

Pennant

A stylized pennant graphic composed of overlapping triangles in shades of blue and teal, with a thin orange outline.

Company Briefing
April 23

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Pennant International Group was established over 60 years ago. The company has evolved over the past six decades to become a market-leading, technology-led business with a truly global customer base.

Our capabilities encompass the conversion of full-size aircraft into training tools, immersive virtual reality experiences, small devices to improve hand skills, interactive 3D courseware and LPD and S1000D software tools to create, manage and publish vast amounts of technical data.

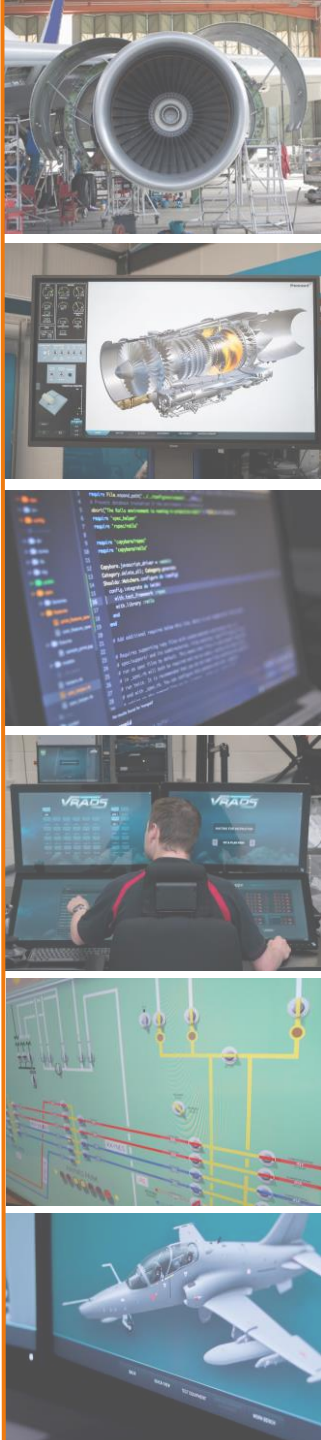
Pennant is listed on AIM, working to a set of core values, defining the way we act as individuals and as a business.

We focus on Innovation, Performance, Quality, Respect and Teamwork.



Overview of year

- Results inline, improved performance, momentum building - third consecutive trading period reporting a positive EBITA
- Transformation of business mix - increasing software and technical services focus - £10.2m (2021: £9.1m)
- Record gross margin – 42%
- Group net debt materially improved
- Property rationalisation
- Strong order intake, healthy contracted order book with circa £13m secured for 2023
- Post period end acquisition – Track Access Productions (see next slide)
- Board changes



About Track Access Productions (“TAP”)

TRACK ACCESS
PRODUCTIONS

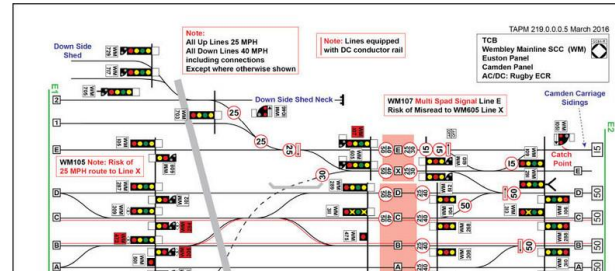
- Established in 2001 - provides driver training, route mapping and route familiarisation services to the UK rail industry
- Clients comprise train operating companies (11 out of 30), freight operating companies (4 out of 7), engineering prime contractors and infrastructure providers
- Revenues are generated through a subscription-based web portal and through project-specific route mapping services
- For the financial year ended 31 March 2023 (“FY23”), TAP’s management accounts indicate revenues of circa £600,000 (FY22: £481,000) of which 50% is recurring, relating to portal subscriptions; and profit before tax (“PBT”) of circa £200,000 (FY22: PBT of £180,821)
- The consideration payable comprises an enterprise value of £585,000
- The balance of the overall consideration, comprising a deferred payment of £175,500 (being the remaining 30% of the enterprise value) is due 12 months after completion

Benefits of the TAP acquisition

- TAP’s business aligns closely with Pennant’s existing Track Access business unit and the Acquisition will consolidate the Group’s presence in this market
- The Acquisition also aligns with the Company’s strategy, in particular it:
 - removes competitor from the UK rail market;
 - broadens the rail customer base, creating cross selling opportunities;
 - enhances the Group’s recurring revenues;
 - further diversifying into civilian markets, and
 - bolstering the Group’s ‘third pillar’ of rail products and services, complementing the Group’s traditional core of IPS software and training technology.



Route Learning



Mapping



Driver Briefing

Financials

Financial highlights for the period



Group revenues of £13.7million (2021: £16.0 million)



Gross profit margin of 42% (2021: 27%)



EBITDA profit of £1.0 million (2021: EBITDA loss of £0.1 million)



Three-year contracted orderbook of £25million (2021: £22 million)



56% of revenues are recurring in nature (2021: 46%)



Basic loss per share of 2.45p (2021: loss of 4.41p)



Loss before tax of £1.4 million (2021: loss before tax of £2.5 million)



Group net debt of £0.4 million (2021: £3.5 million)

Analysis of revenues for the period

| Revenue by region | 2022 £000s | 2021 £000s |
|-------------------|---------------|---------------|
| UK & Europe | 5,557 | 8,161 |
| North America | 4,985 | 4,451 |
| Australasia | 3,144 | 3,353 |
| Total | 13,686 | 15,965 |

| Revenue by workstream | 2022 £000s | 2021 £000s |
|----------------------------------------|---------------|---------------|
| Software licences & products | 1,377 | 1,080 |
| Software maintenance | 1,458 | 1,056 |
| Software and technical services | 7,410 | 6,994 |
| Sub-total Software and Services | 10,245 | 9,130 |
| Engineered solutions | 2,410 | 4,211 |
| Generic products | 1,031 | 2,624 |
| Sub-total Training Solutions | 3,441 | 6,835 |
| Total | 13,686 | 15,965 |

- Revenues increasingly diversified across regions
- 75% of revenues generated from software & services

Consolidated Income Statement

| £m | 31 Dec 2020 (Audited) | 31 Dec 2021 (Audited) | 31 Dec 2022 (Audited) |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Revenue | 15.06 | 15.97 | 13.69 |
| Gross profit | 4.38 | 4.36 | 5.79 |
| Administrative expenses | (7.92) | (6.71) | (6.90) |
| EBITA / PBITA | (1.64) | (0.78) | 0.53 |
| Amortisation | (1.37) | (1.37) | (1.52) |
| Operating (Loss) | (3.01) | (2.15) | (0.99) |
| Net finance costs | (0.13) | (0.33) | (0.37) |
| Tax | 0.51 | 0.87 | 0.46 |
| (Loss) for the period | (2.63) | (1.61) | (0.90) |

- Return to profitability at an EBITA level
- Income statement reflect continued benefit of £0.9m reduction in staff costs from 2020

Consolidated Balance Sheet

| £m | 31 Dec 2020 (Audited) | 31 Dec 2021 (Audited) | 31 Dec 2022 (Audited) |
|-------------------------|--------------------------|--------------------------|--------------------------|
| Non-current assets | 14.8 | 15.0 | 13.2 |
| Current assets | 7.9 | 6.6 | 6.6 |
| Current liabilities | (7.8) | (9.0) | (8.1) |
| Non-current liabilities | (2.5) | (1.4) | (1.0) |
| Shareholders funds | 12.5 | 11.1 | 10.7 |

- H2 disposal of property for £2.1m
- Current assets include trade and other receivables of £4.1m
- Current liabilities include bank overdraft of £1.5m (offset by £1.1m of cash and cash equivalents)
- Non-current liabilities include the contingent consideration of the acquisition of ADG £0.6m (2021: £0.8m)

Consolidated Cash Flow

| £m | 31 Dec 2021 (Audited) | 31 Dec 2022 (Audited) |
|--------------------------------------------------------|--------------------------|--------------------------|
| Net cash from operations | (0.13) | 2.94 |
| Investing activities | (1.62) | 0.36 |
| Financing activities | (0.25) | (0.24) |
| Net increase / (decrease) in cash and cash equivalents | (2.00) | 3.06 |
| Cash and cash equivalents brought forward | (1.45) | (3.54) |
| Impact of foreign exchange | (0.09) | 0.06 |
| Cash and cash equivalents at end of year | (3.54) | (0.43) |

- Significant reduction in net debt from £3.5m to £0.4m due to sale of property and milestone completion on major programmes

Net cash generated from operations

| Cash generated from operations (£m) | 31 Dec 2021 (Audited) | 31 Dec 2022 (Audited) |
|------------------------------------------------|--------------------------|--------------------------|
| (Loss) for the year | (1.61) | (0.94) |
| Depreciation | 0.70 | 0.56 |
| Amortisation | 1.37 | 1.52 |
| Share based payments | 0.03 | 0.03 |
| Other – finance, tax, profit on disposal | (0.78) | (0.16) |
| Operating cash flow before working capital | (0.29) | 1.00 |
| Working capital movement | 0.05 | 2.48 |
| Cash generated (used in) / from operations | (0.24) | 3.48 |
| Tax (paid) / received | 0.44 | (0.29) |
| Interest paid | (0.33) | (0.26) |
| Net cash (used in) / generated from operations | (0.13) | 2.94 |

Outlook

Supportive strategic backdrop for our products and services

- Few competitors that can provide our end to end solutions and services
- New and emerging areas, such as Space where IPS adoption has only just started
- Global uncertainty (Europe / Indo Pacific) is resulting in increasing defence budgets will see a greater need for IPS and Technical Training solutions in the coming years as new and upgraded equipment programmes roll out
- The aviation sector is starting to return to its pre-pandemic levels and delayed investments are restarting
- Significant global investments in Rail sector is expected to continue
- Interoperability of systems and data is becoming critical, for example AUKUS
- More service we can provide to existing customers via organic development, acquisitions or partnerships
- The IPS process and the management of data is becoming evermore critical and the cost and complexity of programs increasing.
- Logistics (IPS/ILS) as a strategic planning tool.

Global customers



Three year contracted order book - aggregate £25m

| Contract (£m) | Scheduled for delivery | | | |
|-------------------------------------------------------------------------------------------------|------------------------|------------|------------|------------|
| | H1 2023 | H2 2023 | 2024 | 2025 |
| Engineered - General Dynamics – armoured vehicle trainer | - | - | - | - |
| Engineered - UK OEM – helicopter maintenance trainer | 2.0 | 3.2 | 3.2 | - |
| Software & services – NA commercial aerospace | 0.2 | 0.2 | - | - |
| Technical Services - BAE Australia 5 year rolling term / 20 year framework – secured until 2025 | 0.7 | 0.7 | 1.4 | 1.4 |
| Software development & services – HMRC rolling annual supply arrangement, commenced 2009 | 0.4 | 0.4 | 0.8 | 0.8 |
| Technical services – Track Access and Wildcat support | 0.2 | 0.2 | 0.4 | 0.4 |
| Software services - Ottawa DND, 5 year contract award to Dec 2023, awaiting renewal | 1.6 | 1.5 | - | - |
| Software maintenance | 0.8 | 0.8 | 1.7 | 1.8 |
| Other | 0.2 | 0.2 | - | - |
| TOTAL | 6.1 | 7.2 | 7.5 | 4.4 |

Selected Group Opportunities – active pipeline > £70m:

Single Source / Formally notified

- Services (Aus) – long term programme supporting ILS partner with Technical Publications (5 years)
- Software licences – circa £1m of R4i and GenS software licences, North America & Europe

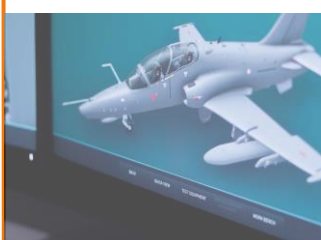
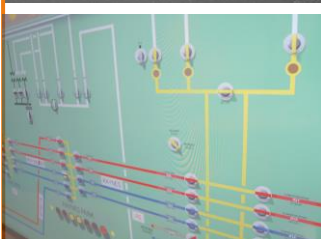
2023/2024

- Middle East – existing customers
 - Additional rotary and stores loading capabilities
 - GACA equipment
- Australia – existing customer
 - Training aid refresh
 - Weapons, rotary and composites training capability opportunities
- UK MOD
 - New medium lift helicopter training capability
 - New land vehicle maintenance training solution
 - Next generation of aircraft training opportunity

2025 & beyond

- Middle East – provision of suite of generic training aids to a new technical training facility

There is no certainty as to timing, value or success of the pipeline opportunities.



What are we looking to achieve?

- Sustainable (recurring revenue) growth and profitability
- Focus on software and services – order lead time, revenue recognition and margin impact
- End to end solution - 'Full spectrum' of Pennant products and services offered and delivered in all key regions
- Corporate development – add scale, expanding partnerships and targeted acquisitions
- Successful launch and cementing of new GenS software solution / IPS suite
- Development of next generation of training aids – modular, software / technology led





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