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Pennant International Group PLC
21 June 2024

FOR IMMEDIATE RELEASE **21 June 2024**

PENNANT INTERNATIONAL GROUP PLC

("Pennant", the "Company", or the "Group")

Final Results for the Year Ended 31 December 2023

Growth Strategy Delivers Return to Operating Profit & Record Gross Margin

Pennant International Group plc (AIM:PEN), the systems support and training solutions company, announces its Final Results for the Financial Year ended 31 December 2023 (the "**Year**", the "**Period**" or "**FY 2023**").

Commenting on the results, Chairman, Ian Dighé, said: *"I'm pleased to report my first set of results as Chairman of Pennant, highlighting significant Group-wide progress with a return to operating profit and record gross margins.*

"We continue to invest in, and develop, our leading suite of services and solutions, helping our customers maximise their operational efficiency, whilst pursuing a Group strategy that focuses on higher value, higher margin, recurring software and services revenues."

Key points: Financial

- Group revenues of £15.5 million (2022: £13.7 million);
- Gross profit margin of 50% (2022: 42%);
- EBITA profit of £1.4 million (2022: £0.5 million);
- Loss before tax of £0.4 million (2022: loss before tax £1.4 million);
- Operating profit of £0.1 million (2022: operating loss of £1.0 million);
- Basic loss per share of 2.53p (2022: loss of 2.45p);
- Unrelieved tax losses carried forward of £6.8 million (2022: £7.1 million);
- Group net assets at year-end of £9.8 million (2022: £10.7 million);
- Net debt at year-end of £1.9 million (2022: £0.4 million) reflecting investment in the IPS suite;
- No final dividend recommended (2022: £NIL).

Key points: Operational

- Continued significant investment in the Group's proprietary software products, totalling £1.4 million for the Period;
- Strong European revenue growth;
  - Underpinned by progress on c.£9 million Boeing Defence United Kingdom (BDUK) Apache upgrade programme - on time and on budget, with final deliveries still expected in September 2024;
- Acquisition of Track Access Productions Limited ("**TAP**") in April 2023, broadening Pennant's existing rail offering and customer base, delivering PBT of £155k in approx. 9 months;
- Version 2 of GenS released in May 2023, with first commercial sale achieved in June 2023;
- Strategic partnership with Aquila Learning Ltd to collaborate and integrate its ALaRMS - Aquila Learning (and Requirements /Resource/Record) Management System into Pennant's software suite, providing additional capabilities to shared customers, including an end-to-end S-Series software toolkit.

Post Period Highlights

- Successful £1.36 million (gross proceeds) fundraise to provide working capital and support investment in the IPS suite;
- Ian Dighé appointed Chairman with Philip Cotton stepping down;
- Beginning of investment phase which will see all three IPS applications - GenS, Analyzer and R4i - integrated into one, holistic solution.

Providing further comment on trading and prospects, Mr. Dighé added: *"The Board is encouraged by the improvements already realised, reflecting the implementation of the growth strategy, and is optimistic about the Group's prospects.*

"Current economic and geo-political trends are driving significant increases in global defence spending and the outlook for our other key markets also appears to be improving; promising growing tailwinds for the Group in the short-to-medium term.

"Despite recent delays in order conversion, the impact is expected to be limited to the short-term. The strategic investment in our integrated software suite and post Period-end release of GenS Version 3.0, brings to market a leading software solution aligned to addressing the challenges that operators face in managing, modelling and utilising vast amounts of complex systems data.

"The Board believes that this integrated product suite, coupled with the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, our specialist services together with our quality-assured reputation - will provide opportunities for long-term success."

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Notes to editors:

Pennant International Group plc (AIM: PEN) is a technology driven, leading global provider of system support services, technical services, and training solutions. It supports its global customer base in the design, development, operation, maintenance, and training of complex assets, to maximise operational and maintenance efficiency.

Its key markets include Aerospace, Defence and Rail, and adjacent safety-critical markets such as Shipping, Nuclear and Space.

The Group addresses the market through three key business lines:

- **Systems support:** software tools designed to help clients: manage and use complex data; ensure equipment availability at optimal cost; and comply with industry standards. Its Integrated Product Support (IPS) and Integrated Logistics Support (ILS) software and services equips customers with powerful market-leading toolsets to manage, model and utilise complex equipment data.

- **Training solutions:** provide hardware, software and virtual solutions, critical skills training for maintainers and operators of aircraft, ships and land systems.

- **Technical services:** support all Pennant's software and training solutions including consultancy, support and maintenance, training and bespoke development.

The Company's full product suite encompasses consultancy, technical documentation, rail services, training services, and bespoke engineering solutions.

Pennant is strategically focused on sustainable recurring revenue and profitability growth, shifting its model towards high margin software and services. Against a climate of rising defence budgets and the burgeoning technological complexity of military, aviation and rail platforms, the demand for these solutions is expected to grow substantially.

Headquartered in Cheltenham, UK, the Group operates worldwide, with offices in Europe, North America and Indo-Pacific, serving markets with high barriers to entry often in regulated industries.

[Pennant - Maximising Operational Efficiency - YouTube]

CHAIR'S STATEMENT

Full Year expectations met, return to operating profit, record gross margin

The Group has made significant progress in the year ended 31 December 2023 (the "**Period**"), meeting market expectations and achieving a return to operating profit, with an adjusted EBIT profit of £0.4 million for the year (2022: EBIT loss of £1.0 million) and an adjusted EBITDA profit of £2.2 million (2022: EBITDA of £1.0 million).

The Group's performance continues to benefit from, and is primarily the result of, Pennant's technology and software strategy shifting the Group's focus to delivery of higher value services. The Group's ongoing focus on higher margin revenues from software and technical services continues to be reflected in the results. Therefore, despite relatively consistent revenues, totalling £9.6 million in 2023 (2022: £10.2 million), the strengthened revenue mix and improved margin has delivered notable improvements already.

Strategy

Pennant's strategy remains firmly on increasing the proportion of the Group's revenues which derive from the sale of software and technical services, particularly those of a recurring nature, by expanding the market coverage through the development of the Group's market-leading proprietary software suite and associated services.

The Group also continues to seek other strategic opportunities to partner with or acquire complementary businesses which will accelerate the Group's strategy.

During the Period the Group announced the completion of the acquisition of Track Access Productions and its strategic partnership with Aquila Learning Ltd. The acquisition of Track Access Productions is aligned with the Group's software and technical services strategy and has enhanced the Group's rail capability, diversifying into non-defence growth markets. Our partnership with Aquila Learning Ltd is designed to offer our customers an end-to-end integrated software platform to maximise operational efficiency.

Key Financials

For the year ended 31 December 2023, the Group recorded consolidated revenues of £15.5 million (2022: £13.7 million) again underpinned by the Group's contracted revenue base.

The Group's gross margin for the year increased significantly to 50% (2022: 42%) due to the strategic shift towards software and higher value services. As a result, the Group posted a consolidated adjusted EBITA profit of £1.7 million

(2022: EBITA £0.5 million) which is in line with market expectations.

The Group's net debt at the Period end was £1.9 million (2022: net debt of £0.4 million) which reflects, amongst other things, the continued investment in the integrated software suite, acquisition related expenses and expenses related to aborted corporate activity.

Dividend

The Directors believe that it continues to be both prudent and in the Company's and shareholders' best interests to retain cash for working capital and focus on delivering growth. The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2023.

Our People

To deliver a successful performance in 2024, the Group must have a committed workforce, appropriately incentivised and motivated. I would like to thank all our employees for their commitment to supporting the Group and for the resilience and flexibility they have demonstrated in meeting our customers' needs.

The Group is constantly seeking ways to attract, retain and reward the specialist skills that we need in order to deliver. It is our people we rely on to deliver our strategy and deliver successful results in the current period and beyond. We must continue to pay particular attention to their needs and as a Board we remain focused on supporting them.

Our Culture

The Board remains committed to ensuring that all Group employees understand and embody the Group's 'Core Values'. These underpin the approach to all activities whether they be in an operational or customer facing environment. These values are also critical in terms of the approach taken to all our policies whether they are mandated by law (such as anti-bribery or anti-counterfeiting laws) or mandated by behavioural ethics (such as fair treatment and equality of opportunity), treating all individuals with the respect they deserve regardless of their position. This requires strong leadership at all levels.

Governance

The Board is also committed to maintaining robust corporate governance. It has worked closely with its advisors and in 2023 monitored governance frameworks to ensure strong, proportionate governance throughout the Group; this is important given the number of geographies in which we are present. The Board has established appropriate risk management procedures and keeps key risks to the Group under regular, rigorous review.

Board Changes

During the Period and post Period-end there were a number of Board changes.

We were delighted to appoint Michael Brinson to the Board as Group Chief Financial Officer with effect from 1 January 2023. Michael joined the Group as Head of Finance in February 2020.

Also in January 2023, the Group announced the appointment of Deborah Wilkinson as Non-Executive Director with effect from 1 February 2023.

Post Period-end, I joined the Group as a Non-Executive Director and Chair designate with effect from 7 February 2024.

On 14 May 2024, Phil Cotton stepped down as Chair and announced his intention to retire as Non-Executive Director following the Company's next Annual General Meeting. I assumed the role of Chair on 14 May 2024 upon Phil stepping down. On behalf of the Board, I would like to thank Phil Cotton for his five years of service and we wish him all the best for the future.

Current Trading and Outlook

I join the Group at a time when global economic and geo-political trends provide a supportive backdrop for Pennant's capabilities. Pennant has few competitors that can offer the end-to-end solution that we provide, and defence forces, organisations and OEMs continue to prefer to outsource these services. Additionally, examples of key drivers currently include growing global defence budgets, increasing complexity of programmes, and an increasing need for sovereign capabilities, all of which stands to our benefit.

Post Period-end, the Group started the year well. Despite delayed order conversion, as previously announced, we have observed a material increase in activity in our key markets and are well placed to capitalise.

The strategic investment in our integrated software suite and post Period-end release of GenS Version 3.0, brings to market a leading software solution aligned to addressing the challenges that operators face in managing, modelling and utilising vast amounts of complex systems data.

The Board believes that this integrated product suite, coupled with the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, our specialist services together with our quality-assured reputation - will provide opportunities for long-term success.

I Dighé
Chair

CHIEF EXECUTIVE'S REVIEW

Strategy delivering; improved performance

In 2023 we continued the implementation of the Group's strategic plan: a programme of investment in the Group's proprietary software suite designed to provide our customers with a powerful market-leading toolset that allows users to manage, model and utilise vast amounts of complex systems data, with the objective of increasing revenue from software and higher value technical services and recurring contracts.

The impact of this strategy is now visible in our financial performance with the Group achieving an operating profit and meeting the market's expectations for the full year. Pennant has continued to invest in its integrated software suite, acquired a complementary business and agreed beneficial strategic partnerships. The implementation of our growth strategy is already delivering improved order lead times, revenue recognition and margins.

Strategic software investment

In line with the Group's core strategic objectives, investment in our proprietary software suite has continued during the year targeting growth in capability and with the aim of expanding the Group's market offering.

During the Period the Group invested circa £1.4 million in the development of its new and enhanced suite of software solutions with the aim of improving the overall customer proposition. The continued development of the new GenS software solution (OmegaPS successor product) was accelerated with release of version 3.0 achieved in April 2024.

The investment programme now moves into the next phase, which will see all three of the Group's software applications - GenS, Analyzer and R4i - being integrated into one, holistic solution with release scheduled for Q4 2024.

Pennant anticipates that it will continue to invest in its integrated software suite during 2024 and expects the level of investment to be in line with 2023.

Rail acquisition

During the Period, the Group successfully completed the acquisition of Track Access Productions.

Track Access provides driver training, route mapping and route familiarisation services to the rail industry. Its acquisition aligns with the Group's strategy, in particular by enhancing recurring revenues and further diversifying into civilian markets, while also enhancing the Group's existing rail capabilities and complementing Pennant's Track Access Services business. In the Period, it delivered revenues of £342k and profits before tax of £155k (excluding management charges of £68k) over approximately 9 months.

Strategic partnership

In September 2023, the Group announced a strategic partnership with Aquila Learning Ltd to collaborate on a number of projects, including the integration of the ALaRMS - Aquila Learning (and Requirements /Resource/Record) Management System into the market leading Pennant IPS software suite (GenS, Analyzer and R4i).

The partnership is looking to provide users with additional capabilities to our shared customers, including an end-to-end S-Series software toolkit.

Regional Operational Review

The table below highlights Pennant's regional revenue for 2022 and 2023.

	Regional revenue	
	2023	2022
	£000s	£000s
UK & Europe	8,821	5,557
North America	4,051	4,985
Indo-Pacific	2,663	3,144
Total	**15,535**	**13,686**

UK & Europe

Revenue generated in the UK & Europe region showed strong growth during 2023 at £8.8 million (2022: £5.6 million). The current geopolitical backdrop and recent events have highlighted the importance of national security and strategic investment in capability, and current deficits in preparedness. Therefore, the outlook for Pennant's key markets appears to be improving.

The revenue in the region was underpinned by contracts with Boeing Defence UK, HMRC and with rail operators, which grew as result of the enhanced rail capability from the acquisition.

In terms of operational delivery, the region had a successful Period with notable highlights including the on-time achievement of several engineering milestones on the Boeing Defence UK contract which continues to progress well in 2024 and the successful release of the annual update to the HMRC Basic PAYE software tool where Pennant is responsible for the development and support of the tool.

With the Group's increasing software and higher value services focus bringing reduced reliance on resource-intensive hardware engineering activities the Board decided to market for sale one of the Group's previously leased Cheltenham properties with the sale completed post Period end for £0.5 million. The profit generated on this disposal was £231k.

North America

The North America business saw revenues decline to £4.1 million from £5.0 million in 2022. This was driven by two factors; 1) 2022 included a significant perpetual software sale and 2) a Government-driven procurement change in respect of Pennant's long-term contract with the Canadian Department of National Defence.

In October 2023, after 23 years of single-source procurement, the contracting mechanism for the various tasks under the framework contract was changed to a competitive tender process per each individual task. To date, Pennant has successfully tendered and secured 100% of the 8 tasks competed which account for approximately 50% of historic annual recurring revenues. Pennant will continue to tender for further opportunities as they are competed as the region looks to restore the level and long-term visibility of revenues that the legacy contract provided.

Indo-Pacific

The Indo-Pacific business enjoyed a solid year but was impacted by customer budget phasing which resulted in revenue delays in the Period with resultant revenues reducing from £3.1 million to £2.7 million. It is expected that this temporary timing-related issue will unwind throughout 2024.

Operationally, Pennant's existing long term technical services contract in Wagga Wagga continued to perform well and was extended into 2027 (year 14 of a 20-year framework). The contract was expanded in the Period with the establishment of a Composites Training Facility in the region which is expected to deliver recurring revenues for at least 5 years.

Delivering on our strategy

The software investment programme now moves into the next phase, which will see all three of Pennant's core applications - GenS, Analyzer and R4i - being integrated into one, holistic solution which will provide customers with a powerful, market leading toolset.

This investment continues the strategy to drive higher margin, recurring software revenues and higher value technical services, which when aligned with a favourable strategic backdrop provide a firm platform for continued progress in the current year.

P H Walker
Director

CHIEF FINANCIAL OFFICER'S REVIEW

Record gross margins and cost control; return to operating profit

Financial review

The results and a review of the key financial performance indicators of revenue and profitability are set out below.

Performance

Group revenue for the year increased by 14% and was delivered in line with expectations at £15.5 million (2022: £13.7 million) with a marginal weighting towards the second half.

There was further growth in the gross profit margin for the Period to 50% (2022: 42%), a record for the Group. This reflects the change in the sales mix in the Period and shift in the strategic direction of the Group towards software-related products and higher value services.

Despite inflationary cost pressures, administrative costs were held broadly in line with 2022 with a 3.8% increase at £7.6 million (adjusted for £325k of exceptional costs) (2022: £7.3 million).

The improved margins coupled with the controlled cost base, resulted in a return to profit at an operating margin level of £0.1 million (2022: operating loss £1.0 million) and an adjusted EBITA profit of £1.7 million (2022: EBITA profit £0.5 million).

£m	H1	H2	**2023**	2022
Revenue	7.1	8.4	15.5	13.7
Gross profit	3.3	4.4	7.7	5.8
Gross profit %	*47%*	*52%*	*50%*	*42%*
Other income	0.1	0.2	0.3	0.5
Admin costs	(3.6)	(4.3)	(7.9)	(7.3)
Operating profit / (loss)	**(0.2)**	**0.3**	**0.1**	**(1.0)**
Amortisation	0.7	0.6	1.3	1.5
EBITA	0.5	0.9	**1.4**	0.5
Depreciation	0.2	0.3	0.5	0.6
EBITDA	0.7	1.2	**1.9**	1.1

A summary of the income statement adjusted for exceptional costs is as follows:

£m	**2023**	**Exceptional Costs**	**Adjusted**
Revenue	15.5	-	15.5
Gross profit	7.7	-	7.7
Gross profit %	*50%*	-	*50%*
Other income	0.3	-	0.3
Admin costs	(7.9)	0.3	(7.6)
Operating profit / (loss)	**0.1**	**0.3**	**0.4**
Amortisation	1.3	-	1.3
EBITA	**1.4**	**0.3**	**1.7**
Depreciation	0.5	-	0.5
EBITDA	**1.9**	**0.3**	**2.2**

Exceptional costs are non-recurring, and include transaction and integration costs associated with the acquisition of Track Access Productions Limited in April 2023, and professional costs and expenses associated with another, aborted transaction.

Revenue analysis

An analysis of the Group's revenue by product group is as follows:

	2023 **£000s**	2022 £000s
Software licences & products	1,111	1,377
Software maintenance	1,589	1,458
Software and technical services	6,873	7,410
Sub-total Software and Services	**9,573**	10,245
Engineered solutions	5,229	2,410
Generic products	733	1,031
Sub-total Training Solutions	**5,962**	3,441
Total Group Revenue	**15,535**	13,686

Revenues contributed by Software and Services have reduced to £9.6 million in 2023 (2022: £10.2 million) representing 62% of the total revenue in the Period (2022: 75%). The reduction is predominantly due to the change in procurement methodology in North America (as outlined in the Chief Executive's Review). The ongoing software product sales from this and prior periods have resulted in increased maintenance revenues in the Period which will be recurring in nature. Recurring revenues remained broadly in line with the prior year at £7.3 million (2022: £7.7 million) in 2023. The recurring revenues associated with technical services increased by 10% year-on-year, partly mitigating the software services reduction in North America. Recurring revenues represented 47% (2022: 56%) of the total revenue for the Period due to the increased revenues on non-recurring engineered solutions in FY2023.

Software and Services

Software licences & products

The software product sales in 2023 continued to be predominantly driven by R4i software sales, with the associated recurring maintenance revenues (circa 20% per annum) to follow on a recurring basis. Revenues are recognised upon installation of the software and tend to be non-recurring in nature.

Software maintenance

Software maintenance revenues are recurring by nature and are growing year on year, driven by the growth in the global customer base for the Group's software solutions. The revenue is recognised over the duration of the maintenance period for each customer which can range from annual renewals to multi-year agreements. The software is used to support the lifecycle of complex assets which can span decades.

Software and technical services

The predominantly recurring software and technical services revenue stream has reduced from 75% of the Group's revenues in 2022 to 62% in 2023 for the reasons outlined above. The revenues are typically recognised on a consumption of benefit basis over time.

Training Solutions

Engineered solutions

As per the expectation stated in the Annual Report and Accounts for FY2022, revenues associated with engineered solutions have increased significantly from £2.4 million in 2022 to £5.2 million in 2023. This is reflective of the operational stage of completion on the programmes which form the basis of this revenue stream which is recognised over time under IFRS 15.

Generic products

The revenue recognition for generic products is at a point in time (typically on delivery) under IFRS 15. Revenues for these products in 2023 was £0.7 million compared to £1.0 million in 2022.

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Cashflow

Cash generated from operations amounted to £1.3 million (2022: £2.6 million). This reflects milestone achievements on major programmes in 2023 and associated cash payments being received. The cash generation in operations has been deployed to support the Group's ongoing strategic investment in the integrated software suite and the in Period acquisition of Track Access Productions.

The Group had net borrowings at the year-end of £1.9 million (2022: net borrowings of £0.4 million) excluding lease liabilities.

Post Period-end, the Group has renewed its overdraft facility with its bankers, HSBC, at £3 million. Furthermore, in order to support the required strategic investment in our integrated software suite, in May 2024 the Group utilised its 15% placing authority to raise circa £1.15 million after fees. The Board also confirmed an intention to subscribe for a further £200k of shares in aggregate, subject to a further placing authority being approved at the 2024 AGM. Assuming the Board's subscription proceeds as expected, the total proceeds after fees will be £1.35 million. These funds will support the planned capital investment in the integrated software suite.

The Group has an active pipeline of opportunities spanning the entire spectrum of product and services. Securing these pipeline orders will underpin the cashflows of the Group in 2025 and beyond.

Research & development

Research and development repayable tax credits expected to be claimed in the UK for the Period amount to £0.3 million (2022: £0.3 million) on qualifying expenditure of £1.7 million (2022: £1.4 million). The claims mostly relate to the development of innovative new software products.

Taxation

The Group's tax position shows a tax charge of £566k (2022: tax credit of £464k). The tax charge in 2023 is primarily due to deferred tax being partially derecognised based on the amount of taxable profits in the profit forecasts. This is a non-cash adjustment. Deferred tax has been recognised to the extent that future forecasts (excluding a selection of pipeline opportunities totalling £18 million aligned to timing uncertainties in the extreme but plausible scenario in the Going Concern scenario analysis) support the carrying value. As a result, UK trading losses with a gross value of £1.3 million have not been recognised within the deferred tax asset. After the approval of the Financial Statements, if the expected conversion of the pipeline occurs, a deferred tax asset in relation to these losses may be recognised or there may be a reduction in any taxable profits made in the UK entities in 2025. The unrecognised deferred tax asset in relation to the above losses amounts to £324k.

A deferred tax asset in relation to temporary timing differences within Pennant America Inc. has been recognised on the basis of taxable profit over the three years to 2026. As a result, temporary timing differences of £812k have not been recognised as part of the deferred tax asset. If future profits exceed the current forecast an additional deferred tax asset of £226k may be recognised.

The Group has total unrelieved UK tax losses carried forward of £6.8 million (2022: £7.1 million).

Looking forward

With the development of the integrated software suite nearing its conclusion, the Group is looking forward to realising the returns on this investment, and the associated profit and generation of free cashflows which strengthen the balance sheet.

M J Brinson
Director

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023	2022
Continuing operations		**£000s**	£000s
Revenue		15,535	13,686
Cost of sales		(7,808)	(7,897)
Gross profit		**7,727**	**5,789**
Land and buildings revaluation on previously impaired asset		39	-
Profit on sale of land and buildings		-	374
Other administration expenses		(7,880)	(7,276)
Administrative expenses		(7,841)	(6,902)
Other income		209	123
Operating profit/(loss)	2	**95**	**(990)**
Finance costs		(463)	(377)
Finance income		1	2
Loss before taxation		**(367)**	**(1,365)**
Taxation	3	(566)	464
Loss for the year attributable to the equity holders of the parent		**(933)**	**(901)**
Earnings per share			
Basic		(2.53p)	(2.45p)
Diluted		(2.53p)	(2.45p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes		2023	2022
			£000s	£000s
Loss for the year attributable to the equity holders of the parent			**(933)**	(901)
Items that may be reclassified to profit or loss			(120)	109
Exchange differences on translation of foreign operations			-	39
Prior year amortisation adjustment				
Items that will not be reclassified to profit or loss				-
Net revaluation gain		113		
Deferred tax (charge)/credit - property, plant and equipment	6		(28)	248
Total comprehensive loss for the period attributable to the equity holders of the parent			**(968)**	(505)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2023

	Notes	2023 £000s	2022 £000s
Non-current assets			
Goodwill	4	2,595	2,507
Other intangible assets	5	5,335	4,690
Property, plant and equipment		4,155	4,002
Right-of-use assets		860	503
Deferred tax assets	6	399	1,497
Total non-current assets		**13,344**	**13,199**
Current assets			
Inventories		980	1,001
Trade and other receivables		2,647	4,129
Corporation tax recoverable		641	354
Cash and cash equivalents		1,099	1,107
Total current assets		**5,367**	**6,591**
Total assets		**18,711**	**19,790**
Current liabilities			
Trade and other payables		4,099	5,862
Bank overdraft		2,978	1,533
Current tax liabilities		1	155
Lease liabilities		420	174
Deferred consideration on acquisition		468	327
Total current liabilities		**7,966**	**8,051**
Net current liabilities		**(2,599)**	**(1,460)**
Non-current liabilities			
Lease liabilities		501	385
Warranty provisions		144	107
Contingent consideration on acquisition		283	552
Total non-current liabilities		**928**	**1,044**
Total liabilities		**8,894**	**9,095**
Net assets		**9,817**	**10,695**
Equity			
Share capital		1,844	1,840
Share premium account		5,383	5,366
Capital redemption reserve		200	200
Retained earnings		1,990	2,844
Translation reserve		215	335
Revaluation reserve		185	110
Total equity		**9,817**	**10,695**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital	**Share premium**	**Capital redemption reserve**	**Retained earnings**	**Translation reserve**	**Revaluationreserve**	**Total equity**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
At 1 January 2022	1,832	5,345	200	2,687	226	854	11,144
(Loss) for the year	-	-	-	(901)	-	-	(901)
Other comprehensive income	-	-	-	1,031	109	(744)	396
	1,832	5,345	200	2,817	335	110	10,639
Issue of new ordinary shares	8	21	-	(2)	-	-	27
Recognition of share based payment	-	-	-	29	-	-	29

Transfer from revaluation reserve	-	-	-	-	-	-	-
At 31 December 2022	1,840	5,366	200	2,844	335	110	10,695

(Loss) for the year	-	-	-	(933)	-	-	(933)
Other comprehensive income / (loss)	-	-	-	-	(120)	85	(35)
	1,840	5,366	200	1,911	215	195	9,727
Issue of new ordinary shares	4	17	-	-	-	-	21
Recognition of share based payment	-	-	-	69	-	-	69
Transfer from revaluation reserve	-	-	-	10	-	(10)	-
At 31 December 2023	**1,844**	**5,383**	**200**	**1,990**	**215**	**185**	**9,817**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 £000s	2022 £000s
Net cash from operations		**1,294**	2,572
Investing activities			
Interest received		1	2
Payment for acquisition of subsidiaries, net of cash acquired	7	(214)	-
Deferred consideration paid in respect of prior year acquisition		(352)	(547)
Purchase of intangible assets	5	(1,453)	(1,150)
Purchase of property, plant and equipment		(305)	(63)
Proceeds from disposal of property, plant and equipment		-	2,117
Net cash (used in)/generated from investing activities		**(2,323)**	359
Financing activities			
Proceeds from issue of ordinary shares		21	24
Repayment of lease liabilities		(195)	(207)
Net cash from financing activities		**(174)**	(183)
Net (decrease)/increase in cash and cash equivalents		**(1,203)**	2,748
Cash and cash equivalents at beginning of year		(426)	(3,540)
Effect of foreign exchange rates		(250)	366
Cash and cash equivalents at end of year		**(1,879)**	(426)

ABBREVIATED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1. Basis of Preparation

The financial information set out in this preliminary announcement does not constitute statutory accounts for the purposes of the Companies Act 2006.

- The statement of financial position at 31 December 2023 and income statement, statement of changes in equity, statement of cash flows and associated notes for the year ended 31 December 2023 have been extracted from the Group's 2023 financial statements upon which the auditor opinion is unqualified. The audit report includes material uncertainties in respect of:
- the timing of contractual delivery,
- the timing of pipeline conversion currently forecasted at the end of 2024; and
- the availability of adequate borrowing facilities for the duration of the review period

The directors' assessment of these uncertainties is set out in note 3 of the notes to the financial statements as contained the 2023 Annual Report and Accounts. Following such assessment, the Directors concluded that it was appropriate to prepare the financial statements using the 'going concern' basis.

The financial information in this preliminary statement has been prepared in accordance with the accounting policies, and on the basis set out, in the Group's 2023 financial statements.

The 2023 Annual Report and Accounts will be available on the Company's website: www.pennantplc.com Copies may be obtained by contacting the Company Secretary at Unit D1, Staverton Connection, Staverton, Cheltenham GL51 0TF.

2. Operating profit/(loss) for the year

	2023	2022
	£000s	£000s
The operating profit/(loss) for the year is stated after charging /(crediting):		
Net foreign exchange (profit)/loss	(73)	119
Research and development costs*	1,033	818
Other income arising from RDEC claim (R&D)	(205)	(113)
Property rental and sundry other income	(4)	(10)
Amortisation of intangible assets	1,330	1,585
Reversal of previously recognised impairment loss as a result of land and buildings revaluation	(39)	-
Depreciation of property, plant and equipment	305	373
Depreciation of right-of-use assets	200	183
Share-based payment	69	29
(Profit)/Loss on disposal of land and buildings	-	(374)
(Profit)/Loss on disposal of other property, plant and equipment	-	(6)

* In addition, in 2023 research and development costs of £1,452k were capitalised (2022: £1,139k)

ABBREVIATED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

3 Taxation

	2023	2022
	£000s	£000s
Recognised in the income statement		
Current UK tax credit	137	178
Foreign tax credit / (charge)	110	(323)
In respect of prior years	150	191
Sub-total current tax	**397**	46
Deferred tax (charge) / credit relating to origination and reversal of temporary differences	(990)	485
In relation to prior years	44	(88)
Exchange rate difference	(17)	21
Subtotal deferred tax	**(963)**	418
Total income statement tax (charge)/credit	**(566)**	464

Total income statement tax (charge)/credit	**(566)**	464
Other Comprehensive Income charge for the period		
Deferred tax	**(28)**	248
Reconciliation of effective tax rate		
Loss before tax	**(367)**	(1,365)
Tax at the rate applicable in the United Kingdom of 23.52% (2022: 19.00%)	86	259
Tax effect of expenses not deductible in determining taxable profit	(198)	30
Tax effect of income excluded from taxable profits	9	233
Impact of R&D tax credits	57	77
Foreign tax expensed	(8)	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	45	(53)
Effect of (higher) / lower rate of deferred tax	(28)	175
Effect of change in recognition of deferred tax asset	(601)	-
Effect of adjustments for prior years (current tax)	150	191
Effect of adjustments for prior years (deferred tax)	44	(88)
Other differences	(122)	(360)
Total tax (charge)/credit	**(566)**	464

4. Goodwill

	£000s
Carrying amount:	
At 1 January 2022	2,403
Currency translation	104
At 1 January 2023	2,507
Currency translation	(62)
Acquisition of Track Access Productions Ltd	150
At 31 December 2023	**2,595**

Goodwill acquired in a business combination is allocated at acquisition to cash generating units ("CGUs") that are expected to benefit from that business combination. The goodwill will not be deductible for tax purposes.

4. Goodwill (continued)

The Group sells or offers for sale the same range of all of its products in each of three distinct geographical regions, as shown in the segmental analysis at note 6. However, the Group's intellectual property is owned by the Company and is licenced to its subsidiaries. As the regional entities do not have significant revenue-generating assets, the geographic regions are not considered to be CGUs.

The Group has instead chosen its CGUs to reflect its two different product streams, which are Training (sale of Engineered and Generic products) and Software (sale of Licences, Maintenance and Services). This choice is justified because the intellectual property, know-how and mode of operation is different for each CGU.

The carrying amount of goodwill has been allocated as follows:

Cash generating unit:	**2023 £000s**	2022 £000s
Training	734	584
Software	1,861	1,923
	2,595	2,507

The Group tests goodwill annually for impairment. The recoverable amounts of the CGU's are determined from value in use calculations. The Group prepares cash flow forecasts for the following twelve months derived from the most recent annual financial budgets approved by the Board of Directors and extrapolates cash flows as follows:

Software CGU:

Cashflows are extrapolated for a further four years beyond the twelve-month annual budget period at a growth rate of 5% (2022: 5%). The forecast includes a terminal value at a terminal growth rate of 2%.

Training CGU:

Cashflows are forecast for an additional two years beyond the twelve-month approved financial budget period based on a contract level review with the addition of expected cash flows generated from 'pipeline' opportunities. As at 31 December 2023 the Training CGU had an active pipeline of circa £70 million (2022: £60 million) and in testing the goodwill for impairment the Directors have assumed a prudent conversion rate of circa 30%. For years four and five, a growth rate of 3% per annum (2022: 3%) is assumed. The forecast does not include a terminal value.

The forecast cash flows of each CGU are discounted at the following pre-tax rates to provide the value in use for each CGU:

Training CGU: 11.74% per annum (2022: 13.78% per annum); post-tax rate 10.85% (2022: 12.02%)
Software CGU: 12.87% per annum (2022: 16.51% per annum); post-tax rate 10.85% (2022: 12.02%)

The rates have been calculated to reflect the working capital structure of the Group as each CGU utilises the optimal capital structure, being both debt and equity.

The discounted cash flows provide headroom for the goodwill carrying values in excess of their respective assets in the case of each CGU with the Training headroom being £0.6 million without considering terminal values and Software headroom of £2.9 million when considering terminal values.

4. Goodwill (continued)

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in either the year ending 31 December 2023 or 31 December 2022. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value. The Directors have conducted their review using best estimates, including the quantum and timing of pipeline conversion.

5. Other intangible assets

	Software	Development costs	Customer lists and contracts	Total
	£000s	£000s	£000s	£000s
Cost				
At 1 January 2022	348	8,992	-	9,340
Currency translation	-	20	-	20
Reclassifications	240	(240)	-	-
Additions	11	1,139	-	1,150
Disposals	(50)	-	-	(30)
At 1 January 2023	549	9,911	-	10,460
Currency translation	-	(21)	-	(21)
Acquisition of TAP	-	-	536	536
Additions	28	1,139	-	1,453
Disposals	(40)	-	-	(40)
At 31 December 2023	**537**	**11,315**	**536**	**12,388**
Amortisation				
At 1 January 2022	317	3,942	-	4,259
Currency translation	2	1	-	3
Reclassifications	240	(240)	-	-
Charge for the year	22	1,536	-	1,588
Disposals	(50)	-	-	(25)
At 1 January 2023	531	5,239	-	5,770
Currency translation	-	(7)	-	(7)
Charge for the year	10	1,240	80	1,330
Disposals	(40)	-	-	(40)
At 31 December 2023	**501**	**6,472**	**80**	**7,053**
Carrying amount				
At 31 December 2023	**36**	**4,843**	**456**	**5,335**
At 31 December 2022	18	4,672	-	4,690

During 2023 the Group capitalised £1,425k (2022: £1,139k) of costs in relation to the ongoing development of the GenS software solution along with enhancements to existing software related assets. An impairment review was performed and as at the 31 December 2023 no indicators of impairment were identified.

ABBREVIATED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

6 Deferred tax

	Accelerated tax depreciation £000s	Other temporary differences £000s	Intangible Assets £000s	Tax losses £000s	Total £000s
At 1 January 2022	(1,554)	734	-	1,670	850
(Charge)/credit to income	(7)	(35)	-	419	377
Credit to OCI	248	-	-	-	248
Exchange differences	1	21	-	-	22
At 1 January 2023	(1,312)	720	-	2,089	1,497
(Charge)/credit to income	(49)	(155)	-	(715)	(919)
(Charge)/credit to OCI	(28)	-	-	-	(28)
Exchange differences	-	(17)	-	-	(17)
Acquisition entry	-	-	(134)	-	(134)
At 31 December 2023	**(1,389)**	**548**	**(134)**	**1,374**	**399**

The main rate of United Kingdom (UK) corporation tax increased from 19% to 25% with effect from 1 April 2023. The 25% rate has been applied in the calculation of deferred taxation balances for the UK-based entities. In each foreign subsidiary, deferred tax has been recognised at the prevailing income tax rate in the respective country.

At the reporting date the Group had unused tax losses of approximately £6.8 million (2022: £7.1 million) which are expected to be available for set-off against future profits arising in the UK. Unused tax losses of £1.3m have not been recognised within the deferred tax asset above.

7 Business combinations

Business combinations 2023

On 12 April 2023, Pennant acquired the entire issued share capital of Track Access Productions Limited ("TAP").

TAP is a UK business, incorporated in 2001 and based in Bedfordshire, which provides driver training, route mapping and route familiarisation services to the UK rail industry. Its clients comprise train operating companies, freight operating companies, engineering prime contractors and infrastructure providers. TAP has two key revenue streams: a subscription-based web portal through which its clients can access training content, and project-specific route mapping work.

The consideration payable for the acquisition comprised an enterprise value of £585k, plus an amount of circa £385k in respect of TAP's 'free cash' after allowing for normalised working capital and repayment of debt ("Cash Free, Debt Free Adjustment"). The acquisition has been funded from the Group's existing cash resources.

Purchase consideration Track Access Productions Ltd	**£000s**
Cash paid	795
Deferred cash consideration	176
Total consideration before discounting of deferred consideration	**971**
Less discounting applied to deferred consideration	(21)
Total consideration after discounting of deferred consideration	**950**

7 Business combinations (continued)

Business combinations 2023 (continued)

The accounting treatment for the business combination is summarised below:

Assets and liabilities recognised as a result of the acquisition:

	Assets £000s	Liabilities £000s	Fair Value £000s	Total £000s
Intangible assets*	-	-	536	536
Plant and equipment	2	-	-	2
Inventories	3	-	-	3
Trade and other receivables	158	-	-	158
Cash at bank	581	-	-	581
Trade and other payables	-	(350)	-	(350)
Corporation tax recoverable	4	-	-	4
Deferred tax	-	-	(134)	(134)
Net identifiable assets acquired	**748**	**(350)**	**402**	**800**
Goodwill recognised on acquisition				150
Purchase consideration				**950**

*comprising customer contracts and ongoing relationships. To be amortised on a straight-line basis over 5 years.

Factors that lead to the recognition of goodwill include the non-recognition of certain software intangible assets (internally-generated or otherwise) and synergies to be gained from the planned merger of TAP and the Group's existing rail business Track Access Services (TAS, a division of Pennant International Limited) into a single operating rail entity. The goodwill recognised will not be tax deductible.

Purchase consideration net cash outflow	**£000s**
Cash paid	795
Less cash acquired	(581)
	214

The acquisition was in the Group's best interests because TAP's business aligns closely with Pennant's existing Track Access Services (TAS) business unit and the acquisition will enhance the Group's presence in the UK rail market. The combined TAS and TAP rail unit generated revenues in 2023 of £809k. At the acquisition date all trade receivables were expected to be collected and so the fair value is considered to be the book value of the debts acquired.

For the period from the date of acquisition on 12 April 2023 to 31 December 2023 the acquisition delivered revenues of £342k and profits before tax of £155k, excluding management charges from the Company of £68k. For the full 2023 calendar year it is estimated that on a time-apportioned basis TAP's revenue for the year to 31 December 2023 was £472k and its profit before tax was £214k, excluding management charges from the Company of £94k.

Business Combinations 2022

The Group did not enter into any business combinations in 2022.