

27 November 2019

SHEARWATER GROUP PLC

Results for the six months ended 30 September 2019

Shearwater Group plc (AIM: SWG, "Shearwater", the "Group"), the organisational resilience group, announces its unaudited results for the six months ended 30 September 2019.

Highlights

- Group revenue up 262% at £16.3 million (2018: £4.5 million)
 - Underlying organic revenue¹ growth of 11%
- Group Underlying EBITDA² of £1.0 million (2018: EBITDA loss of £1.6 million)
- Adjusted earnings per share³ of 2.23 pence (2018: loss 18.73 pence)
- Acquisition of Pentest substantially expands security testing and "red teaming" capability
- New software product developments, including launch of cloud hosted "as-a-service" offerings to complement on-premise solutions
- Substantial number of live cross-selling opportunities generated – 19 converted into contract wins

Outlook

- Double digit organic growth in H1 providing good momentum into H2
- Secured multi-million-pound managed service contracts, underpinning revenue visibility
- Group continues to trade well – in line with expectations for the full year

David Williams, Chairman of Shearwater, said:

"We made notably strong progress during the first half including transforming our operational structure, adding important capabilities to the group and reporting our maiden half year of profitable performance."

"We are now a cohesive group capable of delivering a comprehensive range of products and services to better serve the needs of our increasing roster of clients."

"The sector we serve is not only growing quickly but constantly evolving and we are alert to the potential to grow our business significantly, both organically and by selective acquisitions."

¹ Organic revenue is calculated excluding Pentest that was acquired on 9 April 2019 but including a full 6 months of Brookcourt Solutions prior year revenue which was acquired on 17 October 2018

² Underlying EBITDA is defined as profit before tax, before one off exceptional items, share based payment charges, finance charges, impairment of intangible assets, fair value adjustments to deferred consideration, depreciation and amortisation

³ Adjusted earnings per share is defined as loss after tax but before amortisation and impairment of intangible assets, share based payment charges, exceptional items and fair value adjustments to deferred consideration divided by the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share

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A copy of this announcement has been posted on the Company's website at www.shearwatergroup.com.

About Shearwater Group plc

Shearwater Group plc is an award-winning organisational resilience group that provides cyber security and managed security services to help assure and secure businesses in a connected global economy.

The Group's comprehensive cyber security solutions and services maintain trust between users, provide assurance around the protection of information assets and critical infrastructure, and support organisations' operational effectiveness. Its capabilities include identity and access management and data security, cyber security solutions and managed security services, and security governance, risk and compliance.

The Group is headquartered in the UK with offices in the US, UK and Europe, serving customers across the globe who are active in a broad spectrum of industries.

Shearwater shares are listed on the London Stock Exchange's AIM under the ticker "SWG". For more information, please visit www.shearwatergroup.com.

Strategic overview

Shearwater made excellent strategic, operational and financial progress in the first half of the year following the appointment of Phil Higgins as Chief Executive Officer in April 2019.

The Group successfully completed a review of its operating structure resulting in the simplification of operations and the realisation of a number of efficiency gains. Following the reorganisation, intra-group collaboration yielded over 100 live cross-selling opportunities, of which 19 have been converted into contract sales in the period.

Financially, Shearwater made good progress with Group revenue of £16.3 million, which reflected organic growth in the period of 11%. The Group became profitable with Underlying EBITDA of £1.0 million (2018: Underlying EBITDA loss of £1.6 million) and adjusted earnings per share at 2.23 pence (2018: loss 18.73 pence).

In April 2019, the Group acquired Pentest for £7.4 million. Pentest is a leading provider of first-generation cyber security testing services that assess how attackers can exploit and penetrate weaknesses in operating systems, applications or services. In addition, the business provides advanced threat analytics and monitoring, and tailored "red teaming" operations through its highly experienced cyber security and ethical hacking specialists, which can simulate an attack on a customers' network environment to test its ability to withstand an attack.

The Board is confident that Shearwater can continue its momentum in building a leading UK-based business, providing organisational resilience solutions to an international client base through the application of its "buy, focus, grow" strategy.

Current trading and outlook

Growth through acquisitions will remain an important component of the Group's strategy in augmenting organic growth. The Group will continue to evaluate selective M&A opportunities which are profitable, provide tangible synergies and fit within existing Group companies.

Since 30 September 2019, the Group has continued to trade well, with the benefits of a simplified operating structure and intra-group collaboration set to drive further performance and margin improvement in the second half of the year.

As a result of the progress made in H1, and given the Group's traditional second half weighting in performance, the Board anticipates announcing full year results in line with expectations.

Operational review

Software (13% of Group revenue)

SecurEnvoy posted a strong financial performance, with a large number of new customer wins on the back of the launch of its new Multi-Factor Authentication ("MFA") platform, *SecureIdentity*, and its Data Loss Prevention ("DLP") product offering, *SecureDLP*.

In addition, SecurEnvoy also launched its MFA-as-a-Service offering, providing cloud hosted Identity and Access Management ("IAM") software solutions which integrates with the business' on-premise MFA solution. This enables organisations to deploy a wide selection of methods to authenticate users accessing web and desktop applications, to ensure a seamless and secure single sign-on.

In October 2019, SecurEnvoy was awarded the Security Cloud-Delivered Security Solution of the Year award at the 2019 Computing Security Awards.

GeoLang, the Group's data security software company led by Dr Debbie Garside, the Group's Chief Innovation Scientist, made good progress, undertaking considerable product development activities, which continue to improve its overall data security software offering and underpinned the launch of its new Sensitive Data Discovery technology platform, *Scan-as-a-Service* in October 2019.

By leveraging its built-in machine learning algorithms, *Scan-as-a-Service* searches, locates and audits unstructured sensitive data across a multitude of data repositories, including endpoints, servers, external drives, cloud applications (such as Office 365) and cloud storage.

GeoLang was also awarded a place on the Government's G-Cloud 11 framework, gained an ISO 27001 accreditation, and established distribution and reseller partnerships with OBJECT in the DACH region and Northdoor plc within the UK and EMEA.

More recently, Dr Debbie Garside was awarded the Computing Security magazine's 'Contribution to Cyber Security' award.

Over the second half of the year, the focus will be on continuing to drive business development activities to support the scaling of the business following product improvements implemented since April 2019.

Services and solutions (87% of Group revenue)

Following the right sizing of Xcina and the removal of a number of loss-making initiatives, the business' focus is returning to the original core Xcina Consulting assets acquired in July 2017. Following these changes, Xcina Consulting now has a solid foundation from which to deliver its resilience and risk management solutions.

In the period, Xcina Consulting gained a number of net new customers, seven of which were secured through Group-wide cross selling opportunities, in addition to winning leading European and US global corporations as direct customers.

Acquired in April 2019, Pentest has been integrated into the Group exceptionally well. As a leading provider of next generation penetration testing, red team and offensive security consultancy services, Pentest's offering is in strong demand and complements a number of the Group companies' individual offerings. Increasingly the Group is seeing opportunities to develop and sell a combination of service and solutions to customers as a single proposition.

Notable events include a US\$1 million, one-year contract with a global technology corporation, and gaining of ISO 27001, 9001, Cyber Essentials and Crest accreditations. Pentest also achieved a place on G-Cloud 11.

Brookcourt Solutions delivered a notably strong financial performance, with the business boosted by some significant new clients, including a major law enforcement agency, an international professional services firm and a world leading global bank.

Other significant wins include a £8.5 million, three-year managed services contract with one of the UK's largest telecommunications companies. Under the terms of the contract, Brookcourt Solutions will deliver bespoke managed support services around an advanced monitoring solution, which forms a key function within the organisation's global mobile infrastructure.

In October 2019, Brookcourt Solutions also won three industry awards, being named Security Company of the Year, Security Provider of the Year, and Reseller of the Year at the 2019 Computing Security Awards.

Finance review

Financial performance

The Group has delivered improved financial performance for the period ended 30 September 2019 and is well positioned for future growth.

The Group reported revenues of £16.3 million (2018: £4.5 million), a significant increase from the previous year. Group revenue incorporates approximately six months trading from Pentest which was acquired on 9 April 2019 and the business has performed in line with expectations.

The Group has achieved underlying organic revenue growth of 11% with both Software and Services segments contributing to this organic growth. The main contributors of the underlying revenue growth were Brookcourt Solutions and SecurEnvoy which have delivered a very positive first half performance.

The Group reported its maiden half year of profitable performance generating an Underlying EBITDA of £1.0 million (2018: Underlying EBITDA loss £1.6 million) which incorporates segmental trading improvements detailed above, as well as reductions in head office costs in excess of 40% year-on-year.

The Group's loss before tax was significantly reduced to £1.5 million (2018: loss £3.2 million) largely from the improved Underlying EBITDA operational performance. The Group recorded a loss per share of 5.91p (2018: loss 31.77p) and an adjusted earnings per share of 2.23p (2018: loss 18.73p). The Group is not proposing an interim dividend.

The table below details the movement between Underlying EBITDA and loss before tax;

(unaudited)	Six-month period ended 30 September		
	2019	2018	Movement
	£ (000)	£ (000)	£ (000)
Underlying EBITDA	1,012	(1,586)	2,598
Amortisation of acquired intangibles	(1,082)	(422)	(660)
Depreciation	(143)	(15)	(128)
Share-based payments	(196)	(141)	(55)
Exceptional items	(796)	(998)	202
Fair value adjustment to deferred consideration	(21)	-	(21)
Finance income	5	-	5
Finance costs	(247)	-	(247)
Loss before tax	(1,468)	(3,162)	1,694

The Group has adopted IFRS 16 leases as of 1 April 2019. Further details are provided in note 8.

Cash and cash equivalents

Shearwater reported cash and cash equivalents of £1.7 million (2018: £0.5 million), which reflects the improved performance of the Group over the past six months.

Cash management continues to be a priority for the Group and actual expenditure compared to budget is monitored closely to ensure that Shearwater maintains adequate liquidity to meet financial commitments as they arise.

Share capital

In the six month period ended 30 September 2019, 292,292,565 new ordinary shares of £0.01 were issued to Secarma Limited to part fund the consideration for the Pentest acquisition that completed on 9 April 2019.

In addition to this, a further 14,388,567 new ordinary shares of £0.01 were issued to the sellers of GeoLang Holdings Limited under the terms of the share purchase agreement entered into at the time of the acquisition.

In September 2019, the Group completed a capital reorganisation under which Shearwater's shares were consolidated as a ratio of 100 to 1. Following this capital reorganisation, Shearwater's ordinary share capital now comprises 22,106,460 ordinary shares of 10 pence each. The Board believes that the capital reorganisation will result in a capital structure that is more conducive to attracting new institutional investors based both in the UK and in other overseas jurisdictions, and should increase the market liquidity of Shearwater's shares by reducing volatility and spread.

Consolidated statement of comprehensive income

	Note	Six- month period ended 30 September		Year ended 31 March
		2019 (unaudited) £ (000)	2018 (unaudited) £ (000)	2019 (audited) £ (000)
Revenue		16,337	4,506	23,452
Cost of sales		(12,139)	(2,905)	(16,617)
Gross profit		4,198	1,601	6,835
Administrative expenses		(5,424)	(4,763)	(13,551)
Operating loss		(1,226)	(3,162)	(6,716)
Finance income		5	-	-
Finance costs		(247)	-	(164)
Loss before tax		(1,468)	(3,162)	(6,880)
Income tax credit		173	-	1,020
Loss for the period		(1,295)	(3,162)	(5,860)
Attributable to equity holders of the Company		(1,295)	(3,162)	(5,860)
Operating loss analysed as:				
Underlying EBITDA		1,012	(1,586)	(1,394)
Amortisation of acquired intangibles		(1,082)	(422)	(1,325)
Depreciation		(143)	(15)	(69)
Share-based payments		(196)	(141)	(331)
Impairment of intangible assets		-	-	(1,005)
Exceptional items	4	(796)	(998)	(2,729)
Fair value adjustment to deferred consideration		(21)	-	137
Finance income		5	-	-
Finance costs		(247)	-	(164)
Loss before tax		(1,468)	(3,162)	(6,880)
Other comprehensive income				
Items that may be reclassified to profit and loss:				
Change in financial assets at fair value through OCI		(4)	(25)	(18)
Exchange differences on translation of foreign operations		(3)	(11)	20
Total comprehensive loss for the period		(1,302)	(3,198)	(5,858)

Earnings/loss per share

Basic and diluted (pence per share)	5	(5.91)	(31.77)	(41.63)
Adjusted Basic and diluted (pence per share)	5	2.23	(18.73)	(9.57)

Consolidated statement of financial position

	Note	Six-month period ended 30 September		Year ended
		2019 (unaudited) £ (000)	2018 (unaudited) (restated) £ (000)	31 March 2019 (audited) £ (000)
Assets				
Non-current assets				
Intangible assets		56,840	22,563	52,389
Available for sale assets		-	26	33
Right of use assets		399	-	-
Property, plant and equipment		222	96	248
Total non-current assets		57,461	22,685	52,670
Current Assets				
Trade and other receivables	9	12,541	1,970	16,220
Deferred tax asset		665	-	665
Cash and cash equivalents		1,680	507	597
Total current assets		14,886	2,477	17,482
Total assets		72,347	25,162	70,152
Liabilities				
Current liabilities				
Trade and other payables	10	15,297	2,870	17,389
Total current liabilities		15,297	2,870	17,389
Non-current liabilities				
Deferred tax		3,315	2,054	3,203
Loans		725	-	-
Lease liabilities		205	-	-
Deferred consideration		227	343	206
Total non-current liabilities		4,472	2,397	3,409
Total liabilities		19,769	5,267	20,798
Net assets		52,578	19,895	49,354
Capital and reserves				
Share capital	7	22,106	9,954	19,040
Share premium (restated)	7	34,580	22,446	34,578
Available for sale reserve		14	11	18
Other reserves (restated)		20,581	7,766	19,123
Translation reserve		17	(10)	20

Retained deficit (restated)	(24,720)	(20,272)	(23,425)
Equity attributable to owners of the Company	52,578	19,895	49,354
Total equity and liabilities	72,347	25,162	70,152

Consolidated statement of changes in equity

	Share capital £ (000)	Share premium (restated) £ (000)	FVTOCI £ (000)	Other reserve (restated) £ (000)	Translation reserve £ (000)	Retained deficit (restated) £ (000)	Total Equity £ (000)
At 31 March 2018 (restated)	9,644	22,446	36	7,127	-	(17,110)	22,143
Loss for the period	-	-	-	-	-	(3,162)	(3,162)
Other comprehensive loss for the period	-	-	(25)	-	(10)	-	(35)
Total comprehensive loss for the period	-	-	(25)	-	(10)	(3,162)	(3,197)
Contributions by and distributions to owners							
Issue of share capital	310	-	-	498	-	-	808
Share based payments	-	-	-	141	-	-	141
At 30 September 2018 (unaudited) (restated)	9,954	22,446	11	7,766	(10)	(20,272)	19,895
Loss for the period	-	-	-	-	-	(2,698)	(2,698)
Other comprehensive income for the period	-	-	7	-	30	-	37
Total comprehensive income for the period	-	-	7	-	30	(2,698)	(2,661)
Contributions by and distributions to owners							
Issue of share capital	9,086	12,658	-	-	-	-	21,744
Merger relief reserve	-	-	-	11,167	-	-	11,665
Share issue costs	-	(526)	-	-	-	(455)	(981)
Share based payments	-	-	-	190	-	-	1890
At 31 March 2019 (audited)	19,040	34,578	18	19,123	20	(23,425)	49,354
Loss for the period	-	-	-	-	-	(1,295)	(1,295)
Other comprehensive loss for the period	-	-	(4)	-	(3)	-	(7)
Total comprehensive loss for the period	-	-	(4)	-	(3)	(1,295)	(1,302)
Contributions by and distributions to owners							
Issue of share capital	3,066	2	-	-	-	-	3,068
Merger relief reserve	-	-	-	1,262	-	-	1,262
Exercise of share options	-	-	-	-	-	-	-
Share based payments	-	-	-	196	-	-	196
At 30 September 2019 (unaudited)	22,106	34,580	14	20,581	17	(24,720)	52,578

A restatement has been made for merger relief as the company meets the criteria to realise which was not disclosed in the prior year. This has resulted in a reduction of £6.7 million to share premium reserve and an increase of £6.7 million to other reserves at March 2018 and a reduction of £7.0 million to share premium reserve, an increase to other reserves of £7.2 million and a reduction in retained earnings of £0.2 million at September 2018. Other reserves at 30 September 2019 include £19.7 million merger relief reserves plus £0.9 million capital and share based payment reserves.

Consolidated Cash Flow Statement

	Note	Six-month period ended 30 September		Year ended 31 March
		2019 (unaudited) £ (000)	2018 (unaudited) £ (000)	2019 (audited) £ (000)
Cash flows from operating activities				
Loss for the period		(1,295)	(3,162)	(5,860)
Adjustments for:				
Depreciation of property, plant and machinery		143	15	69
Amortisation of acquired intangible assets		1,082	422	1,325
Finance income		(5)	-	-
Finance expense		247	-	164
Impairment of intangible assets		-	-	1,005
Loss on sale of asset		2	-	-
Fair value adjustment of deferred consideration		21	-	(137)
Share-based payment charge		196	141	331
Income tax		(173)	-	(1,020)
Cash flow from operating activities before changes in working capital		218	(2,584)	(4,123)
Decrease/(Increase) in trade and other receivables		3,452	81	(4,396)
(Decrease)/Increase in trade and other payables		(3,170)	1,101	5,119
Cash used in operations		500	(1,402)	(3,400)
Net foreign exchange movements		(5)	(7)	1
Finance cost paid		(52)	-	(10)
Tax (paid)/credit		463	-	(52)
Net cash used in operating activities		906	(1,409)	(3,461)
Investing activities				
Acquisition of subsidiaries, net of cash acquired		(677)	(477)	(14,264)
Purchase of property, plant and machinery		(33)	(36)	(81)
Purchase of software		(225)	(76)	(619)
Proceeds from disposal of tangible assets		27	-	-
Gold exploration payments		-	-	(19)
Net cash used in investing activities		(908)	(589)	(14,983)
Financing activities				
Proceeds from issue of share capital		2	8	17,527
Loans drawn		1,177	-	-
Repayment of lease liabilities		(96)	-	-
Expenses paid in connection with share issues		-	-	(981)

Net cash generated by financing activities	1,083	8	16,546
Net Increase/(Decrease) in cash and cash equivalents	1,081	(1,990)	(1,898)
Cash and cash equivalents at the beginning of the period	597	2,493	2
Foreign exchange movement on cash and cash equivalents	2	4	2,493
Cash and cash equivalents at the end of the period	1,680	507	597

Notes

1. General information

The interim consolidated financial information was authorised by the board of directors for issue on 27 November 2019. The information for the six-month period ended 30 September 2019 has not been audited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006, and should therefore be read in conjunction with the audited financial statements of the Company and its subsidiaries for the year ended 31 March 2019, which have been prepared in accordance with EU Adopted International Financial Reporting Standards. The interim consolidated financial information does not comply with IAS 34 *Interim Financial Reporting*, as permissible under the rules of AIM.

2. Statement of accounting policies

The significant accounting policies applied in preparing the financial statements are outlined below. These policies have been consistently applied for all the years presented, unless otherwise stated

a) Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted in the EU.

The Consolidated financial statements have been prepared under the historic cost convention, except for certain financial instruments that have been measured at fair value. The Consolidated financial statements are presented in Sterling, the functional currency of Shearwater Group plc, the Parent Company. All values are rounded to the nearest thousand pounds (£'000s) except where otherwise indicated.

The accounting policies are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2019 and are those which will form the basis of the 2020 financial statements, other than IFRS 16 – leases, which came into force on 1 April 2019.

IFRS 16 replaces existing leases guidance, including IAS 17 – Leases. The Group has adopted the standard in full using the modified retrospective approach, whereby the right-of-use asset is recognised at the date of initial application (1 April 2019) and the lease liability is measured based on remaining payments. There is no effect on prior year figures and no need to re-state comparatives (please see note 8 for further details).

b) Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements. The Group is forecast to achieve underlying profitability in fiscal year March 2020.

c) Critical accounting judgements estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date.

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, except for the new significant judgements related to the adoption of IFRS 16, which are described in note 8.

Business Combinations

Management make judgments, estimates and assumptions in assessing the fair value of the net assets acquired on a business combination, in identifying and measuring intangible assets arising on a business combination, and in determining the fair value of the consideration. If the consideration includes an element of contingent consideration, the final amount of which is dependent on the future performance of the business, management assess the fair value of that contingent consideration based on their reasonable expectations of future performance. Further information can be found in note 6.

Share based payments

Management make judgements, estimates and assumptions in determining the fair value of share-based payments costs. The judgement applied relates to the consideration of the incentive scheme and how it is settled. There is judgement in the inputs to the fair value model which is calculated using Black Scholes methodology.

Impairment of goodwill, intangible assets and investment in subsidiaries

Management make judgements, estimates and assumptions in supporting the fair value of goodwill, intangible assets and investments in subsidiaries. The Group carry out annual impairment reviews to support the fair value of these assets. In doing so management will estimate future growth rates, weighted average cost of capital and terminal values.

d) Basis of consolidation

The group's interim consolidated financial statements incorporate the results and net assets of Shearwater Group plc and all its subsidiary undertakings made up to 30 September each year. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All inter-group transactions, balances, income and expenses are eliminated on consolidation.

e) Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities of the acquired business at fair value. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets and liabilities is recognised in the consolidated statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets and liabilities is greater than the cost of the investment, a gain is recognised immediately in the consolidated statement of comprehensive income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. Goodwill assets considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash-generating units or groups of cash-generating units. Where the recoverable amount of the cash-generating unit is less than its carrying amount including goodwill, an impairment loss is recognised in the consolidated statement of comprehensive income.

Acquisition costs are recognised in the consolidated statement of comprehensive income as incurred.

f) Revenue

Revenue with customers is evaluated based on the five-step model under IFRS 15 'Revenue from Contracts with Customers': (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied.

Details of the material performance obligations for both our software and services businesses are detailed below:

Software licences whereby the customer buys a software that it sets up and maintains on its premises is recognised fully at the point the licence key / access has been granted to the client. The Group sells the majority of its services through channels and distributors who are responsible for providing 1st and 2nd line support to the client.

Provision for services is broken into two main areas;

1) Sale of third-party hardware, software and warranties:

a) Where the contract entails only one performance obligation to provide software or hardware, revenue is recognised in full at a point in time upon delivery of the product to the end client. This delivery will either be in the form of the physical delivery of a product or the e-mailing of access codes to the client for them to access third party software or warranties; and

b) Where a contract to supply external hardware, software and/or warranties also include an element of ongoing internal support, multiple performance obligations are identified and an allocation of the total contract value is allocated to each performance obligation based on the standalone costs of each performance obligation. The respective costs of each performance obligations are traceable to supplier invoice and applying the fixed margins, standalone selling prices are determined. Internal support is recognised equally over the period of time detailed in the contract.

2) Sale of consultancy services:

Consultancy services are provided on a range of topics including data protection, project management, governance and compliance. Client contracts stipulate a number of consultancy days that make up the contracted consideration and the group has an enforceable right to payment for work completed to date. Consultancy days generally comprise of field work and (where required) report writing and delivery which are considered to be of equal value to the client. Revenue is recognised over time based on the number of consultancy days provided within the period compared to the total in the contract.

Revenue recognised in the statement of comprehensive income but not yet invoiced is held on the statement of financial position within accrued income. Revenue invoiced but not yet recognised in the statement of comprehensive income is held on the statement of financial position within deferred revenue.

Revenue recognised in the statement of comprehensive income but not yet invoiced is held on the statement of financial position within accrued income. Revenue invoiced but not yet recognised in the statement of comprehensive income is held on the statement of financial position within deferred revenue.

The Group reviewed the potential impact of IFRS 15 in the previous financial period and found that it's revenue recognition policies were in line with IFRS 15 which was adopted at 31 March 2019 year end and therefore no restatement is required for the prior year six months to 30 September 2018.

g) Use of additional performance measures

The Group presents underlying EBITDA information which is used by the directors for internal performance analysis and may not be comparable with similarly titled measures reported by other companies. The term "underlying EBITDA" refers to operating profit or loss excluding amortisation of intangibles, depreciation and impairment, share-based payments charge, exceptional items, income tax expense, finance income, finance expenses or fair value adjustments to deferred consideration provisions.

h) Segmental reporting

For internal reporting and management purposes, the Group is organised into two reportable segments based on the types of products and services from which each segment derives its revenue – software and services. The Group's operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Please see note 3 for more details.

i) Exceptional items

The Group's statement of comprehensive income separately identifies exceptional items. Such items are those that in the Directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size and incidence. In determining whether an item or transaction should be classified as an exceptional item, the Directors' consider quantitative as well as qualitative factors such as the frequency, predictability of occurrence and significance. This is consistent with the way that financial performance is measured by management and reported to the Board. Exceptional items may not be comparable to similarly titled measures used by other companies. Disclosing adjusted items separately provides additional understanding of the performance of the Group. Please see note 4 for more details.

j) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired as part of a business combination are recognised outside goodwill if the assets are separable or arises from contractual or other legal rights and their fair value can be measured reliably. Expenditure on material internally developed intangible assets is taken to the consolidated statement of financial position in the period in which it is incurred.

Intangible assets with a finite life have no residual value and are amortised over their expected useful lives as follows:

Computer software	3-5 years straight line basis
Customer relationships	1-15 years straight line basis
Software	10 years straight line basis
Trade names	10 years straight line basis

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income within administrative expenses. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at least annually.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

k) Property, plant and machinery

Property, plant and equipment is stated at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset plus any costs of bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates, on a straight-line basis, in order to write down each asset to its residual value over its estimated useful life.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Plant and machinery	20-33 per cent per annum
Office equipment	25 per cent per annum

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised, as adjusted items if significant, within the Statement of comprehensive income.

l) Share based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option-pricing model.

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured with reference to the fair value of the equity instrument. The fair value of equity-settled instrument is determined at the date of grant, taking into account market-based vesting conditions. The fair value is determined using an option pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will likely vest, or in the case of an instrument subject to market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with the corresponding entry in equity.

m) Leases

IFRS 16 replaces existing leases guidance, including IAS 17 - Leases. The Group has adopted the standard in full using the modified retrospective approach, whereby the right-of-use asset is recognised at the date of initial application (1 April 2019) and the lease liability is measured based on remaining payments. There is no effect on prior year figures and no need to re-state comparatives (refer to note 8 for further details)

3. Segmental information

In accordance with IFRS 8, the Group's operating segments are based on the operating results reviewed by the Board, which represents the chief operating decision maker. The Group reports its results in two segments as this accurately reflects the way the Group is managed.

The Group is organised into two reportable segments based on the types of products and services from which each segment derives its revenue – software and services.

Segment information for the 6 months ended 30 September 2019 is presented below and excludes intersegment revenue as they are not material, and assets as the Directors do not review assets and liabilities on a segmental basis.

	Six-month period ended 30 September		Year ended 31 March
	2019	2018	2019
	(unaudited) £ (000)	(unaudited) £ (000)	(audited) £ (000)
Revenue			
Software	2,088	1,928	3,880
Services	14,249	2,578	19,572
Total revenue	16,337	4,506	23,452
Underlying EBITDA			
Software	726	(22)	468
Services	775	(655)	266
Total segment underlying EBITDA	1,501	(677)	734
Group costs	(489)	(909)	(2,128)
Underlying EBITDA	1,012	(1,586)	(1,394)
Amortisation of acquired intangibles	(1,082)	(422)	(1,325)
Depreciation	(143)	(15)	(69)
Share-based payments	(196)	(141)	(331)
Exceptional items	(796)	(998)	(2,729)
Impairment of intangible assets	-	-	(1,005)
Fair value adjustment to deferred consideration	(21)	-	137
Finance income	5	-	-
Finance costs	(247)	-	(164)

Loss before tax	(1,468)	(3,162)	(6,880)
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4. Exceptional items

Exceptional items are those that in the judgment of the directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group more accurately. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the consolidated income statement within administration expenses.

During the six months to 30 September 2019, £0.4 million relating to internal re-organisation costs, £0.3 million relating to the acquisition of Pentest Limited and £0.1 million for other M&A opportunities were charged to the interim consolidated income statement. This resulted in total exceptional items of £0.8 million.

5. Earnings/loss per share

Basic loss per share is calculated by dividing the loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted loss per share, the weighted average number of shares in issue is adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are anti-dilutive for the six months ended 30 September 2019 and the six months ended 30 September 2018 as the Group is loss making.

The weighted average number of ordinary shares and basic and diluted earnings per share in the table below have been restated to take into account the share consolidation that was completed on 26 September 2019. Please see note 7 for more details.

The calculation of the basic and diluted earnings per share from total operations attributable to shareholders is based on the following data:

	Six-month period ended 30 September		Year ended 31 March
	2019 £ (000)	2018 £ (000)	2019 £ (000)
Net loss from total operations			
Earnings for the purposes of basic and diluted earnings per share being net loss attributable to shareholders	(1,295)	(3,162)	(5,860)
Adjusted earnings for the purposes of basic and diluted earnings per share being net loss attributable to shareholders*	488	(1,864)	(1,348)
Number of shares	No	No	No
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	21,904,526	9,953,195	14,074,839
Earnings per share	Pence	Pence	Pence
Basic and diluted	(5.91)	(31.77)	(41.63)
Adjusted Basic and diluted*	2.23	(18.73)	(9.57)

* Adjusted earnings per share is defined as loss after tax but before amortisation and impairment of intangible assets, share based payment charges, exceptional items and fair value adjustments to deferred consideration divided by the weighted average number of ordinary shares.

6. Business combinations

Pentest Limited

On 9 April 2019, the Group acquired the entire share capital of Pentest Newco Limited ("Pentest"), a newly incorporated company which contained certain assets of Secarma Limited ("Secarma"), one of the UK's leading cyber security testing companies. The consideration for the acquisition was £7.4 million, which was settled through the issuance of 292,292,565 ordinary shares of the Group at an issue price of 2.3 pence per ordinary share to the

Secarma shareholders (representing £6.7 million of consideration) and an unsecured loan note of £0.7 million. The loan note is to be repaid to the sellers in tranches on the first and third anniversary of completion of the acquisition. The unsecured loan note will attract interest of 6 per cent. per annum. The acquisition brings an additional service that complements existing businesses within the Group and is in line with the acquisition criteria of the Group. This acquisition meets the requirements of IFRS 3 Business Combinations. The following table summarises the fair values of the assets acquired, the liabilities assumed and the total consideration transferred as part of this acquisition:

	Provisional fair values recognised on acquisition £ (000)
Intangible assets	1,685
Deferred tax liabilities	(286)
Total net assets	1,399
Consideration paid in shares	4,019
Consideration paid by way of a loan note	677
Total consideration	4,696
Goodwill	3,297

The net cash outflow arising from the acquisition was £0.7 million in the six months ended 30 September 2019, which was provided in the form of a loan note to the ex-vendor.

7. Share capital

	No of ordinary shares of 1p each	Ordinary shares £ (000)	Share premium (restated) £ (000)	Merger relief reserve (restated) £ (000)	Total £ (000)
Issued and fully paid ordinary shares					
At 31 March 2018	964,359,200	9,644	22,446	6,727	38,817
Share issued	31,013,024	310	0	498	808
At 30 September 2018	995,372,224	9,954	22,446	7,225	39,625
Share issued	908,592,628	9,086	12,132	11,166	32,384
At 31 March 2019	1,903,964,852	19,040	34,578	18,391	72,009
Share issued	306,681,148	3,067	2	1,262	4,331
In issue at 25 September 2019 before consolidation	2,210,646,000	22,106	34,581	19,652	76,339
In issue at 30 September 2019 after consolidation	22,106,460	22,106	34,581	19,652	76,339
			2019 £ (000)	2018 £ (000)	
Allotted, called up and fully paid					
Ordinary shares of £0.01 each			-	19,040	
Ordinary shares of £0.10 each			2,211	-	
Deferred shares of £0.90 each			19,896	-	
Share capital at 30 September 2019			22,106	19,040	

The following issues of shares were undertaken in the six-month period ended 30 September 2019:

On 9 April 2019, 292,292,565 new ordinary shares of 1p were issued as part of the consideration for the acquisition of Pentest Limited.

On 13 June 2019 14,388,567 new ordinary shares of 1p were issued to the sellers of GeoLang Holdings Limited under the terms of the share purchase agreement entered into at the time of the acquisition.

Following approval at the Annual General Meeting on 25 September 2019, on 26 September the Group completed a capital reorganisation which was comprised of two elements:

1. Consolidation – Every 100 existing ordinary shares were consolidated into one ordinary share of £1 (a “Consolidated Share”).
2. Sub-division – Immediately following the consolidation, each Consolidated Share was sub-divided into one new ordinary share of 10 pence (a “New Ordinary Share”) and one deferred share of 90 pence (a “Deferred Share”).

Pre consolidation the Company’s issued ordinary share capital consist of 2,210,645,984 ordinary shares of 1 pence each. An additional 16 ordinary shares were allotted and issued making the total issued ordinary share capital 2,210,646,000.

As reported at the time of the capital reorganisation, only the New Ordinary Shares have been admitted to trading on AIM, and it is the Board’s intention that, at an appropriate time, the Company may repurchase the deferred shares, cancel or seek the surrender of the deferred shares using such lawful means as the Board may at such time determine, as the Deferred Shares are, for all practical purposes, valueless.

8. Effects of IFRS 16

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

For relevant transactions this has resulted in the group recognising right-of-use assets and lease liabilities in the statement of financial position, and finance costs and depreciation in the statement of comprehensive income.

The Group is applying the modified retrospective transition method under which comparative information has not been restated and has elected to use the following practical expedients permitted by the standard:

- on initial application, IFRS 16 will be only been applied to contracts that were previously classified as leases;
- lease contracts with a duration of less than 12 months, and/or leases for which the underlining asset is of low value, will continue to be expensed to the income statement on a straight-line basis over the lease term; and
- the lease term has been determined with the use of hindsight where the contract contains options to extend the lease.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases of office space. The right-of-use assets were recognised by reference to the measurement of the lease liability on that date. Lease liabilities were measured at the present value of the remaining lease payments, including estimates for items such as dilapidation cost obligations under the lease, discounted using the Group’s incremental borrowing rate (being the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions). The effects of adopting IFRS 16 for the periods ending 30 September 2019 are as follows:

(unaudited)	As reported £ (000)	IFRS 16 adjustments £ (000)	Amounts without adoption of IFRS 16 £ (000)
Revenue	16,337	-	16,337
Cost of sales	(12,139)	-	(12,139)
Gross profit	4,198	-	4,198
Depreciation	(143)	100	(43)
Administrative expenses	(5,281)	(108)	(5,389)
Operating loss	(1,226)	(8)	(1,234)
Finance income	5	-	5
Finance costs	(247)	11	(236)
Loss before tax	(1,468)	3	(1,465)
Income tax charge	173	-	173
Loss for the year	(1,295)	3	(1,292)

In addition, initially it was considered a liability of £0.5 million, with the following breakdown at the end of the period:

(unaudited)	At 30 September 2019 £ (000)
Current	197
Non-current	205
	402

9. Trade and other receivables

	Six-month period ended 30 September	
	2019 £ (000)	2018 £ (000)
Trade receivables	9,042	1,046
Accrued income	1,867	474
Prepayments and other receivables	1,503	229
VAT recoverable	128	117
Corporation tax credit	-	104
	12,541	1,970

10. Trade and other payables

	Six-month period ended 30 September	
	2019 £ (000)	2018 £ (000)
Trade payables	5,224	537
Other creditors	4,998	716
Accruals and deferred income	3,738	1,519
VAT payable	998	98
Lease liability	197	-
Corporation tax	142	-
	15,297	2,870

11. Events after the reporting date

There were no material events occurring post the reporting date.

12. Cautionary statement

This Interim Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for these strategies to succeed. The Interim Report should not be relied on by any other party or for any purpose. The Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Company. These statements are made in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Company is exposed. Nothing in this announcement should be construed as a profit forecast.