

REACT Group plc
(“REACT”, the “Group” or the “Company”)

Half Year Results FY 2020

REACT Group plc, (AIM:REAT.L) the leading specialist cleaning, hygiene and decontamination company announces its unaudited results for the six-month period ended 31 March 2020 ("Interim Report").

Financial Highlights
for the six months ended 31 March 2020

Continuing operations	HY 2020	HY 2019	Change
Revenue (£'000)	2,091	1,588	32%
Gross profit (£'000)	695	419	66%
Gross profit margin	33.2%	26.4%	+683 bps
EBITDA (£'000)	85	(30)	379%
Net profit/(loss) for the period (£'000)	50	(59)	184%
Earnings/(loss) per share (basic) (pence)	0.01	(0.01)	184%
Earnings/(loss) per share (adjusted) (pence)	0.02	(0.01)	379%
Net cash (£'000)	306	446	(31%)

- Group revenue up 32% to £2,091,000
- Gross profit up 66% to £695,000
- Gross profit margins increased by 683 basis points to over 33%
- Net profit of £50,000 and basic EPS of 0.01p, the Company's first period of operating profit
- Adjusted EPS of 0.02p (see Note 4 for details)
- Net cash decreased in the period as we supported an incremental large contract win with a Tier 1 customer in the rail sector that started in January, with cash collection beginning only in the final week of the half-year period
- Cash balances have improved since the interim period as the Group has continued to benefit from improved quality of business and disciplined cash collection processes
- Successful, over-subscribed placing to raise c.£1.25m completed 9 June 2020
- Several post-period new contract wins announced

Commenting on the results Shaun Doak, CEO said:

“We are delighted to report the Company's first period of operating profit, the culmination of work across the business to redefine the business model, strengthen business processes and engage with customers in a more consistent manner.

As a people-orientated business we have not been immune to the challenges brought about by COVID-19, however the Company has experienced an increase in demand for professional deep cleaning and decontamination services as we strive to help organisations in the UK reduce risk and return their properties to safe commercial use.

The second half of the year has started well, with good trading across key sectors, especially healthcare, rail and facilities management. We remain confident of delivering a performance ahead of management expectations for the year to 30 September 2020 including a full year maiden profit.”

For more information:

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RESULTS SUMMARY & STRATEGY

The REACT business performed strongly during the first half of the year, increasing revenue and delivering further improvements to gross margins and operational efficiencies to deliver the Group's maiden operating profit.

Performance was especially strong in the healthcare, rail and facilities management sectors, augmented by one month of COVID-19 related services.

The REACT Group is a specialist cleaning, hygiene and decontamination company that tackles extreme cleaning challenges that non-specialists are unqualified or inexperienced to resolve. REACT operate across many industries in both the public and private sector, where hygiene and safety are critical components. We provide our services on both a regular maintenance and project defined basis.

Growth and resilience in our markets is underpinned by regulatory requirements and the associated enforcement burden, alongside an increasing public and commercial expectation for quality hygiene.

Nearly 75% of our revenue comes from contract agreements where REACT is providing regular maintenance or is the first responder to emergencies. The vast majority of the work we carry out is non-discretionary to our Customers, providing REACT with increasing visibility of future earnings.

Our activities are not capital intensive and, on an underlying basis, are cash generative. When augmented by the recent £1.25 million fund-raise, REACT has a strong platform to fund continued organic growth from internally generated cash in line with our disciplined approach to cash management and capital allocation.

Our strategy is to grow business in specialist markets that attract higher margins. We have a number of customers and prospects from both the private and public sectors who value the quality of service REACT Group provides; and they represent an opportunity for greater volumes of business geographically and via the additional services we provide.

We believe there is opportunity for material growth amongst a number of both large and medium sized organisations, many of whom are already customers. The sales and business development efforts of REACT are now focused on these opportunities, whilst at the same time we are continuing to improve operational quality and cost control.

IMPACT OF COVID-19

As a people-orientated business we have not been immune to the challenges brought about by COVID-19, however the Company has experienced an increase in demand for professional deep cleaning and decontamination services as we strive to help organisations in the UK reduce risk and return their properties to safe commercial use.

One month (March) of COVID-19 related activity is included in these unaudited half year results.

PEOPLE

The continued dedication of people across the Group, including our network of REACT-approved specialist sub-contractors has been impressive. Our services are provided by people who are experts in their field, supported by office-based staff who adapted rapidly and effectively to the new working from home arrangements since March. As we build our business we rely on these people and the strength of our results reflects their contribution. On behalf of the Board and shareholders, I wish to thank our entire team for their hard work, resilience and dedication.

OUTLOOK

Through restructuring and strategic focus REACT has positioned itself well for future development. With an experienced management team in place and the funding necessary to properly address the potential, our focus is to deliver growth, produce profits and generate cash.

The second half of the year has started well and, taking into account trading across each sector of our business, we are confident of delivering both a 'maiden profit' and a full year performance ahead of management expectations.

Shaun Doak

Chief Executive Officer

29 June 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2020

	Note	<i>Unaudited</i> 6 months ended 31 March 2020 £'000	<i>Unaudited</i> 6 months ended 31 March 2019 £'000	<i>Audited</i> Year ended 30 September 2019 £'000
Continuing Operations				
Revenue		2,091	1,588	3,103
Cost of Sales		<u>(1,396)</u>	<u>(1,169)</u>	<u>(2,218)</u>
Gross Profit		695	419	885
Administrative expenses		(632)	(478)	(1,068)
Exceptional (costs)/income included in administrative expenses		-	107	(5)
Operating profit/(loss)		63	(59)	(183)
Income tax credit		-	-	-
Finance cost		<u>(13)</u>	<u>-</u>	<u>-</u>
Profit/(Loss) for the period		<u>50</u>	<u>(59)</u>	<u>(183)</u>
Other comprehensive Income		-	-	-
Profit /(Loss) for the financial period attributable to equity holders of the company		<u>50</u>	<u>(59)</u>	<u>(183)</u>
Basic and diluted profit/(loss) per share	4			
Basic earnings/(loss) per share		<u>0.01p</u>	<u>(0.01p)</u>	<u>(0.04p)</u>
Diluted earnings/(loss) per share		<u>0.01p</u>	<u>(0.01p)</u>	<u>(0.04p)</u>
Adjusted basic earnings/(loss) per share		<u>0.02p</u>	<u>(0.01p)</u>	<u>(0.03p)</u>
Adjusted diluted earnings/(loss) per share		<u>0.02p</u>	<u>(0.01p)</u>	<u>(0.03p)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	<i>Unaudited</i> As at 31 March 2020 £'000	<i>Unaudited</i> As at 31 March 2019 £'000	<i>Audited</i> As at 30 September 2019 £'000
Assets			
Non-current assets			
Intangibles	174	174	174
Property, plant and equipment	71	80	81
Right-of-use assets	34	-	-
	<u>279</u>	<u>254</u>	<u>255</u>
Current assets			
Trade and other receivables	1,112	994	718
Cash and cash equivalents	306	446	440
	<u>1,418</u>	<u>1,440</u>	<u>1,158</u>
Total assets	<u><u>1,697</u></u>	<u><u>1,694</u></u>	<u><u>1,413</u></u>
Equity			
Shareholders' Equity			
Called-up equity share capital	1,039	1,039	1,039
Share premium account	4,926	4,926	4,926
Reverse acquisition reserve	(5,726)	(5,726)	(5,726)
Capital redemption reserve	3,337	3,337	3,337
Merger relief reserve	1,328	1,328	1,328
Share based payments	14	20	12
Accumulated losses	(3,999)	(3,922)	(4,038)
Total Equity	<u>919</u>	<u>1,002</u>	<u>878</u>
Liabilities			
Current liabilities			
Trade and other payables	730	692	535
Lease liabilities within one year	11	-	-
	<u>741</u>	<u>692</u>	<u>535</u>
Non-current liabilities			
Lease liabilities after one year	37	-	-
	<u>37</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>778</u>	<u>692</u>	<u>535</u>
Total Liabilities and Equity	<u><u>1,697</u></u>	<u><u>1,694</u></u>	<u><u>1,413</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2020

	<i>Unaudited</i> 6 months ended 31 March 2020 £'000	<i>Unaudited</i> 6 months ended 31 March 2019 £'000	<i>Audited</i> Year ended 30 September 2019 £'000
Net cash (utilised)/generated by operations	(112)	14	34
Cash flows from financing activities	-	-	-
Lease liability payments	(15)	-	-
Net cash outflow from financing activities	<u>(15)</u>	<u>-</u>	<u>-</u>
Net cash from investing activities			
Disposal of fixed assets	2	-	8
Capital expenditure	(9)	9	(25)
Net cash outflow from investing activities	<u>(7)</u>	<u>9</u>	<u>(17)</u>
Net (decrease)/increase in cash, cash equivalents and overdrafts	(134)	23	17
Cash, cash equivalents and overdrafts at beginning of period	440	423	423
Cash, cash equivalents and overdrafts at end of period	<u><u>306</u></u>	<u><u>446</u></u>	<u><u>440</u></u>

Reconciliation of profit for the period to cash outflow from operations

	<i>Unaudited</i> 6 months ended 31 March 2020 £'000	<i>Unaudited</i> 6 months ended 31 March 2019 £'000	<i>Audited</i> Year ended 30 September 2019 £'000
Profit/(loss) for the period	50	(59)	(183)
(Increase)/decrease in receivables	(394)	165	441
Increase/(decrease) in payables	195	(118)	(275)
Depreciation and amortisation charges	22	29	52
Finance costs	13	-	-
Profit on disposal of fixed assets	-	(3)	(3)
Share based payment	2	-	2
Net cash (outflow)/inflow from operations	(112)	14	34

Consolidated Statement of Changes in Equity

For the six months ended 31 March 2020

	Share Capital	Share Premium	Merger Relief Reserve	Capital Re- demption Reserve	Reverse Ac- quisition Reserve	Share Based Payments Reserve	Accumulated Deficit	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2018	1,039	4,926	1,328	3,337	(5,726)	20	(3,863)	1,061
Loss for the period	-	-	-	-	-	-	(59)	(59)
At 31 March 2019	1,039	4,926	1,328	3,337	(5,726)	20	(3,922)	1,002
Share based payments	-	-	-	-	-	2	(2)	-
On surrender of warrants	-	-	-	-	-	(10)	10	-
Loss for the period	-	-	-	-	-	-	(124)	(124)
At 30 September 2019	1,039	4,926	1,328	3,337	(5,726)	12	(4,038)	878
Share based payments	-	-	-	-	-	2	-	2
Effect of adoption of IFRS 16	-	-	-	-	-	-	(11)	(11)
Profit for the period	-	-	-	-	-	-	50	50
At 31 March 2020	1,039	4,926	1,328	3,337	(5,726)	14	(3,999)	919

Notes to the interim financial statements

1. Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and on a historical basis, using the accounting policies which are consistent with those set out in the Group's annual report and accounts for the year ended 30 September 2019, with the exception of the adoption of IFRS 16 Leases, which is effective for accounting periods beginning on or after 1 January 2019. The interim financial information for the six months ended 31 March 2020, which complies with IAS 34 'Interim Financial Reporting' were approved by the Board of Directors on 29 June 2020.

The unaudited interim financial information for the six months ended 31 March 2020 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 30 September 2019 are extracted from the statutory financial statements which have been filed with the Registrar of Companies and contain an unqualified audit report and did not contain statements under Section 498 to 502 of the Companies Act 2006.

2. Principal Accounting Policies

The principal accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2019, with the exception of IFRS 16 Leases, which has been adopted for the first time in these interim statements, and are those expected to be applied for the year ending 30 September 2020.

- **IFRS 16 Leases**

The Group has adopted IFRS 16 Leases using the modified retrospective approach with recognition of transitional adjustments on the date of initial application (1 October 2019), without re-statement of comparative figures. As a lessee, the Group previously classified leases as operating leases or finance leases. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases that meet the recognition criteria.

3. Segmental Reporting

In the opinion of the directors, the Group has one class of business, being that of specialist cleaning and decontamination services. The Group's primary reporting format is determined by the geographical segment according to the location of its establishments. There is currently only one geographic reporting segment, which is the UK. All costs are derived from the single segment.

4. Earnings/(Loss) per Share (basic and adjusted)

The calculations of earnings/(loss) per share (basic and adjusted) are based on the net profit/(loss) and adjusted profit/(loss) respectively and the ordinary shares in issue during the period. The adjusted profit/(loss) represents the EBITDA for the period.

	<i>Unaudited</i> 6 months ended 31 March 2020 £'000	<i>Unaudited</i> 6 months ended 31 March 2019 £'000	<i>Audited</i> Year ended 30 September 2019 £'000
Net profit/(loss) for period	<u>50</u>	<u>(59)</u>	<u>(183)</u>
Adjustments:			
Interest	13	-	-
Depreciation	<u>22</u>	<u>29</u>	<u>52</u>
Adjusted profit/(loss) for the period	<u>85</u>	<u>(30)</u>	<u>(131)</u>
	Number	Number	Number
Weighted average shares in issue for basic earnings/(loss) per share	415,407,753	415,407,753	415,407,753
Weighted average dilutive share options and warrants	<u>65,065,130</u>	<u>*</u>	<u>*</u>
Average number of shares used for dilutive earnings/(loss) per share	<u>480,472,883</u>	<u>415,407,753</u>	<u>415,407,753</u>
	pence	pence	pence
Basic earnings/(loss) per share	<u>0.01p</u>	<u>(0.01p)</u>	<u>(0.04p)</u>
Diluted earnings/(loss) per share	<u>0.01p</u>	<u>(0.01p)</u>	<u>(0.04p)</u>
Adjusted basic earnings/(loss) per share	<u>0.02p</u>	<u>(0.01p)</u>	<u>(0.03p)</u>
Adjusted diluted earnings/(loss) per share	<u>0.02p</u>	<u>(0.01p)</u>	<u>(0.03p)</u>

* Where a loss is incurred, the effect of outstanding share options and warrants is considered anti-dilutive.

Copies of this Interim Report are available from the Company Secretary, 115 Heathcote Road, Swadlincote, Derbyshire DE11 9DU and on the Company's website www.reactsc.co.uk/react-group-plc