

FireAngel Safety Technology Group plc
('FireAngel', the 'Company' or the 'Group')

Unaudited Preliminary Results

[FireAngel](#) (AIM: FA.), one of Europe's leading developers and suppliers of home safety products, announces its unaudited preliminary results for the year ended 31 December 2019. The Company expects to publish its audited statutory accounts mid-April 2020.

Financial headlines

- Revenue £45.5 million (2018: £37.6 million)
- Underlying operating loss¹ £2.9 million, before £0.9 million impact of change to a straight line amortisation approach (2018: underlying operating loss¹ £2.0 million)
- Operating loss £10.7 million (2018 restated: operating loss £5.8 million)
- Adjusted gross profit² £8.7 million (2018: £8.7 million)
- Adjusted gross margin² 19.0% (2018: 23.2%)
- Gross margin 9.6% (2018 restated: 20.1%)
- Non-underlying items totalling £6.9 million (2018 restated: £3.8 million)
- Underlying loss before tax³ £3.2 million (2018: underlying loss before tax³ £2.1 million)
- Loss before tax £11.0 million (2018 restated: loss before tax £5.9 million)
- Underlying EBITDA⁴ loss £0.4 million (2018: loss £0.9 million)
- Capitalised product development spend reduced to £2.9 million (2018: £3.4 million)
- Net debt (before lease obligations) at 31 December 2019 £4.9 million (cash £2.1 million, debt £7.0 million) (2018: net debt £4.4 million)
- Post-year end, with what is known presently, COVID-19 likely to impact up to £4.0 million on the Group's revenue in the year ending 31 December 2020, which is currently expected to be restricted largely to the second quarter
- The Directors are confident that some of this reduced revenue is likely to be recovered, and not lost permanently, and should fall into the higher margin second half of the year
- The Directors expect that the Group's results for the year ending 31 December 2020 will be in line with market expectations
- Announcement separately today of placing and open offer to raise approximately £6.1 million to strengthen the balance sheet and deploy connected homes technology

¹ Underlying operating loss in 2019 of £2.9 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (2018: underlying operating loss of £2.0 million before non-underlying items of £3.8 million).

² Adjusted gross profit is stated before non-underlying items of £4.3 million (2018 restated: non-underlying items of £1.2 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

³ Underlying loss before tax in 2019 of £3.2 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (2018: underlying loss before tax of £2.1 million before non-underlying items of £3.8 million).

⁴ Underlying EBITDA in 2019 of (£0.4) million is loss before tax before depreciation and amortisation of £3.4 million, finance costs of £0.3 million and non-underlying items of £6.9 million (2018: underlying EBITDA of (£0.9) million is loss before tax before depreciation and amortisation of £1.1 million, finance costs of £0.1 million and non-underlying items of £3.8 million).

Operational headlines

- Total revenue growth of 21% to £45.5 million with growth of 36% in UK Retail, 23% in UK Trade and 26% internationally
- UK Retail wins with Aldi, Asda, Morrisons and secured principal supply to Homebase and significant online growth through Amazon
- Good progress in gaining share of core UK Trade market
- Grant of European patent for FireAngel Predict™ post year end
- Solid start to 2020 with sales up 15% and gross profit up 39% on the first two months of 2019

- Comprehensive gross margin improvement plan being rolled out
- Board changes to align to future challenges and opportunities
- Trials of FireAngel’s connected home products, including FireAngel Predict™, have been well received, and market response is building, which bodes well for 2020 and beyond
- Close to securing our first large connected rollout using FireAngel Pro Connect and FireAngel Predict™ which represents an important endorsement of our strategy and unique offering
- Company is now an independent, technology-led business with the key objectives of monetising the investment made in connected technology and to complete the transition to become a provider of safety-critical connected home solutions

Commenting on the results, John Conoley, Executive Chairman of FireAngel, said:

“The Group enters 2020 beginning to realise the promise of its investment in R&D for connected alarms. 2019 was a challenging year with results continuing to be negatively impacted by legacy issues. We have addressed these issues and are taking action to improve gross margins which we expect will increase in 2020 and continue to do so in subsequent years. The opportunity presented by the growing demand for connected home solutions is significant and I look forward to the Group’s next phase of growth.”

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Notes to Editors

About FireAngel Safety Technology Group plc

FireAngel’s mission is to protect and save lives by making innovative, leading-edge technology home safety products which are simple and accessible.

FireAngel’s principal products are smoke alarms, CO alarms, heat alarms and accessories. The Company has an extensive portfolio of patented intellectual property in Europe, the US and other selected territories. Products are sold under FireAngel’s leading brands of FireAngel, FireAngel Pro, FireAngel Specification and AngelEye.

For further product information, please visit: www.fireangeltech.com

Chairman's Statement

Overview

In late 2019, the Group finally began field installations of its connected products which was very encouraging, but not sufficiently so to outweigh what proved to be a very challenging year operationally for the Group. Our sales and marketing efforts represented a considerable success with revenue up significantly at 21%, yet we were disappointed to report an underlying loss for 2019 and to record substantial non-underlying charges linked to historical issues. Significant management time has once again been spent on resolving legacy problems, time which should have been spent moving forward with the Group's clear strategic aims.

Although revenue saw impressive growth to £45.5 million, the impact on gross margin was held back for four main reasons:

1. Detrimental impact of the value of sterling against the US dollar

The prolonged weakening of sterling against the US dollar in 2019 significantly increased the sterling cost of components used in the Group's products.

2. Higher costs and delayed product availability at the Group's smoke and connected devices manufacturing partner

During 2018, a new manufacturing partner in Poland commenced production of FireAngel's smoke and connected devices products and a new Far East based supplier commenced supply of alternatives to the BRK/First Alert products.

Delays in reaching production capacity and efficiency at the Polish manufacturer impacted both the availability of products and the product cost in 2018. Although progress was made during 2019 in moving forward with both yield and efficiency, we continue to see higher costs due, in particular, to wage inflation in Poland and delays in the availability of certain higher-margin products.

3. Change in sales mix towards lower margin UK Retail

Revenue from the lower-margin UK Retail sector increased by 36% to £11.3 million in 2019 and represented 25% of the Group's turnover compared to 22% in the previous year. This change in margin mix detrimentally impacted the Group's overall gross margin compared with 2018.

4. Impact of sales growth on the Company's processes

Sales growth in 2019 of 21% put stress on the Company's processes from production through to customer fulfilment. This had the effect of repeatedly shaving small amounts of both revenue and margin from the year's results. In addition, the Company had to incur more costly air freight charges to meet the growth in demand for certain of its products.

Results

For the year to 31 December 2019, the Group's revenue was £45.5 million (2018: £37.6 million). The Group made an underlying loss before tax¹ of £3.2 million (2018: £2.1 million). After charging £6.9 million for non-underlying costs (2018: £3.8 million) and incurring £0.9 million in changing to straight line amortisation for intangible development assets, the consolidated loss before tax for the year was £11.0 million (2018 restated: £5.9 million). Underlying EBITDA³ improved from a loss of £0.9 million in 2018 to a reduced loss of £0.4 million in 2019.

The adjusted gross profit² was maintained at £8.7 million, but represented a reduced adjusted gross margin² of 19.0% (2018: 23.2%).

¹ Underlying loss before tax in 2019 of £3.2 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (further details of which are set out below) (2018: underlying loss before tax of £2.1 million before non-underlying items of £3.8 million).

² Adjusted gross profit is stated before non-underlying items of £4.3 million (2018 restated: non-underlying items of £1.2 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

³ Underlying EBITDA in 2019 of (£0.4) million is loss before tax before depreciation and amortisation of £3.4 million, finance costs of £0.3 million and non-underlying items of £6.9 million (2018: underlying EBITDA of (£0.9) million is loss before tax before depreciation and amortisation of £1.1 million, finance costs of £0.1 million and non-underlying items of £3.8 million).

Non-underlying costs totalling £6.9 million have been incurred in the year as follows:

Within cost of sales:

- Provision for warranty costs: during the year, the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016, was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement products. In addition, a charge of £1.2 million was made to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen.
- Stock impairment and disposal costs: £1.7 million has been provided in the year as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider.

Within operating expenses:

- Restructuring and certain fundraising costs of £0.7 million have been incurred in the year.
- Intangible capitalised development assets of £1.8 million have been impaired during the year as a result of a thorough review of product lines and future development costs.
- Share-based payment charges of £37,000 have been incurred during the year.

In addition to the items above charged through the 2019 income statement in relation to the legacy battery warranty provision, an amount of £1.5 million has been recorded to increase the provision through a prior period adjustment. Towards the end of 2019, continuing ongoing monitoring of warranty returns data identified that the number of units expected to be impacted by the third-party supplied battery impedance issue could be higher than originally anticipated. The need for this prior period adjustment was due to an error in the assumptions made regarding product manufactured between 2016 and Q1 2018. No further increase in the number of units impacted is expected as the issue relates only to units produced at one of the Company's previous manufacturers in China up to the end of March 2018. Approximately £0.3 million of this additional charge has been utilised at 31 December 2019. Due to the introduction of various product design changes, units produced at the Company's manufacturing partner in Poland since April 2018 should not be affected by these historic issues.

Net debt (before lease obligations) at 31 December 2019 was £4.9 million (2018: £4.4 million). The Company has separately announced today details of a placing and open offer to raise approximately £6.1 million to strengthen the balance sheet, execute self-help plans to improve gross margin, deploy and support the connected homes technology and fund part of the additional expected liabilities for the Company's legacy battery warranty issue first identified in 2016, further details of which are set out below.

Business unit performance

Revenue for the Group grew by 21% in the year, with significant growth seen in all major business units. Gross margin, however, was lower compared to the prior year due to the reasons outlined previously.

Revenue split between the Group's business units is as follows:

	2019	2018	Inc/(dec)	Inc/(dec)	2019	2018
	£m	£m	£m	%	proportion	proportion
					%	%
UK Trade	15.2	12.4	2.8	23%	33%	33%
UK Retail	11.3	8.3	3.0	36%	25%	22%

UK F&RS	4.7	4.2	0.5	12%	10%	11%
UK Utilities	1.5	2.3	(0.8)	-35%	3%	6%
Total sales in the UK	32.7	27.2	5.5	20%	72%	72%
International	11.1	8.8	2.3	26%	24%	24%
Pace Sensors	1.7	1.6	0.1	6%	4%	4%
Total revenue	45.5	37.6	7.9	21%	100%	100%

UK Trade

A very strong performance in UK Trade in the year saw sales increase by 23% to £15.2 million, representing around a third of the Group's revenues. The UK Trade sector represented the highest proportion of total revenue in both 2019 and the prior year. The growth in absolute sales of £2.8 million shows the progress made in gaining share of an addressable UK Trade market estimated to be worth in excess of £100 million annually and the recovery of demand throttled back by stock availability issues in the second half of 2018.

Our progress in winning market share through 2019 continued to gain momentum with announcements of agreements to supply West of Scotland Housing Association, North View Housing Association and Link Group, all linked to the requirement, from 1 February 2019, for greater safety standards in Scotland as part of the Housing (Scotland) Act. The Group is currently engaged in rollouts with 17 housing associations in Scotland. All properties in Scotland must comply with this legislation by the end of February 2021. In addition to these announcements, since the start of the year, the Group has begun supplying products to local authorities and housing associations with a combined portfolio of approximately 65,000 properties.

Alarms fitted through the UK Trade channel are predominantly mains-powered solutions with multiple devices being required in each property. This significantly increases the value of each sale. FireAngel's new and unique connected technology solutions offer housing associations, landlords and their tenants the highest level of protection and maintenance. As a result, the Group is seeing significantly increased interest in its connected solutions which have been designed to meet heightened duty of care concerns within social housing. The Group is currently engaged in connected solution trials with social housing providers with a combined portfolio in excess of 100,000 properties with further trials expected to commence shortly for providers with combined estates in excess of 110,000 properties. In addition, first expressions of interest have been received from a number of other providers with a significantly higher combined portfolio. Progress with current trials is detailed later in this statement.

UK Retail

Revenue from the UK Retail sector increased by 36% to £11.3 million in 2019. In addition to recovering ground lost in 2018 as product availability issues impacted retailers re-stocking FireAngel ranges as they transitioned from BRK/First Alert stock, significant competitive wins in the year included Aldi, Asda, Morrisons and securing principal supply to Homebase. However, the most significant contributor to growth was seen in online sales. Revenue through online platforms increased significantly, particularly through Amazon with which we secured business directly in August 2018. Our connected home proposition is ideally suited to online platforms and digital channels where we can create the content to clearly articulate the product features and user benefits of this new technology.

This online growth and strong traditional retailer support led to UK Retail sales representing 25% of the Group's turnover in 2019 (2018: 22%).

The Retail team worked hard in the year to rollout the Group's latest Pro Connected range of products across all retailers. This culminated with the launch of the FireAngel Pro Connected B2C platform in January 2020 through Amazon, Screwfix and Toolstation. The FireAngel Pro Connected gateway connects directly to the FireAngel Pro Connected range of domestic safety products and utilises the unique features provided by FireAngel Predict™, the Group's AI data analytics technology which has the potential to avert domestic fires before they start by automatically analysing large amounts of historical data in the Cloud.

UK Fire and Rescue Services ('UK F&RS') and Utilities

Together the UK F&RS and Utilities sectors accounted for 13% of the Group's revenue in the year (2018: 17%). Although revenue from the Utilities sector declined to £1.5 million due to reduced demand for CO alarms from British Gas, the UK F&RS sector saw growth of 12% to £4.7 million reflecting an increase in demand for

FireAngel's interconnected range of products and heat alarms. We continue to be very proud that over 90% of the UK F&RS choose to fit FireAngel alarms within properties.

International

Revenue from the Group's International business continued to represent 24% of total turnover in the year. Sales increased by 26% to £11.1 million as overstocking issues at the Group's German distributor were worked through and sales in Belgium grew significantly due to legislative requirements for smoke alarms and the successful transition from BRK and First Alert products to FireAngel's own product range.

Sales in France continued to show significant improvement after record legislative-driven demand in 2015 and we continued to supply to the Singapore market to address the ongoing legislative requirement in that country. Sales also increased in Central and Eastern Europe as a result of appointing a new network of distributors.

The Group continues to build an exciting pipeline of core and connected opportunities internationally for 2020 and beyond.

Pace Sensors

At £1.7 million, revenue at Pace Sensors, the Group's manufacturer of CO sensors, continued to represent 4% of total turnover for the Group. As stated in previous reports, although the value of sales is reduced from levels seen prior to 2018, this reflects the transition of demand to the lower cost but higher margin nano sensor, fitted into an increasing proportion of the Group's CO alarms.

Legacy issues

FireAngel's results continue to be negatively impacted by legacy issues as a result of certain historically poor internal processes and focussing on developing and promoting those products and services which give the highest and quickest returns.

Significant non-underlying charges have been incurred during the year to increase the legacy battery warranty provision, for stock provisions and for the impairment of intangible development costs.

Dividend

Consistent with the decision not to pay an interim dividend for 2019 in light of the Group's trading performance, the Board is not recommending payment of a final dividend for the year. The total dividend payable for 2019 is therefore nil pence per share (2018: nil pence per share).

Our dividend policy will remain under review with the Board's desire to recommence dividend payments when it is prudent to do so.

Board changes

There were a number of significant changes to the Board during the year and subsequently.

In July 2019, the Group announced the resignation of Neil Smith, the Group Chief Executive. Again, I would like to place on record here the Board's thanks to Neil for his hard work and commitment through a period of significant change. With effect from the beginning of August 2019 I was appointed as Executive Chairman.

In September 2019, after long service to the Group, William Payne stepped down as a Non-Executive Director and was replaced by Simon Herrick who took on chairmanship of both the Audit and Remuneration Committees. In the same month, Zoe Fox was appointed as Company Secretary. Zoe is Finance Director of the Company's principal subsidiary, a role which she has held since 2010.

Subsequent to the year end, in February 2020, it was announced that Graham Whitworth, Executive Director, would become a Non-Executive Director with effect from the release of the Company's audited final results for the year ended 31 December 2019. As a Non-Executive Director, Graham will continue to have Business Development responsibilities, in particular working to exploit FireAngel's strong IP portfolio globally, including FireAngel Predict™.

At the same time, it was also announced that Nick Rutter, co-founder and Chief Product Officer, had decided to step down from the Board continuing in his current role to focus on connected home development. The Company's unique technological advantage at this exciting time is due, in particular, to Nick's foresight and vision.

Finally, it was announced that Ashley Silverton had decided to step down as a Non-Executive Director at the Company's forthcoming Annual General Meeting which is being held in late June 2020. Ashley, who joined the Board in 2011, has provided wise and experienced counsel through his corporate experience and financial expertise. The search is underway for a Non-Executive Director with business-to-business experience of the technology sector to succeed Ashley.

I would like to place on record my thanks to each of Graham, Nick and Ashley. Their commitment and vision have positioning FireAngel at the start line of an exciting future and I look forward to continuing to work with Graham and Nick to realise the investment made in getting the business to this unique position.

Manufacturing

Following the transition of the majority of the Group's manufacturing from China to Poland during 2018, production at the Group's primary smoke alarm and connected devices manufacturing partner increased in 2019 to meet the growth in demand. However, despite significant efforts on both sides to improve efficiencies in the production process, there will only be incremental improvements in margin from this source in 2020. From 2021, it is expected that rationalisation of the Group's product range, designing for automation for new products, and changes in the mix of products will lead to more significant cost and efficiency improvements.

People

2019 continued to place significant pressures on FireAngel's employees who responded with exceptional commitment to the needs of our customers. I once again thank them sincerely.

Products and brands

The Company's investment in connected technology made over the last few years is now being evidenced by the launch of a range of connected products with unique functionality and efficiency. The Directors estimate that typical connected product spend is approximately £205 per property. There are 4.6 million social properties in the UK, giving a market size in the UK Trade business of almost £1 billion product value over five years. The recurring revenue opportunity builds to approximately £55 million per annum if installed in all UK social housing properties. The Directors also believe that the available margins in UK Trade are potentially double those in the 'traditional' market.

In October 2019, FireAngel launched its Specification and Pro ranges of smoke, heat and CO alarms which feature Smart RF technology which enables all devices to connect wirelessly, significantly removing the time-consuming requirement for wiring, channelling or trunking. These are the only alarms with proven low carbon footprints producing on average 95 per cent. less carbon dioxide compared with other leading mains-powered alarms. These ranges allow their connectivity to be upgraded to communicate information outside the property by installing a FireAngel Connect Gateway. This has advantages to landlords in fulfilling their duty of care in accessing vital information, including alarm status, history, replacement dates and network health. The system features 'FireAngel Predict™', patented technology to identify and highlight dangerous patterns of behaviour that increase fire risk. A network including a FireAngel Connect Gateway can provide real-time fire and CO safety notifications via remote monitoring of the alarms for more accurate risk management.

In January 2020, the Group's retail range was completed with the launch of the FireAngel Pro Connected B2C platform, initially through selected retail channels. The FireAngel Pro Connected gateway connects directly to the FireAngel Pro Connected range of domestic safety products and utilises the unique features provided by FireAngel Predict™.

In February 2020, the Group announced that FireAngel Predict™, the Group's predictive algorithm management information platform, had been granted a patent by the European Patent Office following successful patent awards in both the US and Australia. This gives FireAngel the exclusive right to exploit this technology in Europe and protects the key operating system required to deliver the functionality behind FireAngel Predict™. The technology pinpoints properties where there is a higher risk of a fire which provides stakeholders within the

housing sector a unique insight into the safety of the occupants and their property portfolio. This is delivered seamlessly through online notifications, thereby protecting lives and homes and providing a compelling proposition to help fulfil the stakeholders' duty of care.

The launch of the connected range, combined with the predictive analytics offered by FireAngel Predict™, will address the increasing demand for connected solutions and allow the Company to access the higher margin product and recurring revenue streams this unique technology will command.

Progress with connected trials

As previously announced, trials of FireAngel's connected home products, including FireAngel Predict™, have been ongoing and have been well received, and market response is building well. Two major trials are nearing completion and three more are scheduled to begin in April 2020; five of these are in commercial discussions. As a result, the Group is now engaged in a number of commercial discussions for the short, medium and long term with recurring revenue opportunities, some of which are expected to be material to the Group's future prospects and results. Prior to commencing active marketing, the total identified funnel of opportunities is worth approximately £100 million, of which £34 million is already in the pipeline. The Board expects to have several rollouts commencing in H2 2020, each of which is expected to last for 3 to 5 years, with a significantly increasing recurring revenue element. The business is very scalable against volume longer term, but the late 2020 challenge will be managing growth and customer expectations. It is pleasing to see the Group's connected home products performing well in the field and the first responses to FireAngel Predict™ have been positive and extremely informative for both customers and FireAngel.

Strategy

We have closely considered FireAngel's purpose and strategic direction over the course of 2019. FireAngel's mission is to protect and save lives by making innovative, leading-edge technology home safety products which are simple and accessible.

The Group is now an independent, technology-led business with the key objectives of monetising the investment made in connected technology and to complete the transition of the business to become a provider of safety-critical connected home solutions.

Production yields and capacity at our Polish manufacturing partner have met the significant increase in demand in the year. However, it remains unlikely that any cost reductions will be realised in the short term. We will continue to work together to achieve greater efficiencies, but we are unlikely to see meaningful improvements until product rationalisation plans have been executed and we are able to introduce new products specifically designed for automation. The labour content engineered into our existing product range is not optimal in a higher labour cost environment. I remain confident that Flex is the right partner to support the Group's strategic objective of developing technology which provides customers with innovative and market-leading products and solutions, and that this benefit will be fully realised through product rationalisation and the introduction of new products designed for automation in the medium to longer term.

In the short term, the Company will seek to improve gross margin, which it is hoped will be achieved through reorganisation and upskilling to focus on other costs of sale, for example items such as warranty and product rework, and also in improving its speed of reaction. In addition, a significant short and medium-term opportunity for margin progression is expected to be realised through better focus on marketing and sales in the UK Trade market and more assertively exploiting digital channels. The Group is repositioning existing products, reviewing pricing product by product and, at the same time, continuing to introduce newer product lines.

The strategic decision to invest heavily in connected technology is proving to be correct. The Directors believe that FireAngel is uniquely positioned to satisfy the emerging demand and benefit from the recurring revenue streams associated with services offered by this technology. The benefits are now beginning to come through in successful real-world trials, the financial benefits of which are expected to be realised in the short, medium and long term. The business must reassess its delivery of technical solutions to adequately meet the size and complexity of these new opportunities.

The Board continues to expect connectivity and interoperability between devices with external monitoring and messaging to be at the heart of medium to longer-term growth and profitability.

Outlook

The Group has made a solid start to the year with sales up 15 per cent. and gross profit up 39 per cent. on the first two months of 2019. The Directors believe there is a rapidly increasing market interest in the Group's unique solutions which bodes well for 2020 and beyond.

The Group is close to signing a contract for a large connected rollout using FireAngel Pro Connect and FireAngel Predict™. This represents an important endorsement of the Group's strategy and unique offering. The Directors believe that no company in the Group's marketplace is better positioned to support providers of social housing in their pursuit of higher levels of proactive fire risk management. The Group has a number of ongoing trials and commercial discussions with certain other larger social housing providers and the Directors are optimistic of further business wins, and of generating recurring revenue streams, from our growing pipeline of large opportunities.

While COVID-19 has had an impact on the supply chain and/or those factories in China which manufacture certain of the Group's products, those factories are working close to full capacity again. However, the Directors consider that, with what they know presently, COVID-19 is likely to have an impact of up to £4.0 million on the Group's revenue in the year ending 31 December 2020 which, currently, is expected to be largely restricted to the second quarter. The Directors are nevertheless confident that some of this reduced revenue is likely to be recovered, and not lost permanently, and should fall into the second half of the year when the Group's margin is expected to be higher than in the first half. The Board expects that the Group's results for the year ending 31 December 2020 will be in line with market expectations.

John Conoley
Executive Chairman
23 March 2020

**Unaudited consolidated income statement
For the year ended 31 December 2019**

	Note	(Unaudited) 2019			(Unaudited) 2018 Restated		
		Before non- underlying items £000	Non- underlying items (note 4) £000	Total £000	Before non- underlying items £000	Non- underlying items (note 4) £000	Total £000
Revenue	3	45,486	-	45,486	37,587	-	37,587
Cost of sales	4	(36,821)	(4,308)	(41,129)	(28,866)	(1,158)	(30,024)
Gross profit		8,665	(4,308)	4,357	8,721	(1,158)	7,563
Operating expenses	4	(12,461)	(2,609)	(15,070)	(10,712)	(2,675)	(13,387)
Loss from operations		(3,796)	(6,917)	(10,713)	(1,991)	(3,833)	(5,824)
Finance costs		(312)	-	(312)	(114)	-	(114)
Loss before tax		(4,108)	(6,917)	(11,025)	(2,105)	(3,833)	(5,938)
Income tax credit	5	548	1,057	1,605	508	904	1,412
Loss attributable to equity owners of the Parent		(3,560)	(5,860)	(9,420)	(1,597)	(2,929)	(4,526)

**Unaudited consolidated statement of comprehensive income
For the year ended 31 December 2019**

	(Unaudited) 2019 £000	(Unaudited) 2018 Restated £000
Loss for the year	(9,420)	(4,526)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	31	(67)
Total comprehensive loss for the year	(9,389)	(4,593)

Unaudited consolidated statement of financial position
As at 31 December 2019

	Note	(Unaudited) 2019 £000	(Unaudited) 2018 Restated £000
Non-current assets			
Goodwill		169	169
Other intangible assets		12,560	13,201
Purchased software costs		2,492	2,899
Plant and equipment		3,840	4,006
Right-of-use assets	1	1,483	-
		20,544	20,275
Current assets			
Inventories		6,304	8,425
Trade and other receivables		12,073	10,792
Current tax asset		729	1,248
Derivative financial assets		-	214
Cash and cash equivalents	8	2,062	1,251
		21,168	21,930
Total assets		41,712	42,205
Current liabilities			
Trade and other payables		(12,150)	(11,465)
Lease liabilities	1	(348)	-
Current tax liabilities		-	(39)
Provisions	9	(1,496)	(1,195)
Invoice discounting facilities	7	(6,985)	-
Derivative financial liabilities		(429)	-
		(21,408)	(12,699)
Net current (liabilities)/assets		(240)	9,231
Non-current liabilities			
Loans and borrowings	7	-	(5,700)
Lease liabilities	1	(1,131)	-
Provisions	9	(1,997)	(1,871)
Deferred tax liabilities		-	(896)
		(3,128)	(8,467)
Total liabilities		(24,536)	(21,166)
Net assets		17,176	21,039
Equity			
Called up share capital	10	1,519	918
Share premium account	10	17,617	12,729
Currency translation reserve		143	112
Retained earnings		(2,103)	7,280
Total equity attributable to the equity holders of the Parent		17,176	21,039

Unaudited consolidated statement of changes in equity
For the year ended 31 December 2019

	Share capital £000	Share premium account £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2018 as originally presented	918	12,729	179	13,188	27,014
Correction of error (net of tax)	-	-	-	(1,229)	(1,229)
Restated total equity at 1 January 2018	918	12,729	179	11,959	25,785
Loss for the year - restated	-	-	-	(4,526)	(4,526)
Net foreign exchange gains from overseas subsidiaries	-	-	(67)	-	(67)
Total comprehensive loss for the year	-	-	(67)	(4,526)	(4,593)
Credit in relation to share-based payments	-	-	-	107	107
Deferred tax charge in relation to share-based payments	-	-	-	(260)	(260)
Balance at 31 December 2018	918	12,729	112	7,280	21,039
Loss for the year	-	-	-	(9,420)	(9,420)
Net foreign exchange gains from overseas subsidiaries	-	-	31	-	31
Total comprehensive loss for the year	-	-	31	(9,420)	(9,389)
Transactions with owners in their capacity as owners:					
Issue of equity shares	601	-	-	-	601
Premium arising on issue of equity shares	-	5,400	-	-	5,400
Share issue expenses	-	(512)	-	-	(512)
Total transactions with owners in their capacity as owners	601	4,888	-	-	5,489
Credit in relation to share-based payments	-	-	-	37	37
Balance at 31 December 2019	1,519	17,617	143	(2,103)	17,176

Unaudited consolidated cash flow statement
For the year ended 31 December 2019

	(Unaudited) 2019 £000	(Unaudited) 2018 Restated £000
Loss before tax	(11,025)	(5,938)
Finance expense	312	114
Operating loss for the year	(10,713)	(5,824)
Adjustments for:		
Depreciation of property, plant and equipment, and right-of-use assets	1,300	385
Amortisation and impairment of intangible assets	2,105	689
Non-underlying items	6,879	3,726
Cash flow relating to non-underlying items	(2,379)	(2,199)
Decrease/(increase) in fair value of derivatives	643	(578)
Share-based payments charge	37	107
Operating cash flow before movements in working capital	(2,128)	(3,694)
Movement in inventories	418	1,672
Movement in receivables	(1,281)	4,754
Movement in provisions	(106)	611
Movement in payables	520	(4,983)
Cash used by operations	(2,577)	(1,640)
Income taxes received/(paid)	1,191	(35)
Net cash used by operating activities	(1,386)	(1,675)
Investing activities		
Capitalised development costs	(2,882)	(3,415)
Purchased software	-	(325)
Purchase of property, plant and equipment	(826)	(2,342)
Interest received	1	7
Net cash used in investing activities	(3,707)	(6,075)
Financing activities		
Repayment of loan	(7,000)	-
Drawdown of loan	1,300	5,700
Drawdown of invoice finance	6,985	-
Loan restructuring costs	(209)	-
Proceeds from issue of ordinary shares (net of expenses)	5,488	-
Repayment of lease obligations	(307)	-
Interest paid	(382)	(121)
Net cash generated by financing activities	5,875	5,579
Net increase/(decrease) in cash and cash equivalents	782	(2,171)
Cash and cash equivalents at beginning of year	1,251	3,273
Non-cash movements – foreign exchange	29	149
Cash and cash equivalents at end of year	2,062	1,251

Notes

1. Basis of preparation

The financial information contained in this unaudited preliminary announcement does not constitute accounts as defined by section 434 of the Companies Act 2006. The financial information for the year ended 31 December 2018 is derived from the statutory accounts for that period which have been delivered to the Registrar of Companies, but restated for the error described in note 2. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either section 498(2) or section 498(3) of the Companies Act 2006.

The audit of the statutory accounts for the year ended 31 December 2019 is not yet complete. The statutory accounts for the year ended 31 December 2019 will be finalised based on the information in this unaudited preliminary announcement and will be delivered to the Registrar of Companies in due course. The Group has prepared its consolidated financial statements for the year ended 31 December 2019 in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The accounting policies applied are consistent with those included in the financial statements of the Group for the year ended 31 December 2018 with the exception of IFRS 16 'Leases' which the Group is required to adopt in the financial statements for the year ended 31 December 2019. The impact of IFRS 16 is described below.

The Company expects to publish its audited statutory accounts in mid-April 2020.

New and amended standards adopted by the Group

The Group has adopted IFRS 16 with effect from 1 January 2019. The standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model requiring lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less. Lessees are required to recognise on the balance sheet right-of-use assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of right-of-use assets and interest on lease liabilities is charged to the Income Statement, replacing the corresponding operating lease rentals. The Group has applied the modified retrospective approach and therefore at the date of initial application an amount equal to the lease liability, using appropriate incremental borrowing rates, has been recognised as a right-of-use asset. The Group has taken the exemptions available under IFRS 16 not to apply the lease accounting model to leases which are considered low value or which have a term of less than twelve months. The adoption of IFRS 16 has increased 'Non-current assets' and 'Total liabilities' at the balance sheet date by £1.5 million, but has not had a material impact on the overall result for the year in the Income Statement. No adjustment was necessary to equity at the date of transition as the Group chose to measure the right-of-use asset at the same value as the lease liability. A weighted-average incremental borrowing rate of 3.7% has been applied to lease liabilities.

2. Restatement

In addition to the items charged through the 2019 income statement in relation to the legacy battery warranty provision, an amount of £1.5 million has been recorded to increase the provision through a prior period adjustment.

Towards the end of 2019, continuing ongoing monitoring of warranty returns data identified that the number of units expected to be impacted by the third-party supplied battery impedance issue could be higher than originally anticipated. The need for this prior period adjustment was due to an error in the assumptions made regarding product manufactured between 2016 and Q1 2018. No further increase in the number of units impacted is expected as the issue relates only to units produced at one of the Company's previous manufacturers in China up to the end of March 2018. Approximately £0.3 million of this additional charge has been utilised at 31 December 2019. Due to the introduction of various product design changes, units produced at the Company's manufacturing partner in Poland since April 2018 should not be affected by these historic issues.

Periods prior to 2018

Retained earnings as at 1 January 2018 have been restated by net £1.3 million reflecting the additional warranty provision charge for 2016 and 2017 of £1.5 million and the associated tax credit of £0.2 million.

2018

Within the consolidated income statement for 2018, 'cost of sales' has been restated by £53,000 reflecting the additional warranty provision charge for 2018; 'income tax credit' has been restated by £9,000 reflecting the tax credit associated with the additional warranty provision charge.

Within the consolidated statement of financial position for 2018, 'provisions' have been restated by £1.5 million reflecting the additional warranty provision charges for 2018 and prior years; 'deferred tax liabilities' have been restated by £0.3 million reflecting the tax credit associated with the additional warranty provision charges for 2018 and prior years.

3. Revenue

	(Unaudited) 2019 £000	(Unaudited) 2018 £000
<i>Revenue from continuing operations:</i>		
UK Trade	15,221	12,433
UK Retail	11,266	8,281
UK Fire & Rescue Services	4,718	4,208
UK Utilities	1,455	2,259
International	11,140	8,756
Pace Sensors	1,686	1,650
Total revenue	45,486	37,587

4. Non-underlying items

	(Unaudited) 2019 £000	Restated (Unaudited) 2018 £000
<i>Within cost of sales</i>		
Provision for warranty costs (note a)	2,605	53
Provision against stock and disposal costs (note b)	1,703	1,105
	4,308	1,158
<i>Within operating expenses</i>		
Restructuring and fundraising costs (note c)	746	-
Impairment of intangible assets (note d)	1,826	-
Incremental production ramp up costs (note e)	-	928
Restructure of distribution channels (note f)	-	1,640
Share-based payment charges	37	107
	2,609	2,675
Total non-underlying items	6,917	3,833

a. During the year, the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016, was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement product. In addition, a charge of £1.2 million was made to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen. 2018 results have been restated by £53,000 to correct an error in the amount previously reported (see note 2).

b. Stock impairment and disposal costs of £1.7 million have been provided in the year as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider. In the prior year, £1.1 million was provided against stock originally purchased for the French market to address demand driven by local legislative change.

c. Restructuring and certain fundraising costs of £0.7 million have been incurred in the year.

d. Intangible capitalised development assets of £1.8 million have been impaired during the year as a result of a thorough review of product lines and future development costs.

e. In the prior year, one-off non-underlying costs of £0.9 million were incurred due to delays in reaching full production capacity and pricing expectations at the Group's smoke alarm and connected devices manufacturing partner.

f. In the prior year, non-underlying costs of £1.6 million were incurred in executing the Group's previously announced strategy to transition from a hardware safety products provider to a more integrated safety solutions provider. The Group took action to move from a traditional distributor model to more value-added reseller partnerships in its German distribution channel for both its core and connected product ranges.

5. Income tax

The income tax credit for the year is based on the rate of corporation tax for the year ended 31 December 2019.

6. Dividends

As a result of the loss reported for the year, the Directors do not recommend payment of a final dividend for the year (2018: nil pence per share). The total dividend payable for 2019 was therefore nil pence per share (2018: nil pence per share).

7. Loans and borrowings

	(Unaudited) 2019 £000	(Unaudited) 2018 £000
Bank term loan	-	5,700
Invoice discounting facilities	6,985	-
	6,985	5,700

In conjunction with the fundraising during the year, the Group restructured its borrowing facilities with HSBC and moved from a revolving credit facility to an invoice discounting and overdraft facility. As such, in the year, the Group repaid the £7.0 million loan drawn under the revolving credit facility, £1.3 million of which had been drawn since the beginning of 2019, and drew down £7.0 million of invoice finance.

8. Cash and cash equivalents

	(Unaudited) 2019 £000	(Unaudited) 2018 £000
Cash at bank and in hand	2,062	1,251

9. Provisions

FireAngel BRK Brands warranty	warranty	Total
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	provisions £000	provisions £000	£000
At 1 January 2018 (Restated)	3,396	277	3,673
Charge in year (Restated)	634	30	664
Utilisation in year	(1,098)	(173)	(1,271)
At 31 December 2018 (Restated)	2,932	134	3,066
Charge in year	2,605	-	2,605
Utilisation in year	(2,072)	(106)	(2,178)
At 31 December 2019	3,465	28	3,493

The total warranty provision is classified between less than one year and greater than one year as follows:

	(Unaudited) (Unaudited) 2019 £000	Restated 2018 £000
Current provision	1,496	1,195
Non-current provision	1,997	1,871
Total warranty provision	3,493	3,066

During the year, the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016, was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement product. In addition, a charge of £1.2 million was made to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen.

Provisions as at 1 January 2018 have been restated by £1.5 million reflecting the prior period adjustment additional warranty provision charge for 2016 and 2017. The charge for 2018 has been restated by £53,000 reflecting the additional warranty provision charge for 2018 (see note 2).

10. Share capital and reserves

On 16 April 2019, the Company raised £6.0 million through the issue of 30,000,000 new ordinary shares of 2p nominal value each at an issue price of 20p per share.

The premium on issue was 18p per share amounting to £5.4 million. This was credited to the share premium account. Share issue expenses amounted to £0.5 million. These were debited to the share premium account.

11. Post balance sheet events

The Company has separately announced today details of a placing and open offer to raise approximately £6.1 million to strengthen the balance sheet, execute self-help plans, deploy and support connected homes technology and fund part of the legacy battery warranty issue.