

**PENNANT INTERNATIONAL GROUP PLC****Interim Results for the six months ended 30 June 2023**

**EBITA of £0.5 million; fourth consecutive period of EBITA profit; record gross margin; on track to meet full year expectations;**

Pennant International Group plc (AIM:PEN) ("**Pennant**", the "**Group**" or "**Company**"), the IPS software and services company, announces its Interim Results for the six months ended 30 June 2023 (the "**First Half**", the "**Period**", or "**H1 2023**").

**Commenting on the results, Chairman Philip Cotton said:**

*"I am pleased to report that the Group has maintained positive earnings before interest, taxation and amortisation for a fourth consecutive period, with profitability in-line with market expectations for the year as a whole.*

*Our plan to re-engineer the business to build on software, services and other higher-margin work – focusing on our unique breadth of products and services across multiple Integrated Product Support disciplines – is producing results."*

**Key points: Financial**

- Group revenues for the Period of £7.1 million (H1 2022: £6.9 million)
- 46% of revenues generated from software licensing and associated activities (H1 2022: 52%)
- Record gross margin of 47% (H1 2022: 41%)
- Earnings before interest, taxation and amortisation (EBITA) of £0.5 million (H1 2022: EBITA of £0.1 million)
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) of £0.8 million (H1 2022: EBITDA of £0.4 million)
- Loss before tax of £0.4 million (H1 2022: loss before tax of £0.8 million)
- Net debt at Period end of £1.9 million (H1 2022: net debt of £4.1 million)
- Trade and other receivables due at Period end of £4.2 million (H1 2022: £5.1 million)
- Basic loss of (1.02)p per share (H1 2022: basic loss per share of (2.21)p per share)
- Unrelieved tax losses of £7.1 million carried forward (H1 2022: £6.7 million carried forward)
- Three-year order book at Period end stood at £25 million (H1 2022: £27 million)

*Note: the above results are stated before circa £0.1 million of exceptional transaction and integration costs associated with the acquisition of Track Access Productions Limited. See note 5 to the Notes for a reconciliation between operating loss, EBITDA and EBITA.*

## Key points: Operational

- Good progress on the circa £9 million Boeing Defence United Kingdom (BDUK) Apache upgrade programme, which is running on time and on budget, with final deliveries scheduled for completion in September 2024.
- Acquisition of Track Access Productions Limited (“TAP”) in April 2023, broadening Pennant’s existing rail offering and customer base, and adding circa £0.3 million of subscription-based recurring revenues.
- Version 2 of GenS released in May 2023, with first commercial sale achieved in June 2023.
- Order intake secured during the First Half of £6.5 million, which resulted in a Period-end three-year contracted order book of £25 million.

## Commenting on the Group’s prospects, Philip Cotton added:

*“Given the burgeoning technological complexity of military, aviation and rail platforms, the demand for innovative Integrated Product Support solutions is only likely to grow, particularly with increasing defence budgets across the Western world.*

*Our strategy has been formulated with precisely these factors in mind and with our developing S-Series solutions, we are well-placed to capitalise.”*

*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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## **Pennant International Group plc**

### **Interim Report for the six months ended 30 June 2023**

#### **Chairman's Statement**

##### **Results and dividend**

On behalf of the Board of Directors, I can report that the Group recorded revenues for the Period of £7.1 million (H1 2022: £6.9 million).

For the fourth consecutive six-month period, EBITA was positive at £0.5 million, an improvement over the EBITA profit of £0.1 million recorded for the comparable period in 2022.

The gross profit margin for the Period increased to 47% (H1 2022: 41%) due to software licence revenues and sound performance across a number of programmes.

This resulted in a significantly reduced pre-tax loss for the Period of £0.4 million which compares with a pre-tax loss of £0.8 million in H1 2022.

Administrative costs for the Period were £3.6 million (H1 2022: £3.6 million), pleasingly being held at the same level as 12 months ago, despite general inflationary pressures.

At the Period-end net debt stood at £1.9 million (H1 2022: net debt of £4.1 million), as the Group utilised its overdraft facilities to fund programme expenditure (for which the cash milestones are expected to unwind in the latter part of the year and into early 2024) and internally-funded development of the GenS software suite.

Total assets at the Period end were £20.5 million (H1 2022: £21.9 million).

The basic loss per share for the Half Year was (1.02)p compared to a loss of (2.21)p for the same period last year.

A minimal effective tax rate is expected for the full year due to unrelieved tax losses of £7.1 million which have been carried forward at the Half Year (H1 2022: £6.7 million) and with R&D tax credit claims in progress.

The Group's three-year order book stood at £25 million at Period-end (H1 2022: £27 million) and is scheduled for delivery as follows: £8.1 million in H2 2023, £8.7 million in 2024, £5.3 million in 2025 and the balance in H1 2026.

The Directors have concluded that it is in the best interests of the Company and its shareholders to retain cash at this time for expected working capital requirements, particularly as the internally-funded GenS development programme reaches its critical later stages.

The Board will therefore not be declaring an interim dividend but will continue to review the Group's dividend policy based on performance, cash generation and working capital and investment requirements.

I would like to thank all Pennant employees, who have worked tirelessly during the First Half, drawing on Pennant's long heritage to deliver our impressive breadth of products and capabilities.

## Operational Commentary

Each region, and business line, made a significant contribution during the Period as follows:

Revenue by Region	£ m
UK & Europe	3.7
North America	2.2
Australasia	1.2
<b>Total</b>	<b>7.1</b>

A key strategic focus of the Group is to continue to grow the proportion of revenues which derive from software and related activities. During the Period, circa 46% of revenues derived from software and related services; 56% of revenues were of a recurring nature.

Revenue by business line	£ m
Software Licences	0.7
Software Maintenance	0.7
Software Services	1.9
Engineered-to-order training solutions	1.9
Generic training solutions	0.5
Technical Services	1.4
<b>Total</b>	<b>7.1</b>

Commentary is provided on the various business lines below.

### Integrated Product Support (IPS) Software Suite

The Group's IPS software suite comprises Pennant's three proprietary software product suites, OmegaPS, Analyzer and R4i. OmegaPS is a sophisticated logistics data tool; Analyzer uses recognised processes and analytical methods to develop, store and evaluate information about operational equipment and the support environment; and R4i provides its users with a dynamic, S1000D-compliant technical documentation solution.

In addition, Pennant provides long-term recurring consultancy, support and maintenance services on both software suites to its many customers which include the Canadian and Australian defence departments and their respective supply bases.

The Period saw continuing demand for these products and related consultancy.

### *Product Investment*

Capital investment continued in the OmegaPS successor product, 'GenS' to realise the vision of a cutting-edge, end-to-end solution for customers' data and documentation needs. During the Period, the Group invested circa £0.6 million in this development project.

GenS represents the next generation of Logistics Support Analysis/Logistics Product Data technology, with a modern, easy to use interface and functionality, deployable 'on premise' or as a software as a service. GenS, when combined with the Analyzer and R4i S1000D Technical Publishing suite will transform customers' Integrated Product Support capabilities into a truly integrated digital capability and reduce programme delivery costs. Version 2 of GenS was released in May 2023, with the first commercial sale achieved in June 2023.

The Group also has an active pipeline of potential product innovations and improvements that are undergoing a detailed assessment process, including the use of Artificial Intelligence to integrate our IPS software database and the use of augmented / mixed reality in the delivery of our technical data to the end user.

## Training Technology

Training is an important sub-discipline within the IPS field and Pennant designs and builds generic and platform-specific training technology (and provides related technical and support services) for the defence, aerospace, rail and other safety critical industries.

The Group's key training-related contract during the Period was the UK Apache upgrade programme, under which Pennant is upgrading four different types of Apache training device for the UK Army.

The Group is developing modular software-based training solutions and during the Period launched the Engine Systems Starting Trainer (which combines a high-fidelity graphical model of an engine with Pennant's proprietary emulation technology), which has gone out on trial with a selected key customer.

## **Programme Delivery**

Major Programme update: Pennant continues to make good progress on its contract with BDUK for the UK Apache upgrade programme. By the end of the Period, Preliminary Design Review had been successfully passed on all four devices, whilst on two of the devices, Critical Design Review (the final design sign-off) had also been achieved. The contract remains on track for completion in September 2024.

Commercial aerospace projects: the Group continues to progress its two North American software and services contracts for the development and delivery of its new technical publications solution for the commercial aviation market. The projects have involved the transfer of complex legacy data into a new solution which has resulted in an enlarged scope and technical challenges. The contracts are now expected to be completed during the first half of 2024 with the associated milestones expected to unwind in early 2024.

## **Acquisition update**

We successfully acquired Track Access Productions Limited ("**TAP**") in April 2023 for an initial consideration of £798,500, funded from existing resources, and a deferred consideration of £175,500 payable in April 2024. TAP is a provider of driver training, route mapping and route familiarisation services to the UK rail industry and bolsters the Group's 'third pillar' of rail products and services.

I am pleased that TAP is performing in line with the Board's expectations. Pennant's combined Track Access business unit (comprising TAP and Track Access Services) had a successful First Half in respect of order intake and is on course to deliver turnover of approximately £900,000 for the year ending 31 December 2023 on an annualised basis, with an operating profit of approximately £400,000.

Targeted acquisitions, which add new strategic customers and/or add to our software capabilities, remain a key part of the Group's strategy for growth.

## **Post Period-end**

Further positive outcomes have been achieved since Period-end:

- Sales: circa £1.5 million of new orders for software and services were received across July and August, taking orders received during 2023 to a total of £8.1 million. This included a new contract with the Australian Defence Force worth AUD\$1.2 million over 12 months, secured in early July.
- New partnership: the Group announced a strategic partnership with Aquila Learning to collaborate on a number of projects, including the integration of the ALaRMS – Aquila Learning (and Requirements /Resource/Record) Management System into the market leading Pennant IPS software suite (GenS, Analyzer and R4i). The integration will realise natural synergies in both product and customer base and broaden our S-Series capabilities.
- Cash: the Group secured a £1 million increase in its overdraft facility (to £4 million). This is available from September 2023 to January 2024 to provide short-term working capital contingency pending the realisation of programme milestones referred to above, and the continued investment ahead of full product launch of GenS and the integrated IPS software suite in April 2024.

## **Outlook**

Given the burgeoning technological complexity of military, aviation and rail platforms, the demand for innovative Integrated Product Support solutions is only likely to grow, particularly with increasing defence budgets across the Western world.

Our strategy has been formulated with precisely these factors in mind and with our developing integrated S-Series solutions, we are well-placed to capitalise.

We continue to explore opportunities for partnerships and acquisitions that will enhance our capabilities and accelerate our strategic objectives.

We also remain focused on ensuring a lean, productive and effective organisation; costs remain well-controlled following the decisive restructuring in 2021 and we are confident of meeting market expectations for the year as a whole.

P Cotton  
Chairman

**PENNANT INTERNATIONAL GROUP plc**  
**CONSOLIDATED INCOME STATEMENT** for the six months ended 30 June 2023

	Notes	Six months ended 30 June 2023 Unaudited	Six months ended 30 June 2022 Unaudited	Year ended 31 December 2022 Audited
		£000s	£000s	£000s
Revenue		7,092	6,945	13,686
Cost of sales		(3,750)	(4,110)	(7,897)
<b>Gross profit</b>		<b>3,342</b>	<b>2,835</b>	<b>5,789</b>
Administration expenses		(3,616)	(3,558)	(6,902)
Other income		75	50	123
<b>Operating (loss)</b>		<b>(199)</b>	<b>(673)</b>	<b>(990)</b>
Finance costs		(176)	(137)	(377)
Finance income		-	-	2
<b>(Loss) before taxation</b>		<b>(375)</b>	<b>(810)</b>	<b>(1,365)</b>
<b>Taxation</b>	<b>2</b>	-	-	464
<b>(Loss) for the period</b>		<b>(375)</b>	<b>(810)</b>	<b>(901)</b>
<i>Earnings per share</i>	<b>3</b>			
Basic		(1.02p)	(2.21p)	(2.45p)
Diluted		(1.02p)	(2.21p)	(2.45p)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the six months ended 30 June 2023

	Six months ended 30 June 2023 Unaudited	Six months ended 30 June 2022 Unaudited	Year ended 31 December 2022 Audited
	£000s	£000s	£000s
(Loss) attributable to equity holders of the parent	(375)	(810)	(901)
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	(124)	364	109
Prior year amortization adjustment		-	39
Deferred tax credit - property, plant and equipment and intangibles		-	248
<b>(Loss) attributable to equity holders of the parent</b>	<b>(499)</b>	<b>(446)</b>	<b>(505)</b>

**PENNANT INTERNATIONAL GROUP plc**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** as at 30 June 2023

	Six months ended 30 June 2023 Unaudited £000s	Six months ended 30 June 2022 Unaudited £000s	Year ended 31 December 2022 Audited £000s
<b>Non-current assets</b>			
Goodwill	2,459	2,546	2,507
Other intangible assets	5,251	4,681	4,690
Property plant and equipment	3,958	5,817	4,002
Right Of Use Asset	624	567	503
Deferred tax asset	1,530	836	1,497
<b>Total non-current assets</b>	<b>13,822</b>	<b>14,447</b>	<b>13,199</b>
<b>Current assets</b>			
Inventories / work-in-progress	1,207	1,347	1,001
Trade and other receivables	4,204	5,146	4,129
Cash and cash equivalents	749	585	1,107
Current tax asset	492	330	354
<b>Total current assets</b>	<b>6,652</b>	<b>7,408</b>	<b>6,591</b>
<b>Total assets</b>	<b>20,474</b>	<b>21,855</b>	<b>19,790</b>
<b>Current liabilities</b>			
Trade and other payables	5,871	4,780	5,862
Current tax liabilities	151	89	155
Obligations under finance and operating leases	351	191	174
Bank overdraft	2,668	4,741	1,533
Deferred consideration on acquisition	615	335	327
<b>Total current liabilities</b>	<b>9,656</b>	<b>10,136</b>	<b>8,051</b>
<b>Net current (liabilities) / assets</b>	<b>(3,004)</b>	<b>(2,728)</b>	<b>(1,460)</b>
<b>Non-current liabilities</b>			
Obligations under finance and operating leases	323	444	385
Deferred tax liabilities	-	-	-
Contingent consideration on acquisition	152	419	552
Warranty provisions	108	122	107
<b>Total non-current liabilities</b>	<b>583</b>	<b>985</b>	<b>1,044</b>
<b>Total liabilities</b>	<b>10,239</b>	<b>11,121</b>	<b>9,095</b>
<b>Net assets</b>	<b>10,235</b>	<b>10,734</b>	<b>10,695</b>
<b>Equity</b>			
Share capital	1,840	1,836	1,840
Share premium	5,366	5,367	5,366
Capital redemption reserve	200	200	200
Retained earnings	2,508	1,900	2,844
Translation reserve	211	590	335
Revaluation reserve	110	841	110
<b>Total equity</b>	<b>10,235</b>	<b>10,734</b>	<b>10,695</b>



**PENNANT INTERNATIONAL GROUP plc**  
**CONSOLIDATED STATEMENT OF CASH FLOWS** for the six months ended 30 June 2023

	<b>Six months ended 30 June 2023 Unaudited £000s</b>	<b>Six months ended 30 June 2022 Unaudited £000s</b>	<b>Year ended 31 December 2022 Audited £000s</b>
<b>Net cash generated from operating activities</b>	<b>159</b>	<b>47</b>	<b>2,572</b>
<b>Investing activities</b>			
Interest received	-	-	2
Payment for acquisition of subsidiary, net of cash acquired	(995)	(559)	(547)
Purchase of intangible assets	(730)	(341)	(1,150)
Purchase of property plant and equipment	(107)	(13)	(63)
Proceeds from disposal of property, plant and equipment	-	-	2,117
Net cash used in investing activities	(1,832)	(913)	359
<b>Financing activities</b>			
Proceeds from sale of ordinary shares	-	26	24
Net (repayment of) obligations under operating lease	(97)	(103)	(263)
Net cash used in financing activities	(97)	(77)	(239)
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,770)</b>	<b>(943)</b>	<b>2,692</b>
Cash and cash equivalents at beginning of period	(426)	(3,540)	(3,540)
Effect of foreign exchange rates	277	327	422
<b>Cash and cash equivalents at end of period</b>	<b>(1,919)</b>	<b>(4,156)</b>	<b>(426)</b>

**PENNANT INTERNATIONAL GROUP plc**  
**STATEMENT OF CHANGES IN EQUITY** for the six months ended 30 June 2023

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Translation reserve	Revaluation reserve	Total equity
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
At 31 December 2021	1,832	5,345	200	2,687	226	854	11,144
(Loss) for the year	-	-	-	(901)	-	-	(901)
Other comprehensive income	-	-	-	1,031	109	(744)	396
Total comprehensive income	1,832	5,345	200	2,817	335	110	10,639
Issue of New Ordinary Shares	8	21	-	(2)	-	-	27
Recognition of share based payment	-	-	-	29	-	-	29
Transfer from revaluation reserve	-	-	-	-	-	-	-
<b>At 31 December 2022</b>	<b>1,840</b>	<b>5,366</b>	<b>200</b>	<b>2,844</b>	<b>335</b>	<b>110</b>	<b>10,695</b>
(Loss) for the period	-	-	-	(375)	-	-	(375)
Other comprehensive income	-	-	-	-	(124)	-	(124)
Total comprehensive income	1,840	5,366	200	2,469	211	110	10,196
Issue of New Ordinary Shares	-	-	-	-	-	-	-
Recognition of share based payment	-	-	-	39	-	-	39
Transfer from revaluation reserve	-	-	-	-	-	-	-
<b>At 30 June 2023</b>	<b>1,840</b>	<b>5,366</b>	<b>200</b>	<b>2,508</b>	<b>211</b>	<b>110</b>	<b>10,235</b>

**PENNANT INTERNATIONAL GROUP plc**  
**NOTES TO THE FINANCIAL INFORMATION** for the six months ended 30 June 2023

**1. Basis of preparation**

This condensed set of financial statements has been prepared using accounting policies expected to be adopted for the year ending 31 December 2023.

These accounting policies are drawn up in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

The comparative figures for the year ended 31 December 2022 set out in this Interim Report are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, however attention was drawn to a material uncertainty relating to Going Concern in respect of payments on one major programme. The auditors' report did not contain a statement under s498 (2) or s498(3) of the Companies Act 2006. .

AIM-quoted companies are not required to comply with IAS34 'Interim Financial Reporting' and the Company has taken advantage of this exemption.

**2. Taxation**

The taxation charge for the Period is based on an estimated effective tax rate of zero, being the estimated effective rate of tax that is likely for the full year to 31 December 2023.

**3. Earnings per share**

Basic earnings per share are calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of shares in issue. The calculation of diluted earnings per share does not take into account the potentially diluting effect of share options as this impact would be antidilutive to the losses attributable to equity shareholders.

	<b>Six months ended 30 June 2023 Unaudited</b>	<b>Six months ended 30 June 2022 Unaudited</b>	<b>Year ended 31 December 2022 Audited</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Earnings</b>			
Net (loss) attributable to equity shareholders	(375)	(810)	(901)
<b>Number of shares</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares	36,790,447	36,674,834	36,725,879
Diluting effect of share options	1,626,667	1,939,043	1,414,228
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	38,417,114	38,613,877	38,140,107
Earnings per share (basic)	(1.02p)	(2.21p)	(2.45p)
Earnings per share (diluted)	(1.02p)	(2.21p)	(2.45p)

**PENNANT INTERNATIONAL GROUP plc**  
**NOTES TO THE FINANCIAL INFORMATION** for the six months ended 30 June 2023 **(continued)**

**4. Cash generated from operations**

	Six months ended 30 June 2023 Unaudited	Six months ended 30 June 2022 Unaudited	Year ended 31 December 2022 Audited
	£000s	£000s	£000s
(Loss) for the period	(375)	(810)	(901)
Finance income	-	-	(2)
Finance costs	176	137	377
Income tax credit	-	-	(464)
Withholding tax	-	-	(2)
Depreciation of property, plant and equipment	151	215	373
Depreciation of right of use assets	91	84	183
Profit on disposal of property	-	-	(374)
Amortisation of other intangible assets	705	741	1,519
R&D tax credit	(75)	(50)	(113)
Share-based payment	39	10	29
<b>Operating cash flows before movement in working capital</b>	<b>712</b>	<b>327</b>	<b>625</b>
(Increase) / decrease in receivables	(75)	(618)	398
(Increase) / decrease in inventories	(206)	(482)	(136)
Increase / (decrease) in payables and provisions	85	1,262	2,252
<b>Cash generated from operations</b>	<b>516</b>	<b>489</b>	<b>3,139</b>
Tax (paid) / received	(142)	(278)	(306)
Interest paid	(215)	(164)	(261)
<b>Net cash generated from operations</b>	<b>159</b>	<b>47</b>	<b>2,572</b>

## 5. Reconciliation of operating loss to EBITA and EBITDA for the Period

	Six months ended 30 June 2023 Unaudited	Six months ended 30 June 2022 Unaudited	Year ended 31 December 2022 Audited
	£000s	£000s	£000s
(Loss) for the period including exceptional costs	(475)	(810)	(901)*
Exceptional acquisition costs	100	-	-
<b>(Loss) for the period excluding exceptional costs</b>	<b>(375)</b>	<b>(810)</b>	<b>(901)</b>
Interest (net)	176	137	375
Taxation	-	-	(464)
Amortisation	705	741	1,519
<b>EBITA</b>	<b>506</b>	<b>68</b>	<b>529</b>
Depreciation of property, plant and equipment	151	215	373
Depreciation of right of use assets	91	84	183
<b>EBITDA</b>	<b>748</b>	<b>367</b>	<b>1,085</b>

\*The loss for the year ended 31 December 2022 includes a profit on sale of land and buildings of £374k