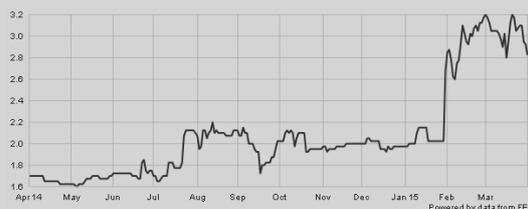


11 May 2015

### Key Statistics

**Code** : NWT  
**Listing** : AIM  
**Sector** : Support Services  
**Market Cap** : £13.53m  
**Share in issue** : 456.68m  
**Current Price** : 2.94p  
**12 mnth High/Low** : 3.23p/1.55p

### Stock Performance



### Financials

£m	2014A	2013A	2012A	2011A	2010A
Revenue	19.17	18.32	13.09	12.65	13.79
PBT	0.91	0.07	0.06	0.71	1.58

Source: Newmark Security yearly reports

### Company description

Newmark Security operates through two wholly owned subsidiaries: Safetell and Grosvenor Technology. Safetell is a leading designer, manufacturer and supplier of security solutions for organisation's personnel and assets. Grosvenor Technology provides electronic security, workforce management and access control systems. The Group listed in 1997.

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## Secure Growth

The corollary of empty vessels making the most noise is that the fully laden ones are nearly silent. Newmark Security would seem to bear this out as there is very little noise, but there is plenty going on and plenty to be excited about. The Company is profitable, pays a dividend and is growing fast. Furthermore the free float has recently been opened up, though the largest shareholders remain both supportive and protective. The balance of free float and supportive control is always moot, but arguably Newmark is near the optimum fulcrum point.

The latest interims were published at the end of January, for the half year period ended 31 Oct 2014. There was a 34% increase in revenues from £8.9m to £11.9m. As is so often the case with small companies like Newmark, the operational gearing is excellent; profit from operations before exceptional items grew from £893k to £1.57m (76%). Revenue growth was boosted by £1.18m contribution from Gunnebo Security Installations (acquired Nov 2013, originally called Chubb Security Installations and referred to as CSI) but organic growth without this acquisition was still 21%. The typically modest statement was quick to point out that, "... revenues in the second half of the year are not expected to match the first half, the full year results before exceptional items are expected to be ahead of last year..." It is worth noting that Newmark's revenues are largely project driven, particularly the Post Office related activities, and therefore tend to be 'lumpy' perhaps explaining the cautious outlook, also the management's desire to re-focus towards smoother, recurring and higher margin 'technology' business.

The Company is divided into two subsidiaries:

**Grosvenor Technology:** provides access control and data acquisition systems delivered via its reputable JANUS access control platform and its CUSTOM brand data-collection terminals. The next generation and recently launched SATEON software is a brand new and innovative access control concept which delivers all the features of a software based system, but in the cloud, which improves lifecycle cost, install speed and allows for instant maintenance from anywhere in the world. Grosvenor Technology clients include BAE Systems, UK Air Traffic Control, BSKyB, Merrill Lynch, Bank of America, M & S, Morrisons, Tesco, Network Rail, government departments and many universities.

**Safetell:** has been offering staff and asset protection since 1987, it is the UK's leading provider of fixed and reactive security screens, reception counters, cash management systems and associated security equipment. Safetell's customers range from leading blue chip organisations to single sites including banks and building societies, police forces and the Post Office, local authorities and government departments, forecourt retailers and supermarket chains.

For disclosures, refer to the Disclosure Section

**Outlook:**

**Acquisitions:** The CSI business has been integrated with the group's Safetell subsidiary and synergies have already started to come through (which would be a key factor in any future acquisitions). It is expected that this will be the first of several such acquisitions with the stated ambition to take Newmark from a predominantly hardware company to a predominantly technology company. The Company had net cash around £2.2m end Oct 2014 and is generating net cash. So there is plenty of scope for accretive acquisitions. However there is no plan to enter new business areas, only to build upon the current focus when the right deal can be found.

**International Opportunities:** The Middle East is currently a focus area and the Company has said it is also likely to open an Asia Pacific office in Hong Kong to provide tech support focussed on a huge (\$1.4bn) Access Control market across the region.

**SATEON PRO:** launched in January, so still very early days. SATEON PRO is a browser based, lighter version of the original SATEON software (Now rebranded SATEON Enterprise). Being browser based it will be easier to install and cheaper to run which will open up the large, and as yet untapped, 'mid-range' segment of the SME market, also enabling the generation of more recurring type SaaS revenues.

**Post Office:** A supply agreement has been in place with the Post Office since 1994. A three year Network Transformation Programme was announced in 2012 but could still run on another five years from now. This has been good business for the group but remains unpredictable as there is low visibility on delivery, installation and follow-on orders. This is because of the co-ordination that is required with various different franchise groups and refurbishment contractors before installation can take place. As the other revenue segments in the group grow, the impact of this lumpy but good margin Post Office business will be smoothed.

**Margins:**

The Company does not break down margins by segment but gross profit margin for the group is around 42% which is reasonable for a blend of software and hardware and should have scope to improve as the Sateon Pro business builds.

Significant EPS Impairments over the last couple of years relate to the writing off of an ATM Protection acquisition. The protection system took longer to develop than planned. This combined with the earlier than expected introduction of polymer notes, created problems that were not worth overcoming. The acquisition is now completely written off and will no longer drag EPS back.

**Conclusion:**

With a valuation of 0.7x sales and PE of 7.8x (historic before impairment provisions) there is plenty of scope for further re-rating. Interim announcement suggested that the second half would not be as good as first. Having a guess therefore at £22m for FY sales and £2.5m for FY PBT would give a forward sales multiple in the region of 0.6x and PE multiple of around 6x. For a profitable company with a progressive dividend policy (current yield around 2.5%) this would seem a much bottomed out valuation.

There is plenty of potential positive news flow in terms of new orders and contracts. On a longer view the advance into the 'mid-range' enterprise market and the re-balance towards more visible recurring revenues will be viewed positively. No wonder the management are buying shares in the market.

## Consolidated income statements for the six months ended 31 October 2014

	<b>Unaudited Six months ended 31 October 2014</b>	<b>Audited Year ended 20 April 2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Revenue</b>	<b>11,924</b>	<b>19,171</b>
Cost of sales	-6,888	-11,741
<b>Gross Profit</b>	<b>5,036</b>	<b>7,430</b>
Administrative Expenses	-3,468	-6,446
Profit from operations before exceptional items	1,568	1,836
Exceptional development costs impairment	-	-852
<b>Profit from operations</b>	<b>1,568</b>	<b>984</b>
Finance costs	-8	-78
<b>Profit before tax</b>	<b>1,560</b>	<b>906</b>
Tax expense	-160	-49
<b>Profit/loss for the period/year</b>	<b>1,400</b>	<b>857</b>
Attributable to:		
-Equity holders of the parent	1,400	857
<b>Earning/loss per share</b>		
Basic	0.31p	0.19p
Diluted	0.27p	0.18p

Source: Newmark Security half-yearly report

## Consolidated statement of financial position at 31 October 2014

	Unaudited 31 October 2014 £'000	Audited 30 April 2014 £'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	901	872
Intangible assets	8,583	8,428
<b>Total non-current assets</b>	<b>9,484</b>	<b>9,300</b>
<b>Current assets</b>		
Inventories	1,587	1,647
Trade and other receivables	4,612	4,078
Cash and cash equivalents	2,364	1,441
<b>Total current assets</b>	<b>8,563</b>	<b>7,166</b>
<b>Total assets</b>	<b>18,047</b>	<b>16,466</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	4,499	4,148
Other short term borrowings	132	196
Corporation tax liability	160	16
Provisions	100	100
<b>Total current liabilities</b>	<b>4,891</b>	<b>4,460</b>
<b>Non-current liabilities</b>		
Long term borrowings	143	124
Provisions	84	84
Deferred tax	239	170
<b>Total non-current liabilities</b>	<b>466</b>	<b>378</b>
<b>Total liabilities</b>	<b>5,357</b>	<b>4,838</b>
<b>Total net assets</b>	<b>12,690</b>	<b>11,628</b>
<b>Capital and reserves attributable to equity holders of the company</b>		
Share capital	4,504	4,504
Share premium reserve	502	502
Merger reserve	801	801
Foreign exchange difference reserve	-196	-196
Retained earnings	7,039	5,977
	<b>12,650</b>	<b>11,588</b>
<b>Minority interest</b>	40	40
<b>Total Equity</b>	<b>12,690</b>	<b>11,628</b>

Source: Newmark Security half-yearly report

## Consolidated cash flow statements for the six months ended 31 October 2014

	Unaudited Six months ended 31 October 2014 £'000	Audited Year ended 20 April 2014 £'000
<b>Cash flow from operating activities</b>		
Net profit/loss after tax from ordinary activities	1,400	857
Adjustments for:		
Depreciation, amortisation and impairment	624	1,905
Interest expense	8	78
Income tax expense	160	49
<b>Operating profit before changes in working capital and provisions</b>		
(Increase) in trade and other receivables	2,192	2,889
Decrease/ (increase) in inventories	-491	-1,492
Increase in trade and other payables	60	-303
	341	1,084
<b>Cash generated from operations</b>		
Income taxes received/(paid)	20	-45
<b>Cash flows from operating activities</b>		
	<b>2,122</b>	<b>2,133</b>
<b>Cash flow from investing activities</b>		
Payment for property, plant and equipment	-162	-324
Sale of property, plant and equipment	-	40
Research and development expenditure	-545	-997
	<b>-707</b>	<b>-1,281</b>
<b>Cash flow from financing activities</b>		
Repayment of bank loans	-52	-153
Repayment of finance lease creditors	-94	-158
Dividend paid	-338	-150
Interest paid	-8	-78
	<b>-492</b>	<b>-539</b>
<b>Increase in cash and cash equivalents</b>		
	<b>923</b>	<b>313</b>

Source: Newmark Security half-yearly report

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