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Company Briefing

Pennant International Group Plc

Cheltenham | Manchester | Fareham | Brisbane | Ottawa | Melbourne | Wagga Wagga





Highlights

- First half results impacted by Covid-19 and related restrictions;
- Revenue £6.3m, underlying EBITA loss of £2m;
- Cost reduction exercise completed; £1m annualised savings to be realised in 2021; realign cost base with baseline revenues;
- Improved cash & working capital position; new banking facilities secured; renegotiated contractual milestones;
- Completed acquisition of ADG and R4i software suite;
- Post period contracts secured of circa £3m+;



Strategic framework

STRATEGIC OBJECTIVES

1
Continuously review and enhance the Group's product range

2
To grow and improve our service offering

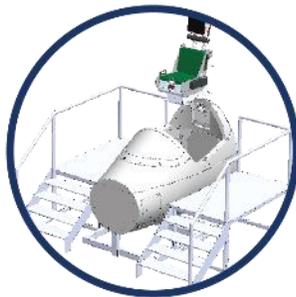
3
Accelerate the Group's presence in civilian training and regulated engineering markets

4
Expand the Group's business in innovative ways

OUR STRATEGY IN ACTION



Launch of new Generic Fastener Installation Trainer (GFIT)



New Crew Escape & Safety Systems Trainer (CESST)



Acquisition of ADG & the R4i product suite



Acquisition of Track Access & rail software portal



RDA Hunter - new Australian strategic partnership



New OmegaPS Rail software product achieved product acceptance



Continued investment in infrastructure



Summary – 30th June 2020

- ▶ Group revenues for the Period of £6.3 million (H1 2019: £7.2 million);
- ▶ Cash generated from operations of £3.8 million (H1 2019: cash used in operations of (£2.7million));
- ▶ Net cash at Period end of £2 million (H1 2019: net debt of £0.4 million and FY2019 net debt of £2.2 million);
- ▶ Three-year order book (to 30 June 2023) remains strong at £36.0 million (H1 2019: £36.1 million);
- ▶ Underlying EBITA loss of £2.0 million (H1 2019: EBITA loss of £1.5 million);
- ▶ Loss before tax of £3.2 million (H1 2019: loss before tax of £1.8 million);
- ▶ Gross margin of 18% after Covid-19 provision (26% before) (H1 2019: 25%);
- ▶ Trade and other receivables of £4.1 million (H1 2019: £5.2 million);
- ▶ Basic (loss) per share of (8.88)p per share (H1 2019: basic (loss) per share of (5.07)p per share);
- ▶ Unrelieved tax losses of £2.8 million carried forward (H1 2019: £5.3 million).



Consolidated Income Statement

£000	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)	31 Dec 2019 (Audited)
Revenue	6.26	7.25	20.43
Gross profit	1.11	1.81	7.35
Administrative expenses	(3.64)	(3.57)	(9.21)
EBITA / PBITA (loss)	(2.53)	(1.76)	0.10
Amortisation	(0.63)	(0.03)	(1.64)
Operating (loss)	(3.16)	(1.79)	(1.53)
Net Finance costs	(0.07)	(0.05)	(0.11)
Tax	-	-	0.01
(Loss) for the period	(3.23)	(1.80)	(1.63)



Underlying EBITA for H1

	£m
EBIT	(3.16)
Restructuring expense	0.40
Aborted Transaction costs	0.09
Amortisation	0.62
Underlying EBITA	(2.05)

➤ **Restructuring expense** - achieved through the removal and re-organisation of various roles across all business units, the benefits of which will predominantly be realised from 2021



Consolidated Balance Sheet

£m	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)	31 Dec 2019 (Audited)
Non-current assets	14.5	12.3	11.6
Current assets	6.8	7.9	11.3
Current liabilities	(6.1)	(4.9)	(6.9)
Non-current liabilities	(3.4)	(0.9)	(1.2)
Shareholders funds	11.8	14.4	14.9

- Non-current assets reflect the increase in Goodwill and the intangible asset created through the ADG acquisition (£3.0m)
- Current assets include cash of £2.0m (2019 H1: - £0.4m), trade and other receivables of £4.1m (2019 H1: £5.2m) and work in progress of £0.6m (2019 H1: £2.7m) reflecting the current position of contracts
- Current liabilities includes £0.5m of provisions relating to COVID-19 impacts to engineered solutions contracts and £1.5m of tax liabilities as a result of the HMRC COVID-19 schemes
- Non-current liabilities includes £1.7m relating to payments due during the earn-out period of the ADG acquisition



Consolidated Cash Flow

£m	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Net cash generated from / (used in) operations	4.50	(2.71)
Investing activities	(0.32)	(1.33)
Financing activities	(0.04)	1.78
Net increase / (decrease) in cash and cash equivalents	4.14	(2.26)
Cash and cash equivalents brought forward	(2.24)	1.85
Impact of foreign exchange	0.14	(0.07)
Cash and cash equivalents at end of period	2.03	(0.34)

➤ Cashflow position reflects rephasing of major contract milestones with the related events achieved and payments received



Net cash generated from operations

Cash generated from operations (£m)	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
(Loss) for the period	(3.23)	(1.81)
Depreciation	0.37	0.38
Amortisation	0.63	0.27
Share based payments	0.05	0.05
Other – finance, tax, profit on disposal	0.07	0.04
Operating cash flow before working capital	(2.11)	(1.07)
Working capital movement	5.90	(1.56)
Cash generated from / (used in) operations	3.78	(2.63)
Tax paid	0.79	(0.03)
Interest paid	(0.07)	0.05
Net cash generated from / (used in) operations	4.50	(2.71)



Outlook & Order Book



Three year “period end” order book - *aggregate £36m*

Contract	Scheduled for delivery			
	2020 H2	2021	2022	2023 H1
BAE Systems Australia 5 Year Rolling Term / 20 Year Framework – secured until 2023	£0.75m	£1.6m	£1.6m	£0.75m
HMRC – rolling annual supply arrangement, commenced 2009	£0.4m	£0.8m	£0.8m	£0.4m
Ottawa DND - 5 year contract award to Dec 2023	£2.0m	£4.5m	£4.5m	£2.3m
Australian ADF – single source, annual rolling contract, commenced 2003	£0.15m	£0.3m	£0.3m	£0.15m
UK support - renewal secured to Mar 2022	£0.15m	£0.3m	£0.1m	-
General Dynamics – armoured vehicle trainer	£2.0m	£2.3m	-	-
UK OEM – helicopter maintenance trainer	£0.4m	£2.5m	-	-
Middle East – generic product suite	£1.3m	£0.3m	-	-
Other – Poseidon, Stadler	£0.6m	£0.6m	£0.6m	-
Absolute Data Group – acquisition	£0.5m	£1.2m	£1.2m	£0.6m
TOTAL	£8.3m	£14.4m	£9.1m	£4.2m



Selected Group Opportunities – active pipeline >£40m



TECHNICAL TRAINING SOLUTIONS

Single Source / Formally notified

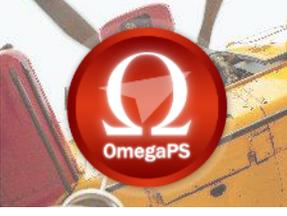
- Major programme – circa £15m - £20m, meaningful progress achieved
- Middle East – initial order secured (£1.5m), remaining balance of circa £3m expected to be converted H1 2021

2021/2022

- Existing contract enhancements – circa £2m (secured post period end)
- UK MOD – update to existing training solution
- Middle East – suite of generic training aids
- Asia – provision of virtual parachute training solution

2023 & beyond

- Middle East – provision of suite of generic training aids to a new technical training facility
- US OEM – bespoke training solution for new UK platform



INTEGRATED SOLUTIONS & SUPPORT

Single Source

- Canadian DND – extension of LSA / OmegaPS services contract, circa £3.5m per annum
- Australia ADF – extension of OmegaPS software licence, circa £300k per annum

2021/2022

- Canadian DND (Army) – R4i software
- ADF – services contract, S1000D data conversion
- North American OEM – R4i software
- US / Japanese OEM – R4i software
- Global Aerospace & Defence Group – R4i software

2023 & beyond

- Canada DND – renewal of 5 year single source OmegaPS / LSA services contract

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



Outlook

- Financial performance expected to improve significantly in H2;
- Forecasting circa £1m EBITA profit for the period (£300k operating profit);
- Full benefit of cost reduction exercise to be realised in 2021;
- Meaningful progress made on active pipeline; post period contracts secured of circa £3m+;
- Contracted revenue of £14.4m scheduled for delivery in 2021; plus post period end contracts wins provides solid foundation;



About Pennant



History

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



Pennant first formed

Sir Christopher Cockerell produced first prototype of the SRN hovercraft

Pennant Court becomes head office. First delivery to the Middle East – a contract with BAE Systems

Pennant Australia is established. A contract is won with AgustaWestland to build a Lynx maintenance & weapons trainer

With BAE Systems Australia, a contract is won for the delivery of Aviation Tech Training to the Australian Defence Forces

VPTS wins best Virtual Simulator at the 2015 Unity Awards



Pennant celebrate 60 years! Major infrastructure changes continue to take place at Head Office in Cheltenham

Innovation and product development is established as the Group's primary strategic objective



Ownership and Management

5p Ordinary Shares

Total shares in issue	36,446,385
AIM securities held in treasury	NIL
Percentage of AIM securities not held in public hands	53.36%

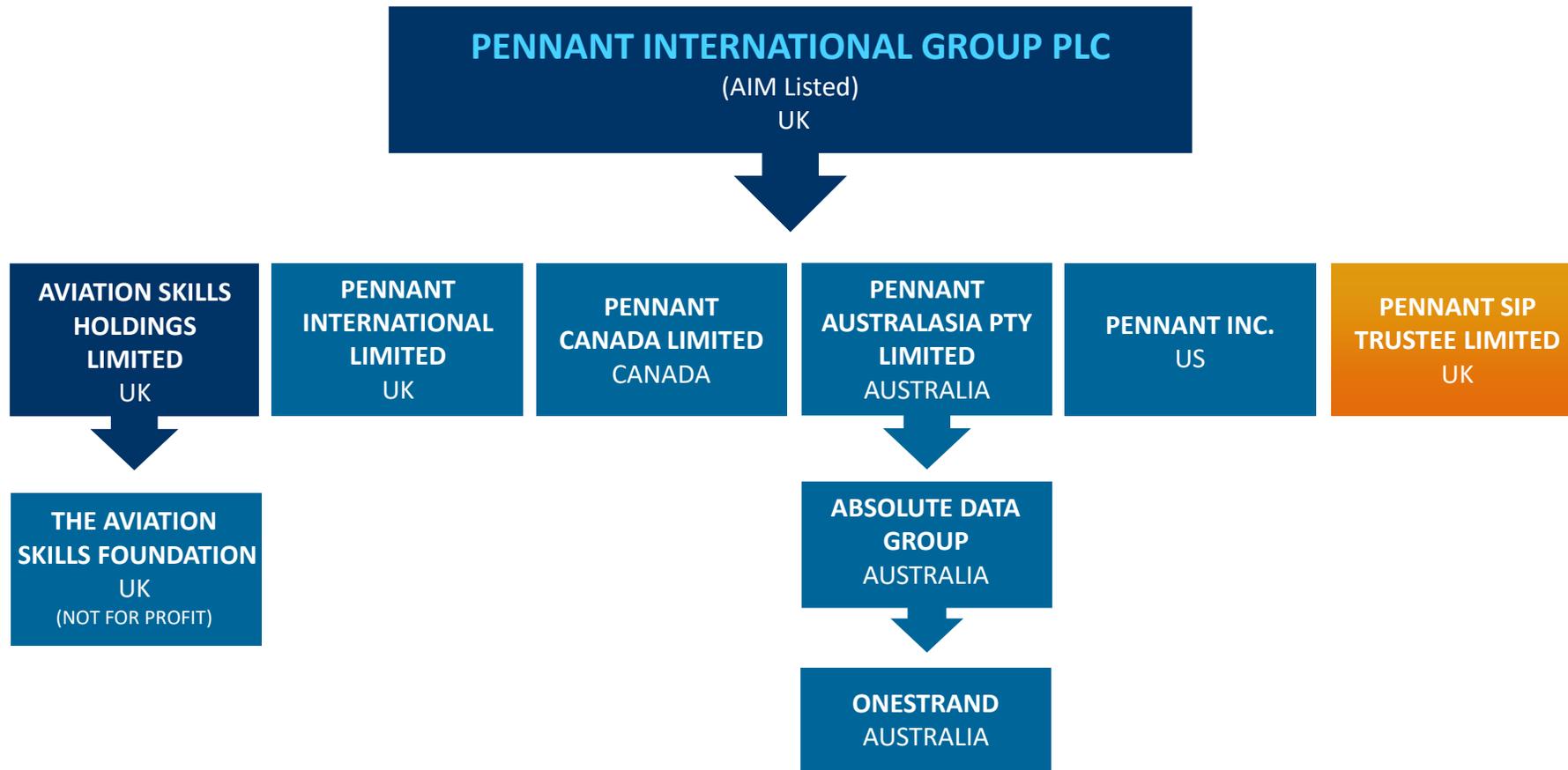
Significant Shareholders

Stakeholder	Percentage holding
C C Powell Concert Party	17.23%
Canaccord Genuity Group	14.86%
BGF Investment Management Limited	11.22%
Liontrust Asset Management	10.05%
Killik & Co LLP	4.93%
Downing LLP	4.88%

Board of Directors

Simon Moore Chairman	Philip Walker CEO	David Clements Commercial Director	Mervyn Skates Ops Director	Philip Cotton NED	John Ponsonby Vice Chair
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Group Legal Structure



Our Facilities



Head Office
Cheltenham, UK



Manchester, UK



Fareham, UK



Hertfordshire, UK



Ottawa
Canada



Pennant Australia
Brisbane



Pennant Australia
Wagga, Wagga



Pennant Australia
Melbourne

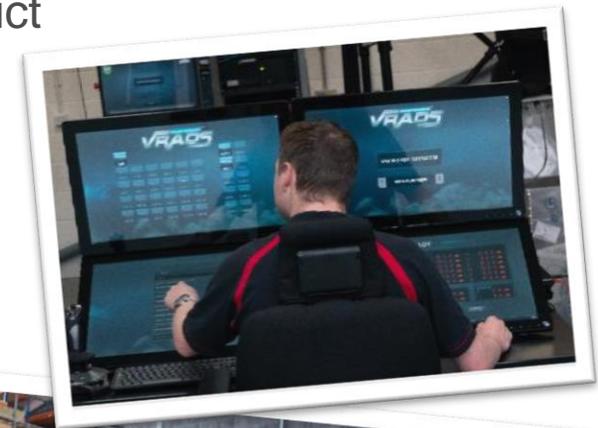


Operations

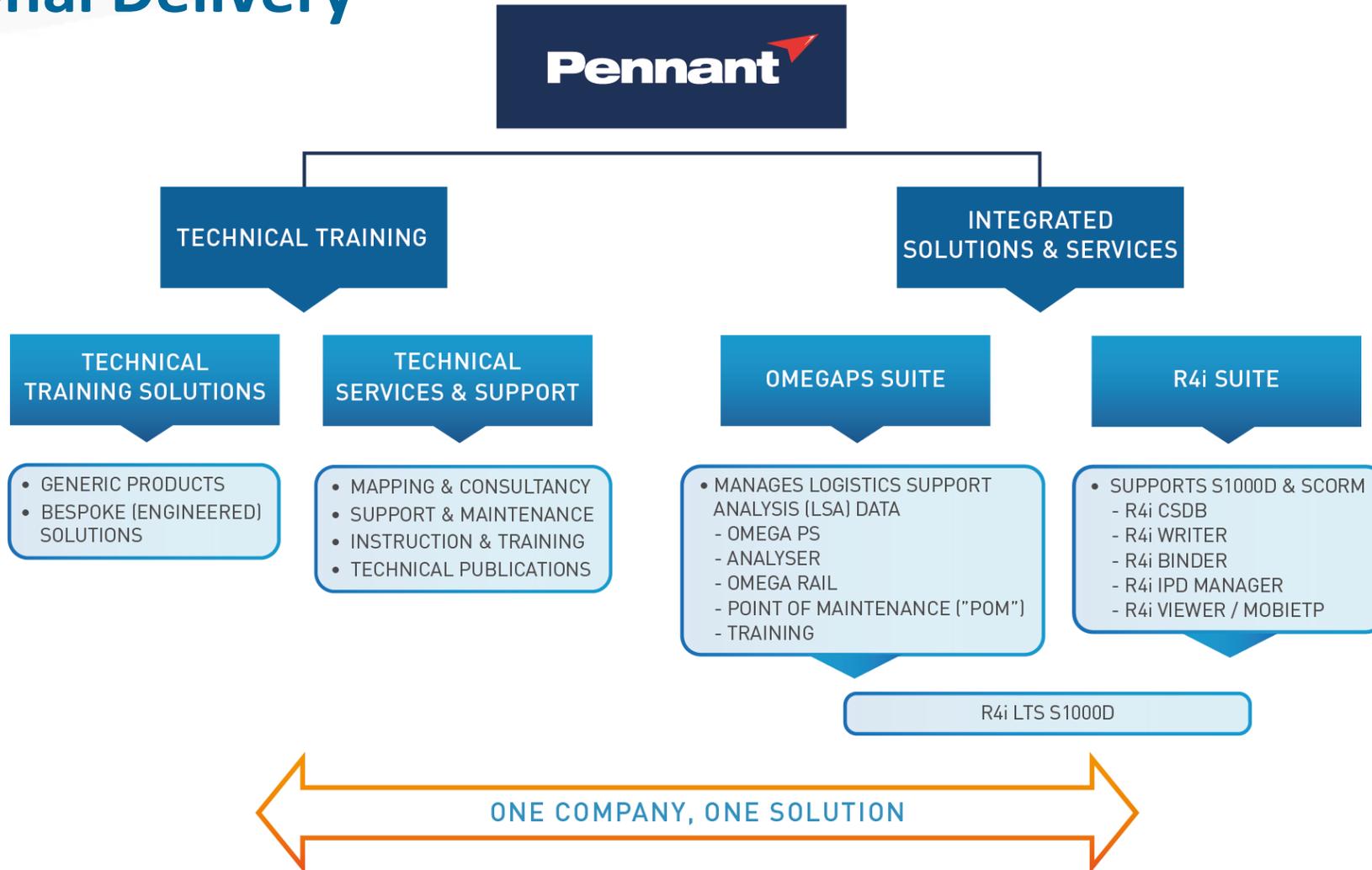


Core Capabilities

- Translating and developing complex training requirements into a deliverable product
- Providing subject matter expertise in specialist and technical areas
- Operator and maintainer training within an engineering or related environment
- Hardware and Software capabilities
- Through Life Support & Services (ILS)



Operational Delivery





Technical Training



Generic Trainers

- Modern, off the shelf training aids
- Major safety gains
- Operation & maintenance savings
- Includes hand skill devices, VR procedure trainers & desktop emulators





Engineered Solutions

- Bespoke engineering solutions
- Platform specific or custom-built
- Can be simulators, part-task trainers and procedural trainers
- Defence and Civil customer base





Computer Based Training (CBT)

- Web & server-based e-learning
- Collaboration with government departments & global industry
- Provides consultancy & develops new strategies
- Access to anytime, anywhere training modules





Virtual Reality Trainers

- Award winning suite of solutions to provide effective training
- Ability to record responses & review activity
- Multiple users at one time
- Training in a safe environment
- Real-time faults and emergency solutions
- Multiple scenarios to improve learning



Track Access Systems (TAS)



➤ Operating in the UK since 2002

➤ Products & Services include:

- Track Access Portal
- Railway Survey
- Signal Sighting
- Railway Simulation
- Driver training



➤ Complementary to Pennants existing rail capabilities which include Technical publications, Rail Sims, OmegaPS Rail etc.

Technical Publications

Compiling technical documentation and procedural data can be complex and time-consuming, yet it is crucial to the understanding and delivery of a product, having a major impact on the image, reliability and value of an organisation.

- User guides
- Operating and maintenance manuals
- Illustrated Parts Catalogues
- Publicity material
- S1000D – IETM
- On-line Documentation

We have worked in partnership with:

AIRBUS

BAE SYSTEMS

ALSTOM

Kawasaki



KMW
KRAUSS-MAFFEI WEGMANN



STADLER

SIEMENS



CAF



Ministry
of Defence



Railway Industry Association



Integrated Solutions & Services (ISS)

Pennant own the rights to two of the market leading LSAR & S1000D software products: Omega PS and R4i, both being sold world-wide and used in major defence contracts and by defence authorities in Canada and Australia.

ILS - OmegaPS LSAR



Database Tool which:

- Manages Logistics Support Analysis (LSA) data in accordance with relevant standards:
 - GEIA 0007,
 - Mil Std 1388-2B,
 - Def Stan 0060
 - Def Aust 5692; and
 - Compatible with S3000L Standards
- Maintain detailed configuration of complex assets
- Identifies how to fix or prevent failures (planned maintenance tasks)
- Identifies how often each maintenance action will occur
- Interfaces with ERP Systems
- Compatible with S1000D publishing Standard



Major Contracts

- Consultancy agreement with Canadian Department of Defence to maximise the use of Omega PS in the DND
 - **5 year contract to December 2023**
- Consultancy agreement with Babcock in support of their property for the Royal Canadian Navy
 - **3 year contract to September 2021**
- Support contract with Australian Department of Defence. In respect of their implementation of Omega
 - **annual renewal**



OmegaPS - Current Users



AIRBUS



FUJITSU



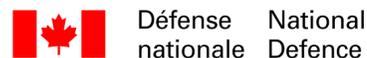
BAE SYSTEMS



COBHAM



T-Systems



DAMEN



STADLER

aselsan



THALES



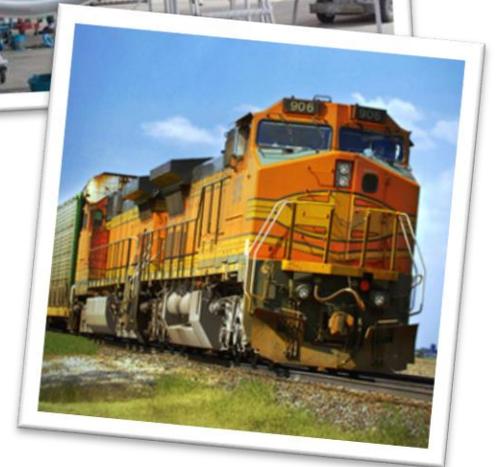
serco



R4i Product Suite



- Specializes in creating, managing and leveraging technical data and maintenance information for clients across a variety of industries.
- Helps customers to create, manage and leverage information vital to the build, operation and maintenance of their complex assets.

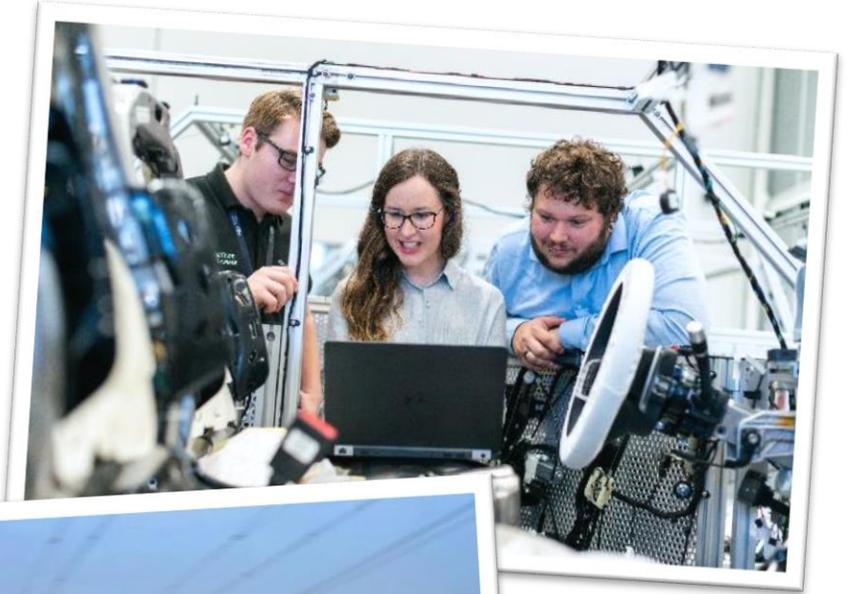


R4i – Product Suite



The R4i Suite includes:

- R4i Common Source Database (CSDB) Server
- R4i Binder
- R4i Viewer
- R4i ReViewer
- R4i MobieTP
- R4i Content Distribution Management System (CDMS)
- R4i Writer
- R4i IPD Manager
- R4i LTS



R4i Air

The R4i AIR S1000D hosted solution provides authoring teams with a turnkey, ready to write S1000D product suite without the upfront costs.

Features of R4i Air:

- ▶ Fast and robust
- ▶ Operating in the Amazon Cloud instead of installed on the customers servers
- ▶ Has the same S1000D capability that customers install locally on their networks but in a secure online environment



R4i - Current Users



Pennant



Thank you for your attention

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