior year's report and forecasts a national rail fleet increase of between 40% (5,500 vehicles) and 85% (12,000 vehicles) over the next 30 years. The investment decisions for new rolling stock require long term planning and those relating to orders which Petards expects to receive in the coming year were completed some time ago.

The Group's other sector exposure, defence and traffic, is also largely dependent upon UK government expenditure but those for Petards' products and services are generally subject to shorter planning cycles. The current indications are that the Group's forecast revenues take into account any likely adverse impact that Brexit might have, although Petards may possibly be a beneficiary of any boost in government spending that may follow Brexit.

Osman Abdullah
Group Chief Executive

**Consolidated income statement
for year ended 31 December 2018**

	Note	2018 £000	2017 £000
Revenue	4	19,973	15,581
Cost of sales		(13,089)	(9,566)
Gross profit		6,884	6,015
Administrative expenses		(5,728)	(4,770)
Adjusted EBITDA*		2,057	1,619
Amortisation of intangibles		(590)	(547)
Depreciation		(209)	(162)
Exceptional income	5	-	362
Acquisition costs		(77)	-
Share based payment charges		(25)	(27)
Operating profit		1,156	1,245
Financial income (2017 included £340,000 exceptional income)	6	3	340
Financial expenses (2017 included £211,000 exceptional expense)	6	(33)	(380)
Profit before tax		1,126	1,205
Income tax	7	17	32
Profit for the year attributable to equity shareholders of the parent		1,143	1,237
Earnings per ordinary share (pence)			
Basic	11	2.01	3.31
Diluted	11	1.95	2.32

* Earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. See Alternative Performance Measures Glossary at the end of this document.

**Consolidated statement of comprehensive income
for year ended 31 December 2018**

	Note	2018 £000	2017 £000
Profit for the year		1,143	1,237
Other comprehensive income			
Items that may be reclassified to profit:			
Release of foreign currency reserve on abandonment of US subsidiary			

(included in financial expenses)	5, 6	-	211
Total comprehensive income for the year		1,143	1,448

Statements of changes in equity for year ended 31 December 2018

	Share capital £000	Share premium £000	Equity reserve £000	Retained earnings £000	Currency translation reserve £000	Total equity £000
At 1 January 2017	357	68	200	3,768	(211)	4,182
Profit for the year	-	-	-	1,237	-	1,237
Other comprehensive income	-	-	-	-	211	211
Total comprehensive income for the year	-	-	-	1,237	211	1,448
Equity-settled share based payments	-	-	-	27	-	27
Conversion of convertible loan notes	198	1,383	(169)	142	-	1,554
Exercise of share options	3	22	(6)	-	-	19
At 31 December 2017	558	1,473	25	5,174	-	7,230
At 1 January 2018	558	1,473	25	5,174	-	7,230
Adjustment on initial application of IFRS 15 (net of tax) *	-	-	-	(468)	-	(468)
Adjusted balance at 1 January 2018	558	1,473	25	4,706	-	6,762
Profit for the year	-	-	-	1,143	-	1,143
Total comprehensive income for the year	-	-	-	1,143	-	1,143
Equity-settled share based payments	-	-	-	25	-	25
Exercise of share options	17	144	(11)	11	-	161
At 31 December 2018	575	1,617	14	5,885	-	8,091

* The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (note 3). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

Consolidated balance sheet at 31 December 2018

	Note	2018 £000	2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment		943	825
Intangible assets		4,676	2,488
Investments in subsidiary undertakings		-	-
Deferred tax assets		284	344
		5,903	3,657
Current assets			
Inventories		4,104	3,403
Trade and other receivables		2,553	3,743
Cash and cash equivalents		2,117	1,324

		8,774	8,470
		<hr/>	<hr/>
Total assets		14,677	12,127
		<hr/>	<hr/>
EQUITY AND LIABILITIES			
<i>Equity attributable to equity holders of the parent</i>			
Share capital	10	575	558
Share premium		1,617	1,473
Equity reserve		14	25
Currency translation reserve		-	-
Retained earnings		5,885	5,174
		<hr/>	<hr/>
Total equity		8,091	7,230
		<hr/>	<hr/>
Non-current liabilities			
Interest-bearing loans and borrowings	9	883	23
Trade and other payables		-	-
		<hr/>	<hr/>
		883	23
		<hr/>	<hr/>
Current liabilities			
Interest-bearing loans and borrowings	9	265	15
Trade and other payables		5,438	4,859
		<hr/>	<hr/>
		5,703	4,874
		<hr/>	<hr/>
Total liabilities		6,586	4,897
		<hr/>	<hr/>
Total equity and liabilities		14,677	12,127
		<hr/>	<hr/>

Consolidated statement of cash flows for year ended 31 December 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Profit for the year		1,143	1,237
<i>Adjustments for:</i>			
Depreciation		209	162
Amortisation of intangible assets		590	547
Financial income	6	(3)	(340)
Financial expenses	6	33	380
Equity settled share-based payment expenses		25	27
Income tax (credit)/charge	7	(17)	(32)
		<hr/>	<hr/>
Operating cash flows before movement in working capital		1,980	1,981
Change in inventories		1,024	(1,450)
Change in trade and other receivables		1,344	(1,003)
Change in trade and other payables		(1,834)	1,057
		<hr/>	<hr/>
Cash generated from operations		2,514	585
Interest received		3	-
Interest paid		(58)	(107)
Tax received		56	61
		<hr/>	<hr/>
Net cash from operating activities		2,515	539
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(325)	(509)
Capitalised development expenditure		(1,444)	(1,043)
Acquisition of subsidiary	8	(1,224)	-
		<hr/>	<hr/>
Net cash outflow from investing activities		(2,993)	(1,552)
		<hr/>	<hr/>
Cash flows from financing activities			
Bank loan received	9	1,250	-
Bank loan repaid	9	(125)	-
Finance lease repayments		(15)	(10)
Proceeds from exercise of share options		161	25
		<hr/>	<hr/>
Net cash inflow from financing activities		1,271	15
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		793	(998)
		<hr/>	<hr/>
Total movement in cash and cash equivalents in the year		793	(998)
Cash and cash equivalents at 1 January		1,324	2,322
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		2,117	1,324
		<hr/>	<hr/>

Notes

1 Basis of preparation

The financial information set out in this statement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 31 December 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies and those for 2018 will be delivered in due course. The auditor has reported on those accounts; his reports (i) were unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Changes in significant accounting policies

IFRS 9 Financial instruments (effective 1 January 2018)

IFRS 9 addresses the classification and measurement of financial assets and liabilities and replaces IAS 39. Among other things, the standard introduces a forward-looking credit loss impairment model whereby entities need to consider and recognise impairment triggers that might occur in the future (an 'expected loss' model). The Board has considered the impact of the introduction of IFRS 9 and determined that it does not have a significant impact on the numbers reported or as previously reported.

IFRS 15 Revenue from contracts with customers (effective 1 January 2018)

IFRS 15 sets out a single and comprehensive framework for revenue recognition. The guidance in IFRS 15 is considerably more detailed than previous IFRSs for revenue recognition (IAS 11 Construction Contracts and IAS 18 Revenue and associated interpretations).

The Group has adopted IFRS 15 retrospectively from 1 January 2018 and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 to reflect the impact of transitioning to IFRS 15. A summary of the effect of the impact of the adoption of IFRS 15 is set out at note 3 below.

In line with the requirements of the standard with regards to the transition option adopted, the Group has not restated its comparative information which continues to be reported under previous revenue standards, IAS 11 and IAS 18.

3 Impact of the adoption of IFRS 15

Impact in respect of the position on adoption at 1 January 2018

Balance sheet headings	As reported	Reclassification	Remeasurement	IFRS 15
	31 December			as adopted
	2017	£000	£000	1 January 2018
	£000	£000	£000	£000
Work in progress within inventories	2,211	-	1,707	3,918
Payments on account within current trade and other payables	(382)	382	-	-
Deferred revenue within current trade and other payables	-	(382)	(2,271)	(2,653)
Deferred tax assets	344	-	96	440

	As reported
	1 January 2018
Retained earnings as previously reported	5,174
Adjustment to earnings from adoption of IFRS 15 - profit before tax	(564)
Adjustment to earnings from adoption of IFRS 15 - deferred tax	96
Retained earnings on adoption of IFRS 15 - at 1 January 2018	4,706

Impact on the result for the year to 31 December 2018

Consolidated income statement	Result before the adoption of IFRS 15	Impact of change in GAAP	Result after the adoption of IFRS 15
	£000	£000	£000
Revenue	18,198	1,775	19,973

Cost of sales	(11,719)	(1,370)	(13,089)
Gross profit	6,479	405	6,884
Administrative expenses	(5,728)	-	(5,728)
Operating profit	751	405	1,156
Financial income	3	-	3
Financial expense	(33)	-	(33)
Profit before tax	721	405	1,126
Income tax	103	(86)	17
Profit for the year	824	319	1,143

Revenue before the adoption of IFRS 15 were accounted for under IAS 11 and IAS 18.

An assessment of the impact of IFRS 15 was completed during the year across the Group's revenue streams, including a comprehensive review of contracts that were not completed contracts at the date of initial application.

This review ascertained that under IFRS 15, £2,271,000 of revenue and £564,000 of profit recognised in previous accounting periods up to and including 31 December 2017 would be deferred to future periods. The effect of this assessment based on the progress of these contracts during the current year, has been to recognise revenue of £1,961,000 and profit of £451,000 in 2018, leaving revenue of £310,000 and profit of £113,000 to be recognised in accounting periods after 31 December 2018.

The impact of IFRS 15 on contracts commencing during the year and which are incomplete at 31 December 2018 has been to defer revenue of £186,000 and estimated profit of £46,000 to future accounting periods.

4 Segmental information

The analysis by geographic segment below is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions, to monitor performance and allocate resources.

The Board regularly reviews the Group's performance and balance sheet position for its entire operations as a whole. The Board receives financial information, assesses performance and makes resource allocation decisions for its UK based business as a whole, therefore the Directors consider the Group to have only one segment in terms of products and services, being the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications.

As the Board of Directors receives revenue, Adjusted EBITDA and operating profit on the same basis as set out in the consolidated income statement no further reconciliation or disclosure is considered necessary.

Revenue by geographical destination can be analysed as follows:

	2018	2017
	£000	£000
United Kingdom	15,285	10,227
Continental Europe	4,250	4,930
Rest of World	438	424
	19,973	15,581

The timing of revenue recognition can be analysed as follows:

	2018	2017
	£000	£000
Products and services transferred at a point in time - IFRS 15	19,058	-
Products and services transferred over time - IFRS 15	915	-
Products and services - IAS 11 and IAS 18	-	5,921
Construction contract revenue - IAS 11	-	9,660
	19,973	15,581

5 Exceptional items

	2018	2017
	£000	£000
Exceptional income included in administrative expenses	-	362
Exceptional interest received included in financial income	-	340
Exceptional loss on currency translation reserve	-	(211)

The 2017 results included two exceptional items. First, the Group accepted an offer to settle a historic matter, unrelated to the current trading activities of the Group, which arose over ten years ago. Under the settlement, on 9 January 2018, the Group received a total of £702,000 in cash comprising an amount of £362,000 plus compensatory interest of £340,000.

The second exceptional item was also unrelated to the current trading activities of the Group. During 2017 the Board decided that the US subsidiary that had been dormant for several years should be abandoned, and any future activities that the Group may undertake in the US would not be conducted through the subsidiary. The £211,000 deficit on the Group's currency translation reserve was reclassified from equity to income and shown as an expense.

6 Financial income and expenses

	2018 £000	2017 £000
Recognised in profit or loss		
Exceptional item - interest receivable on settlement (note 5)	-	340
Interest on bank deposits	1	-
Other exchange gain	2	-
	<hr/>	<hr/>
Financial income	3	340
	<hr/>	<hr/>
	2018 £000	2017 £000
Interest expense on financial liabilities at amortised cost	33	133
Exceptional item - foreign exchange loss (note 5)	-	211
Other exchange loss	-	36
	<hr/>	<hr/>
Financial expenses	33	380
	<hr/>	<hr/>

7 Taxation**Recognised in the income statement**

	2018 £000	2018 £000	2017 £000	2017 £000
<i>Current tax (credit)/expense</i>				
Current tax charge	34		5	
Adjustments in respect of prior years	(113)		(57)	
	<hr/>		<hr/>	
Total current tax		(79)		(52)
<i>Deferred tax (credit)/expense</i>				
Origination and reversal of temporary differences	105		5	
Derecognition of previously recognised tax losses	73		-	
Recognition of previously unrecognised tax losses	(56)		(148)	
Utilisation of recognised tax losses	75		303	
Adjustment in respect of prior years	(145)		(162)	
Effect of differential tax rate for deferred tax	10		22	
	<hr/>		<hr/>	
Total deferred tax		62		20
		<hr/>		<hr/>
Total tax credit in income statement		(17)		(32)
		<hr/>		<hr/>

7 Taxation (continued)**Reconciliation of effective tax rate**

	2018 £000	2017 £000
Profit before tax	1,126	1,205
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	214	232
Non-deductible expenses	42	81
Non taxable income	(21)	-
Derecognition of previously recognised tax losses	73	-
Recognition of previously unrecognised tax losses	(56)	(148)
Adjustments in respect of prior years	(258)	(219)
Effect of differential tax rate for deferred tax	10	22
Other reconciling items	(21)	-
	<hr/>	<hr/>
Total tax credit	(17)	(32)
	<hr/>	<hr/>

8 Acquisitions

On 11 May 2018, the Group acquired the entire issued share capital of RTS Solutions (Holdings) Limited which was the sole shareholder of RTS Solutions (UK) Limited (RTS) for £1.8 million, comprising £1.2 million for the business and £0.6 million for surplus cash. This consideration was settled by an initial cash consideration of £1 million, funded by a 5 year bank loan and £547,000 paid from internal cash reserves. Further deferred consideration of £250,000 was paid in June 2018, funded by an additional drawdown on the 5 year bank loan and a further £55,000 was paid in July, funded from cash reserves. The terms of the acquisition provided for a further amount of up to £250,000 to be payable in the event that the financial performance of RTS for the year ended 31 March 2019 met certain targets. The fair value of this element of consideration has been determined to be £nil on the basis that the forecast results were expected to be below the target amounts.

During the period from acquisition to 31 December 2018, RTS contributed £511,000 of revenue and £183,000 of profit to the Group. Had the results been consolidated from 1 January 2018, Group revenue would have been £20,165,000 and net profit would have been £1,167,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2018.

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are the estimated fair values. The goodwill arising on acquisition can be attributed to a multitude of assets that cannot be readily separately identified for the purposes of fair value accounting. None of the goodwill is expected to be deductible for tax purposes.

The fair value adjustments arise in accordance with the requirements of IFRSs to recognise intangible assets acquired. In determining the fair value of intangible assets, the Group has used discounted cash flow forecasts and these are being amortised over their estimated useful life.

The Group incurred acquisition related costs of £77,000 that are included within administrative expenses.

8 Acquisition (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Provisional fair values recognised on acquisition
	£000
Net assets acquired	
Intangible assets	
Technology related assets	407
Customer related assets	146
Property, plant and equipment	2
Inventories	18
Trade and other receivables	131
Cash and cash equivalents	628
Trade and other payables	(167)
Deferred tax	(94)
	<hr/>
Net identified assets and liabilities	1,071
Goodwill on acquisition	781
	<hr/>
Total consideration	1,852
	<hr/>
Cash flow	
Consideration paid in cash	1,852
Cash and cash equivalents acquired	(628)
	<hr/>
Net cash flow	1,224
	<hr/>

9 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2018	Group	2018	Company
	£000	2017	£000	2017
		£000		£000
Non-current liabilities				
Bank loan	875	-	875	-
Finance lease liabilities	8	23	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	883	23	875	-
	<hr/>	<hr/>	<hr/>	<hr/>
Current liabilities				
Bank loan	250	-	250	-
Current portion of finance lease liabilities	15	15	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	265	15	250	-
	<hr/>	<hr/>	<hr/>	<hr/>

During the year the Company entered into a term loan facility of £1.25 million repayable by equal quarterly instalments over 60 months. The interest rate is set at LIBOR plus 3.19% and the loan is secured by a fixed and floating charge over the assets of the Group.

During the year the Company was also provided a revolving credit facility of up to £750,000 which was undrawn at 31 December 2018. The interest rate on amounts drawn is set at LIBOR plus 3.19% and there is a commitment fee of 1.85% on the undrawn facility.

9 Interest-bearing loans and borrowings (continued)

Changes in liabilities from financing activities

	Loans and borrowings	Finance lease liabilities
	£000	£000
Balance at 1 January 2018	-	38
New bank loan	1,250	-
Repayment of bank loan	(125)	-
Payment of finance lease liabilities	-	(15)
	<hr/>	<hr/>
Total changes from financing cash flows	1,125	(15)
	<hr/>	<hr/>
Balance at 31 December 2018	1,125	23
	<hr/>	<hr/>

10 Share capital

	At 31 December 2018 Number	At 31 December 2017 Number
<i>Number of shares in issue - allotted, called up and fully paid</i>		
Ordinary shares of 1p each	57,468,229	55,768,229
	<hr/>	<hr/>
	£000	£000
<i>Value of shares in issue - allotted, called up and fully paid</i>		
Ordinary shares of 1p each	575	558
	<hr/>	<hr/>

The Company's issued share capital comprises 57,468,229 ordinary shares of 1p each, all of which have equal voting rights.

On 22 May 2018 the Company issued 700,000 ordinary 1p shares at a price of 11.625p each and on 11 June 2018 the Company issued a further 1,000,000 ordinary 1p shares at a price of 8p each, on the exercise of options.

11 Earnings per share*Basic earnings per share*

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

	2018	2017
Earnings		
Profit for the year (£000)	1,143	1,237
	<hr/>	<hr/>
Number of shares		
Weighted average number of ordinary shares ('000)	56,752	37,418
	<hr/>	<hr/>
Basic earnings per share (pence)	2.01	3.31
	<hr/>	<hr/>

11 Earnings per share (continued)*Diluted earnings per share*

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options, and is calculated by dividing the adjusted profit for the year attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for 2017 comprised the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes amounting to £131,000.

	2018	2017
Adjusted earnings		
Profit for the year (£000)	1,143	1,368
	<hr/>	<hr/>
Number of shares		
Weighted average number of ordinary shares ('000)	58,627	58,844
	<hr/>	<hr/>
Diluted earnings per share (pence)	1.95	2.32
	<hr/>	<hr/>

12 Annual Report and Accounts

The Annual Report and Accounts will be sent to shareholders shortly and will be available to download on the Company's website www.pctards.com.

Alternative Performance Measures Glossary

This report provides alternative performance measures ("APMs"), which are not defined or specified under the requirements of International Financial Reporting Standards. The Board believes that these APMs provide management with useful performance measurement indicators and readers with important additional information on the business.

Adjusted EBITDA

Adjusted EBITDA is earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. Adjusted EBITDA is considered useful by the Board since by removing exceptional items, acquisition costs and share based payments, the year on year operational performance comparison is more comparable.

Order intake

The value of contractual orders received from customers during any period for the delivery of performance obligations. This allows management to monitor the performance of the business.

Order book

The value of contractual orders received from customers yet to be recognised as revenue. This allows management to monitor the performance of the business and provides forward visibility of potential earnings.

Net funds

Total net funds comprises cash and cash equivalents less interest bearing loans and borrowings. This allows management to monitor the indebtedness of the Group.

Current net funds

Current net funds comprises cash and cash equivalents less current liabilities in respect of interest bearing loans and borrowings. This allows management to monitor the short term indebtedness of the Group.

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