25 November 2020

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

Results for the six months ended 30 September 2020

Resilient performance, in line with profit expectations for the full year

Shearwater Group plc, the organisational resilience group, is pleased to announce its unaudited results for the six months ended 30 September 2020.

Highlights

- Group underlying EBITDA[1] of £1.1 million (H1 FY20: £1.0 million)
- Group revenue of £11.2 million (H1 FY20: £16.3 million) due largely to a delay in recognising secured orders
- Underlying EBITDA[1] margin expansion period on period to 10% (H1 FY20: 6%)
- Discipline in cost management, together with strong operating cash inflows plus funds raised in placing, resulting in gross cash as at 30 September 2020 of £3.8m
- Good progress in the software division, including product developments and 40 new client wins
- Substantial number of live cross-selling opportunities generated, with 41 opportunities currently progressing or closed

KPIs

- Order intake in Services division of £12.2m (H1 FY20: £12.7m) broadly in line with prior period
- New software business of £0.5m secured in the period from new clients and up-sell, a 100% increase on the same period in the prior year
- 62 new customer wins in the period
- Approximately 40% of total revenue is now recurring

Current trading and outlook

- Strong start to H2 with a number of significant new renewals and wins secured, underpinning revenue visibility
- £3.6m of revenue secured for next year to monitor and provide support to next generation mobile communications
- Inorganic growth through acquisition remains a key tenet of the Group's strategy. The Board remains engaged with potential M&A targets but will only execute transactions which fit the Group's strict acquisition criteria
- Ongoing confidence in meeting market profit expectations for the full year
- Significant growth in long term prospects for the organisational resilience market driven by the increased security risk and compliance requirements associated with remote working

[1] 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, contingent consideration depreciation and amortisation

Phil Higgins, Chief Executive Officer, commented:

"Organisational resilience continues to grow in strategic importance for businesses around the world, presenting a huge long-term growth opportunity for Shearwater. Over the period under review we have continued to execute on our strategic roadmap, making ourselves even more capable to deliver on that opportunity. We have achieved a robust financial performance in the period, with underlying EBITDA in line with the prior year, and we have continued to strengthen and streamline our operations with a focus on securing new customers, enhanced cross sales and product innovation.

Looking forward, we continue to explore M&A opportunities to accelerate our product roadmap, alongside driving organic growth initiatives. We are on track to deliver against market profit expectations for the year and have great confidence in the opportunities for the Group in the longer term."

Retail Investor Presentation

The Group will be hosting a webinar for retail investors on the interim results on Tuesday 1 December 2020 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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Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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, 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.

Chief Executive's Review

Overview

I am pleased to report that Shearwater maintained underlying EBITDA broadly in line with expectations for the first half of FY21, demonstrating our resilience in the face of Covid-19 headwinds. We delivered a number of key operational achievements, such as the development of our software offering, and continued to deliver new client wins, alongside encouraging financial progress, with improved cash generation and year-on-year margin expansion.

Group revenue for the period was £11.2 million (H1 FY20: £16.3m) due largely to the weighting of secured orders towards the end of the period. H2 has started strongly with a number of new wins and renewals having been secured. Alongside this a material order secured in H1 is due to be delivered and recognised in early FY22, providing a strong start to the next financial period. Our underlying EBITDA for the period was £1.1m (H1 FY20: £1.0m), achieved on lower revenues and demonstrates an improved underlying EBITDA margin compared to the same period in the prior year.

Importantly, we have continued to strengthen our balance sheet, delivering strong operating cashflows and repaying outstanding legacy loans of circa £4.2m over the period. We also continue to benefit from an undrawn revolving facility of £4.0m together with funds raised from an equity placing completed in April 2020. Our balance sheet therefore remains robust and we are well positioned to capitalise on the significant future opportunities for the Group.

A cross-selling incentive plan, implemented to encourage new business introductions between our subsidiaries, has proven successful, with a number of leads converted and on-boarded alongside a significant number of new opportunities now in the pipeline. Pentest and Xcina, for example, have secured projects around cyber essentials and penetration testing that have the potential to offer year on year growth. In addition, SecurEnvoy and Geolang have received a number of blue-chip client introductions from Brookcourt.

The work largely completed in FY20 to reorganise the business and crystalise synergy savings has proven fruitful, and we continued to benefit in the period from increased efficiencies across the Group to a value of c.£0.5m. I believe that Shearwater is today in the best health it has ever been and, although external challenges exist, we have a great opportunity to grow in the medium to long term, capitalising on the increased awareness, and subsequent demand, for cyber security solutions and advisory services.

Covid-19

Despite our advisory revenues having been impacted by Covid-19 imposed restrictions, which disrupted face-to-face engagements during the period, the Group has delivered a resilient performance. We have adapted well, finding where possible alternative ways to deliver advisory services. We have benefitted from our focus on financial services and telco business and we move into H2 with an enhanced sales capability with which to capitalise on the opportunities that exist.

Thanks to our resilient performance we have not had to make use of the Government's furlough scheme. Indeed, we have continued to make selective hires throughout the year.

Our team have truly shown their determination to succeed over this time, working collaboratively to achieve our resilient performance. Together we have moved resolutely towards our vision of becoming a leading UK Security, cyber solutions and advisory company.

In the longer term, we have no doubt that Covid-19 will ultimately increase the demand for our services, with companies more susceptible to cyber-attack when working remotely and using cloud-based services.

Operational review

Our Group is divided into two segments, software (17% of revenue) and services (83% of revenue). Our services division clients are largely blue chips, and we have particular strength in the banking, telco and technology sectors. Our software offerings are sold through distributors to the global reseller channel. Whilst we are largely UK-focused, we have been steadily building up our international reach, with 36% of revenues now derived outside the UK across 33 countries. Our Group offering is made up of managed services and warranties, monitoring solutions, software licences and advisory (45%, 23%, 17% and 15% of revenues respectively).

Software

Our software division performed well, with profitability ahead of the prior period. This was driven by sales and marketing efficiencies made in the previous year which boosted gross margins. The division has maintained an EBITDA margin of c.40%.

Revenue for the period is behind the prior comparative period. This is against a strong performance in H1 FY20, when we completed the sale of a large on-premise multi-year renewal. However, during the period we secured 40 new client wins, driven by an increased demand from companies increasingly reliant on remote working. When including contract uplifts from existing customers this has led to a 100% year on year increase in new and uplift revenues for the first six months of the year.

Software

	H1 FY21 £ (000)	H1 FY20 £ (000)	YOY %
Revenue	**1,861**	**2,088**	**(11%)**
Gross profit	1,441	1,362	**6%**
Gross margin %	77%	65%	12%
Overheads	682	636	**(7%)**
Underlying EBITDA	**759**	**726**	**5%**
Underlying EBITDA %	41%	35%	6%

We are particularly pleased with how the product offering has developed in the software division. The progress we have made is shown in the fact that SecurEnvoy's converged Access Management roadmap has now been ratified by Gartner.

> *'SecurEnvoy's product roadmap really fits in with our predictions that by 2023, a new category of SaaS-delivered, converged Identity & Access Management (IAM) platforms will be the preferred adoption method for Information Governance & Assurance (IGA), Access Management (AM) and Privileged Access Management (PAM) in over 45% of new IAM deployments – this is a huge opportunity for SecurEnvoy.'*
>
> **Michael Kelley (Gartner Research Director)**

Ensuring a greater awareness of the strength of our software offering is crucial to the Group and we will continue discussions with industry analysts to promote our strategy on their platforms.

GeoLang's Data Discovery continues to innovate, reaching into untapped markets. New products/releases are due for launch in the second half of the year and we are excited by the technology roadmap we have established across our software division.

To further build on this strategy we have been working on a project to bring the technology of GeoLang and SecurEnvoy closer together and will be consolidating them under SecurEnvoy's platform in the near term. This will give GeoLang global reach and greater access to SecurEnvoy's 350 partner resellers.

Services

Our Services division also delivered well in the first six months. Despite delays in client decision making which meant orders were more weighted towards the end of the period, having an impact on recognised revenues for the period, the division delivered profitability in line with the prior year.

Services

	H1 FY21 £ (000)	H1 FY20 £ (000)	YOY %
Revenue	**9,312**	**14,249**	**(35%)**
Gross profit	2,257	2,836	**(20%)**
Gross margin %	24%	20%	
Overheads	1,488	2,061	**28%**
Underlying EBITDA	**769**	**775**	**(1%)**
Underlying EBITDA %	8%	5%	3%

Whilst our advisory revenues have been impacted by the additional challenges brought about by the ongoing Covid-19 pandemic which has, in many cases restricted face-to-face engagements from taking place. The business has had to adapt, completing engagements remotely where possible however a number of customer engagements have been delayed whilst companies adapt to remote working. Despite these obvious challenges experienced during the period we have seen some encouraging signs which include a 15% year on year increase in sales order intake from penetration testing engagements. Our advisory businesses have added 20 new clients whilst maintaining long term relationships during the period. Over the summer we have added additional sales resource to support further sales growth which we hope to see the benefit of in H2.

Current trading and outlook

Inorganic growth through acquisition remains a key tenet of the Group's strategy and we remain engaged with potential M&A targets. We are cognisant of further dilution at the current share price levels and now have an additional option to finance acquisitions via bank debt. Whilst very important to us, it is essential to the long term success of the business that we pursue only those opportunities which have a clear strategic fit and which will have the ability to enhance value for all stakeholders. The Group therefore maintains its strict acquisition discipline.

Trading in H2 has begun strongly, with several new contract renewals and wins secured, and current agreements expanded. Looking forward, we feel confident we can adapt and take advantage of changing circumstances ahead, including around Brexit. We have a strong balance sheet and are tracking in line with market profit expectations for the full year.

In the longer term, we can see that the demand for our offering will only be accelerated by Covid-19, remote working and the more widespread adoption of the cloud. The risk that organisations face are continually gaining in complexity and becoming ever more pervasive. In order to protect their businesses for the future in this environment senior management must prioritise organisational resilience. The opportunity is clear and we have the right team, the right offering and the right strategy to capitalise upon it.

Finance review

Financial performance

The Group has maintained underlying EBITDA profitability of £1.1 million for the first six months which is marginally ahead of the prior year delivering an improved underlying EBITDA margin of 10% (H1 FY20: 6%).

Whilst recognised revenues of £11.2 million (H1 FY20: £16.3 million) are behind the prior year, owing mainly to delays in client decision making, we are encouraged that order intake within our services division is broadly in line with the prior year and we are encouraged by the strong start made in Q3.

The Group’s loss before tax was significantly reduced to £0.8 million (H1 FY20: loss £1.5 million) as a result of no exceptional items being recognised in the period. The Group recorded a loss per share of £0.03 (H1 FY20: loss £0.06) and an adjusted earnings per share of £0.01 (H1 FY20: £0.02). The Group is not proposing an interim dividend.

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

	Six-month period ended 30 September 2020		
	H1 FY21	**H1 FY20**	**Movement**
(unaudited)	**£ (000)**	**£ (000)**	**£ (000)**
Underlying EBITDA	**1,062**	**1,012**	**51**
Amortisation of intangibles	(1,429)	(1,082)	(347)
Depreciation of fixed assets	(178)	(143)	(35)
Share-based payments	(132)	(196)	56
Exceptional items	-	(796)	796
Fair value adjustment to deferred consideration	37	(21)	58
Finance income	2	5	(3)
Finance expenses	(142)	(247)	106
Loss before tax	**(780)**	**(1,468)**	**682**

Amortisation of intangibles
An increased amortisation charge in the period incorporates amortisation of internally developed products within our software business.

Depreciation of fixed assets
A small increase in depreciation of right of use assets incorporates an additional lease from 1 January 2020.

Share-based payments
A charge of £ 0.1million (H1 FY20: £0.2 million) has been incurred in relation to long-term incentive plans.

Exceptional items
No exceptional items were recognised in the period (H1 FY20: £0.8m).

Fair value adjustment to deferred consideration
A credit in the period relates to a fair value adjustment for deferred share consideration owed to the previous owners of GeoLang Holdings Limited. The remaining deferred consideration was settled in full on 18 September 2020 following the issue of 129,602 ordinary shares of 10 pence each to certain of the previous owners.

Finance expenses
Finance expenses in the period show significant reduction from the prior period following the repayment of legacy loans and invoice discounting facility which was closed once the revolving credit facility was established.

Earnings per share
Adjusted basic and diluted earnings per share of £0.01 (H1 FY20: £0.02) incorporates additional amortisation of internally developed software that has reduced adjusted profit after tax. Reported basic and diluted loss per share of £0.03 (H1 FY20: loss per share £0.06) represents a material year on year improvement.

Cash flow
The Group has delivered strong cash inflows from operations of £1.7m (H1 FY20: £1.3m) in the period and with the addition of the recent fundraise and undrawn revolving credit facility now puts the Group in a robust position for growth.

	As at 30 September 2020 (unaudited) £ (000)	As at 30 September 2019 (restated) (unaudited) £ (000)
Underlying EBITDA	1,062	1,012
Movement in working capital	676	282
Adjusted Cash inflow from operations	**1,739**	**1,294**
Net foreign exchange movements	(3)	(5)
Finance costs paid	(12)	(52)
Tax (paid)/credit	-	463
Net capital expenditure	(284)	(258)
Free cash flow	**1,440**	**1,442**
Proceeds from issue of share capital	3,750	2
Proceeds from issue of loans	-	500
Repayment of loan liabilities	(4,151)	-
Repayment of lease liabilities	(149)	(96)
Adjusting and other items	(466)	(768)
Net increase in cash and cash equivalents during the period	**424**	**1,080**
Cash and cash equivalents at the beginning of the period	3,343	597
Foreign exchange movement on cash and cash equivalents	-	2
Cash and cash equivalents at the end of the period	**3,767**	**1,680**

Alternative performance measures

This review includes alternative performance measures ('APMs') alongside the standard IFRS measures. The Directors believe that alternative measures provide additional relevant information regarding the underlying performance of the business. APMs are used to enhance the comparability of information between reporting periods by adjusting for one off exceptional and other items that affect

the IFRS measure. Consequently, the Directors and management use APM's in addition to IFRS measures to assess the underlying performance of the business.
Alternative performance measures used include:

- Underlying EBITDA
- Underlying profit before tax
- Underlying profit after tax
- Adjusted earnings per share

Adjusting items include:

Exceptional items which are one off by their nature such as acquisition costs or re-organisation costs and do not form part of the underlying operational cost of the business.

Share based payment charges awarded form a long-term remuneration incentive to certain staff. Despite this plan not having a cash cost to the business, a share-based payment charge is taken to the statement of comprehensive income which we believe does not form part of the underlying operating cost of the business.

Fair value adjustment on deferred consideration represents an adjustment to revalue deferred share consideration liability. We consider that these charges/credits do not form part of the underlying operational cost base of the business and we therefore exclude from our adjusted measures.

Acquisition amortisation of identified intangible assets acquired as part of an acquisition are charged to the statement of comprehensive income but do not form part of the underlying operating cost of the business.

A full reconciliation between adjusted and reported results is detailed below:

Six months to 30 September	**H1 FY21 £ (000)**	**H1 FY20 £ (000)**
Underlying EBITDA	1,062	1,012
Exceptional items	-	(796)
Share based payments charge	(132)	(196)
Fair value adjustment for deferred consideration	37	(21)
EBITDA	**967**	**(1)**

Six months to 30 September	**H1 FY21 £ (000)**	**H1 FY20 £ (000)**
Adjusted profit before tax	365	561
Exceptional items	-	(796)
Acquisition amortisation	(1,050)	(1,016)
Share based payments charges	(132)	(196)
Fair value adjustment for deferred consideration	37	(21)
Reported loss before tax	**(780)**	**(1,468)**

Six months to 30 September	**H1 FY21 £ (000)**	**H1 FY20 £ (000)**
Adjusted profit after tax	332	527
Exceptional items	-	(700)
Acquisition amortisation	(939)	(905)
Share based payments charge	(132)	(196)
Fair value adjustment for deferred consideration	37	(21)
Reported loss after tax	**(702)**	**(1,295)**

Six months to 30 September	**H1 FY21 £ (000)**	**H1 FY20 £ (000)**
Adjusted EPS	0.01	0.02
Exceptional items	0.00	(0.03)
Acquisition amortisation	(0.04)	(0.04)
Share based payments charge	(0.01)	(0.01)
Fair value adjustment for deferred consideration	0.00	(0.00)
Reported EPS	**(0.03)**	**(0.06)**

Principal risks and uncertainties
The Group works to minimise its exposure to operational, financial and other risks however in pursuit of achieving its growth strategy there will always be an element of risk that needs to be considered. The Group's principal risks and uncertainties, as detailed in the financial statements for the year ended 31 March 2020, are all still considered to be valid. Over the past six months these risks and uncertainties have remained very much in place.

Statement of Directors' responsibilities
We confirm that to the best our knowledge that:

- The condensed interim set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;
- The interim report includes a fair review of information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The interim report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties transactions and any change therein).

Phil Higgins

Chief Executive Officer

Paul McFadden

Chief Financial Officer

Consolidated statement of comprehensive income

	Note	Six-month period ended 30 September 2020 (unaudited) £ (000)	Six-month period ended 30 September 2019 (unaudited) £ (000)	Year ended 31 March 2020 (audited) £ (000)
Revenue		11,173	16,337	33,004
Cost of sales		(7,476)	(12,139)	(22,817)
Gross profit		**3,697**	**4,198**	**10,187**
Administrative expenses		(4,337)	(5,424)	(10,897)
Operating loss		**(640)**	**(1,226)**	**(710)**
Finance expenses	5	(142)	(247)	(560)
Finance income		2	5	8
Loss before tax		**(780)**	**(1,468)**	**(1,262)**
Income tax credit / (charge)	6	78	173	(242)
Loss for the period and attributable to equity holders of the Company		**(702)**	**(1,295)**	**(1,504)**

Operating loss analysed as:				
Underlying EBITDA		1,062	1,012	3,409
Amortisation of intangibles		(1,429)	(1,082)	(2,418)
Depreciation of fixed assets		(178)	(143)	(316)
Share-based payments		(132)	(196)	(329)
Exceptional items	4	-	(796)	(678)
Fair value adjustment to deferred consideration		37	(21)	(69)
Contingent consideration		-	-	(309)
Operating loss		**(640)**	**(1,226)**	**(710)**
Finance expenses	5	(142)	(247)	(560)
Finance income		2	5	8
Loss before tax		**(780)**	**(1,468)**	**(1,262)**

Other comprehensive income

Items that may be reclassified to profit and loss:				
Change in financial assets at fair value through OCI		-	(4)	(4)
Exchange differences on translation of foreign operations		(2)	(3)	7
Total comprehensive loss for the period		**(704)**	**(1,302)**	**(1,501)**

Earnings / (loss) per share £				
Basic and diluted (£ per share)	7	(0.03)	(0.06)	(0.07)
Adjusted basic and diluted (£ per share)	7	0.01	0.02	0.08

Consolidated statement of financial position

	Note	Six-month period ended 30 September 2020 (unaudited) £ (000)	2019 (restated) (unaudited) £ (000)	Year ended 31 March 2020 (audited) £ (000)
Assets				
Non-current assets				
Intangible assets		55,590	56,840	56,767
Property, plant and equipment		546	621	692
Deferred tax asset		87	665	186
Total non-current assets		**56,223**	**58,126**	**57,645**
Current assets				
Trade and other receivables	8	8,336	11,234	10,505
Cash and cash equivalents		3,767	1,680	3,343
Total current assets		**12,103**	**12,914**	**13,848**
Total assets		**68,326**	**71,040**	**71,493**
Liabilities				
Current liabilities				
Trade and other payables	9	8,711	14,217	14,586
Total current liabilities		**8,711**	**14,217**	**14,586**
Non-current liabilities				
Creditors: amounts falling due after more than one year	10	4,152	4,245	4,393
Total non-current liabilities		**4,152**	**4,245**	**4,393**
Total liabilities		**12,863**	**18,462**	**18,979**
Net assets		**55,463**	**52,578**	**52,514**
Capital and reserves				
Share capital	11	22,276	22,106	22,107
Share premium		34,581	34,580	34,581
FVTOCI reserve		14	14	14
Other reserves		24,198	20,581	20,714
Translation reserve		25	17	27
Accumulated losses		(25,631)	(24,720)	(24,929)
Equity attributable to owners of the Company		**55,463**	**52,578**	**52,514**
Total equity and liabilities		**68,326**	**71,040**	**71,493**

Consolidated statement of changes in equity

	Share capital (Note 11) £ (000)	Share premium £ (000)	FVTOCI reserve £ (000)	Other reserves £ (000)	Translation reserve £ (000)	Accumulated losses £ (000)	Total equity £ (000)
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)**
Contribution by and distribution to owners							
Issue of share capital	3,066	2	-	-	-	-	3,068
Merger relief reserve	-	-	-	1,262	-	-	1,262
Share based payments	-	-	-	196	-	-	196
At 30 September 2019 (unaudited)	**22,106**	**34,580**	**14**	**20,581**	**17**	**(24,720)**	**52,578**
Loss for the period	-	-	-	-	-	(209)	(209)
Other comprehensive loss for the period	-	-	-	-	10	-	10
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**10**	**(209)**	**(199)**
Contribution by and distribution to owners							
Issue of share capital	1	1	-	-	-	-	2
Share based payments	-	-	-	133	-	-	133
At 31 March 2020 (audited)	**22,107**	**34,581**	**14**	**20,714**	**27**	**(24,929)**	**52,514**
Loss for the period	-	-	-	-	-	(702)	(702)
Other comprehensive loss for the period	-	-	-	-	(2)	-	(2)
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(2)**	**(702)**	**(704)**
Contribution by and distribution to owners							
Issue of share capital	169	-	-	-	-	-	169
Merger relief reserve	-	-	-	3,352	-	-	3,352
Share based payments	-	-	-	132	-	-	132
At 30 September 2020 (unaudited)	**22,276**	**34,581**	**14**	**24,198**	**25**	**(25,631)**	**55,463**

Consolidated Cash Flow Statement

	Note	Six-month period ended 30 September 2020 (unaudited) £ (000)	Six-month period ended 30 September 2019 (unaudited) £ (000)	Year ended 31 March 2020 (audited) £ (000)
Cash flows from operating activities				
Loss for the period		(702)	(1,295)	(1,504)
Adjustments for:				
Amortisation of acquired intangible assets		1,429	1,082	2,418
Depreciation of property, plant and equipment		178	143	316
Share-based payment charge		132	196	329
Fair value adjustment of deferred consideration		(37)	21	69
Contingent consideration		-	-	309
Finance expenses		142	247	560
Finance income		(2)	(5)	(8)
Gain/loss on sale of asset		-	2	(1)
Income tax		(78)	(173)	242
Cash flow from operating activities before changes in working capital		**1,062**	**218**	**2,730**
Decrease in trade and other receivables		1,983	3,452	4,384
(Decrease) in trade and other payables		(1,306)	(3,170)	(2,239)
Cash used in operations		**1,739**	**500**	**4,875**
Net foreign exchange movements		(3)	(5)	8
Finance cost paid		(12)	(52)	(62)
Tax (paid)/credit		-	463	399
Net cash generated from operating activities		**1,724**	**906**	**5,220**
Investing activities				
Purchase of property, plant and equipment		(32)	(33)	(20)
Purchase of software		(252)	(225)	(1,409)
Proceeds from disposal of held for sale assets		-	27	27
Proceeds from disposal of tangible assets		-	-	1
Net cash used in investing activities		**(284)**	**(231)**	**(1,401)**
Financing activities				
Proceeds from issue of share capital		3,750	2	2
Proceeds from issue of loans		-	500	500
Repayment of loan liabilities		(4,151)	-	(1,341)
Expenses paid in connection with share issues		(466)	-	-
Repayment of lease liabilities		(149)	(96)	(236)
Net cash generated by financing activities		**(1,016)**	**406**	**(1,075)**
Net Increase in cash and cash equivalents		**424**	**1,081**	**2,744**
Cash and cash equivalents at the beginning of the period		3,343	597	597
Foreign exchange movement on cash and cash equivalents		-	2	2
Cash and cash equivalents at the end of the period		**3,767**	**1,680**	**3,343**

Notes

1. General information

The interim consolidated financial information was authorised by the board of directors for issue on 25 November 2020. The information for the six-month period ended 30 September 2020 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 2020, 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.

b) 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 publication of these interim 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 into account of its current business activities, performance to date against budgeted targets and the factors likely to affect its future development which include the Group's strategy, principal risks and uncertainties, its exposure to credit and liquidity risks, the continuing impact of the Covid-19 global pandemic and the upcoming changes to doing business with the European Union following BREXIT.

The Group has recorded an underlying EBITDA profit for the first six months to 30 September 2020 in line with its budgeted target producing operating cashflows of £1.7m (H1 FY20: £0.9m) which are ahead of budget for the first six months. As at 30 September 2020, the Group had cash and cash equivalents of £3.8m (H1 FY20: £1.7m) and net assets £55.5m (H1 FY20: £52.6m) which include net current assets of £3.4m (H1 FY20: net current liabilities £1.3m).

As at 30 September 2020 the Group, though its subsidiary Brookcourt Solutions had a £4.0 million committed revolving credit facility which remained undrawn. This facility was signed on 22 June 2020 and is committed for three years.

The Directors have reviewed a detailed reforecast of trading which includes a cash flow forecast for a period which covers a period of trading to March 2022 which demonstrates that the Group is able to pay its debts as they fall due.

In addition to this, the Directors have reviewed a highly sensitised reverse stress test scenario which has assumed the removal of all new business revenues across both segments of the Group, a reduction of renewal rates in our software division to 60%, scaling back of revenues within our Services division leaving just critical managed services revenues and already contracted revenues. Costs have been scaled back sensitively in line with the reduction in revenues. 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.

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.

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.

Leases

Management make judgements, estimates and assumptions regarding the life of leases. At present management are assessing all existing leases which all relate to office space as we look to reduce the number of offices across the Group. For this reason management have assumed that the life of leases does not extend past the current contracted expiry date. A judgement has been taken with regards to the incremental borrowing rate based upon the rate at which the Group can borrow money.

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

The Group recognises revenue in accordance with IFRS 15 Revenue from Contracts with Customers. 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

- 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.
- Software licences for the new 'Authentication as a Services' product whereby the customer accesses the product via a cloud environment maintained by the Company is recognised in two parts whereby 85% of the subscription is recognised at the point that the licence key is provided to the customer with the remaining 15% recognised evenly over the length of the contract.

Services

- 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.
- Sale of consultancy services are usually based on a number of consultancy days that make up the contracted consideration. 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.

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 and contingent consideration paid.

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.

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. Material expenditure on internally developed intangible assets is taken to the consolidated statement of financial position if it satisfies the 6 step criteria required under IAS 38.

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
Tradenames	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
Right of use assets	Shorter of useful life of the asset or Lease term

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

Further to the introduction of IFRS 16 'Leases' which supersedes IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease' for accounting periods beginning on or after 1 January 2019 the Group has adopted the new standard from 1 April 2019 applying a modified retrospective approach.

When applying the modified retrospective approach the Group has recognised right of use assets and equal lease liabilities in the statement of financial position from the initial application date (1 April 2019).

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 2020 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**
	2020	**2019**	**2020**
	(unaudited)	**(unaudited)**	**(audited)**
	£ (000)	**£ (000)**	**£ (000)**
Revenue			
Software	1,861	2,088	5,460
Services	9,312	14,249	27,544
Total revenue	**11,173**	**16,337**	**33,004**
Underlying EBITDA			
Software	759	726	2,678
Services	769	775	2,262
Total segment underlying EBITDA	**1,528**	**1,501**	**4,940**
Group costs	(466)	(489)	(1,531)
Underlying EBITDA	**1,062**	**1,012**	**3,409**
Amortisation of intangibles	(1,429)	(1,082)	(2,418)
Depreciation of fixed assets	(178)	(143)	(316)
Share-based payments	(132)	(196)	(329)
Exceptional items	-	(796)	(678)
Fair value adjustment to deferred consideration	37	(21)	(69)
Contingent consideration	-	-	(309)
Finance income	2	5	8
Finance expense	(142)	(247)	(560)
Loss before tax	**(780)**	**(1,468)**	**(1,262)**

Whilst the majority of the Group's revenues come from customers in the United Kingdom, the Group supports a number of these customers globally through master service agreements. The geographical analysis below is on the basis of the country of origin in which the master agreement is held with the customer.

	Six-month period ended 30 September		Year ended 31 March
	2020 (unaudited) £ (000)	2019 (unaudited) £ (000)	2020 (audited) £ (000)
United Kingdom	7,166	10,461	21,443
Europe (excluding the UK)	3,192	4,778	8,841
North America	672	756	1,359
Rest of the world	143	342	1,361
	11,173	**16,337**	**33,004**

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 2020, no exceptional items have been recognised (30 September 2019: £0.8 million).

5. Finance expenses

	Six-month period ended 30 September		Year ended 31 March
	2020 (unaudited) £ (000)	2019 (unaudited) £ (000)	2020 (audited) £ (000)
Interest payable on loan balances	119	190	470
Interest payable on bank revolving credit facility	13	-	-
Interest payable on lease liabilities	10	11	20
Interest payable on invoice finance facility	-	46	70
	142	**247**	**560**

6. Income Tax

The tax expense recognised reflects managements' estimates of the tax charge for the period and has been calculated using the estimated average tax rate of UK corporation tax for the financial period of 19%.

7. 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 2020 and the six months ended 30 September 2019 as the Group is loss making.

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 and contingent consideration.

Adjusted earnings per share is potentially dilutive in the six months to 30 September 2020, six months to 30 September 2019 and for the 12 months to 31 March 2020.

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 2020 £ (000)	2019 £ (000)	Year ended 31 March 2020 £ (000)
Net loss from total operations			
Earnings for the purposes of basic and diluted earnings per share being net loss attributable to shareholders	(702)	(1,295)	(1,504)
Add/(remove)			
Amortisation of acquired intangibles	939	905	1,873
Share based payments	132	196	329
Exceptional items	-	700	609
Fair value adjustment to deferred consideration	(37)	21	69
Contingent consideration	-	-	309
Underlying earnings for the purpose of adjusted earnings per share	332	527	**1,685**
Number of shares	**No**	**No**	**No**
Weighted average number of ordinary shares for the purpose of basic and diluted and adjusted basic earnings per share	23,424,168	21,904,526	22,005,719
Weighted average number of ordinary shares for the purpose of adjusted diluted earnings per share	23,583,080	22,053,483	22,158,427
Earnings per share	**£**	**£**	**£**
Basic and diluted loss per share	(0.03)	(0.06)	(0.07)
Adjusted Basic and diluted earnings/(loss) per share	0.01	0.02	0.08

8. Trade and other receivables

	Period ended 30 September 2020 £ (000)	2019 (restated) £ (000)	Year ended 31 March 2020 £ (000)
Trade receivables (restated)	5,541	7,736	8,575
Prepayments and other receivables	2,337	1,503	1,458
Accrued income	458	1,867	472
VAT recoverable	-	128	-
	8,336	**11,234**	**10,505**

A prior year restatement of £1,307,000 is accounted for to remove trade receivables and deferred income in relation to amounts invoiced but not yet due at 30 September 2019 where the performance obligation had not yet commenced at that date. This restatement does not impact the statement of comprehensive income for the Group financial statements.

9. Trade and other payables

	Period ended 30 September		Year ended 31 March
	2020	2019 (restated)	2020
	£ (000)	£ (000)	£ (000)
Trade payables	6,145	5,224	6,093
Accruals and other payables	1,299	3,002	2,603
Deferred income (restated)	186	107	425
Other taxation and social security	843	1,538	844
Lease liabilities	216	197	280
Corporation tax	12	142	12
Loans	10	3,778	4,054
Deferred consideration	-	227	275
	8,711	**14,217**	**14,586**

A prior year restatement of £1,307,000 is accounted for to remove trade receivables and deferred income in relation to amounts invoiced but not yet due at 30 September 2019 where the performance obligation had not yet commenced at that date. This restatement does not impact the statement of comprehensive income for the Group financial statements.

10. Creditors: amounts falling due after more than one year

	Period ended 30 September		Year ended 31 March
	2020	2019 (restated)	2020
	£ (000)	£ (000)	£ (000)
Deferred tax	3,243	3,315	3,422
Loans	742	725	728
Lease liabilities	167	205	243
	4,152	**4,245**	**4,393**

11. Share capital

The table below details movements in share capital during the year:

	Six-month period ended 30 September	
In thousands of shares	**2020**	**2019**
In issue at 31 March	22,109	19,040
Options exercised during the period	-	-
Share issue as part of acquisition consideration	-	2,923
Share issue for deferred consideration	129	143
Share placing	1,563	-
In issue at 30 September	**23,801**	**22,106**

* Prior year comparisons have been restated to provide a like-for-like comparison.

	2020 £ (000)	2019 £ (000)
Allotted, called up and fully paid		
Ordinary shares of £0.10 each	22,276	22,106

The following issues of shares were undertaken in the six-month period ended 30 September 2020:

On 24 April 2020 the Group completed a 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.

On 18 September 2020 the Group issued 129,602 ordinary shares of 10 pence each in the capital of the Group to certain of the sellers of GeoLang Holdings Limited for shares held back at the time of the acquisition which have now been issued following the expiry of a two year warranty period, in accordance with the sale and purchase agreement for the acquisition.

12. Related party transaction

The Directors of the Group and their immediate relatives have an interest of 17% (H1 FY20: 18%) of the voting shares of the Group.

During the period the repayment of deferred completion cash (including interest) relating to the acquisition of Brookcourt Solutions Limited was repaid in full.

13. Events after the reporting date

There were no material events occurring post the reporting date.

14. 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.