Croma Security Solutions Group Plc

("CSSG", "Croma", "the "Company" or the "Group")

Interim results for the six months to 31 December 2019

Croma Security Solutions Group plc (AIM: CSSG), the AIM listed total security services provider, announces its unaudited interim results for the six months to 31 December 2019.

Sebastian Morley, Chairman of CSSG, said:

"We have made a good progress in the first half of this financial year maintaining the step change in sales and profits achieved over the last 24 months whilst continuing to invest in the growth drivers of the business. Our store refurbishment plan continues as we convert our existing traditional locksmiths' businesses into security centres, offering the full range of our premium security services, whilst we remain focused on developing our centres into a national network. At the heart of our offer is the delivery of a premium security service organised with a military ethos behind it and this approach continues to resonate strongly amongst existing and new clients. Our business is well positioned and with healthy cash balances we are well placed to continue to expand."

Steady progress with strong cash generation

- Demand for Croma's innovative security solutions remains strong
- H1 revenues of £17.36 million (H1 2018: £17.98 million)
- Generating EBITDA of £1.1 million (H1 2018: £1.2 million)
- Gross margin percentage improvement to 18.8% (H1 2018 18.4%)
- Healthy cashflow with cash balances of £2.3 million **(**H1 2018: £1.7 million)
- 7.1% increase in interim dividend to 0.75p per share

Further investment in new services and security centres

- Croma's brand is synonymous with premium security services and is focused on becoming the British security brand
- Faster than anticipated growth of Croma PROception, the ground-breaking front of house business, transforming building guest services
- Ex-military ethos remains core part of Group culture and key to new contract wins and retention
- Continuing the conversion of the current store network into security centres

Outlook for H2 2020

- Healthy pipeline of acquisition opportunities to further extend the security centre network
- Well placed for a satisfactory result for the year

This announcement contains inside information as defined in Article 7 of the Market Abuse Regulations No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

For further information visit www.cssgroupplc.com or contact:

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Chairman's Statement

Introduction

I am very pleased to report Croma's interim results for the six months to 31 December 2019 which saw the Group generate turnover of £17.36 million and EBITDA of £1.10 million. This was a satisfying performance reflecting good demand for our premium security services from both government and commercial entities. We are an ambitious business with a clear strategy focused on becoming the British security brand and during this period we continued to invest in the business and people towards achieving this objective.

Group strategy

In 2019, the Group set out a clear strategy around which to develop the business, the central themes of which were:

- setting new standards in providing premium guarding services, community awareness schemes and innovative front of house solutions under the Croma Vigilant and PROception brands;
- building a national network of Croma Security Centres, through which all the Group's services are sold; and
- becoming the British security brand.

Croma is very focused on these objectives and has been helped by the real and perceived increases in security risk across the UK. There is a shift amongst government, business and high net worth individuals seeking to reduce their risk exposure by opting for premium security services. This trend is to Croma's advantage. The reputation of the security industry has been tarnished historically, with negative images of security personnel being underpaid, poorly dressed individuals with limited training. Croma has always operated with a strong military ethos and a focus on security personnel being a part of a premium service in which individuals are well trained, well-motivated and well paid. This, combined with the innovations in security Croma is introducing such as PROception, is positioning the Group well to increase its share of the growing premium security market.

Building a national network of Croma Security Centres is a central focus for the business. There is currently no nationwide security brand in the UK. Instead there are many independently owned security stores catering to the domestic market with limited ranges of locks and alarms. There is significant scope for Croma Security Centres to introduce a new format which caters to both the domestic and commercial markets offering innovative technology driven security solutions and making use of a wide range of products. The Group currently operates 10 security centres with a pipeline of further sites in varying stages of negotiation for potential acquisition.

Croma Vigilant

Croma Vigilant is the largest part of our business providing manned guarding for assets and individuals. It has completed a successful six-month period, maintaining contracted sales at similar levels to the prior year and investing in the business. Reflecting the prevailing trends in the market, approximately 79% of this division's income is now contracted over a period exceeding 1 year. We expect the proportion of contracted income to increase during H2 which gives more certainty over future earnings and enhances our ability to invest for the future.

The division currently employs over 900 high-grade security personnel throughout the UK who are responsible for guarding a wide range of assets, individuals and communities. PROception is a part of Croma Vigilant and existing clients have been very receptive to the idea of incorporating the reception desk and reception personnel into a building's security. Another emerging growth area is providing security within communities under the Community Safety Accreditation Scheme.

Croma Systems and Locksmiths

Croma Systems and Locksmiths, a provider of a range of innovative security technology services including CCTV, Intruder Alarms, FastVein (Biometrics) and high security locks, delivered a good performance, with an 11% increase in turnover on H1 2018, maintaining the step change in contribution whilst investing in the continued development of security centres.

The current network of security centres all operating under the Croma brand are for the first-time marketing the entire range of the Group's services under one roof.

During H1 we have signed framework agreements with a hospital, a major facilities management company and a local authority. Also, we have continued to win new work from our long-standing client partnerships including the education sector, sports facilities, cinema chains and high value residential work.

Financial Review

As expected with the loss of some project work, our guarding division saw a drop in revenue of 7%, however both our Systems and Locksmiths divisions produced increases in revenue of 11% leading to an overall decrease in revenues of 3.5% to £17.36 million (H1 2018: £17.98 million). The change in the sales mix contributed to a stable gross margin of £3.27 million (H1 2018: £3.31m) and an improvement in the gross margin percentage to 18.8% (H1:2018: 18.4%).

Investment in staff both through internal expansion and through acquisition led to an increase in administrative expenses to £2.55 million (H1 2018: £2.29 million) and as a result operating profits decreased to £0.72 million (2018: £1.03 million).

The adoption of IFRS16 did not significantly impact operating and retained profit, however EBITDA was enhanced by approximately £0.20 million to £1.10 million (H1 2018: £1.22 million). We expect to see a similar enhancement of EBITDA in H2.

Cashflow remains positive with cash balances at 31 December 2019 of £2.31 million (H1 2018: £1.71 million).

Dividend

The Board is pleased to declare a 7.1% increased interim dividend of 0.75p (H1 2018: 0.7p) per share, to be paid on 8 April 2020 with an ex-dividend date of 26 March 2020 and an associated record date of 27 March 2020.

Outlook

We have made a positive start to the second half of this financial year. We have in place a clear strategy around which we are developing the business. Importantly our customers are generally looking to upgrade and increase their security measures which further supports our confidence in the outlook for the business.

Sebastian Morley
Chairman
2 March 2020

CROMA SECURITY SOLUTIONS GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED 31 DECEMBER 2019

	Notes	6 months ended 31-Dec-19 unaudited £000s	6 months ended 31-Dec-18 unaudited £000s		Year ended 30-Jun-19 audited £000s
Revenue		17,357	17,981		34,599
Cost of sales		(14,087)	(14,669)		(28,109)
Gross profit		3,270	3,312		6,490
Administrative expenses		(2,551)	(2,287)		(5,041)
Operating profit		**719**	**1,025**		**1,449**
Analysed as:					
Earnings before interest, tax, depreciation, and amortisation of intangible assets		1,105	1,223		1,871
Depreciation		(286)	(102)		(232)
Amortisation		(100)	(96)		(190)
Operating profit		719	1,025		1,449
Finance costs		(29)	(9)		(2)
Profit before tax		**690**	**1,016**		**1,447**
Tax		(123)	(188)		(281)
Profit for the year from continuing operations		567	828		1,166
Profit and total comprehensive income for the period attributable to owners of the parent		**567**	**828**		**1,166**
Earnings per share	**3**				
Basic and fully diluted earnings per share (pence)					
- From continuing operations		3.8	6.00	*	7.82

*Adjusted for the purchase and re-issue of treasury shares in the prior year.

CROMA SECURITY SOLUTIONS GROUP PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	31-Dec-19 unaudited £000s	31-Dec-18 unaudited £000s	30-Jun-19 audited £000s
Assets			
Non-current assets			
Goodwill	7,311	7,233	7,311
Other Intangible assets	546	739	647
Property, plant and equipment	621	535	668
Right of use assets	1,290	-	-
	9,767	8,507	8,626
Current assets			
Inventories	865	753	825
Trade and other receivables	7,782	7,276	6,163
Cash and cash equivalents	2,308	1,712	1,729
	10,955	9,741	8,717
Total assets	**20,722**	**18,248**	**17,343**
Liabilities			
Non-current liabilities			
Deferred tax	(143)	(182)	(158)
Trade and other payables over 1 year	(11)	-	(23)
Lease liabilities	(919)	-	-
	(1,073)	(182)	(181)
Current liabilities			
Trade and other payables	(6,853)	(6,167)	(5,126)
Lease liabilities	(382)	-	-
Borrowings	(23)	(27)	(46)
	(7,257)	(6,194)	(5,172)
Total liabilities	**(8,330)**	**(6,376)**	**(5,353)**
Net assets	**12,393**	**11,872**	**11,990**
Issued capital and reserves attributable to owners of the parent			
Share capital	794	794	794
Treasury shares	(399)	(399)	(399)
Share premium	6,133	6,133	6,133
Merger reserve	2,139	2,139	2,139
Capital redemption reserve	51	51	51
Retained earnings	3,675	3,142	3,272
Share options	-	12	-
Total equity	**12,393**	**11,872**	**11,990**

CROMA SECURITY SOLUTIONS GROUP PLC
CONSOLIDATED STATEMENT OF CASHFLOWS
FOR 6 MONTHS ENDED 31 DECEMBER 2019

	Notes	6 months ended 31-Dec-19 unaudited £000s	6 months ended 31-Dec-18 unaudited £000s	Year ended 30-Jun-19 audited £000s
Cash flows from operating activities				
Profit before taxation		690	1,016	1,447
Depreciation, and amortisation		386	198	419
Loss on sale of plant and equipment		-	-	3
Net changes in working capital	**4**	(69)	(1,289)	(973)
Financial expenses		29	9	2
Corporation tax paid		(17)	-	(436)
Net cash generated from/(used in) operations		**1,019**	**(66)**	**462**
Cash flows from investing activities				
Purchase of business including acquisition costs net of cash acquired		-	(80)	(245)
Purchase of property, plant and equipment		(56)	(107)	(356)
Proceeds on disposal of property, plant and equipment		-	-	12
Net cash used in investing activities		**(56)**	**(187)**	**(589)**
Cash flows from financing activities				
Payments to reduce borrowings		(8)	(6)	(1)
Principal element of lease payments		(183)	(25)	(42)
Dividends paid		(164)	(149)	(253)
Interest paid		(29)	(9)	(2)
Net cash used in financing activities		**(384)**	**(189)**	**(298)**
Net increase/(decrease) in cash and cash equivalents		579	(442)	(425)
Cash and cash equivalents at beginning of period		1,729	2,154	2,154
Cash and cash equivalents at end of the period		**2,308**	**1,712**	**1,729**

CROMA SECURITY SOLUTIONS GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital £000s	Treasury Shares £000s	Share Premium £000s	Merger Reserve £000s	Capital Redemption Reserve £000s	Retained Earnings £000s	Share Options £000's	Total Equity £000s
Balance At 1 July 2019	**794**	**(399)**	**6,133**	**2,139**	**51**	**3,272**	**-**	**11,990**
Profit for the period	-	-	-	-	-	567	-	567
Dividends paid	-	-	-	-	-	(164)	-	(164)
At 31 December 2019	**794**	**(399)**	**6,133**	**2,139**	**51**	**3,675**	**-**	**12,393**
Balance at 1 July 2018	**794**	**(399)**	**6,133**	**2,139**	**51**	**2,463**	**12**	**11,193**
Profit for the period	-	-	-	-	-	828	-	828
Dividends paid	-	-	-	-	-	(149)	-	(149)
Balance at 31 December 2018	**794**	**(399)**	**6,133**	**2,139**	**51**	**3,142**	**12**	**11,872**
Balance at 1 July 2018	**794**	**(399)**	**6,133**	**2,139**	**51**	**2,347**	**12**	**11,077**
Profit for the year	-	-	-	-	-	1,166	-	**1,166**
Dividends paid	-	-	-	-	-	(253)	-	**(253)**
Transfer on lapse of options	-	-	-	-	-	12	(12)	**-**
Balance at 30 June 2019	**794**	**(399)**	**6,133**	**2,139**	**51**	**3,272**	**-**	**11,990**

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR 6 MONTHS TO 31 DECEMBER 2019

1. Basis of preparation

The interim financial information in this report has been prepared using accounting policies consistent with IFRS as adopted by the European Union. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable as at 30 June 2019. The Group has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing the interim financial information.

Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 30 June 2019 have been filed with the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

The financial information for the six months ended 31 December 2019 and 31 December 2018 is unaudited.

2. Accounting policies

Except as described below, the accounting policies applied by the Group in this interim report are the same as those applied by the Group in the consolidated financial statements for the year ended 30 June 2019.

The Group has initially adopted IFRS 16 Leases (see note 5) from 1 July 2019. Under the transition methods chosen, comparative information is not restated.

The changes to the accounting policies for leases and the effect of initially applying the new standards are explained in Note 5 below. In summary the effect can mainly be attributed to the following:

- Recognition of right of use assets and lease liabilities for former operating leases
- Recognition of depreciation of the right of use asset and an interest charge in place of operating lease charge in the income statement

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2020.

A number of other new and amended standards and interpretations are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

3. Earnings per share

Earnings per share is based upon the profit for the period and the weighted average number of shares in issue and ranking for dividend.

The following reflects the profit and share data used in the basic and diluted EPS computations:

	6 months ended 31-Dec-19	6 months ended 31-Dec-18		Year ended 30-Jun-19
Numerator				
Profit for the year on continuing operations and used in basic EPS (£000s)	567	828	*	1,166
Denominator				
Number of shares (thousands)				
Weighted average number of shares used in basic EPS	14,902	14,902	*	14,902
Weighted average number of shares used in diluted EPS	14,902	14,904	*	14,902

*Adjusted for the purchase and re-issue of treasury shares in the prior year.

4. Note supporting the cash flow statement

	6 months ended 31-Dec-19 unaudited £000s	6 months ended 31-Dec-18 unaudited £000s	Year ended 30-Jun-19 audited £000s
Net changes in working capital			
Increase in inventories	(41)	(45)	(67)
Increase in trade and other receivables	(1,613)	(1,279)	(49)
Increase/(decrease) in trade and other payables	1,585	35	(857)
	(69)	**(1,289)**	**(973)**

5. IFRS 16 Leases

IFRS 16 eliminates the classification for lessees of leases as operating leases or finance leases and treats all in a similar way to finance leases. It replaced IAS 17 Leases and related interpretations.

i. Explanation of changes in accounting policies

The details of the new accounting policies and the nature of the changes to previous accounting policies in relation to the Group's goods and services are set out below:

Type of lease	New accounting policy	Nature of change in accounting policy
Long term property and vehicle leases	Liabilities for such leases are recognised and measured at the present value of the remaining lease payments. For new leases these are discounted using the rate implicit in the lease when readily determinable, for other leases, including those at transition, these are discounted using the incremental borrowing rate ("IBR") relevant for the lease. The weighted average IBR applied to leases at 1 July 2019 was 3.5%. A right of use asset has been recognised at the carrying value of lease liability at 1 July 2019.	Under IAS 17, such lease payments were recognised on a straight-line basis over the lease term and the leases were effectively 'off balance sheet'.
Short term and low value leases	A practical expedient offered by IFRS 16 has been applied to not recognise a lease liability and right of use asset for such leases but to recognise payments on a straight-line basis over the lease term. Such leases are considered to either have a lease term of no more than 12 months or an underlying asset value of no more than £4,500.	IFRS 16 did not have a significant impact on the Group's accounting policies.

ii. Effect of adopting IFRS 16

The Group has adopted IFRS 16 using the modified retrospective method (including appropriate practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2019). Accordingly, the information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The difference between the operating commitments reported as at 30 June 2019 and the lease liability recognised at 1 July 2019 can be explained as follows:

	£000s
Operating lease commitments disclosed at 30 June 2019	1,359
New arrangements entered into on 1 July 2019	247
Less: Low value leases recognised as an expense	(3)
Discounted using the incremental borrowing rate at 1 July 2019	(165)
Lease liability and right of use assets recognised at 1 July 2019	**1,438**

6. Financial Information

The Board of Directors approved this interim report 28 February 2020.

A copy of this report can be obtained by writing to the Finance Director at our registered office; Unit 7 & 8, Fulcrum 4, Solent Way, Whiteley, Hampshire PO15 7FT or from our website at www.cssgroupplc.com