29 July 2020

SHEARWATER GROUP PLC
("Shearwater", or the "Group")

Final Results
First full year underlying profits delivered, laying the foundations for future growth

Shearwater Group plc (AIM: SWG), the organisational resilience group that provides cybersecurity advisory and managed security services, is pleased to announce its final results for the year ended 31 March 2020.

Highlights:

- Revenue up 41% to £33.0m (2019: £23.5m)
    - £5.5m from the software division, up 41% (2019: 3.9m)
    - £27.5m from the services division, up 41% year-on-year (2019: 19.6m)
- Underlying EBITDA of £3.4m, an increase of £4.8m (2019: loss £1.4m)
- Underlying EBITDA margin of 10% (2019: -6%)
- Adjusted earnings per share of 8p (2019: loss of 10p)
- Successful acquisition and integration of Pentest in April 2019, expanding security testing and "red teaming" capabilities
- Multiple new contracts with existing and new clients secured
- Successful business reorganisation completed creating a platform for future growth

Post-period highlights and outlook:

- Current trading has seen positive continued momentum in line with management expectations
- Successful equity placing to raise £3.75m (gross) in April 2020 to provide funds for further acquisitions as part of the Group's ongoing strategy
- Finalised new £4 million, 3-year committed RCF with Barclays Bank plc to provide financial flexibility
- COVID-19:
    - Staff adjusted rapidly to working remotely and continue to effectively service clients
    - Impact on clients varies by industry
    - Adjusted to the new economic climate with carefully managed costs
    - No requirement to utilise government support schemes
    - In the long term should accelerate market demand for the Group's offering

Phil Higgins, CEO of Shearwater Group, commented:

"I am pleased to report that the Group has delivered an exceptional performance this year as we transition into underlying profitability and continue to grow within our chosen field of organisational resilience.

"We have signed a number of significant contract wins, with our ability to grow organically through the cross-selling of services and solutions clearly coming to fruition. We have also greatly increased the Group's efficiency, and continue to invest in cloud-enabled technology solutions that will improve this further, facilitating balance sheet growth. We believe that our buy, focus, grow strategy is the right one and we fully intend to welcome more quality businesses to the Group as we continue to consolidate our highly fragmented market through targeted acquisition.

"As a Group we have moved quickly to adjust both operationally and financially to the new external environment driven by COVID-19. Whilst its impact on our clients varies markedly by industry we remain focused in delivering our high levels of service and expertise catering to all sectors by helping to provide resilience and ultimately, over the longer term, we expect the pandemic will drive demand for organisational resilience as part of a enhanced focus on digital transformation.

"I would like to thank our entire skilled team who, together, are responsible for us having achieved growth in 2020. Notwithstanding the challenges of COVID-19, we entered the new financial year as a much healthier Group and we look forward to building on this position in the year ahead."

Investor Presentation

The Group will be hosting a webinar for retail investors on the results on Tuesday 4 August at 13.00.

Retail investors can sign up for free using the Investor Meet Company platform, and add to meet Shearwater Group PLC here. Investors who have already registered and added to meet the Company will be automatically invited.

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About Shearwater Group plc

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

The Group's comprehensive cybersecurity solutions and services maintain trust between users, assure the protection of information assets and critical infrastructure, and support organisations' operational effectiveness. Its capabilities include identity and access management and data security, cybersecurity 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

Chairman's statement

We are very pleased to have recorded our first full year's underlying profit as a Group, following a reorganisation of the business led by Phil Higgins in his first full year as CEO. This reorganisation has resulted in a clearly defined growth strategy, a cohesive Group structure, increased cross-sale activity and a reduced cost base. We took the necessary time to ensure it was completed thoroughly and to a high standard, and as is clear to see from these results, early progress has been encouraging. We are ready to progress our plans to see Shearwater become a stronger, scaled company with increased capabilities and a broader reach within the organisational resilience sector.

Acquisitive growth strategy

Our sector is one of constant innovation and this provides both opportunities and challenges, with a wealth of potential acquisition opportunities to assess. In the past we have been successful in both smaller acquisitions, such as GeoLang which was pre-revenue at the point of purchase, but with an exciting software product and industry-renowned team, and those of a larger scale, such as Brookcourt, an established, profitable business with an extensive customer base. Our focus moving forward will be on the larger scale of opportunity, bringing additional customers, industry expertise, revenue and profits into the Group. We will also remain alert to opportunistic, bolt-on technology acquisitions. Ideally these will be acquisitions where the existing management wish to remain within the Group, thus strengthening our team, and where vendors take a significant portion of the consideration in shares, as was the case with our acquisition of Brookcourt, aligning management teams' interest with those of our shareholders. Target acquisitions will be earnings enhancing and increase our skill-sets and offerings.

Our team

For a company of our size we are fortunate to enjoy the support of a highly experienced board and advisory team. Not only do they have a great working knowledge of our sector, but their contacts are second to none. This contact base not only provides us with interesting acquisition opportunities, it allows us to make important introductions for our Group businesses. This is a key benefit of being part of the Shearwater Group. For example, earlier this year we held a networking event for all our subsidiary directors, non-executive directors and advisory team which proved to be highly successful. Our non-executives and advisory team are very active on our behalf and provide significant value to us as a Group.

Corporate Governance

We remain committed as a Board to the highest levels of Corporate Governance and stakeholder engagement. More details of the latter are covered within the section 172 statement in the annual report.

Looking ahead with confidence

Looking ahead we are very confident in the future of the business. It is in a sector which is growing, is generating good cash and we continue to see a strong pipeline of acquisition opportunities.

Funds from our recent placing of new ordinary shares, coupled with our existing financial resources, give us fire power moving forward so that we are in a much stronger position than at this time last year. Both myself and Phil Higgins purchased shares in the recent placing, demonstrating confidence in our prospects and I am optimistic that, despite the challenges of COVID-19, we are in great shape to see Shearwater prosper and grow in the years ahead.

David Williams
Chairman

Chief Executive's Officers statement

Overview

With my first year as Group CEO complete, my views regarding the exciting opportunity for Shearwater have not changed. The technology markets are continuously evolving and cyber, security and advisory services are taking an ever-more prominent position.

Over the past year our focus has been on creating a balanced Group structure that can take advantage of this constantly expanding market whilst extracting greater value from within our own business and providing a platform for future acquisitions. As a result of the changes we have made we have delivered greater staff benefits, stronger Group cohesion, better client offerings and, most importantly, enhanced our competitive edge allowing us to win new business. Together this has led to the delivery of a 41% increase in revenue and our first annual Group underlying profit.

I wish to thank the entire Shearwater Group team for their continued support, determination, and drive to succeed, which has resulted in the FY20 performance announced today and in the Group being strongly positioned for future growth.

Successful reorganisation of the Group complete

- Introduction of Shearwater Shared Services
- Realisation of over £3m of annualised cost savings
- Introduction of a cross-selling programme for Group businesses

We began the year with the implementation of significant change, moving rapidly to implement a restructuring plan with the aim to bring the Group into profit.

One key aspect of this was the immediate creation of Shearwater Shared Services (SSS), a function sitting within the centre of our organisation providing centralised shared services such as finance, legal, HR, marketing, compliance and core IT systems, assisted by Xcina IS. Where we had duplicate services, resulting from the acquisition of Brookcourt six months earlier, we chose the service that we felt was best equipped to evolve as the Group grows.

Our shared services enable us to leverage negotiations with suppliers and offer additional staff benefits centrally, as well as reducing our administrative overheads. This platform has delivered tangible synergy savings Group wide and, coupled with some office consolidation plus cost savings from the reorganisation, we were able to realise annualised savings of over £3m. Moving forward the Shearwater Shared Services function provides a standard model that will allow us to quickly and efficiently realise cost savings when onboarding new acquisitions.

Alongside this a cross-selling program was introduced across our service companies to extract untapped accretive value from within the Group. This program provides a mechanism for client introductions to be made on behalf of other Group companies, reducing the cost of sale and broadening the pool of potential new business leads. The program resulted in a material number of additional opportunities in the first three months.

Building upon this success we have devised incentive programs for the coming year that financially reward full-time equivalent staff for business introductions that result in new wins for any of the Group constituents. Initially this program will be made available to all fulltime staff excluding company directors, incentivising staff to drive further organic growth.

Review of operations

Alongside the Group reorganisation, the Group has delivered significant operational achievement throughout the year. This includes the completion of an acquisition, the launch of a number of innovative new solutions, and the signing of a multitude of new logo contracts with blue-chip clients.

Continuing our run of awards success, Shearwater companies were also presented with five industry awards across the year; Contribution to Cybersecurity, Cloud delivery, Security Provider, Security Reseller and Security Company of the year.

Software

Innovative new solutions launched, providing entrance to new markets

Innovation and the launch of new products is an integral part of the Shearwater Group growth strategy, and we are very proud of our nine current patents and the five we have pending. Over the year we saw a number of new solutions launched, expanding our end-to-end organisational resilience capability and increasing the size of our addressable market.

SecurEnvoy launched its Identity & Access Management (IAM) module, an important additional component adding to the SecureIdentity platform which was launched in 2019. This release continues to expand the breadth of SecurEnvoy offering, moving from a pure play Multi-Factor Authentication provider to offer a full Access Management solution suite. The expanded capability provides access to a market which analysts forecast will grow to $24.12b by 2025 (reference from Grand View Research).

Our GeoLang team has further developed their Data Loss Prevention and Sensitive Data Discovery and Extraction platform. In addition, they innovated to create a new Atlassian Confluence platform connector to capitalise on this opportunity, receiving the first order in the year. Atlassian's Confluence is a wiki most used by developers and invariably contains an organisation's most sensitive development and security data, from code to intellectual property to security policies. With over 170,000 companies reportedly using Atlassian technologies worldwide, including an estimated 83% of the Fortune 500, the Atlassian market represents a significant opportunity for GeoLang technologies with very few competitors.

Services

Strong performance of Pentest, our newest acquisition

The acquisition of technology companies with a leading product, solution or service capability remains central to our growth strategy, and as such we were delighted to acquire certain assets of Secarma in April 2019, subsequently renamed Pentest Ltd.

The Pentest team has brought a wealth of advanced skills in penetration testing and red teaming to the Group. Both these skills are highly sought-after and a must have requirement in today's security and governance conscious corporations. Based in Altrincham, Pentest delivers its services both domestically and internationally, boasting world class corporate clients that contribute to the Pentest annual balance sheet as well as providing introductions to the rest of the Group companies. In line with our 'buy, focus, grow' strategy I am pleased to report Pentest increased its net client list by 35 since acquisition.

Developments at Xcina Consulting resulting in reduced losses

During the second half Rob Treacey and George Grey were promoted to take over as joint Managing Directors of Xcina Consulting. Both Rob and George have an abundance of experience in risk assurance and advisory roles, which has been gained from many years in senior positions within tier one banks and big four accounting firms.

Leveraging their experience, they formulated a strategy focused on structure, sustainability, accountability and ownership. Their decision making has seen Xcina Consulting halve its second half losses in comparison to the same period in the prior year. Meaningful partnerships with well-established organisations have been established, which are beginning to bear fruit, and will ensure the consultancy provides a compelling service offering to a broader client base.

Xcina Consulting has also been assisting in the creation of new Group-wide service offerings that we will be launching later this year including a Security Operations Centre, E-Learning material and additional Operational Resilience Consulting Services for the financial services sector. These offerings build upon Xcina's existing consulting services that have already been generating substantial opportunities for Brookcourt.

During the year Brookcourt continued its winning streak by adding a number of key critical infrastructure project wins along with a number of new clients mainly from the financial and telecommunications sectors. These project deliverables either help protect a corporate client from cyber attack or provide security monitoring services on key infrastructure. Furthermore we witnessed a shifting market place with clients reducing their appliance based computing purchases in favour of software, cloud or subscription based computing. This shift lowered our top line revenue but greatly enhanced our profitability. We do expect this shift to continue and it demonstrates our agility to continuously evolve along with industry trends taking advantage by winning business away from the less equipped slower competitors.

Share consolidation

On 25 September 2019 our shareholders approved a 100-for-1 consolidation of the issued ordinary shares in the Company, reducing the number of shares in issue by a factor of 100.

The rationale behind the share consolidation was to seek to improve market liquidity of the Company's ordinary shares, reduce share price volatility and to narrow the bid/offer spread in an effort to make the Company's ordinary shares more attractive to a broader range of institutional investors and other members of the investing public, both in the UK and overseas.

COVID-19

Quarter four is typically heavily weighted due to client budget spend cycles. This year we, alongside all businesses, had to navigate the global COVID-19 pandemic during this time.

Having tested our business continuity two weeks ahead of UK Government announcements as to 'lockdown' restrictions, we were well positioned to move to remote working, and quickly adjusted to this new way of operating. Being a company that provides services and solutions to help deliver organisational resilience we have not needed to make redundancies, or to use the government furlough scheme.

Whilst the pandemic, and associated restrictions put in place by the Government, effected parts of our business that relied upon 'face to face' consultation other parts of our business benefited with an upsurge in new orders for remote workers and remote security solutions noted shortly after working from home was encouraged. The impact on our clients has varied according to their end sector, with industries such as leisure and travel worst impacted with sectors such as infrastructure showing resilience.

Outlook

Going forward, we will continue to capitalise on the cross-selling opportunities within the Group to drive new contract wins. This cross-sell opportunity is substantial, and in addition to driving revenues for the Group it also allows us to improve our customers' overall service experience, helping to solve all their security needs and keeping their data and information assets safe and secure, whilst enhancing their ability to do business.

We are committed to building Shearwater into an established and respected provider of innovative organisational resilience solutions. Our end-to-end offering is attractive, and whilst the Group has noted a certain amount of delayed decision making brought about by the increased economic uncertainty, we are confident the business has an excellent opportunity to grow organically in the mid to long term, capturing substantial market share.

In addition, we also see the effects of COVID-19 having an impact on potential service sector targets for the Company, and whilst vendors of stronger companies will inevitably want to wait until the current environment inproves and performance returns to a more normalised level before considering an exit, this does present potential inorganic opportunities for the Group where Shearwater's strategy and ability to onboard targets through our shared services model, quickly enables synergy savings to be realised and the support of our senior management teams and advisors to add value. We feel these opportunities could potentially deliver greater benefit to our group.

Following our restructuring, and having reached profitability, we are well-placed to embark on a strategic, targeted acquisition program. The organisational resilience market remains fragmented, and we have identified a pipeline of businesses for potential acquisition. We will focus on companies with a leading product, solution, service or consulting capability with further growth potential to be unlocked. We will continue to evaluate selective M&A opportunities which are profitable, organically fit with existing Group companies and provide tangible synergies as we look to propel Shearwater to becoming a leading UK Security, cyber solutions and advisory company.

We have a clear strategic direction and are excited to capitalise on our growth opportunity over the year ahead.

Phil Higgins
Chief Executive Officer

Financial review

Alternative performance measures

The Group use alternative performance measures alongside statutory measures to manage the performance of the business. In the opinion of the Directors alternative measures can provide additional relevant information on past and future performance to the reader in assessing the underlying performance of the business. Underlying EBITDA excludes exceptional items which are in their nature one off, share based payment costs, fair value adjustments for deferred consideration to be settled in shares and contingent consideration which is not reflective of the underlying performance of the Group. Underlying profit before tax excludes amortisation of acquired intangible assets in addition to the adjusting items detailed in underlying EBITDA. Please see note 2 of the consolidated financial statements for a reconciliation of underlying EBITDA and underlying profit before tax to statutory measures.

	31 March 2020 £m	31 March 2019 £m	% change
Revenue	**33.0**	**23.5**	**41%**
Gross profit	10.2	6.8	50%
Overheads	6.8	8.2	17%
Underlying EBITDA	**3.4**	**(1.4)**	
Underlying EBITDA margin	*10%*	*(6%)*	
Finance charge	0.6	0.2	
Depreciation	0.3	0.1	
Amortisation of intangible assets - computer software	0.3	0.1	
Underlying profit before tax	**2.2**	**(1.7)**	
Amortisation of acquired intangible assets	2.1	1.3	
Exceptional items	0.7	2.7	
Share based payments	0.3	0.3	
Impairment of legacy assets	-	1.0	
Fair value adjustment for deferred consideration*	0.1	0.1	
Contingent consideration	0.3	-	
Loss before tax	**(1.3)**	**(6.9)**	
Taxation charge/(credit)	0.2	(1.0)	
Loss after tax	**(1.5)**	**(5.9)**	

* To be settled by issue of ordinary shares to the ex-vendors of GeoLang Holdings Limited.

Revenue

For the twelve months ended 31 March 2020 revenue increased 41% (£9.5m) to £33.0m (2018/19: £23.5m) which incorporates £1.7m revenues from Pentest Limited which was acquired on 9 April 2019. On an underlying like-for-like basis which reflects a full year of Brookcourt's prior year performance into 2018/19, revenue is 16% behind prior year, which is partially due to a change in revenue mix within Brookcourt whereby we have witnessed a move from high revenue, low margin hardware sales to low revenue, higher margin software sales. In addition, Xcina Consulting has experienced reductions in revenues of £2.1m following the strong performance in the prior year off the back of the introduction of GDPR.

Underlying EBITDA

A year on year improvement in Underlying EBITDA of £4.8m to a £3.4m profit (2018/19: Loss £1.4m) incorporates the uplift in revenue detailed above which has generated an improved gross profit margin of 31% (2018/19:29%). The improvement in profitability is due to a number of factors which include a change in revenue mix within our Services division whereby low margin hardware sales are being replaced with higher margin software sales. In addition to this profitability within our software division has improved year on year as a result of a minor re-structure in SecurEnvoy which has resulted in a more efficient sales function. An additional £1.4m of overhead savings were recognised in the year following the re-organisation of the Group in the first half the year.

Finance charges
Finance charges of £0.6m includes £0.4m interest on deferred completion cash for the acquisition of Brookcourt, £0.1m interest for other loans taken when acquiring Pentest and £0.1m interest for an invoice discounting facility which the Group utilised during the last financial year.

Depreciation
Depreciation of £0.3m (2018/19: £0.1m) incorporates £0.2m depreciation of Right of use assets which have been added for the first time in the year.

Amortisation of intangible assets – computer software
Amortisation of computer software has increased by £0.2m year on year owing mainly to internal software development in SecurEnvoy that went live in the year.

Underlying profit before tax
A year on year improvement of £3.9m includes the £4.8m year on year improvement in underlying EBITDA less an additional £0.4m finance costs, £0.2m depreciation and £0.2m amortisation of computer software which are detailed in the relevant headings above.

Acquisition of acquired intangibles
A year on year increase of £0.8m in amortisation of acquired intangibles to £2.1m (2018/19:£1.3m) incorporates a full year's charge for Brookcourt Solutions which was acquired in October 2018 in addition to amortisation for Pentest which was acquired in April 2019.

Exceptional items
Exceptional items of £0.7m include £0.3m of one off costs incurred as part of the re-organisation of the Group implemented by the incoming CEO in April 2019 which included the costs associated with discontinuation of a few smaller business areas which had not achieved the required return on investment. £0.3m costs relate to the acquisition of Pentest and the remaining £0.1m is for legacy one off legal costs. Exceptional items are significantly reduced from the reported £2.7m posted in the prior year. These included £1.7m costs relating to the acquisition of Brookcourt and GeoLang plus £1.0m one off legal costs.

Impairment of legacy assets
A prior year impairment recognises the full write off of the remaining mining exploration assets held by Group which date back to when the Group was known as Aurum Mining plc.

Fair value adjustment for deferred consideration
The fair value adjustment of deferred consideration relates to deferred share consideration owed to the previous owners of GeoLang Holdings Limited. Deferred consideration is measured at fair value and the additional cost recognised in the year represent an increase in the Group's share price over the past twelve months to 31 March 2020.

Contingent consideration
Contingent consideration of £0.3m represents the issue of 14,388,567 ordinary shares (pre-share consolidation) of the Group to the GeoLang sellers. These additional consideration shares were issued pursuant to the acquisition of GeoLang Holdings Limited announced on 4 April 2018, under which certain provisions were triggered by the share price performance criteria set out in the sale and purchase agreement which were considered unlikely at the point of acquisition and as such were not recognised on acquisition.

Taxation
Taxation charges of £0.2m include a charge for the current year of £0.3m less £0.1m in relation to an adjustment for the prior-year.

Earnings/(loss) per share
Adjusted Basic and Diluted Earnings per Share of £0.08 (2018/19: Adjusted loss per share £-0.10) and Reported Basic and Diluted Loss per Share of £0.07 (2018/19: loss £0.42) represents a significant year on year improvement. All comparisons have been restated for the share consolidation.

Statement of financial position

Intangible assets
Intangible assets increased by £4.4m to £56.8m (2019: £52.4m) with £5.1m arising from acquisitions in the period, computer software additions of £1.4m relating to the capitalisation of internal development costs and £0.3m for additional consideration relating to historical acquisitions. This is offset by £2.4m amortisation in the year.

Property, plant and equipment
Property, plant and equipment increased by £0.5m to £0.7m (2019: £0.2m) in the period which incorporates for the first time, the addition of £0.7m of right to use assets (1 April 2019). Other additions were under £0.1m in the period. This is offset by £0.3m depreciation in the year.

Trade and other receivables
Trade and other receivables have decreased by £4.7m from £15.2m to £10.5m. The acquisition of Pentest has added £0.2m however the changes to the timing of some projects plus strong cash collection in March 2020 has resulted in the reduction of total trade and other receivables at year-end.

The prior year includes a restatement of £1.0m which reduces trade receivables with the corresponding entry being a reduction to deferred income which is due to amounts that had been invoiced but not yet due and where the performance obligation had not been completed at the reporting date. There is no impact on to the statement of comprehensive income.

Trade and other payables
Trade and other payable have decreased by £1.8m from £16.4m to £14.6m despite the acquisition of Pentest adding £0.1m. This is primarily due to a reduction in trade payables at year-end of £1.4m which is as a result of cost savings realised from the re-organisation of the Group early in the financial year. In addition to this loan liabilities have reduced by £0.4m following the settlement of the invoice financing facility used by the Group in the prior year.

The prior year includes a restatement to deferred income of £1m which is detailed in the trade and other receivables note above.

Creditors: amount falling due after more than 1 year
Creditor amounts falling due after more than 1 year have increased by £1.0m to £4.4m as a result of the addition of £0.7m loan liabilities in the period relating to the Pentest acquisition which are repayable in April 2022, £0.3m lease liabilities arising for the first time following the introduction of IFRS 16, £0.2m increase in deferred tax liability (of which £0.4m is as a result of the Pentest acquisition with the balance related to movements on existing balances) less £0.2m reduction in deferred share consideration for GeoLang Holding which has moved to a current liability.

Share capital
During the year pre-share consolidation, 292.3m ordinary shares of £0.01 were issued to Secarma as share consideration for the acquisition of Pentest. A further 14.4m ordinary shares of £0.01 were issued to the previous owners of GeoLang Holdings for additional consideration for hold back shares as detailed in the sale and purchase agreement. These additions increased share capital by £2.9m and £0.2m respectively.

Statement of cash flows

Operating cash flows
The Group has achieved strong operating cash flows in the year of £5.2m (2018/19: £(3.5)m) owing to significantly improved year on year trading performance from both software and services businesses. In addition to this, cost savings made from the reorganisation of the Group in the first part of the year and improved cash collection have contributed to the much improved position at 31 March 2020.

Investing activities
A net outflow in investing activities of £1.4m in the year is significantly reduced from the previous years' outflow of £15.0m of which £14.3m represented cash used to acquire businesses including Brookcourt and GeoLang. No cash outflows were recognised for the acquisition of Pentest as this was funded via

share consideration and third party loans which are detailed in the note 9 of the consolidated financial statements. Software spend has increased by £0.8m to £1.4m which incorporates capitalisation of internal development costs within our software division (2018/19: £0.6m).

Financing activities

A net cash outflow from financing activities is significantly reduced from the prior year inflow of £16.5m which included proceeds from an equity fundraise completed to fund the acquisition of Brookcourt in October 2018. Outflows in the year include £1.3m for the repayment of the invoice discounting facility the Group used during the year which was closed in March 2020 and £0.2m repayments on lease liabilities. Cash inflows in the year include a £0.5m loan taken to support the working capital requirements of Pentest following its acquisition.

Key performance indicators

The Board believe that revenue and underlying EBITDA are key metrics to monitor the performance of the Group, as they provide a good basis to judge underlying performance and are recognised by the Group's shareholders. These are presented on within the Financial Highlights on page 6.

Underlying EBITDA is defined as profit before tax, before one off exceptional items, impairment of intangible assets, share based payment charges, finance charges, fair value adjustments to deferred consideration, depreciation and amortisation, and a reconciliation from underlying EBITDA to loss before tax is detailed in note 2 of the consolidated financial statements.

Paul McFadden

Chief Financial Officer

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	2019/20 £ (000)	2018/19 £ (000)
Revenue	33,004	23,452
Cost of sales	(22,817)	(16,617)
Gross profit	**10,187**	**6,835**
Administrative expenses	(10,897)	(13,551)
Operating loss	**(710)**	**(6,716)**
Finance expenses	(560)	(164)
Finance income	8	-
Loss before tax	**(1,262)**	**(6,880)**
Income tax (charge) / credit	(242)	1,020
Loss for the year and attributable to equity holders of the Company	**(1,504)**	**(5,860)**

Operating loss analysed as:		
Underlying EBITDA	3,409	(1,394)
Amortisation of acquired intangibles	(2,418)	(1,325)
Depreciation of fixed assets	(316)	(69)
Share-based payments	(329)	(331)
Impairment of intangible assets	-	(1,005)
Exceptional items	(678)	(2,729)
Fair value adjustment to deferred consideration	(69)	137
Contingent consideration	(309)	-
Operating loss	**(710)**	**(6,716)**
Finance cost	(560)	(164)
Finance income	8	-
Loss before tax	**(1,262)**	**(6,880)**

Other comprehensive income

Items that may be reclassified to profit and loss:		
Change in financial assets at fair value through OCI	(4)	(18)
Exchange differences on translation of foreign operations	7	20
Total comprehensive loss for the year	**(1,501)**	**(5,858)**

Loss per ordinary share		
Basic and diluted (£ per share)	**(0.07)**	**(0.42)**
Adjusted basic and diluted (£ per share)	**0.08**	**(0.10)**

Consolidated statement of financial position

As at 31 March 2020

	2020 £ (000)	2019 (restated) £ (000)
Assets		
Non-current assets		
Intangible assets	56,767	52,389
Financial assets at fair value through OCI	-	33
Property, plant and equipment	692	248
Deferred tax asset	186	665
Total non-current assets	**57,645**	**53,335**
Current Assets		
Trade and other receivables	10,505	15,211
Cash and cash equivalents	3,343	597
Total current assets	**13,848**	**15,808**
Total assets	**71,493**	**69,143**
Liabilities		
Current liabilities		
Trade and other payables	14,586	16,380
Total current liabilities	**14,586**	**16,380**
Non-current liabilities		
Creditors: amounts falling due after more than one year	4,393	3,409
Total non-current liabilities	**4,393**	**3,409**
Total liabilities	**18,979**	**19,789**
Net assets	**52,514**	**49,354**
Capital and reserves		
Share capital	22,107	19,040
Share premium	34,581	34,578
FVTOCI reserve	14	18
Other reserves	20,714	19,123
Translation reserve	27	20
Accumulated losses	(24,929)	(23,425)
Equity attributable to owners of the Company	**52,514**	**49,354**
Total equity and liabilities	**71,493**	**70,152**

Consolidated statement of changes in equity

for the year ended 31 March 2020

Group	Share capital £ (000)	Share premium £ (000)	FVTOCI reserve £ (000)	Other reserve £ (000)	Translation reserve £ (000)	Accumulated losses £ (000)	Total Equity £ (000)
At 1 April 2018	9,644	22,446	36	7,127	-	(17,110)	22,143
Loss for the year	-	-	-	-	-	(5,860)	(5,860)
Other comprehensive loss for the year	-	-	(18)	-	20	-	2
Total comprehensive loss for the year	**-**	**-**	**(18)**	**-**	**20**	**(5,860)**	**(5,858)**
Contributions by and distributions to owners							
Issue of share capital	9,396	12,658	-	-	-	-	22,054
Merger relief reserve	-	-	-	11,665	-	-	11,665
Share issue costs	-	(526)	-	-	-	(455)	(981)
Share based payments	-	-	-	331	-	-	331
At 31 March 2019	**19,040**	**34,578**	**18**	**19,123**	**20**	**(23,425)**	**49,354**
Loss for the year	-	-	-	-	-	(1,504)	(1,504)
Other comprehensive loss for the year	-	-	(4)	-	7	-	3
Total comprehensive loss for the year	**-**	**-**	**(4)**	**-**	**7**	**(1,504)**	**(1,501)**
Contributions by and distributions to owners							
Issue of share capital	3,067	3	-	-	-	-	3,070
Merger relief reserve	-	-	-	1,262	-	-	1,262
Share based payments	-	-	-	329	-	-	329
At 31 March 2020	**22,107**	**34,581**	**14**	**20,714**	**27**	**(24,929)**	**52,514**

Consolidated Cash Flow Statement
for the year ended 31 March 2020

	2019/20 £ (000)	2018/19 (restated) £ (000)
Cash flows from operating activities		
Loss for the year	(1,504)	(5,860)
Adjustments for:		
Amortisation of acquired intangible assets	2,418	1,325
Depreciation of property, plant and equipment	316	69
Share-based payment charge	329	331
Impairment of intangible assets	-	1,005
Fair value adjustment of deferred consideration	69	(137)
Contingent consideration	309	-
Finance income	(8)	-
Finance cost	560	164
Gain/loss on sale of asset	(1)	-
Income tax	242	(1,020)
Cash flow from operating activities before changes in working capital	**2,730**	**(4,123)**
Decrease/(increase) in trade and other receivables	4,384	(3,387)
(Decrease)/increase in trade and other payables	(2,239)	4,110
Cash generated from/(used in) operations	**4,875**	**(3,400)**
Net foreign exchange movements	8	1
Finance cost paid received	(62)	(10)
Tax paid	399	(52)
Net cash generating from/(used in) operating activities	**5,220**	**(3,461)**
Investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(14,264)
Purchase of property, plant and machinery	(20)	(81)
Purchase of software	(1,409)	(619)
Proceeds from disposal of held for sale assets	27	-
Proceeds from disposal of tangible assets	1	-
Gold exploration payments	-	(19)
Net cash used in investing activities	**(1,401)**	**(14,983)**
Financing activities		
Proceeds from issue of share capital	2	17,527
Proceeds from issue of loans	500	-
Repayment of loan liabilities	(1,341)	-
Expenses paid in connection with share issues	-	(981)
Repayment of lease liabilities	(236)	-
Net cash generated by financing activities	**(1,075)**	**16,546**
Net increase/(decrease) in cash and cash equivalents	**2,744**	**(1,898)**
Foreign exchange movement on cash and cash equivalents	2	2
Cash and cash equivalents at the beginning of the period	597	2,493
Cash and cash equivalents at the end of the period	**3,343**	**597**

Notes to the Consolidated Financial Statements

1. Basis of preparation

The Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and interpretations ('IFRS ICs') issued by the International Accounting Standards Board ('IASB') and its Committees, and as adopted in the EU, and in accordance with the Companies Act 2006 as applicable to Companies using IFRS.

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.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements.

The Directors have reviewed the Group's going concern position taking account of its current business activities, budgeted performance and the factors likely to affect its future development which are set out in this Annual Report, and include the Groups strategy, principal risks and uncertainties, its exposure to credit and liquidity risks and the impact of the Covid 19 global pandemic.

The Group has recorded its first underlying profits in the year to 31 March 2020 and has posted positive operating cashflows. As at 31 March 2020, the Group had cash and cash equivalents of £3.3m (2019: £0.6m) and net assets of £52.6m (2019: £49.4m). In the year the Group generated net cash from operating activities of £5.0m (2019: cash outflow £3.5m) realising a significantly reduced operating loss of £0.6m (2019: Loss: £6.7m). Subsequently the Directors are pleased to announce that they have secured the following additional funding for the business:

- On 24 April 2020 the Group completed a fundraise raising £3.75m which it intends to use to fund acquisitions.
- On 22 June 2020 the Group signed via it's subsidiary Brookcourt Solutions Limited a £4.0 million three-year revolving credit facility with Barclays Bank plc which provides additional robustness towards the Group's short-term funding requirements.

The Directors' have reviewed detailed budget cash flow forecasts for the period to at least 31 March 2022 and have challenged the assumptions used to create these budgets. The budget figures are carefully monitored against actual outcomes each month and variances are highlighted and discussed at Board level on a quarterly basis as a minimum. The end of the fiscal year to 31 March 2020 has seen the Covid 19 global pandemic which has created additional risks and uncertainties which the Board have considered. To date the Group has been able to adapt and meet the challenges arising from of Covid 19 and as a result there has so far been limited impact on the Group's operational capacity.

The Board has reviewed current trading to 30 June 2020 and are pleased to report that trading is tracking in line with budget for the first quarter and the current view is that the Group is in a good place to meet its full year budget targets.

In response to the additional challenges created by Covid 19 the Board have reviewed and challenged what it believes to be an extreme scenario reverse stress test on the Group up to March 2022. The purpose of the reverse stress test for the Group is to test at what point the cash facilities would be fully utilised if the assumptions in the budget are altered.

The reverse stress test assumes significant adjustments to the Group's budget which include the removal of all new business revenue across both software and services divisions, reduction of renewal rates in our software division to 50%, scaling back of revenues in our Services division leaving just critical manage services revenues and already contracted revenues. Costs have been scaled back sensitively in line with the reduction in revenues.

In the event that the performance of the Group is not in line with the projections, action will be taken by management to address any potential cash shortfall for the foreseeable future. The actions that could be taken by the Directors include both a review and restructuring of employment related costs. Additionally, the Directors could also negotiate to access other sources of finance from our lenders.

Overall, the sensitised cash flow forecast demonstrates that the Group will be able to pay its debts as they fall due for the period to at least 31 March 2022 and therefore the Directors are satisfied there are no material uncertainties to disclose regarding going concern. The Directors are, therefore satisfied that the financial statements should be prepared on the going concern basis.

2. Earnings per share

Adjusted earnings per share has been calculated using adjusted earnings calculated as profit after taxation but before:

- Amortisation of acquired intangibles after tax
- Share-based payments
- Impairment of intangible assets
- Exceptional items after tax
- Fair value adjustment to deferred consideration
- Contingent consideration

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 not adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are anti-dilutive for the twelve months ended 31 March 2020 and the twelve months ended 31 March 2019 as the Group is loss making. Adjusted earnings per share is potentially dilutive in the year to 31 March 2020. Please see note 18 and 19 of the consolidated financial statements for more details.

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

	2019/20 £ (000)	2018/19 £ (000)
Net loss from total operations		
Loss for the purposes of basic and diluted loss per share being net loss attributable to Shareholders	(1,504)	(5,860)
Add/(remove):		
Amortisation of acquired intangibles	1,873	1,018
Share-based payments	329	331
Impairment of intangible assets	-	1,005
Exceptional items	609	2,210
Fair value adjustment to deferred consideration	69	(137)
Contingent consideration	309	-
Underlying earnings for the purposes of adjusted earnings per share	1,685	(1,433)

	No	No
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted and adjusted basic earnings per share	22,005,719	14,074,839*
Weighted average number of ordinary shares for the purpose of adjusted diluted earnings per share.	22,158,427	14,120,632*
	£	**£**
Basic and diluted loss per share	(0.07)	(0.42)
Adjusted basic and diluted earnings/(loss) per share	0.08	(0.10)

* prior year weighted average per share has been restated provide comparability following the share consolidation in September 2019.

3. Events after the reporting period

On 24 April 2020 the Group completed the fundraise which comprised of the placing of 1,562,500 ordinary shares of 10 pence each with existing and new institutional investors at a price of 240 pence per placing share to raise approximately £3.75 million (before expenses). As part of the placing Directors subscribed to 104,166 ordinary shares.

On 22 June 2020 the Group (through its subsidiary Brookcourt Solutions) signed a three-year, £4 million revolving credit facility with Barclays Bank plc. On publication of these results the Group intends to transfer this facility to Shearwater Group plc.

Following the year-end and further to discussions with the ex-vendors of Brookcourt, it was agreed that the outstanding balance which was due to be paid in full on 17 April 2020 would be extended with the final balance to be paid in full by 31 August 2020.