25 November 2021

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

Results for the six months ended 30 September 2021

Enhanced margins across the Group and strong adjusted EBITDA growth

Shearwater Group plc, the organisational resilience group, is pleased to announce its unaudited results for the six months ended 30 September 2021.

Financial highlights:

- Adjusted EBITDA[1] of £1.3 million, an increase of 19% (H1 FY21: £1.1 million)
- Improved adjusted EBITDA margin of 12% (H1 FY21: 10%)
- Revenue of £10.6 million (H1 FY21: £11.2 million), driven by a number of contracts moving into the second half
- Net cash of £4.4 million as at 30 September 2021, after increased investment expenditure during the period and settling £1.1 million VAT relating to the Covid-19 VAT deferral scheme introduced by the Government

Business highlights:

- Advisory revenues significantly ahead of the same period in the prior year, with enquiries back to pre-Covid levels. Pentesting now better understood as a compliance requirement
- Increased Software revenues, with more features and new innovations now providing a springboard for further growth from our end customer base of over 1,000
- R&D expenditure increased 67% to £421k as the push for organic growth gains momentum
- c.50% of revenues have already been identified for our second half, of which c.90% comes from long term clients
- Post period end, the final outstanding deferred consideration loan balance was repaid ahead of schedule, leaving the Balance Sheet debt free with c.£4 million net cash and substantial undrawn bank facilities
- Confident outlook with the Group trading in line with the market's EBITDA expectations for the full year

[1]Adjusted 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, other income, depreciation and amortisation

Phil Higgins, Chief Executive Officer of Shearwater Group PLC, commented:

"We have seen both our divisions grow profits in the period under review with growth in our Software sales and a strong rebound in advisory business. The increasing quality of our earnings coupled with investment in our subsidiaries, enabled by our strong cash position, gives us confidence in the outcome for the full year, especially with c.50% of second half revenues identified."

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About Shearwater Group plc

Shearwater Group plc is an award-winning group providing cyber security, managed security and professional advisory solutions to help create a safer online environment for organisations and their end users.

The Group's differentiated full service offering spans identity and access management and data security, cybersecurity solutions and managed security services, and security governance, risk and compliance. Its growth strategy is focused on building a scalable group that caters to the entire spectrum of cyber security and managed security needs, through a focused buy and build approach.

The Group is headquartered in the UK, serving customers across the globe across 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

It has been another positive period for the Group as we continued to develop the business, winning 90 net new clients, drove further cross-selling and secured major renewals with key customers.

Most pleasingly both divisions delivered an enhanced margin, reflecting our ever-improving quality of earnings, which drove significant adjusted EBITDA growth of 19% in the period to £1.3m (H1 FY21: £1.1m).

Whilst revenue was slightly below the prior year at £10.6m (H1 FY21: £11.2m) we were pleased to see growth in our Software division and a strong rebound in advisory business. Meanwhile, the majority of the Group's managed service sales are anticipated to be weighted towards the final quarter of the year when organisations often finalise their annual budgets. As we move into our traditionally busier period we have good visibility with c. 50% of H2 revenues identified from existing contract renewals. In addition to this, a healthy pipeline of new business opportunities exists with both new and existing clients within what remains a buoyant cyber-security market.

Looking to the second half and beyond, the opportunity exists to:

- maintain and increase recurring revenue from our Software division (currently 80% recurring)
- upsell additional Software modules or products to existing customers
- grow the proportion of revenue which is re-occurring (contracted or with renewal opportunities) in our Services division
- cross-sell Software products into our existing blue-chip Services division clients
- attract new clients to our continuously expanding portfolio of products and services

Looking forward, the Group has visibility on an increasing amount of identified renewal opportunities from existing clients as the gradual shift away from appliance-based computing to software-based solutions creating additional renewal opportunities. In excess of £15.5m has already been identified for FY23 and the company would hope that this will grow in excess 15% per annum in the periods thereafter.

As at 30 September 2021 we had a net cash balance of £4.4m (30 September 2020: £3.0m) following the repayment of £1.1m of VAT deferrals during the period (£0.2m remaining). We also repaid £0.3m of outstanding legacy loan liabilities over the period and a further £0.5m post-period end, leaving the business now debt-free. We continue to forecast cash generation in H2 leading to a robust year end net cash position in line with expectations. The Group also continues to benefit from an undrawn revolving facility of £4.0m.

Growth strategy

With Covid-19 restrictions easing and vaccination programmes progressing, we are focused on executing our M&A strategy and, being cognisant of further dilution at the current share price levels, are pleased to also have the option to finance acquisitions via cash reserves and bank debt available to us if required. We are currently assessing potential targets of a variety of sizes which are in line with our strategy of either enhancing our Software division or adding scale to our Services division.

As communicated in the full year results statement, we are hiring across all Group businesses, with a budgeted plan to increase headcount in both sales and technical roles to support long-term growth. Whilst we are not immune to the labour shortage challenges which have been widely publicised across many industries, we continue to focus on hiring to support long term growth.

Current trading and outlook

Trading in Q3 has started positively with the Group continuing to deliver enhanced profitability across both divisions. We also continue to see a conversion from the sale of appliance-based computing into more lucrative software and subscription-based sales.

The risks that organisations face in the digital world continue to increase, with the NCSC reporting their offering of support to 777 significant incidents[2], up from 723 the previous year. Hybrid working, technological advancements including 5G and a more widespread use of the cloud, as well as the continued evolution of corporate compliance all present new security risks for businesses and present a great opportunity for Shearwater.

We have a strong reputation in our industry, a strong financial position and a clear strategy for growth.

We look forward to executing further on that strategy in H2 and building the business towards our vision of becoming the provider of choice delivering next generation technology, professional advisory, and cyber security services and solutions.

Operational review

Our Group comprises of two divisions, Software (18% revenue, 50% operating profit) and Services (82% revenue, 50% operating profit). 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 will continue to build our international reach. We are in the process of opening a new location in the Netherlands to satisfy client demand and in order to be able to capitalise on future opportunities with enterprise clients based in the region.

Our Group offering is made up of managed services and warranties, security solutions, software licences (from owned IP) and advisory & engineering. Over time we continue to look to replace lower margin activities with more profitable activities, leading to increased margins and improved future visibility of our earnings.

Key strengths include our very strong client relationships (61% of clients have been serviced by the Group for three years or longer), our inclusion in critical networks and the quality of our offering, as reflected in the 11 industry award nominations Shearwater received in H1 alone.

KPI Review

The Group tracks its progress against a number of KPIs, as recorded below:

- 90 new customer wins in the period (30 September 2020: 62)
- New software revenue of £0.4m (30 September 2020: £0.5m)
- Reported repeatable revenues represent c. 50% of total revenues
- Whilst early in development, 2% of revenues are now generated through cross-selling (2020: 0.27%) with an element of this being repeatable in nature

Divisional review

Software
Our Software division performed well, with revenue up 1% on H1 last year. Further growth is anticipated in the second half, which is expected to be driven by the upsell of our enhanced product sets to new and existing clients. Renewal rates for Software customers remain stable at c.80%.

The division has delivered an improved EBITDA margin of 48% (2020: 41%) generating an adjusted EBITDA of £0.9m (2020: £0.8m), 20% ahead of the prior period.

Software

	H1 FY22 £ (000)	H1 FY21 £ (000)	YOY %
Revenue	**1,887**	**1,861**	**1%**
Gross profit	1,462	1,441	**1%**
Gross profit margin %	77%	77%	**-%**
Overheads	552	682	**19%**
Adjusted EBITDA	**910**	**759**	**20%**
Adjusted EBITDA %	48%	41%	7%

As previously communicated, our Software division is working towards becoming a leading Security-as-a-Service converged platform provider - a 'one stop shop' for all an organisation's Access Management needs (forecast by Gartner to grow to a US$9.2bn industry globally by 2025).

Progress made towards this ambition in the first half includes the continued enhancement to our cloud offerings. We have also had good success selling a new software product (which secures open-platform technology) into a major financial institution. This product has therefore proven its value in this vertical and generated significant new business leads with similar organisations.

Services

Our Services division delivered revenue of £8.7m in the first six months, driven by strong growth in advisory revenues, offset by a number of contracts which have moved into the second half.

Margins increased to 10% (2020: 8%), leading to an adjusted EBITDA performance of £0.9m (2020: £0.8m).

Services

	H1 FY22 £ (000)	H1 FY21 £ (000)	YOY %
Revenue	**8,689**	**9,312**	**(7%)**
Gross profit	2,639	2,257	**17%**
Gross profit margin %	30%	24%	**6%**
Overheads	1,735	1,488	**(17%)**
Adjusted EBITDA	**905**	**769**	**18%**
Adjusted EBITDA %	10%	8%	2%

We are pleased that our professional advisory businesses have returned to pre-pandemic levels of activity, with utilisation rates significantly improved from the prior year as demand for advisory services continues to grow.

Significant contract renewals concluded in the period included a $1 million contract with a global technology corporation by Pentest and a significant contract renewal with a leading British telecommunications and media company by Brookcourt Solutions.

[2]National Cyber Security Centre Annual Review 2021

Finance review

Financial performance

Revenue
Revenues of £10.6 million (H1 FY20: £11.2 million) reflects a small year-on-year deficit which is driven by some timing of renewal opportunities within Services division detailed below.

Whilst the Group's Services division has witnessed increased demand for its advisory services which has led to a healthy year-on-year improvement in advisory revenues in the period, there has been some timing impact on security solutions as well as managed services and warranties revenues. It is however encouraging to see a healthy pipeline of renewal opportunities in H2 which provides the opportunity to recover the H1 deficit.

The Group's Software division has delivered a marginal year-on-year improvement, benefitting from c. 40 new clients. During the period renewal rates have been maintained at c. 80% and as we go into H2 the addition of new products/modules provides an opportunity to drive incremental revenue growth with both new and existing customers.

Adjusted EBITDA
The Group delivered enhanced adjusted profitability in H1 generating adjusted EBITDA of £1.3m, 19% ahead of the prior period with both divisions reporting improved year-on-year profitability which contributed to an improved adjusted EBITDA margin for the Group of 12% (30 September 2020: 10%). Additional overhead costs of £0.2m reflect investments, into infrastructure and marketing, as well as one off savings made in the prior year.

The income statement below details both statutory and alternative measures which, in the Directors' opinion provides additional relevant information to the reader in assessing the adjusted performance of the business.

	2021 £ (000)	2020 £ (000)	Change %
Revenue	**10,576**	**11,173**	(5%)
Gross profit	4,101	3,697	11%
Gross profit margin %	*39%*	*33%*	
Overheads	2,840	2,635	(8%)
Adjusted EBITDA	**1,261**	**1,062**	**19%**
Adjusted EBITDA margin %	*12%*	*10%*	
Finance charge	56	140	
Depreciation	136	178	
Amortisation of intangible assets - computer software	526	379	
Adjusted profit before tax	**543**	**365**	**49%**
Amortisation of acquired intangible assets	1,050	1,050	
Other income	20	-	
Fair value adjustment for deferred consideration	-	(37)	
Share based payments	31	132	
Loss before tax	**(518)**	**(780)**	**34%**
Taxation (credit)/charge	(138)	(78)	
Loss after tax	**(380)**	**(702)**	**46%**

Finance charges
A year-on-year reduction in Finance charges reflect a material reduction in loan liabilities held by the Group following the repayment of loan liabilities in the prior period. During the period the Group settled in full one of the remaining two loans liabilities, twelve months early, generating additional interest savings.

Depreciation
A year-on-year reduction in the depreciation of right of use assets relating to office space recognises some consolidation of office space.

Amortisation of intangibles assets – computer software
An increased amortisation charge in the period incorporates the amortisation of internally developed products for our software division which have gone live.

Adjusted profit before tax
Adjusted profit before tax of £0.5m (H1 FY21: £0.4m) is 49% ahead of the prior period and in addition to the improved adjusted EBITDA incorporates the savings in finance charges and depreciation less the increase in amortisation of computer software intangible assets which is detailed above.

Amortisation of acquired intangible assets
Amortisation of acquired intangible assets of £1.1m (H1 FY21: £1.1m) is in line with the previous year.

Other income
Other income consist of the early repayment discount made relating to a £0.3m loan liability which was repaid in April 2021.

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 which was settled in full in the previous fiscal period.

Share based payments
A charge of £0.03million (H1 FY20: £0.1 million) has been incurred in relation to long-term incentive plans.

Earnings per share
Adjusted basic and diluted earnings per share of £0.02 (H1 FY21: £0.01) incorporates the positive year-on-year improvement in adjusted profit before tax which has been driven by improved profitability from trading. Reported basic and diluted loss per share of £0.02 (H1 FY21: loss per share £0.03) represents a continued year-on-year improvement.

Loss before tax
A reduced loss before tax in the period of £0.5million (2020: £0.8m) recognises the year-on-year improvement in adjusted profit before tax and savings in share-based payments recognised in the period.

Statement of Cash flow
Following two years of strong cash flow where the Group delivered strong adjusted cash conversion (FY21 143% and FY20 165%), the Group has experienced some unwinding of its working capital which has contributed to a cash outflow in the period. In addition to these working capital movements, there were a number of other adjusting items which are detailed below the summarised cash flow statement below which resulted in a cash outflow in H1:

	2021 £ (000)	2020 £ (000)
Adjusted EBITDA	**1,261**	**1,062**
Movements in working capital	(3,523)	677
Cash used / generated from operations	**(2,262)**	**1,739**
Adjusted cash used / generated from operations	(876)	1,245
Adjusting items	(1,386)	494
Cash used / generated from operations	**(2,262)**	**1,739**
Capital expenditure (net of disposal proceeds)	(433)	(284)
Tax paid	(31)	-
Interest paid	(35)	(12)
Payments of lease liabilities	(112)	(149)
Proceeds from issue of share capital	-	3,750
Loan repayments	(250)	(4,151)
FX and other	(3)	(469)
Movement in cash	**(3,126)**	**424**
Opening cash and cash equivalents	8,049	3,343
Closing cash and cash equivalents	**4,923**	**3,767**
Loans	(520)	(752)
Net cash / (debt)	**4,403**	**3,015**

Adjusting items	2021 £ (000)	2020 £ (000)
Repayment of deferred VAT liability	(1,120)	494
VAT prepayment	(191)	-
Other specific new external investment	(75)	-
Adjusting items	**(1,386)**	**494**

In addition to the adjusting items highlighted above, during the period the Group has increased its investment into internal development of its software products and repaid loan liabilities in advance of their contracted repayment date. The resulting savings from the early repayment of loan liabilities in the period and post the period end are expected to generate savings in excess of £0.1m this year.

Despite the operating cash outflow in H1 the Group continued to collect cash in an efficient manner, maintaining strong cash collection with minimal bad debts.

Events after the balance sheet date

On 15 October 2021, the Group settled the remaining loan balance held with Secarma Limited (contracted repayment date was 9 April 2022) securing an early repayment discount of £50,000 plus any future interest. Following the repayment, the Group has no loan liabilities outstanding.

The Group's clean balance sheet, (including an undrawn revolving credit facility) puts the Group in a healthy position as it looks to execute on the next phases of its growth strategy.

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 adjusted 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 adjusted performance of the business.
Alternative performance measures used include:

- Adjusted EBITDA
- Adjusted profit before tax
- Adjusted 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.

Other income generated from early repayments discounts for loan liabilities is one off in its nature and therefore not a consistent income stream.

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 FY22 £ (000)**	**H1 FY21 £ (000)**
Adjusted EBITDA	1,261	1,062
Share based payments charge	(31)	(132)
Fair value adjustment for deferred consideration	-	37
EBITDA	**1,230**	**967**

Six months to 30 September	**H1 FY22 £ (000)**	**H1 FY21 £ (000)**
Adjusted profit before tax	543	365
Acquisition amortisation	(1,050)	(1,050)
Share based payments charges	(31)	(132)
Other income	20	-
Fair value adjustment for deferred consideration	-	37
Reported loss before tax	**(518)**	**(780)**

Six months to 30 September	**H1 FY22 £ (000)**	**H1 FY21 £ (000)**
Adjusted profit after tax	570	332
Acquisition amortisation	(939)	(939)
Share based payments charge	(31)	(132)
Other income	20	-
Fair value adjustment for deferred consideration	-	37
Reported loss after tax	**(380)**	**(702)**

Six months to 30 September	**H1 FY22 £ (000)**	**H1 FY21 £ (000)**
Adjusted EPS	0.02	0.01
Acquisition amortisation	(0.04)	(0.04)
Share based payments charge	(0.00)	(0.01)
Other income	0.00	0.00
Fair value adjustment for deferred consideration	0.00	0.00
Reported EPS	**(0.02)**	**(0.03)**

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 2021, 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	Paul McFadden
Chief Executive Officer	Chief Financial Officer

Consolidated statement of comprehensive income
for the 6 months to 30 September 2021

	Note	2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
Revenue	3	**10,576**	**11,173**
Cost of sales		(6,475)	(7,476)
Gross profit		**4,101**	**3,697**
Administrative expenses		(2,871)	(2,767)
Depreciation and amortisation		(1,712)	(1,607)
Other operating expenses/income		20	37
Total operating costs		**(4,563)**	**(4,337)**
Operating loss		**(462)**	**(640)**
Adjusted EBITDA		**1,261**	**1,062**
Depreciation and amortisation		(1,712)	(1,607)
Exceptional items		-	-
Share-based payments		(31)	(132)
Other operating expenses/income		20	37
Operating loss		**(462)**	**(640)**
Finance income		-	2
Finance cost	4	(56)	(142)
Loss before taxation		**(518)**	**(780)**
Income tax credit	5	138	78
Loss for the period and attributable to equity holders of the Company		**(380)**	**(702)**

Other comprehensive income

	Note	2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
Items that may be reclassified to profit and loss:			
Change in financial assets at fair value through OCI		-	-
Exchange differences on translation of foreign operations		1	(2)
Total comprehensive loss for the period		**(379)**	**(704)**
Earnings / (loss) per ordinary share attributable to the owners of the parent			
Basic and diluted (£ per share)	6	(0.02)	(0.03)
Adjusted basic and diluted (£ per share)	6	0.02	0.01

Adjusted EBITDA is a non-GAAP company specific measure which is considered to be a key performance indicator of the Group's financial performance.

The results above are derived from continuing operations.

Consolidated statement of financial position
as at 30 September 2021

	Note	2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
Assets			
Non-current assets			
Intangible assets		53,461	55,590
Property, plant and equipment		281	546
Deferred tax asset		-	87
Total non-current assets		**53,742**	**56,223**
Current assets			
Trade and other receivables	7	5,580	8,336
Cash and cash equivalents		4,923	3,767
Total current assets		**10,503**	**12,103**
Total assets		**64,245**	**68,326**
Liabilities			
Current liabilities			
Trade and other payables	8	5,153	8,711
Total current liabilities		**5,153**	**8,711**
Non-current liabilities			
Creditors: amounts falling due after more than one year	9	2,952	4,152
Total non-current liabilities		**2,952**	**4,152**
Total liabilities		**8,105**	**12,863**
Net assets		**56,140**	**55,463**
Capital and reserves			
Share capital	10	22,277	22,276
Share premium		34,581	34,581
FVTOCI reserve		14	14
Other reserves		24,407	24,198
Translation reserve		25	25
Accumulated losses		(25,164)	(25,631)
Equity attributable to owners of the Company		**56,140**	**55,463**
Total equity and liabilities		**64,245**	**68,326**

Consolidated statement of changes in equity
for the 6 months to 30 September 2021

	Share capital (Note 10) £ (000)	Share premium £ (000)	FVTOCI reserve £ (000)	Other reserves £ (000)	Translation reserve £ (000)	Accumulated losses £ (000)	Total equity £ (000)
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**
Profit for the period	-	-	-	-	-	847	847
Other comprehensive loss for the period	-	-	-	-	(1)	-	(1)
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(1)**	**847**	**846**
Contribution by and distribution to owners							
Issue of share capital	1	-	-	(1)	-	-	-
Share based payments	-	-	-	179	-	-	179
At 31 March 2021 (audited)	**22,277**	**34,581**	**14**	**24,376**	**24**	**(24,784)**	**56,488**
Loss for the period	-	-	-	-	-	(380)	(380)
Other comprehensive loss for the period	-	-	-	-	1	-	1
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**1**	**(380)**	**(379)**
Contribution by and distribution to owners							
Issue of share capital	-	-	-	-	-	-	-
Merger relief reserve	-	-	-	-	-	-	-
Share based payments	-	-	-	31	-	-	31
At 30 September 2021 (unaudited)	**22,277**	**34,581**	**14**	**24,407**	**25**	**(25,164)**	**56,140**

Consolidated cash flow statement
for the 6 months to 30 September 2021

	Note	2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
Cash flows from operating activities			
Loss for the period		(380)	(702)
Adjustments for:			
Amortisation of intangible assets		1,576	1,429
Depreciation of property, plant and equipment		136	178
Share-based payment charge		31	132
Other income		(20)	-
Fair value adjustment of deferred consideration		-	(37)
Finance income		-	(2)
Finance cost		56	142
Income tax		(138)	(78)
Cash flow from operating activities before changes in working capital		**1,261**	**1,062**
Decrease/(increase) in trade and other receivables		4,031	1,983
(Decrease)/increase in trade and other payables		(7,554)	(1,306)
Cash used / generated from operations		**(2,262)**	**1,739**
Net foreign exchange movements		(3)	(3)
Finance cost paid		(35)	(12)
Tax (paid) / credit		(31)	-
Net cash used / generated from operating activities		**(2,331)**	**1,724**
Investing activities			
Purchase of property, plant and machinery		(12)	(32)
Purchase of software		(421)	(252)
Net cash used in investing activities		**(433)**	**(284)**
Financing activities			
Proceeds from issue of share capital		-	3,750
Repayment of loan liabilities		(250)	(4,151)
Expenses paid in connection with share issues		-	(466)
Repayment of lease liabilities		(112)	(149)
Net cash used in financing activities		**(362)**	**(1,016)**
Net increase/(decrease) in cash and cash equivalents		**(3,126)**	**424**
Foreign exchange movement on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the period		8,049	3,343
Cash and cash equivalents at the end of the period		**4,923**	**3,767**

Notes

1. General information

The interim consolidated financial information was authorised by the board of directors for issue on 25 November 2021. The information for the six-month period ended 30 September 2021 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 2021, which have been prepared in accordance with International Financial Reporting Standards (IFRS). 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'), including International Accounting Standards (IAS) and interpretations (IFRS ICs) issued by the International Accounting Standards board (IASB) and its committees, as adopted in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 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 and its exposure to credit and liquidity risks.

In addition to this the Directors continue to monitor the evolution of the COVID19 pandemic and have taken steps to ensure that the Group is in a robust position should any future trading downturn occur. Throughout the COVID19 pandemic the Group has demonstrated its ability to trade through challenging conditions, and it is encouraging to now see our advisory businesses, which were particularly impacted by the initially lockdown now delivering improved results through a hybrid delivery model.

The Group has recorded improved year-on-year adjusted EBITDA profit for the first six months to 30 September 2021, which is in line with its budgeted target. At 30 September 2021 the Group had cash and cash equivalents of £4.9m (H1 FY21: £3.8m) and whilst H1 has seen a cash outflow owing to some unwinding of working capital, in addition to increased investment spend, the repayment of deferred VAT and loan liabilities the Group is in an improved year-on-year net cash position of £4.4m (H1 FY21: £3.0m). At 30 September 2021 net assets of £56.1m (H1 FY21: £55.5m) and net current assets of £5.4m (H1 FY21: net current liabilities £3.4m) show favourable year-on-year positions.

The Group has a £4.0 million 3-year revolving credit facility with Barclays Bank plc, signed on the 25 March 2021 which can provide working capital support if required. To date this facility remains un-utilised.

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 2023 and have challenged the assumptions used to create these forecasts. This forecast demonstrates that the Group is able to pay its debts as they fall due during this period.

The Directors have reviewed a highly sensitised reverse stress test scenario which has factored in what the Directors believe would be an extreme scenario which incorporates 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 2023.

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. In determining the fair value of intangible assets acquired, key assumptions used include expected future cashflows, growth rates and the weighted average cost of capital.

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.

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.

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.

The Group’s revenues are comprised of a number of different products and services across our two divisions, details of which are provided 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 software products 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 80% of the subscription is recognised at the point that the licence key is provided to the customer with the remaining 20% recognised evenly over the length of the contract. This deferred proportion represents the obligation to maintain and support the platform that the software runs on.

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 adjusted 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 “adjusted 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) 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	2-5 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.

j) 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.

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 2021 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			
	2021 Revenue (unaudited) £ (000)	2021 Profit (unaudited) £ (000)	2020 Revenue (unaudited) £ (000)	2020 Profit (unaudited) £ (000)
Services	8,689	905	9,312	769
Software	1,887	910	1,861	759
Group total	**10,576**	**1,815**	**11,173**	**1,528**
Group costs		(554)		(466)
Adjusted EBITDA		**1,261**		**1,062**
Amortisation of intangibles		(1,576)		(1,429)
Depreciation		(136)		(178)
Share-based payments		(31)		(132)
Other income		20		-
Fair value adjustment to deferred consideration		-		37
Finance income		-		2
Finance cost		(56)		(142)
Loss before tax		**(518)**		**(780)**

The Group is domiciled in the United Kingdom and currently the majority of its revenues come from external customers that are transacted in the United Kingdom. A number of transactions which are transacted from the United Kingdom represent global framework agreements, meaning our services, whilst transacted in the United Kingdom, are delivered globally. The geographical analysis of revenue detailed below is on the basis of country of origin in which the master agreement is held with the customer (where the sale is transacted).

	Six-month period ended 30 September	
	2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
United Kingdom	7,698	7,166
Europe (excluding the UK)	1,964	3,192
North America	550	672
Rest of the world	364	143
	10,576	**11,173**

4. Finance expenses

	Six-month period ended 30 September	
	2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
Interest payable on loan balances	15	119
Interest payable on bank revolving credit facility	35	13
Interest payable on lease liabilities	6	10
	56	**142**

5. 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%.

6. 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 2021 and the six months ended 30 September 2020 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 2021, six months to 30 September 2020 and for the 12 months to 31 March 2021.

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	
	2021	**2020**
	(unaudited)	**(unaudited)**
	£ (000)	**£ (000)**
Net profit / loss from total operations		
Earnings for the purposes of basic and diluted earnings / loss per share being net loss attributable to shareholders	(380)	(702)
Add/(remove)		
Amortisation of acquired intangibles	939	939
Share based payments	31	132
Other income	(20)	-
Fair value adjustment to deferred consideration	-	(37)
Adjusted earnings for the purpose of adjusted earnings per share	570	332
Number of shares	**No**	**No**
Weighted average number of ordinary shares for the purpose of basic and diluted and adjusted basic earnings per share	23,809,739	23,424,168
Weighted average number of ordinary shares for the purpose of adjusted diluted earnings per share	23,954,771	23,583,080
Earnings per share	**£**	**£**
Basic and diluted loss per share	(0.02)	(0.03)
Adjusted Basic and diluted earnings per share	0.02	0.01

7. Trade and other receivables

	Period ended 30 September	
	2020	**2020**
	(unaudited)	**(unaudited)**
	£ (000)	**£ (000)**
Trade receivables	4,798	5,541
Prepayments and other receivables	410	2,337
Accrued income	372	458
	5,580	**8,336**

8. Trade and other payables

	Period ended 30 September	
	2021	**2020**
	(unaudited)	**(unaudited)**
	£ (000)	**£ (000)**
Trade payables	2,027	6,145
Accruals and other payables	1,480	1,299
Other taxation and social security	637	843
Loans	520	10
Deferred income	295	186
Lease liabilities	158	216
Corporation tax	36	12
	5,153	**8,711**

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

	Period ended 30 September 2021 (unaudited) £ (000)	2020 (unaudited) £ (000)
Deferred tax	2,927	3,243
Loans	-	742
Lease liabilities	25	167
	2,952	**4,152**

10. Share capital

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

In thousands of shares	Six-month period ended 30 September 2021	2020
In issue at 31 March	23,810	22,109
Options exercised during the period	-	-
Share issue as part of acquisition consideration	-	-
Share issue for deferred consideration	-	129
Share placing	-	1,563
In issue at 30 September	**23,810**	**23,801**

	2021 £ (000)	2020 £ (000)
Allotted, called up and fully paid		
Ordinary shares of £0.10 each	2,381	2,380
Deferred shares of £0.90 each	19,896	19,896
	22,277	**22,276**

The Company did not issue any shares in the six-month period ended 30 September 2021.

11. Related party transaction

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

12. Events after the reporting date

On 15 October 2021, the Group settled the remaining loan balance held with Secarma Limited early (contracted repayment date was 9 April 2022) securing an early repayment discount of £50,000 plus any future interest.

At 30 September 2021 Secarma Limited held a 12.3% stake in the Group.

13. 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.