The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse (Amendment) (EU EXIT) Regulations 2019/310.

30 March 2023

PipeHawk plc
("PipeHawk" or the "Company")

Unaudited results for the six months ended 31 December 2022

Chairman's Statement

The Company's turnover in the six months ended 31 December 2022 was £2,239,000 (December 2021: £3,247,000), a reduction of 28 per cent over the comparable period last year, resulting in a loss before taxation of £1,797,000 (2021: loss of £457,000) and a loss after taxation of £1,440,000 (2021: loss £284,000).

As indicated in my November Chairman's Statement accompanying the annual accounts for the year ended 30 June 2022, the challenges faced within the first half of 2022 calendar year continued further into the second half of 2022 than originally expected resulting in a significant drop in turnover compared with the six months to 31 December 2021 and an accompanying significant pre-tax loss for the six months ended 31 December 2022. War in Ukraine, fuel cost spikes, interest rate rises, three UK Prime Ministers – all are contributing factors for delays that a number of the group businesses have faced in receiving contract awards from clients. It has been very challenging to manage resource levels across the group where we have protected staffing levels to be able to switch on quickly where contract award appeared imminent. Nevertheless, also as previously reported, Rishi Sunak introduced a degree of confidence into the marketplace which appears to have provided a level of confidence for our clients to again start to award contracts and work started to flow in the later part of 2022. This appears to be accelerating into the start of 2023 with several contracts being awarded, with the result that we have recruited significant additional staff in order to be able to cope with the current and anticipated workload. It now appears that the move by QM Systems to premises five times the size of its previous premises and TED to premises three times the size of its previous premises was well judged and both premises are nearing a far more satisfactory level of occupation. Orderbooks are healthy, time charged and revenue recognised from existing projects is greatly improved and order pipeline appears healthy.

The Directors of PipeHawk therefore believe that the outlook does look very positive for the remainder of this year and beyond.

QM Systems ("QM")

As reported in the accounts for the year ended 30 June 2022 (the "2021/22 FY"), QM witnessed an order intake that was significantly below management expectations. Whilst quotations and the expected orderbook through the latter part of 2021/22 FY increased dramatically, the gestation period from quotation to order placement remained protracted as our clients continued to grapple with the material uncertainties within their markets created initially by Covid-19 and then aggravated further by the invasion of Ukraine by Russia. In 2021/22 FY, we reported that order intake had increased significantly in the first four months of this current financial year. In this regard, I am pleased to say that this trend has continued with a number of projects moving forward from a protracted quotation phase to order placement. New orders received this financial year up to 29 March 2023 stood at over £5.8M. Quotation activity remains buoyant and we have a significant expected orderbook that we are confident in converting to orders during this [financial year], providing fuel for further growth at QM.

Timescales for projects over the last 18 months have increased significantly, predominantly due to extended timescales surrounding material and component availability. This hampers our ability to generate revenue at a quicker rate as we experience longer periods of waiting time for materials to be delivered following the release from the design phase. Consequently, the effects of increases in order intake to positively ripple through all areas of our business is longer than that ordinarily anticipated. In addition, given the reduced orderbook in 2021/22 FY we had reduced staffing levels to accommodate the workload at that time. This workforce reduction has further impacted our ability to realise revenue quickly, particularly in being able to respond to sudden and significant increases in order placement. The result of the aforementioned conditions has contributed to the reduction in revenue in the first part of the 2022/23 FY and this is reflected in the figures published.

We are however pleased to report that material and component delivery times are improving and we have recruited a number of additional mechanical, electrical and software engineers for both our engineering and manufacturing teams. Since 30 June 2022, the QM workforce has increased from 44 to 55 despite recruitment of high calibre engineers being and continuing to remain difficult. We continue to recruit as we anticipate our workload to further increase. These factors are anticipated to enable us to significantly accelerate revenue recognition during the final six months of this current FY and the current orderbook and forecasts indicate that we anticipate to be able to generate profit within the final 6 months of this FY with a large uptick in revenue anticipated to be recognised within this next period.

Our preparations for the start of our contract manufacturing business continues to gain momentum as we move towards production start dates later this year. One of our contract manufacturing opportunities which will involve the filling and assembly of vials for PCR testing of respiratory diseases in humans and animals has led to us invest in the installation of a Clean Room at QM's Hartlebury facility. This will be the first of our contract manufacturing business to start production towards the end of the 2022/23 FY. Our other contract manufacturing business (including Ventive) are now due to enter production in the second half of 2023.

Thomson Engineering Design ("TED")

Following a very buoyant end to the 2021/22 FY at TED, order intake for the first part of the 2022/23 FY has been below management expectations. Despite healthy quotation activity, a number of the orders that were anticipated have been slow to materialise. TED's projects tend to have relatively short timescales (e.g. 1-4 months) and, hence unlike QM Systems, a downturn in order intake at TED can have a relatively quick consequences on revenue recognition and profitability for TED.

However, order intake for TED post 2021/22 FY has seen a significant increase and this is anticipated to enable us to accelerate revenue recognition through the second part of the financial year. Combined with this change in momentum, the relationship with Unipart Rail is gaining traction and a number of quotations totalling over £1.6M have now been provided for the export product that is far in excess of export quotations delivered previously. We remain hopeful that a number of these quotations will convert to orders in this second half of the current FY. Furthermore, Unipart Rail is currently conducting a major marketing campaign to push our products worldwide. Accordingly, with this increase in exposure, we are confident that this will contribute to further significant sales in the next financial year's figures.

Previously we stated that TED had entered a partnership to design and manufacture Rail conversions for Kawasaki Mule vehicles. We are pleased to report that TED has since been awarded the first order for 10 units with a further 10 [expected] to follow shortly. In addition to the Mule conversions, TED has also been developing with our partner a rail conversion for a trailer assembly to be towed by the Mule. This combination provides an easy to deploy, low cost solution that can be driven on road direct to the rail work site and can be quickly and easily mounted to a rail track for maintenance purposes.

In anticipation of the growth expected above, we have recently expanded our design capacity by the addition of two extra people and two new SolidWorks seats. Furthermore, we have expanded our machining capacity with two additional CNC machines and operators to match.

Adien

As previously reported, the reduced work volumes as a result of continual delays in contract start dates in the first half of calendar year 2022 continued into the second half and then volumes picked up significantly in the fourth quarter. The pickup has continued into the first months of 2023 and is anticipated to continue.

Confidence in the demand for our services is such that we have invested in new vehicles, new survey equipment, new CAD hardware and software and renewed sales training. We have also recruited additional surveyors to enable an additional team to be deployed thereby increasing our total turnover capacity.

We therefore believe that the outlook for Adien for the rest of this year and next year is positive.

Utsi/PipeHawk Technology

Our work to move Utsi & PipeHawk products toward utilising a common architecture while progressing greatly, but our ability to complete has been greatly impacted by the continuing long lead times of some component lines and the advanced redundancy of others.

While good management of resources has achieved some control over our own rising energy costs, the effect on supply chain prices have been far more significant, placing increased pressure on margins and our ability to remain competitive.

A mid year switch of focus from our general use products to bespoke products for more specialist markets, has succeeded in drawing new opportunities from industrial clients however, continuing market uncertainty has stretched client timelines for delivery beyond those initially required, into the new year.

While traditional R&D opportunities routed in academia continue to be on hold or awaiting grant funding, we continue to seek opportunities within new fields of endeavour, where our experience of developing innovative sensor technology may provide an alternative income stream.

Related party transactions

As announced on 29 November 2022, my letter of financial support dated 6 September 2021 was renewed on 11 October 2022 to provide the group with financial support until 31 December 2024.

In addition to the loans I have provided to the Company in previous years, my fellow directors and I have deferred a certain proportion of our fees and interest payments until the Company is in a suitably strong position to make the full payments. During the six months ended 31 December 2022, these deferred fees and interest payments amounted to approximately £3,000 in total, all of which have been accrued in the Company's interim results, and at 31 December 2022 amounted in total to £1,640,000.

Gordon Watt
Chairman

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Consolidated Statement of Comprehensive Income
As at 31 December 2022

	6 months ended 31 December 2022 (unaudited) £'000	6 months ended 31 December 2021 (unaudited) £'000	Year ended 30 June 2022 (audited) £'000
Revenue	2,239	3,247	**6,191**
Staff costs	(1,962)	(1,903)	**(3,861)**
General administrative expenses	(1,902)	(1,698)	**(3,642)**
Loss on ordinary activities before interest and taxation	(1,625)	(354)	**(1,312)**
Finance costs	(172)	(103)	**(264)**
Loss before taxation	(1,797)	(457)	(1,576)
Taxation	357	173	708
Loss for the period attributable to equity holders of the Company	(1,440)	(284)	(868)
Other comprehensive income	-	-	-
Total comprehensive expense for the period net of tax	(1,440)	(284)	(868)
Loss per share (pence) – basic	(3.97)	(0.79)	(2.42)
Loss per share (pence) – diluted	(3.97)	(0.79)	(2.42)

Consolidated Statement of Financial Position
As at 31 December 2022

Assets	As at 31 December 2022 (unaudited) £'000	As at 31 December 2021 (unaudited) £'000	As at 30 June 2022 (audited) £'000
Non-current assets			
Property, plant and equipment	814	585	828
Right of use	2,381	590	2,549
Goodwill	1,357	1,357	1,357
	4,552	2,532	4,734
Current assets			
Inventories	308	308	340
Current tax assets	1,067	182	710
Trade and other receivables	1,949	1,723	2,389
Cash	149	644	4
	3,473	2,857	3,443
Total assets	8,025	5,389	8,177
Equity and liabilities			
Equity			
Share capital	363	358	363
Share premium	5,316	5,302	5,316
Other reserves	(10,087)	(8,068)	(8,647)
	(4,408)	(2,408)	(2,968)
Non-current liabilities			
Borrowings	5,317	3,624	5,612
	5,317	3,624	5,612
Current liabilities			
Bank overdrafts and loans	2,633	2,161	2,674
Trade and other payables	4,483	2,012	2,859
	7,116	4,173	5,533
Total equity and liabilities	8,025	5,389	8,177

Consolidated Statement of Cash Flow
For the six months ended 31 December 2022

	6 months ended 31 December 2022 (unaudited) £'000	6 months ended 31 December 2021 (unaudited) £'000	Year ended 30 June 2022 (audited) £'000
Cash inflow from operating activities			
Loss from operations	(1,625)	(354)	(1,312)
Adjustment for:			
Depreciation	271	162	424
	(1,354)	(192)	(888)
Decrease in inventories	32	65	33
Decrease/(Increase) in receivables	439	87	(580)
Increase/(Decrease) in liabilities	1,735	(88)	286
Cash generated from/(used in) operations	852	(128)	(1,149)
Interest paid	(91)	(36)	(124)
Corporation tax received	-	433	440
Net cash generated from/(utilised in) operating activities	761	269	(833)
Cash flows from investing activities			
Purchase of plant and equipment	(47)	(446)	(325)
Net cash utilised in investing activities	(47)	(446)	(325)
Cash flows from financing activities			
(Repayments)/Proceeds from borrowings	(218)	250	286
(Repayments)/Proceeds of bank and other loans	(158)	(221)	119
Repayment of leases	(193)	(128)	(163)
Net cash (utilised in)/generated from financing activities	(569)	(99)	242
Increase/(Decrease) in cash and cash equivalents	145	(276)	(916)
Cash and cash equivalents at beginning of period	4	920	920
Cash and cash equivalents at end of period	149	644	4

Consolidated Statement of Changes in Equity
For the six months ended 31 December 2022

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
6 months ended 31 December 2021				
As at 1 July 2021	349	5,215	(7,779)	(2,215)
Loss for the period	-	-	(284)	(284)
Total comprehensive income	-	-	(284)	(284)
Issue of shares	9	87	-	96
As at 31 December 2021	358	5,302	(8,063)	(2,403)
12 months ended 30 June 2022				
As at 1 July 2021	349	5,215	(7,779)	(2,215)
Profit for the period	-	-	(868)	(868)
Total comprehensive income	-	-	(868)	(868)
Issue of shares	14	101	-	115
As at 30 June 2022	363	5,316	(8,647)	(2,968)
6 months ended 31 December 2022				
As at 1 July 2022	363	5,316	(8,647)	(2,968)
Loss for the period	-	-	(1,440)	(1,440)
Total comprehensive income	-	-	(1,440)	(1,440)
Issue of shares		-	-	-
As at 31 December 2022	363	5,316	(10,087)	(4,408)

Notes to the Interim Results

1. Basis of preparation

The Interim Results for the six months ended 31 December 2022 are unaudited and do not constitute statutory accounts in accordance with section 240 of the Companies Act 2006.

Full accounts for the year ended 30 June 2022, on which the auditors gave an unqualified report and contained no statement under Section 498 (2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

The interim financial information has been prepared on a basis which is consistent with the accounting policies adopted by the Company for the last financial statements and in compliance with basic principles of IFRS.

2. Segmental information

The Company operates in one geographical location being the UK. Accordingly, the primary segmental disclosure is based on activity.

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
6 months ended 31 December 2022				
Total segmental revenue	449	79	1,711	2,239
Segment result	(164)	(26)	(1,435)	(1,625)
Finance costs	(16)	(104)	(52)	(172)
Loss before taxation	(180)	(130)	(1,487)	(1,797)
Segment assets	441	1,872	5,712	8,025
Segment liabilities	544	5,079	7,027	12,650
Non-current asset additions	-	-	102	102
Depreciation and amortisation	30	9	232	271
6 months ended 31 December 2021				
Total segmental revenue	765	134	2,348	3,247
Segmental result	104	(45)	(413)	(354)
Finance costs	(16)	(77)	(10)	(103)
Profit/(Loss) before taxation	88	(122)	(423)	(457)
Segment assets	654	2,301	2,434	5,389
Segment liabilities	515	4,895	2,387	7,797
Non-current asset addition	3	55	388	446
Depreciation and amortisation	47	9	106	162
12 months ended 30 June 2022				
Total segmental revenue	1,453	246	4,492	6,191
Segmental result	21	(323)	(1,010)	(1,312)
Finance costs	(36)	(171)	(57)	(264)
Loss before taxation	(15)	(494)	(1,067)	(1,576)

Segment assets	655	1,924	5,598	8,177
Segment liabilities	628	5,226	5,442	11,296
Non-current asset additions	17	55	2,941	3,013
Depreciation and amortisation	106	3	316	425

3. Loss per share

This has been calculated on the loss for the period of £1,440,000 (2021: loss £868,000) and the number of shares used was 36,312,823 (2021: 35,812,823), being the weighted average number of shares in issue during the period.

4. Dividends

No dividend is proposed for the six months ended 31 December 2022.

5. Copies of Interim Results

The Interim Results will be posted on the Company's website www.pipehawk.com and copies will be available from the Company's registered office at 4, Manor Park Industrial Estate, Wyndham Street, Aldershot, GU12 4NZ.