FOR IMMEDIATE RELEASE **21 September 2022**

PENNANT INTERNATIONAL GROUP PLC

Interim Results for the six months ended 30 June 2022

Return to positive EBITA; business mix transformed; significant gross margin improvement

Pennant International Group plc (AIM: PEN) ("**Pennant**", the "**Group**" or "**Company**"), a leading global provider of training technology and integrated product support solutions, announces its Interim Results for the six months ended 30 June 2022 (the "**First Half**", the "**Period**", or "**H1 2022**").

Commenting on the results, Chairman John Ponsonby said:

"I am pleased to report that the Period saw the Group return to positive earnings before interest, taxation and amortisation as gross margin significantly improved and costs remained under tight control."

"As a result of management's continued efforts to deliver the Group's strategy, we now have a leaner, more streamlined organisation, with an increasing proportion of recurring revenues from software and services, providing greater forward visibility and a solid platform from which to grow the business and enhance shareholder value."

Key points: Financial

- Group revenues for the Period of £6.9 million (H1 2021: £7.4 million) of which circa 65% were recurring (H1 2021: 53% recurring);
- 52% of revenues generated from software licensing and associated activities (H1 2021: 35%);
- Gross margin doubles to 41% (H1 2021: 21%);
- EBITA profit of £0.1 million (H1 2021: EBITA loss of £1.0 million);
- EBITDA profit of £0.4 million (H1 2021: EBITDA loss of £0.7 million);
- Loss before tax of £0.8 million (H1 2021: loss before tax of £1.7 million);
- Net debt at Period end of £4.1 million (H1 2021: net debt of £1.9 million);
- Trade and other receivables due at Period end of £5.1 million (H1 2021: £3.7 million);
- Basic loss of (2.21)p per share (H1 2021: basic loss per share of (4.64)p per share);
- Unrelieved tax losses of £6.7 million carried forward (H1 2021: £4.5 million carried forward);
- Three-year order book at Period end stood at £27 million (H1 2021: £26 million).

Key points: Operational

- Secured the 'Major Programme' a contract from Boeing Defence UK Limited for the upgrade of Apache training equipment, worth £8.8 million over three years.
- Following contract award, successfully passed the initial engineering milestone event on the Apache upgrade programme.
- Factory acceptance achieved on the UK Helicopter programme (overall contract value: £3.5 million), with the training device delivered to the end user's site post Period end.
- A second software and services order secured in the commercial aerospace sector (overall order value: USD$1.7 million), a key target market for the Group's IPS business line.

- Development work completed on prototype simulator for rail infrastructure organisation which is intended to be rolled out to numerous sites in the future.

Post Period end highlights:

- First 'Launch Partner' to participate in programme of testing and product promotion for new GenS product signed in Australasia.
- Circa £1 million of orders for software and equipment upgrades received across July and August, taking orders received during 2022 to approximately £12 million.
- GD MTE programme almost complete – all four devices have been built and achieved factory acceptance – and will be finished before year-end.
- Surplus freehold site (Pennant Court) sold in August for £2.1 million with proceeds used to paydown borrowings (reduced to £2 million as at 20 September 2022).

Commenting on the Group's prospects, John Ponsonby added:

"We are securing new customers for our IPS software and services lines in important adjacent sectors including commercial aerospace, while at the same time gearing up for the launch of the new GenS software suite next year."

"Furthermore, with the prevailing global security situation, we are seeing real signs that defence procurement programmes are unlocking in our key regions, with several new opportunities already being pursued."

"With a stable contracted order book, good forward visibility of revenues over the next three years, and a leaner, optimised organisational structure, the Board is confident about the Group's future prospects."

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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Pennant International Group plc

Interim Report for the six months ended 30 June 2022

Chairman's Statement

Results and dividend

On behalf of the Board of Directors, I can report that the Group recorded revenues for the Period of £6.9 million which were lower than the equivalent period in 2021 (H1 2021: £7.4 million) as the GD MTE entered its final stages and with the Apache programme yet to ramp up.

Encouragingly, EBITA was positive, at £0.1 million, which represents a substantial improvement over the EBITA loss of £1.0 million recorded for the comparable period in 2021. This turnaround is a result of sustained administrative cost savings implemented in earlier periods combined with a much-improved gross margin.

The gross profit margin for the Period increased to 41% (H1 2021: 21%) due to the improved sales mix, comprising software licensing income and consultancy fees and taking into account the much-reduced impact from the GD MTE programme.

This resulted in a significantly reduced pre-tax loss for the Period of £0.8 million which compares with a pre-tax loss of £1.7 million in H1 2021.

Administrative costs for the Period were £3.6 million (H1 2021: £3.2 million), with the increase being associated with inflationary cost pressures and an increased amortisation charge in the period arising from an increased software intangible asset (predominantly the GenS development programme).

At the Period-end net debt stood at £4.1 million (H1 2021: net debt of £1.9 million), reflecting significant cash outflows as various programmes entered their final stages during the First Half, but with reduced borrowings expected throughout the second half following the sale of Pennant Court and as invoices are raised and paid.

Total assets at the Period end were £21.9 million (H1 2021: £20.6 million).

The basic loss per share for the Half Year was (2.21)p compared to a loss of (4.64)p for the same period last year.

A minimal effective tax rate is expected for the full year due to unrelieved tax losses of £6.7 million which have been carried forward at the Half Year (H1 2021: £4.5 million) and with R&D tax credit claims in progress.

The Group's three-year order book increased during the Period, closing at £27 million (H1 2021: £26 million) and is scheduled for delivery as follows: £6.3 million in H2 2022, £12.2 million in 2023, £6.8 million in 2024 and the balance in H1 2025. The net increase in the order book (which stood at £22 million at 31 December 2021) is largely attributable to the award of the Apache contract during the Period.

The Directors have concluded that it continues to be in the best interests of the Company and its shareholders to retain cash at this time for expected working capital requirements. The Board will therefore not be declaring an interim dividend but will continue to review the Group's dividend policy based on performance, cash generation and working capital and investment requirements.

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

Board Appointment

I am pleased to report that Michael Brinson has been appointed as the Group's Chief Financial Officer, an executive director position, with effect from 1 January 2023.

Mr Brinson, a chartered management accountant and currently the Group's Director of Finance (a non-Board role), joined the Group in 2020 from Leonardo Helicopters, where he was a senior executive within the company's UK finance team. Since joining Pennant, he has been instrumental in re-organising the Group's global financial operations, hugely improving management information and forecasting, and providing strategic direction on finance matters across the Group.

In accordance with Schedule 2(g) of the AIM Rules, Mr Michael John Brinson, aged 35, holds or has held in the past five years the following directorships and partnerships:

Current directorships	Directorships within last five years
-	Leonardo Futureplanner (Trustee) Ltd

There is no further information required to be disclosed in respect of the above appointment pursuant to Rule 17 and Schedule 2 (g) of the AIM Rules for Companies.

Operational Commentary

During the Period, management implemented a re-structuring of the Group's operations into three key regions, comprising: UK & Europe; North America; Australasia. The purpose of this change is to better implement the Group's objective of delivering the full spectrum of its products and services in each territory and moving away from particular business lines being centred on certain regions, thereby enabling the overall business to grow.

Each region made a significant contribution during the Period as follows:

Revenue by Region	£ m
UK & Europe	2.7
North America	2.4
Australasia	1.8
Total	**6.9**

A key strategic focus for management is to continue to increase the proportion of the Group's revenues which derive from software and related activities. For the first time in a reported period, these activities comprised a majority (52%) of Group turnover as set out in the table below. Across the board, circa 65% of revenues during the Period were of a recurring nature.

Revenue by business line	Non-recurring	Recur-ring	Total (£ m)
Engineered-to-order (Technical Training)	1.4	-	1.4
Generic Products (Technical Training)	0.4	-	0.4
Technical Services (Technical Training)	-	1.5	1.5
Software Licences (IPS)	0.6	-	0.6
Software Maintenance (IPS)	-	0.8	0.8
Software Services (IPS)	-	2.2	2.2
Total	**2.4**	**4.5**	**6.9**

Commentary is provided on each business line (IPS and Technical Training) below.

<u>Integrated Product Support (IPS)</u>

The Group's IPS business line centres on Pennant's two proprietary software product suites, OmegaPS and R4i. OmegaPS is a sophisticated logistics data tool; R4i provides its users with a dynamic, S1000D-compliant technical documentation solution.

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

The Period saw continued demand for these products and related consultancy, with a second commercial aerospace customer secured and further pipeline opportunities identified for that sector together with private space exploration and electric engines.

Product Investment

Capital investment continued in the OmegaPS successor product, 'GenS' to realise the vision of a cutting-edge, end-to-end solution for customers' data and documentation needs.

GenS represents the next generation of Logistics Support Analysis/Logistics Product Data technology, with a modern, easy-to-use interface and functionality, deployable 'on premise' or as a software as a service. GenS, when combined with the R4i S1000D Technical Publishing suite will transform customers' Integrated Product Support capabilities into a truly integrated digital capability and reduce programme delivery costs.

During the Period, various potential 'launch partners' were approached to participate in a programme of testing and product promotion for GenS. The first such partnership was signed shortly after Period-end with a major OEM in Australasia.

Looking Forward

The IPS sales pipeline is strong (currently assessed in excess of £20 million) and the Group expects the acquisition of new customers to continue during the second half and beyond, with multiple opportunities in the United States, Canada and Australia. As the new regional operational model takes effect, increasing IPS opportunities in the UK and Europe is a top priority.

Technical Training

The Technical Training business line focuses on the design and build of generic and platform-specific training technologies and the provision of related technical and support services for the defence, aerospace, rail and other safety critical industries.

The Period saw good progress on the Group's systems engineering contracts:

- Apache upgrade: The Period saw contract award and programme commencement for the Apache programme, a contract worth £8.8 million over three years. The first engineering event was held and passed during the First Half.

- GD MTE: with the build of all four devices complete, the first two devices were delivered to the end user's site during the First Half.

- UK Helicopter programme: Under this contract with a UK OEM (worth c. £3.5 million), Pennant was required to convert a real helicopter airframe into a systems trainer. The completed training device was delivered to the end user's site during the First Half.

Development work was also completed on a prototype simulator for a rail infrastructure organisation which is intended to be rolled out to numerous sites in the future.

Looking Forward

The Group has seen defence procurement activity increase during and after the Period, particularly in relation to new and upgraded vehicle platforms in the UK, and this aligns well with Pennant's training systems engineering capabilities.

Furthermore, to complement its existing suite of generic training aids, the Group is in the process of identifying (and will then develop) modular, graphically engaging systems trainers which will build and expand upon its current proprietary software emulation frameworks. An engine systems trainer of such a type has already been developed and sold.

The sales pipeline for the Technical Training business line is very healthy, currently assessed to be circa £30 million.

Post Period End Updates

A number of significant items have been achieved since Period-end:

- GD MTE: The programme is almost complete and, as previously stated, will be finished before year-end.

  All four devices have been built and achieved factory acceptance, with the final device being shipped to the end user's site today. Two devices have already achieved site acceptance (the final stage of customer acceptance testing), and the remaining two will undergo site acceptance testing imminently.

- UK Helicopter programme: The training device achieved site acceptance in July and the programme is effectively finished with all major milestones invoiced and paid.

- Sales: circa £1 million of orders for software and equipment upgrades were received across July and August, taking orders received during 2022 to a total of £12 million.

- Facilities: with all devices built on the GD MTE and the UK Helicopter programme, the demand for space has significantly decreased, and the rationalisation of the Group's facilities arrangements has continued. Pennant Court, being surplus to requirements, was sold in August for £2.1 million and the proceeds used to paydown the overdraft, while the Stevenage office lease was terminated during the same month. Material savings are expected for 2023 from reduced property running costs, rates and depreciation.

- Cash: the Group's net debt is currently £2 million (with an overdraft limit of £3 million). Following the completion of various programme milestones, invoices totalling £1.8 million (excluding VAT) have been raised since the start of August, for payment on 30 day terms, of which £0.7 million has already been received.

Outlook

We are securing new customers for our IPS software and services lines in important adjacent sectors including commercial aerospace, while at the same time gearing up for the launch of the new GenS software suite next year.

Furthermore, with the prevailing global security situation, we are seeing real signs that defence procurement programmes are unlocking in our key regions, with several new opportunities already being pursued.

As a result of management's efforts to re-orient the business, we have a leaner organisation, with increasing software and recurring services revenues; the platform is now in place to grow the business and enhance shareholder value.

With a Period-end contracted order book of £27 million with good forward visibility, a healthy sales pipeline containing opportunities worth over £50 million, and a leaner, optimised organisation, the Board is confident about the Group's future prospects.

J M Ponsonby
Chairman

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED INCOME STATEMENT for the six months ended 30 June 2022

	Notes	Six months ended 30 June 2022 Unaudited	Six months ended 30 June 2021 Unaudited	Year ended 31 December 2021 Audited
		£000s	**£000s**	**£000s**
Revenue		6,945	7,427	15,965
Cost of sales		(4,110)	(5,837)	(11,609)
Gross profit		**2,835**	**1,590**	**4,356**
Administration expenses		(3,558)	(3,222)	(6,709)
Other income		50	-	203
Operating (loss)		**(673)**	**(1,632)**	**(2,150)**
Finance costs		(137)	(64)	(329)
Finance income		-	-	-
(Loss) before taxation		**(810)**	**(1,696)**	**(2,479)**
Taxation	2	-	-	865
(Loss) for the period		**(810)**	**(1,696)**	**(1,614)**
Earnings per share	**3**			
Basic		(2.21p)	(4.64p)	(4.41p)
Diluted		(2.21p)	(4.64p)	(4.41p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2022

	Six months ended 30 June 2022 Unaudited	Six months ended 30 June 2021 Unaudited	Year ended 31 December 2021 Audited
	£000s	**£000s**	**£000s**
(Loss) attributable to equity holders of the parent	(810)	(1,696)	(1,614)
Other comprehensive income:			
Exchange differences on translation of foreign operations	364	(90)	(64)
Net revaluation gain	-	-	353
Deferred tax credit - property, plant and equipment and intangibles	-	-	(156)
(Loss) attributable to equity holders of the parent	**(446)**	**(1,786)**	**(1,481)**

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2022

	Six months ended 30 June 2022 Unaudited £000s	Six months ended 30 June 2021 Unaudited £000s	Year ended 31 December 2021 Audited £000s
Non-current assets			
Goodwill	2,546	2,428	2,403
Other intangible assets	4,681	5,178	5,081
Property plant and equipment	5,817	5,719	6,009
Right of use asset	567	736	661
Deferred tax asset	836	91	850
Total non-current assets	**14,447**	**14,152**	**15,004**
Current assets			
Inventories / work-in-progress	1,347	1,930	865
Trade and other receivables	5,146	3,661	4,528
Cash and cash equivalents	585	749	901
Current tax asset	330	99	330
Total current assets	**7,408**	**6,439**	**6,624**
Total assets	**21,855**	**20,591**	**21,628**
Current liabilities			
Trade and other payables	4,780	4,379	3,595
Current tax liabilities	89	83	367
Obligations under finance and operating leases	191	193	209
Bank overdraft	4,741	2,676	4,441
Deferred consideration on acquisition	335	355	432
Total current liabilities	**10,136**	**7,686**	**9,044**
Net current (liabilities)	**(2,728)**	**(1,247)**	**(2,420)**
Non-current liabilities			
Obligations under finance and operating leases	444	600	529
Deferred tax liabilities	-	192	-
Contingent consideration on acquisition	419	1,141	789
Warranty provisions	122	122	122
Total non-current liabilities	985	2,055	1,440
Total liabilities	**11,121**	**9,741**	**10,484**
Net assets	**10,734**	**10,850**	**11,144**
Equity			
Share capital	1,836	1,832	1,832
Share premium	5,367	5,348	5,345
Capital redemption reserve	200	200	200
Retained earnings	1,900	2,595	2,687
Translation reserve	590	200	226
Revaluation reserve	841	675	854
Total equity	**10,734**	**10,850**	**11,144**

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED STATEMENT OF CASH FLOWS for the six months ended 30 June 2022

	Six months ended 30 June 2022 Unaudited £000s	**Six months ended 30 June 2021 Unaudited £000s**	**Year ended 31 December 2021 Audited £000s**
Net cash generated / (used in) from operating activities	**47**	**230**	**(127)**
Investing activities			
Payment for acquisition of subsidiary, net of cash acquired	(559)	(536)	(549)
Purchase of intangible assets	(341)	(260)	(966)
Purchase of property plant and equipment	(13)	(48)	(134)
Proceeds from disposal of property, plant and equipment	-	-	22
Net cash used in investing activities	(913)	(844)	(1,627)
Financing activities			
Proceeds from sale of ordinary shares	26	64	60
Net (repayment of) obligations under operating lease	(103)	(121)	(309)
Net cash used in financing activities	(77)	(57)	(249)
Net (decrease) in cash and cash equivalents	**(943)**	**(671)**	**(2,003)**
Cash and cash equivalents at beginning of period	(3,540)	(1,453)	(1,453)
Effect of foreign exchange rates	327	197	(84)
Cash and cash equivalents at end of period	**(4,156)**	**(1,927)**	**3,540**

PENNANT INTERNATIONAL GROUP plc
STATEMENT OF CHANGES IN EQUITY for the six months ended 30 June 2022

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Translation reserve	Revaluation reserve	Total equity
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
At 31 December 2020	1,822	5,295	200	4,243	290	683	12,533
(Loss) for the year	-	-	-	(1,614)	-	-	(1,614)
Other comprehensive (loss) / income	-	-	-	-	(64)	197	133
Total comprehensive income	1,822	5,295	200	2,629	226	880	11,052
Issue of new shares	10	50	-	-	-	-	60
Recognition of share-based payment	-	-	-	32	-	-	32
Transfer from revaluation reserve	-	-	-	26	-	(26)	-
At 31 December 2021	**1,832**	**5,345**	**200**	**2,687**	**226**	**854**	**11,144**
(Loss) for the year	-	-	-	(810)	-	-	(810)
Other comprehensive income	-	-	-	-	364	-	364
Total comprehensive income	1,832	5,345	200	1,877	590	854	10,698
Issue of new shares	4	22	-	-	-	-	26
Recognition of share-based payment	-	-	-	10	-	-	10
Transfer from revaluation reserve	-	-	-	13	-	(13)	-
At 30 June 2022	**1,836**	**5,367**	**200**	**1,900**	**590**	**841**	**10,734**

PENNANT INTERNATIONAL GROUP plc
NOTES TO THE FINANCIAL INFORMATION for the six months ended 30 June 2022

1. Basis of preparation

This condensed set of financial statements has been prepared using accounting policies expected to be adopted for the year ending 31 December 2022.

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

The comparative figures for the year ended 31 December 2021 set out in this Interim Report are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

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

2. Taxation

The taxation charge for the Period is based on the estimated rate of tax that is likely to be effective for the full year to 31 December 2022.

3. Earnings per share

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

	Six months ended 30 June 2022 Unaudited	**Six months ended 30 June 2021 Unaudited**	**Year ended 31 December 2021 Audited**
	£000s	**£000s**	**£000s**
Earnings			
Net (loss) attributable to equity shareholders	(810)	(1,696)	(1,614)
Number of shares	Number	Number	Number
Weighted average number of ordinary shares	36,674,834	36,543,371	36,591,864
Diluting effect of share options	1,939,043	1,819,043	1,746,543
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	38,613,877	38,362,414	38,338,407
Earnings per share (basic)	(2.21p)	(4.64p)	(4.41p)
Earnings per share (diluted)	(2.21p)	(4.64p)	(4.41p)

4. Cash generated from operations

	Six months ended 30 June 2022 Unaudited	Six months ended 30 June 2021 Unaudited	Year ended 31 December 2021 Audited
	£000s	**£000s**	**£000s**
(Loss) for the period	**(810)**	**(1,696)**	**(1,614)**
Finance costs	137	64	329
Income tax credit	-	-	(865)
Withholding tax	-	-	38
Depreciation of property, plant and equipment	215	234	460
Depreciation of right of use assets	84	93	243
Amortisation of other intangible assets	741	652	1,366
Effect of land and buildings revaluation	-	-	(117)
R&D tax credit	(50)	-	(157)
Share-based payment	10	40	32
Operating cash flows before movement in working capital	**327**	**(613)**	**(285)**
(Increase) / decrease in receivables	(618)	1,223	356
(Increase) / decrease in inventories	(482)	(849)	216
Increase / (decrease) in payables	1,262	358	(525)
Cash generated from / (used in) operations	**489**	**119**	**(238)**
Tax (paid) / received	(278)	175	440
Interest paid	(164)	(64)	(329)
Net cash generated from / (used in) operations	**47**	**230**	**(127)**