23 March 2022

ECSC Group plc

('ECSC' or the 'Company' or the 'Group')

Final Results for the Year Ended 31 December 2021

Strong revenue growth delivering positive Adjusted EBITDA

ECSC Group plc (AIM: ECSC) a leading provider of cyber security services, announces its audited final results for the year ended 31 December 2021.

Financial Highlights

- Organic revenue up 8% to £6.14m (2020: £5.66m)
- Managed Detection and Response ("MDR") division recurring revenue growth of 7% to £2.59m (2020: £2.42m)
- Assurance division repeat revenue increased to 81% (2020: 73%)
- Adjusted EBITDA* profit £0.17m (2020: £0.38m)
- Agreed a new £1.0m loan to support Group's organic growth plans
- Cash at the period end was £1.17m, including new £1.0m loan and £0.02m of Covid-19 related government support (31 December 2020: £1.12m, including £0.42m of Covid-19 related government support).

* Adjusted EBITDA excludes one-off charges and share based charges (see note 13)

Operational Highlights

- Continued development of partner programme, partner revenue proportion increased to 11% (2020: 4%)
- Continued development of proprietary Artificial Intelligence (AI) software, 15% of revenue (2020: 14%)

Ian Mann, Chief Executive Officer of ECSC, commented:

"The Group made good progress during the 2021 financial year, and we are pleased to report a return to growth in both divisions, and continued to be Adjusted EBITDA positive."

"Responding to the Covid-19 pandemic, the Group re-engineered its sales and delivery processes to reflect and cater for the new working patterns of our clients, with a renewed focus on our core strengths and expertise. As a result, we have been able to deliver increased value to our clients in preventing, detecting, and responding to cyber security breaches, with a marked increase in sales across both divisions."

"Market demand remains strong as businesses continue to recognise the value of sound cyber security solutions to avoid costly breaches and disruptive down time, especially with the return to office working."

"Momentum has continued into Q1 2022, and we look forward to keeping the market updated on our progress."

Enquiries:

ECSC Group plc **+44 (0) 1274 736 223**
David Mathewson (Non-Executive Chairman)
Ian Mann (Chief Executive Officer)

Allenby Capital (Nominated Adviser and Broker) **+44 (0) 203 3285 656**
David Hart / Piers Shimwell (Corporate Finance)
Tony Quirke (Equity Sales and Corporate Broking)

Yellow Jersey (PR and IR) **+44 (0) 203 0049 512**
Sarah Hollins
Annabel Atkins

For more information please visit the following: https://investor.ecsc.co.uk/

Notes to Editors:

Founded in 2000, ECSC Group plc (AIM: ECSC) is the UK's longest running full-service cyber security service provider. With an extensive range of in-house developed proprietary technologies, including advanced Artificial Intelligence (AI) systems, ECSC provides expert security breach prevention and advisory support to organisations across all sectors.

ECSC operates from two Security Operations Centres (SOCs): one in Yorkshire, UK, and the other in Brisbane, Australia. ECSC offers flexible 24/7/365 cyber security monitoring, detection, and response support to its clients, either as a fully managed service or to enhance an organisation's existing cyber security systems. In addition, ECSC's Assurance division provides guidance, certification to industry standards, and extensive testing services to allow organisations to assess their cyber security protection.

The Company's broad client base ranges from e-commerce start-ups to global blue-chip organisations, including 10% of the FTSE 100.

For more information please visit the following: https://investor.ecsc.co.uk/

Chairman's Statement

These results show a clear return to growth across the Group, both within Managed Detection and Response ("MDR") and Assurance divisions. It is also pleasing to see that the percentage of Group revenue from MDR recurring revenue has now grown to nearly half from being about a quarter at the IPO. This confirms the ongoing requirements for all organisations to maintain their cyber security defences and breach detection capability. We continue to emerge from the challenges of the Covid-19 pandemic in a stronger position.

Despite some ongoing impact caused by the pandemic and the economic risks associated with Brexit, the Group has continued to demonstrate resilience and financial progress based on quality of delivery and unrivalled client reputation and retention. I am proud of the way the team has adapted and innovated as business practices continue to change, affecting both sales and delivery processes.

The ongoing risk of ransomware and its potentially catastrophic impact, combined with the multi-million-pound fines related to the UK General Data Protection Regulation (UK-GDPR), substantiate that all organisations must build resilience into their cyber security protection, detection and response capabilities. ECSC remains a trusted partner to help organisations of all sizes achieve this.

The continued growth in 24/7/365 detection services, delivered through the Security Operations Centres (SOCs) in the UK and Australia, supported by the ECSC Kepler Artificial Intelligence (AI), shows the importance of early breach detection to contain an incident and limit damaging consequences such as ransomware. For all but the largest global organisations, the outsourcing of this critical function continues to be the logical choice, and ECSC has the technology, people, and certified processes to deliver.

The Group's successful agreement of a £1.0m new growth loan demonstrates additional confidence in our operations and results.

On behalf of the board, I would like to thank all of our clients, partners, team, advisors, and investors for their continued support throughout a challenging year for us all.

ECSC continues to be well-positioned in the growing cyber security marketplace, and we are now firmly back on our organic growth strategy and related recruitment activities.

David Mathewson
Non-Executive Chairman
22 March 2022

Chief Executive Officer's Review

The Group made good progress during the 2021 financial year, and we are pleased to report a return to growth in both divisions, and continued to be Adjusted EBITDA positive.

The Assurance division has also seen a significant increase in repeat revenue from existing clients, confirming the exceptional service quality and value perceived by clients in their breach prevention and certification activities.

Post Covid-19 Challenges and Opportunities

The Covid-19 pandemic has demanded changes to both our sales and delivery processes, presented the opportunity to challenge existing beliefs and, in the process, re-engineer operations to reflect new realities.

A good example of this is our sales process that, pre-pandemic, relied extensively on multiple face-to-face meetings. The necessities of our Covid-19 response meant that we had to rapidly change this approach and embrace remote, video-based, sales and scoping processes. As a result, we have completely re-engineered the sales operation and supporting functions, reflecting the new working patterns of our clients and reducing the direct sales headcount, whilst increasing sales in the process.

We have then extended a wider strategic review of our core strengths and associated target clients to facilitate a better fit with more profitable services lines and client relationships.

Inflationary Pressures
2021 saw significant inflationary pressures and wage expectations of skilled and experienced cyber security professionals. As a result, we have instigated a formal annual pricing review. This resulted in increases in daily consulting rates averaging 10% in August 2021. We anticipate this price pressure to continue with the current global uncertainties and resulting UK and global inflation. ECSC's committed staff policy is to pay in the top 20% of market rates for each role, combined with industry leading career development.

Current Ukraine Conflict
Many clients are concerned about the potential for an increase in cyber attacks originating from Russia. These concerns may be well-placed, and confirm the importance of achieving and maintaining an appropriate level of cyber security protection and breach detection for all organisations.

Growth Strategy
We are confident that the organic growth strategy of ECSC remains appropriate. Despite the continued challenges of 2021, we are seeing the results of process re-engineering and a focus on our core expertise and delivering value to our clients in preventing, detecting, and responding to, cyber security breaches.

Key Performance Indicators

The Key Performance Indicators below were established in 2018 to enable meaningful measurement of the Group's performance.

Performance Indicator	Rationale	2021	2020	2019	Management Comment
Revenue Growth	Measurement of the success of the organic growth strategy	8%	(4%)	10%	The Group saw an increase in Assurance and MDR revenue due to further investment in the organic growth strategy and recovery from Covid
MDR Recurring Revenue Growth	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	7%	22%	27%	Continued growth due to new contract wins and contract expansions
MDR Recurring Revenue Proportion	Visibility of the success of increasing the percentage of revenue from long-term recurring revenues	42%	43%	34%	In line with the strategy to increase this proportion
MDR Order Book	Combined measurement of new client contracts together with renewals of existing client contracts	£2.2m	£2.6m	£2.6m	The management team's favoured overall measure of progress in managed services
MDR Gross Margin	Delivery efficiency measurement	61%	73%	68%	Increased investment in this division
Assurance	Quasi-recurring from				Indicative of strong client retention

Repeat Revenue	longer- term consulting clients	81%	73%	73%	and continued trust in ECSC quality
Assurance Gross Margin	Delivery efficiency measurement	63%	58%	54%	A reflection on capacity required for growth and management of consultant workload
Research and Development (% of revenue)	Continued investment in technology and intellectual property development	15%	14%	13%	Increased investment in technologies for the future

Ian Mann
Chief Executive Officer
22 March 2022

Financial Review

Principal Activities

The principal activity of the Group during the year continued to be the provision of professional cyber security services, including Assurance, MDR and the sale of Vendor Products.

Comparative Financial Information

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revenue		
Assurance	3,123	2,724
MDR	2,886	2,732
Vendor Products	93	125
Other	42	82
	6,144	**5,663**
Gross Profit		
Assurance	1,965	1,576
MDR	1,757	1,994
Vendor Products	15	25
Other	(63)	(47)
	3,674	**3,548**
Adjusted EBITDA*		
Other Income	282	297
Sales & Marketing Costs	(2,018)	(1,713)
Administration Expenses	(1,773)	(1,757)
	165	**375**
EBITDA**		
Share Based Payments	(100)	(101)

Exceptional Items	(145)	(65)
	(80)	**209**
Depreciation and Amortisation	(400)	(480)
Adjusted Operating Loss*	**(235)**	**(105)**
Operating Loss	**(480)**	**(271)**

* Adjusted Operating Loss and Adjusted EBITDA excludes exceptional charges and share based charges.
* * EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation
(As defined in note 13 in the Financial Statement).

Revenue & Organic Growth

In the year ended 31 December 2021, total revenue increased by 8% to £6.14m (2020: £5.66m). Within this, our Assurance division saw strong sales with revenue growing by 15% to £3.12m (2020: £2.72m).

The MDR division also saw a growth in revenue of 6% in the year to £2.89m (2020: £2.73m). This includes recurring revenue which rose to £2.59m (2020: £2.42m), workshop and event revenue of £0.02m (2020: nil) and Incident Response revenue which fell to £0.28m (2020: £0.31m).

Vendor Products revenue in the year fell by 26% to £0.09m (2020: £0.13m).

Margin Generation

Gross Profit for the year was £3.67m, yielding a 60% margin (2020: £3.55m, yielding a 63% margin). This small margin decrease was a consequence of a fall in the margin in the MDR division to 61% (2020: 73%) due to significant investment and significant wage inflation in that area of the business. The Board expects the MDR margin to increase in the future.

The Assurance margin rose to 63% in the year (2020: 58%). This was due to cost controls over the period. The Board expects the Assurance margin to continue at a similar level in the future.

EBITDA & Operating Loss

Adjusted EBITDA for the year, which excludes one-off charges and share based charges, was £0.17m (2020: £0.38m). EBITDA for the year was a loss of £0.08m (2020: profit of £0.21m). During 2020 the Group benefited from Government grants of £0.3m (2021: £nil).

Adjusted Operating Loss for the year, which excludes one-off charges and share based charges, was £0.23m (2020: loss of £0.11m). The Operating Loss in the year was £0.48m (2020: loss of £0.27m).

Cash Flow

Cash and cash equivalents increased by £0.05m (2020: £0.77m) to £1.17m (2020: £1.12m) as at 31 December 2021 primarily due to increase margin across the Assurance division and the proceeds from the £1.0m loan taken on during the year. During the year £0.40m was repaid of Covid-19 related government support received in 2020, £0.02m of government support remains outstanding as at 31 December 2021. The Group continued to invest in Research and Development during the year, receiving a refund of £0.21m (2020: £0.29m) from HMRC in respect of a surrender of R&D Tax Credits from earlier periods.

Intangible Asset
Intangible asset costs have increased to £1.47m (2020: £1.28m). This is offset by accumulated amortisation of £0.99m (2020: £0.82m). The Group’s development cost for the year was £0.19m. The Net Book Value of Intangible Assets as at 31 December 2021 was therefore £0.48m (2020: £0.46m).

Tangible Asset
Property, plant and equipment (PPE) cost have increased to £0.98m (2020: £0.95m). This is offset by accumulated depreciation of £0.89m (2020: £0.81m). The Group’s capital expenditure for the year was £0.03m. The Net Book Value of Tangible Assets as at 31 December 2021 was £0.09m (2020: £0.15m). The Group plans to increase investment in tangible assets in the future.

Trade and other receivables

Trade and other receivables decreased to £0.68m (2020: £0.81m) as at 31 December 2021. This includes £0.46m of Trade receivables (2020: £0.61m).

Trade and other payables

Trade and other payables decreased to £1.49m (2020: £2.09m) as at 31 December 2021. This includes £0.68m of deferred income (2020: £0.88m).

Borrowings

In December 2021, the Group entered into a new five-year Growth loan facility with Growth Lending Limited. The net proceeds of this facility will be used for working capital purposes and to support the Group's overall organic growth strategy.

The new borrowing facility compromises an initial advance upon completion of a £1.0m, with the option to draw down a further advance of £0.5m after six months, subject to an agreed level of adjusted EBITDA being achieved.

The facility term is 60 months with straight-line amortisation of the loan commencing after six months. The interest rate on each advance is at the higher of 9.0% per annum or the monthly average SONIA plus 7%. There is an arrangement fee of 1.5% of the facility amount paid on completion, with a 5% early prepayment charge.

The loan was arranged by Funding Friends Limited which received a fee of 1% of the loan on completion in respect of advisory fees. The Loan facility is secured by a fixed charge over the assets of the Company.

As at the year end the carrying value of the loan was £963k (2020: £nil) which is the principal amount of £1.0m stated after direct fees incurred and interest accrued to the year end.

Key Performance Indicators

The Key Performance Indicators are set out above.

Capital reduction

On 26 August 2021, the Company completed a reduction of its share capital, whereby the entire amount of £6.1 million standing to the credit of the Company's share premium account was cancelled thereby creating distributable reserves, which will allow the Company to pay dividends or make distributions to its shareholders and/or undertake a buyback of its ordinary shares in due course, should it be appropriate or desirable to do so.

The Capital Reduction has no effect on the overall net asset position of the Company.

Balance Sheet

The Group's Balance Sheet as at 31 December 2021 had Net Assets of £0.22m (2020: £0.65m). Retained Earnings and Distributable Reserves as at 31 December 2021 were a cumulative loss of £0.37m after the capital reduction (2020: cumulative loss of £5.94m).

Going Concern

The Directors have assessed the going concern status of the Group by reference to a number of factors. In particular, the Directors have considered the strong rate of growth in the cyber security market; the fact that business continues to attract new clients and is not overly dependent on any single client; the fact that the business continues to retain key staff, and that the Group has a secured new loan facility with Growth Lending Limited, the net proceeds of which will be used for working capital purposes and to support the Group's overall organic growth strategy. The new borrowing facility compromises an initial £1.0m term loan received on 24 December 2021 and a further £0.5m loan to be drawn down after six months, subject an agreed level of adjusted EBITDA being achieved. The facility term is 60 months with an interest rate at the higher of 9% per annum or the monthly average SONIA plus 7%. The Board is positive about the future EBITDA trajectory of the Company and continues to manage the cash position of the Company carefully. These factors give the Directors confidence in relation to going concern.

The Board have included the above factors in determining its financial forecasts for the period through to December 2023. In those forecasts they have considered the available headroom against the facilities available to them and considered scenarios under which the level of revenue expected may not be achieved but taking in to account mitigating actions. The directors are satisfied that under reasonable downside scenarios they still have financial resources to met liabilities as they fall due.

Dividend

The Board has not declared a dividend for the year ended 31 December 2021 (2020: £nil).

Gemma Basharan
Chief Financial Officer
22 March 2022

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revenue	**5**	**6,144**	**5,663**
Cost of Sales		(2,470)	(2,115)
Gross Profit	**5**	**3,674**	**3,548**
Other Income		282	297
Sales & Marketing Costs		(2,018)	(1,713)
Administration Expenses		(2,418)	(2,403)
Operating Loss before Exceptional Items and Share Based Payments		**(235)**	**(105)**
Share Based Payments		100	101
Exceptional Items		145	65
Operating Loss		**(480)**	**(271)**
Finance Cost		(42)	(48)
Loss before Taxation	**13**	**(522)**	**(319)**
Taxation Charge/(Credit)	**6**	(5)	50
Loss for the year		**(527)**	**(269)**
Other Comprehensive Income		-	-
Total Comprehensive Loss for the year		**(527)**	**(269)**
Attributed to Equity Holders of the Company		**(527)**	**(269)**
Loss per Share		**pence**	**pence**
Basic Loss per Share	**7**	(5.3)	(2.7)
Diluted Loss per Share	**7**	(5.3)	(2.7)

Consolidated Statement of Financial Position
As at 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
ASSETS			
Non-current Assets			
Intangible Assets	**8**	483	455
Property, Plant and Equipment	**9**	88	148
Right-of-use Assets	**11**	613	746
Deferred Tax Asset	**6**	147	118
Total Non-current Assets		1,331	1,467
Current Assets			
Inventory		9	9
Trade and Other Receivables		675	811
Corporation Tax Recoverable		289	216
Cash and Cash Equivalents	**10**	1,168	1,122
Total Current Assets		2,141	2,158
TOTAL ASSETS		**3,472**	**3,625**
LIABILITIES			
Current Liabilities			
Trade and Other Payables		(1,489)	(2,085)
Borrowings	**12**	(105)	-
Lease Liability	**11**	(107)	(143)
Total Current Liabilities		(1,701)	(2,228)
Non-current Liabilities			
Deferred Tax Liability	**6**	(124)	(90)
Borrowings	**12**	(858)	-
Lease Liability	**11**	(568)	(659)
Total Non-current Liabilities		(1,550)	(749)
TOTAL LIABILITIES		**(3,251)**	**(2,977)**
NET ASSETS		**221**	**648**
EQUITY			
Equity attributable to Owners of the Parent:			
Share Capital		100	100
Share Premium Account		-	6,098
Share Option Reserve		492	392
Retained Earnings/(Losses)		(371)	(5,942)
TOTAL EQUITY		**221**	**648**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Retained Earnings/ (Losses) £'000	Total £'000
Balance as at 31 December 2019	**91**	**5,661**	**291**	**(5,673)**	**370**
Loss and Total Comprehensive:					
Total comprehensive loss for the year	-	-	-	(269)	**(269)**
Transactions with shareholders					
Issue of Shares	9	437	-	-	**446**
Share Based Payments	-	-	101	-	**101**
Total transactions with shareholders	**9**	**437**	**101**	**-**	**547**
Balance as at 31 December 2020	**100**	**6,098**	**392**	**(5,942)**	**648**
Loss and Total Comprehensive:					
Total comprehensive loss for the year	-	-	-	(527)	**(527)**
Transactions with shareholders					
Share Based Payments	-	-	100	-	**100**
Reduction of capital	-	(6,098)	-	6,098	**-**
Total transactions with shareholders	**-**	**(6,098)**	**100**	**-**	**100**
Balance as at 31 December 2021	**100**	**-**	**492**	**(371)**	**221**

Consolidated Cash Flow Statement

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash Flow from Operating Activities			
Loss before Taxation		(522)	(319)
Adjustment for:			
Amortisation of Intangibles	**8**	166	168
Depreciation of Right-of-use Assets	**11**	143	175
Depreciation of Property, Plant and Equipment	**9**	91	137

Loss/(gain) on Disposal of Tangible Asset	4	(4)
Finance costs	42	48
Share Based Payments	100	101
Cash used up in Operating Activities before changes in Working Capital	**24**	**306**
Change in Inventory	-	17
Change in Trade and Other Receivables	(146)	(214)
Change in Trade and Other Payables	(624)	268
Cash (used in)/ generated from Operating Activities	**(746)**	**377**
R&D tax credit received	209	343
Net Cash (used in)/ generated from Operating Activities	**(537)**	**720**
Acquisition of Property, Plant and Equipment	(34)	(5)
Disposal Proceeds	-	6
Development Costs capitalised	(194)	(194)
Net Cash Flow used in Investing Activities	**(228)**	**(193)**
Principal paid on lease liabilities	(172)	(195)
Interest paid on loans and borrowings	(2)	(7)
Net proceeds from issue of loan	985	-
Proceeds from issue of shares	-	500
Costs of share issuance	-	(54)
Net Cash generated from Financing Activities	**811**	**244**
Net increase in Cash & Cash Equivalents	**46**	**771**
Cash & Cash Equivalents at beginning of period	1,122	351
Cash & Cash Equivalents at end of period	**1,168**	**1,122**

Notes

1. Corporate Information

ECSC Group plc is incorporated in England and Wales and admitted to trading on the AIM market of the London Stock Exchange (AIM: ECSC).

2. General Information

This results announcement may contain certain statements about the future outlook of ECSC Group plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

3. Basis of Preparation

This financial information for the year ended 31 December 2021 has been prepared in accordance with UK adopted international accounting standards (collectively 'UKIAS) and as applied in accordance with the provisions of the Companies Act 2006.

The information in this preliminary statement has been extracted from the financial statements for the year ended 31 December 2021 and, as such, does not contain all the information required to be disclosed in the financial statements prepared in accordance with IFRS. The Group's Annual Report for the year ended 31 December 2021 has yet to be delivered to the Registrar of Companies. The auditors have reported on these accounts. The figures for the year ended 31 December 2021 and the ended 31 December 2020 do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The financial statements have been presented in thousands of Pounds Sterling (£'000, GBP) as this is the currency of the primary economic environment that the Company operates in.

The preliminary announcement was approved by the Board on 22 March 2022 and authorised for issue.

The statutory accounts for the year ended 31 December 2021 were approved by the Board on 22 March 2022 and will be delivered to the Registrar of Companies in due course. The statutory accounts for the period ended 31 December 2021 will be made available on the Company's website www.ecsc.co.uk at least 21 days before the Annual General Meeting.

4. Accounting Policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

4.1 Basis of Accounting

The financial statements have been prepared on the historical cost basis except as stated.

New IFRS standards, amendments to and interpretations not applied to published standards

The following new standards, amendments to standards and interpretations will be mandatory for the first time in future financial years:

	Issued date	**IASB mandatory effective date (UK mandatory effective date)**	**UK Adoption status (EU pre 31 December 2020)**
New Standards			
IFRS 17 Insurance contracts including Amendments to IFRS 17 (issued on 25 June 2020)	18-May-2017 and 25-June 2020	01-Jan-2023	TBC
Amendments to existing standards			
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	23-Jan-2020	01-Jan-2023	TBC
Amendments to: IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets	14-May-2020	01-Jan-2022	TBC
Annual Improvements to IFRSs (2018-2020 Cycle): IFRS 1, IFRS 9, Illustrative Examples accompanying IDRS 16, IAS 41	14-May-2020	01-Jan-2022	TBC
Amendments to IFRS 16 Leases COVID 19-Related Rent Concessions	28-May-2020	01-Jun-2020	Endorsed
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	25-June-2020	01-Jan-2021	Adopted by UKEB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	27-Aug-2020	01-Jan-2021	Adopted by UKEB

Amendments to IAS 8 – Definition of Accounting Estimates	12-Feb-2021	01-Jan-2023	TBC
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting policies	12-Feb-2021	01-Jan-2023	TBC
Amendments to IFRS 16 Leases COVID 19-Related Rent Concessions beyond 30 June 2021	31-Mar-2021	01-Apr-2021	Adopted by UKEB
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a single Transaction	07-Feb-2021	01-Jan-2023	TBC

The application of these standards and interpretations is not expected to have a material impact on the Group's reporting financial performance or position.

4.2 Going Concern

The Directors have reviewed whether the Group has adequate resources to continue in operational existence for the foreseeable future, being no shorter than 12 months from the date of approving the Annual Report. In conducting this review, the Directors have considered a range of factors, including the market prospects for cyber security services, client relationships and dependency, supplier relationships and dependency, actual or potential litigation, staff retention and reliance, relationships with HMRC and regulators, financing arrangements, historic trading and cash flow performance, current trading and cash flow performance, and future trading and cash flow expectations. In undertaking their review, the Directors have prepared financial projections for the years ending 31 December 2022 and 2023, a review which assumes continued revenue growth and cost efficiency.

The budget figures are closely monitored against actuals on a monthly basis. Variances that may arise are discussed a Board level on a monthly basis during a review of the monthly numbers. In the event that this revenue and cost performance is not achieved, the Directors have also considered a sensitivity analysis based on lower revenue growth, increase in salaries inflation and have formulated contingency plans for this scenario, which enable the Group to preserve its financial resources.

In light of the continued COVID-19 pandemic, the Directors have continued to carefully monitor the situation especially the Group's going concern position to ensure the Group is in a robust place to manage additional risks and uncertainties created by the pandemic. During 2021, the Group demonstrated its ability to grow under these challenging conditions achieving an 8% growth in revenue and maintained a positive adjusted EBITDA profit. As at 31 December 2021, the Group had an adjusted EBITDA profit of £0.2m (2020: £0.4m), and an operating loss of £0.5m (2020: £0.3m) due to an increase in Sales and Marketing costs.

In December 2021, the Group entered into a borrowing facility with Growth Lending Limited. The net proceeds of which will be used for working capital purposes and to support the Group's overall organic growth strategy. The new borrowing facility compromises an initial £1.0m term loan received on 24 December 2021 and a further £0.5m loan to be drawn down after six months subject to an agreed level of adjusted EBITDA being achieved. The facility term is 60 months with an interest rate at the higher of 9% per annum or the monthly average SONIA plus 7%. The borrowings will support the short to medium term needs of the business and improve the ability to drive growth. The Loan facility is secured by a fixed charge over the assets of the Company. As at 31 December 2021, the Group had cash and cash equivalents of £1.17m (2020: £1.12m).

Based on this review, the Directors have concluded that the Group has adequate resources to meet its liabilities as they fall due and continue in operational existence for the foreseeable future, which is considered to be at least the next 12 months from the date of approval of the financial statements. Consequently, the Directors have adopted the going concern basis in preparing the financial statements.

4.3 Revenue Recognition

The core principle is that revenue should only be recognised as the client receives the benefit of the goods or services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

Performance obligations and timing of revenue recognition

Revenue comprises the sales value of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts. Revenue from the provision of Consulting services is recognised as services are rendered, based on the contracted daily billing rate and the number of days delivered during the period.

Revenue from pre-paid contracts are deferred in the balance sheet and recognised on utilisation of service by the client. Pre-paid revenue is included within Assurance in note 5. Revenue from Managed Services & response (MDR) contracts include multiple performance obligation as set out below:

- Hardware – hardware revenue is recognised on delivery and is included within other revenue as set out in note 5. This is when control of hardware passes to the customer.
- Device build - Device build revenue is deferred and recognised on a straight line basis over the term of the contract.
- Licensing - deferred and recognised on a straight line basis over the invoice period, due to the performance obligation not being considered distinct from management and monitoring performance obligation
- Management and monitoring - deferred and recognised on a straight line basis over the invoice period.
- Revenue from the sale of products (vendor) is recognised when control passes to the customer, which is considered to occur when the software or hardware product has been delivered to the client.

Determining the transaction price

The Group's revenue is derived from fixed price contracts and therefore the amount of revenues to be earned from each contract is determined by reference to those fixed prices.

Costs of obtaining long-term contracts and costs of fulfilling contracts

Commissions paid to sales staff for work in obtaining Managed Service contracts are prepaid and amortised over the terms of the contract on a straight line basis.

Commissions paid to sales staff for work in obtaining the Prepaid Consultancy contracts are recognised in the month of invoice.

5. Revenue and Segment Information

The Group's principal revenue is derived from the provision of cyber security professional services.

During this period, the Directors received information on financial performance on a divisional basis. The Directors consider that there are three reportable operating segments: Assurance (including Remote Support services), MDR, and Vendor Products. There were a small number of other transactions recorded during each period which are not considered to be part of either of the three reportable operating segments. These are presented below within the 'Other' caption and are not significant.

The Directors do not receive any information on the financial position of each segment, including information on assets and liabilities. Accordingly, no such information has not been presented.

The Group is not reliant on any single client, with no single client accounting for 10% or more of revenue. All revenue recognised is derived from external clients.

The Group has PPE located in the UK (cost of £919k; NBV of £88k) and Australia (cost of £57k; NBV nil). The Group's revenue and gross profit by operating segment for the year ended 31 December 2021 were as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revenue		
Assurance	3,123	2,724
MDR	2,886	2,732
Vendor Products	93	125
Other	42	82
Total Revenue	**6,144**	**5,663**

Gross Profit

Assurance	1,965	1,576
MDR	1,757	1,994
Vendor Products	15	25
Other	(63)	(47)
Gross Profit	**3,674**	**3,548**
Operating Loss	**(480)**	**(271)**
Finance Cost	(42)	(48)
Loss before Taxation	**(522)**	**(319)**

Revenue by country for the year ended 31 December 2021 was as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
United Kingdom	5,911	5,294
Europe	107	278
United States	36	-
Channel Islands	87	89
Other Countries	3	2
Total	**6,144**	**5,663**

The Group's United Kingdom revenue by operating segment for the year ended 31 December 2021 was as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revenue United Kingdom		
Assurance	3,025	2,367
MDR	2,759	2,724
Vendor Products	88	124
Other	39	79
Total	**5,911**	**5,294**

Contract Balances

	Contract Assets 2021 £'000	Contract Assets 2020 £'000	Contract Liabilities 2021 £'000	Contract Liabilities 2020 £'000
At 1 January	34	43	(878)	(866)
Commission expensed during the				

period	(91)	(62)	-	
Commissions paid in advanced of contract completion	77	53	-	
Recognised as revenue during the period	-		3,286	3,390
Cash received in advanced of performance during period	-		(3,091)	(3,402)
At 31 December 2021	**20**	**34**	**(683)**	**(878)**

6. Taxation

Recognised in the Statement of Comprehensive Income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Corporation Tax Charge/(Credit)	-	-
Deferred Tax Charge/(Credit)	5	(50)
Total Tax Charge/(Credit)	**5**	**(50)**

Reconciliation of Total Tax Charge/(Credit)

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Loss before Tax	(522)	(319)
UK Corporation at rate of 19% (2020: 19%)	(99)	(61)
Expenses not deductible for tax purposes	2	2
Over/under provision in prior period – Deferred Tax	5	(50)
Tax losses on which Deferred Tax not recognised	97	59
Total Tax Charge/(Credit)	**5**	**(50)**

Deferred Tax Asset

	2021 £'000	2020 £'000
At 1 Jan	118	77
Disallowable provisions	2	3
Profit and loss debit in respect of losses realised	87	13
Share based payments	(60)	25

At 31 Dec	**147**	**118**

Deferred Tax Liability

	2021	2020
	£'000	£'000
At 1 Jan	(90)	(99)
Profit and loss credit in request of timing differences	(34)	9
At 31 Dec	**(124)**	**(90)**

Deferred Tax Assets of £147k is recognised in respect of unutilised trading losses, Share options of £19k (2020: £78k) and short-term timing differences of £7k (2020: £5k). Deferred Tax Liabilities of £124k arise on timing differences in the carrying value of certain of the Company's assets for financial reporting purposes and for corporation tax purposes. These will reverse as the fair value of the related assets are depreciated over time. Deferred Tax balances have been calculated at the rate of 25% (2020: 19%), being the rate of Corporation Tax expected to be in force when the timing differences reverse.

Unutilised Trading Losses

The Company continues to carry forward unutilised trading losses of £5,448k (2020: £5,111k). A Deferred Tax Asset of £122k (2019: £35k) has been recognised as at 31 December 2021 in respect of the unutilised trading losses. No further Deferred Tax Asset has been recognised because the Board envisages that a significant period of time will be required to generate sufficient profits to utilise the trading losses carried forward.

7. Earnings per Share

Basic Earnings per Share is calculated by dividing the loss for the period attributable to Equity Holders of the Company by the weighted average number of Ordinary Shares outstanding during the period ('Basic Number of Ordinary Shares').

Diluted Earnings per Share is calculated by dividing the loss for the period attributable to Equity Holders of the Company by the weighted average number of Ordinary Shares outstanding during the period plus the weighted average number of Ordinary Shares that would be issued on conversion of all the potential dilutive Ordinary Shares ('Diluted Number of Ordinary Shares'), subject to the effect of anti-dilutive potential shares being ignored in accordance with IAS 33.

Adjusted Earnings per Share is calculated by dividing Adjusted loss (after adding-back exceptional costs incurred in the period; see note 13) by Diluted Number of Ordinary Shares.

The calculation of Basic, Diluted and Adjusted Earnings per Share is as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
	£'000	£'000
Net Loss attributable to Equity Holders of the Company	(527)	(269)
Add back: Exceptional Costs	145	65
Add back: Share Based Payments	100	101
Adjusted Loss	**(282)**	**(103)**
Number of Ordinary Shares ('000)		
Initial Weighted Average	10,007	9,098
Shares issued in April 2020	-	909
Basic Number of Ordinary Shares	**10,007**	**10,007**
Weighted Average Dilutive Shares in Period	1,160	906
Diluted Number of Ordinary Shares	**11,167**	**10,913**

Earnings per Share (pence):		
Basic Losses per Share	(5.3)	(2.7)
Diluted Losses per Share**	(5.3)	(2.7)
Adjusted Losses per Share	(2.8)	(1.0)

** In accordance with IAS 33, the effect of anti-dilutive potential shares has been ignored.

During the prior year ended 31 December 2020, the following dilutive events have occurred:

- On 17 April 2020, 909,091 ordinary shares were issued for £0.45m (net of expenses of £0.05m).
- On 21 August 2020, the Company granted options over 588,037 Ordinary Shares to selected employees, including 144,758 to Director Lucy Sharp, 103,602 to Director Ian Castle and 64,651 to Director Gemma Basharan, of which 587,107 remain outstanding as at 31 December 2020.
- On 28 August 2020, the Company granted options over 450,000 Ordinary Shares to selected employees, including 100,000 to Director Ian Mann, 100,000 to Director Lucy Sharp, 80,000 to Director Ian Castle and 80,000 to Director Gemma Basharan, of which 450,000 remain outstanding as at 31 December 2020.

These dilutive events were taken into account in calculating Diluted Number of Ordinary Shares.

8. Intangible Assets

Development Costs

Costs	**£'000**
As at 1 January 2020	1,085
Additions	194
As at 31 December 2020	1,279
As at 1 January 2021	1,279
Additions	194
As at 31 December 2021	1,473
Amortisation	
As at 1 January 2020	656
Charges for the year	168
As at 31 December 2020	824
As at 1 January 2021	824
Charges for the year	166
As at 31 December 2021	990
Net Book Value	
As at 31 December 2020	455
As at 31 December 2021	483

9. Property, Plant and Equipment

	Leasehold	**Office**	**Computer**	**Motor**

	Property	Equipment	Equipment	Vehicles	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 January 2020	115	136	679	23	953
Additions	-	-	5	-	5
Disposals	-	-	(5)	-	(5)
At 31 December 2020	115	136	679	23	953
Additions	-	-	34	-	34
Disposals	(7)	(4)	-	-	(11)
At 31 December 2021	108	132	713	23	976
Depreciation					
At 1 January 2020	63	75	518	14	670
Charge for Period	16	21	95	5	137
Disposals	-	-	(2)	-	(2)
At 31 December 2020	79	96	611	19	805
Charge for Period	16	18	55	2	91
Disposals	(5)	(3)	-	-	(8)
At 31 December 2021	90	111	55	2	888
Net Book Value					
At 31 December 2020	**36**	**40**	**68**	**4**	**148**
At 31 December 2021	**18**	**21**	**658**	**21**	**88**

10. Cash & Cash Equivalents

	GROUP As at 31 December 2021 £'000	GROUP As at 31 December 2020 £'000	COMPANY As at 31 December 2021 £'000	COMPANY As at 31 December 2020 £'000
Cash & Cash Equivalents	1,168	1,122	1,165	1,119

11. Leases of low-value assets

On commencement of a contract (or part of a contract) which gives the group the right to use an asset for a period of time in exchange for consideration, the group recognises a right-of-use asset and a lease liability unless the lease qualifies as a 'short-term' lease or a 'low-value' lease.

All leases are accounted for by recognising a right-of-use and a lease liability except for:

- **Leases of low-value assets**

Leases where the underlying asset is 'low-value', £5k lease payments are recognised as an expense on a straight-line basis over the lease term. The group has elected to apply the 'low-value' lease exemption to all qualifying leases, but the election can be made on a lease-by-lease basis.

- **Short term lease**

Where the lease term is twelve months or less and the lease does not contain an option to purchase the leased asset, lease payments are recognised as an expense on a straight-line basis over the lease term.

The group sometimes negotiates break clauses in its property leases. On a case-by-case basis, the group will consider whether the absence of a break clause would exposes the group to excessive risk. Typically factors considered in deciding to negotiate a break clause include:

- the length of the lease term;
- the economic stability of the environment in which the property is located; and
- whether the location represents a new area of operations for the group.

- Short-term lease expense £61k
- Low value lease expense £3k

Right-of-use Assets

A right-of-use asset is recognised at commencement of the lease and initially measured at the amount of the lease liability, plus any incremental costs of obtaining the lease and any lease payments made at or before the leased asset is available for use by the group.

The right-of-use asset is subsequently measured at cost less accumulated amortisation and any accumulated impairment losses. The amortisation methods applied is on a straight-line basis over the term of the lease.

Amortisation charge for the year included in 'administrative expenses' for right-of-use assets.

	Office buildings	**Motor vehicles**	**IT equipment**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 January 2020	849	26	21	**896**
Additions	**-**	22	**-**	**22**
Variable lease payment adjustment	4	-	(1)	**3**
Amortisation	(133)	(22)	(20)	**(175)**
NBV at 31 December 2020	**720**	**26**	**-**	**746**
At 1 January 2021	720	26	-	**746**
Additions	-	23	-	**23**
Disposal	(13)	-	-	**(13)**
Amortisation	(123)	(20)		**(143)**
NBV at 31 December 2021	**584**	**29**	**-**	**613**

Lease Liability

The lease liability is initially measured at the present value of the lease payments during the lease term discounted using the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

The lease term is the non-cancellable period of the lease plus extension periods that the group is reasonably certain to exercise and termination periods that the group is reasonably certain not to exercise.

The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments.

Interest expense for the year on lease liabilities is recognised in 'finance costs'.

	Office buildings	**Motor vehicles**	**IT equipment**	**Total**

	£’000	£’000	£’000	£’000
At 1 January 2020	889	23	19	**931**
Additions	-	22	-	**22**
Variable lease payment adjustment	4	-	(1)	**3**
Interest expense	37	2	2	**41**
Lease payments	(150)	(24)	(21)	**(195)**
NBV at 31 December 2020	**780**	**23**	**(1)**	**802**
At 1 January 2021	780	23	(1)	**802**
Additions	-	23	-	**23**
Disposal	(12)	-	-	**(12)**
Interest expense	31	2	1	**34**
Lease payments	(150)	(22)	-	**(172)**
At 31 December 2021	**649**	**26**	**-**	**675**

Group and Company

At 31 December 2021	Up to 12 months £’000	1 to 5 years £’000	more than 5 years £’000
Lease payments	135	433	213
Interest expense	(28)	(69)	(9)
Lease Liabilities	**107**	**364**	**204**

12. Borrowings

Current	2021 £’000	2020 £’000
Loan	108	-
Interest	6	-
Direct fees	(9)	-
Net Borrowings	**105**	**-**

Non-current	2021 £’000	2020 £’000
Loan	892	-
Direct fees	(34)	-
Net Borrowings	**858**	**-**

The Group has been provided with payments facilities by Barclays Bank PLC, including a BACS payment facility and a credit card facility.

New borrowing facility

In December 2021, the Group entered into a new borrowing five-year Growth loan facility with Growth Lending

Limited, the net proceeds of which will be used for working capital purposes and to support the Group's overall organic growth strategy.

The new borrowing facility compromises an initial advance upon completion of £1.0m and a further advance of £0.5m to be drawn down after six months subject to an agreed level of adjusted EBITDA being achieved.

The facility term is 60 months with straight-line amortisation of the loan commencing after 6 months. The interest rate on each advance is set at the higher of 9.0% per annum or the monthly average SONIA plus 7%. There is an arrangement fee of 1.5% of the facility amount paid on completion with a 5% early prepayment.

The loan was arranged by Funding Friends Limited which received a fee of 1% of the loan on completion in respect of advisory fees. The Loan facility is secured by a fixed charge over the assets of the Company.

The effective interest rates on the Group's borrowings were as follows:

	2021	2020
	%	%
Borrowings - £1m	9.0	-

The Maturity profile of the Group's non-current borrowing was as follows:

	2021	2020
	£'000	£'000
Between one and two years	214	-
Between two and five years	644	-
	858	**-**

The Group's bank borrowing bear interest at floating rates, which represent prevailing market rates.

13. Adjusted Loss before Taxation and Adjusted EBITDA

Adjusted Loss before Taxation

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Loss before Taxation	**(522)**	**(319)**
Share Based Payments	100	101
Exceptional Items	145	65
Adjusted Loss before Taxation	**(277)**	**(153)**

Adjusted EBITDA:

	Year ended 31 December 2021	Year ended 31 December 2020

	£'000	£'000
Operating Loss	**(480)**	**(271)**
Depreciation and Amortisation	400	480
EBITDA**	**(80)**	**209**
Share Based Payments	100	101
Exceptional Items	145	65
Adjusted EBITDA*	**165**	**375**

	Year ended 31 December 2021 £'000	**Year ended 31 December 2020 £'000**
Operating Loss	**(480)**	**(271)**
Share Based Payments	100	101
Exceptional Items	145	65
Adjusted Operating Loss*	**(235)**	**(105)**

* Adjusted Operating Loss and EBITDA excludes exceptional items and share based payments.
* * EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation.