

30 September 2019

Defenx PLC

("Defenx" or the "Company" or the "Group")

Unaudited Interim Results for the six months ended 30 June 2019

Set out below are the interims results for Defenx for the six months ended 30 June 2019.

Chairman's Statement

Following our 2018 'reboot' year, there have been a number of positive developments at Defenx in 2019, which I detail below.

Sales

In April 2019, the Company entered into a software distribution agreement (the "Distribution Agreement") with BV Tech S.p.A. ("BV Tech"), the Company's majority shareholder. Pursuant to the Distribution Agreement, BV Tech has paid the Company €1.0 million for the sole right to sell Defenx products into certain sectors in Italy and committed to purchase Defenx's products, with a minimum value of €1.2 million, to be received in a number of instalments during 2019 and 2020.

The €1.0 million 'right-to-sell' under the Distribution Agreement has been recognised primarily in the first half of 2019, with a small percentage being carried forward to future years, in recognition of an element of future obligation to maintain the software.

As a result, the Distribution Agreement has resulted in an upturn in revenues being recognised in the first half of 2019, though the Group still reported a small loss for the period.

The Board believes that investment in next generation products is also coming to fruition with products now available for sale to corporate and private users of computers and smartphones. Marketing and sales to third parties are currently primarily being channelled through BV Tech, where several major contracts are being pursued, though these have not yet reached signature stage.

The Board is also pleased to announce that it has identified a candidate to lead the sales operations for our Swiss subsidiary (covering sales to the core markets of Switzerland and Italy) and we look forward to keeping you updated in this regard.

Cash and going concern

As set out in the 2018 Accounts, the Group continues to be reliant on the financial support of BV Tech. In addition to the €1.0 million received pursuant to the right-to-sell, of the eight quarterly minimum payments of €150k pursuant to the minimum purchase for 2019 and 2020, three have been paid on time and the Company has also received advance payment on a further three, leaving €300k of the of the €1.2 million still to be received.

This demonstration of continuing financial support enables the Board to continue to view the Group as a going concern, whilst the Group seeks to builds its sales back to and beyond cash breakeven.

Other matters

The Swiss tax authorities have opened a tax investigation for 2016 in respect to our Swiss subsidiary. It is possible that the outcome of this ongoing investigation will be a significant cash payment to the Swiss tax authorities for technical profits made in that year.

As we have previously disclosed, the sales leading to those profits and local capital values subsequently proved to be illusory and were almost all written off. Swiss tax law does not enable the carry-back of losses in subsequent years, but nevertheless, the tax demand under negotiation is exceeded by the tax provisions made in past years and still held in the Accounts.

The Company also notes that the Swiss tax authorities have indicated that they will seek to review the subsidiary's 2017 and 2018 filings.

Resignation of Nominated Adviser

Strand Hanson has given the Company notice of its resignation as Nominated Adviser to the Company, such resignation to take effect at the close of business on 4 November 2019.

The Board is in talks with a number of potential replacement Nominated Advisers and will update the market in due course.

Pursuant to Rule 1 of the AIM Rules for Companies, in the event that the Company is unable to appoint a replacement Nominated Adviser on or before 4 November 2019, trading in the Company's ordinary shares on AIM will be suspended with effect from 5 November 2019. Further, also pursuant to Rule 1 of the AIM Rules, should the Company subsequently be unable to appoint a replacement Nominated Adviser within one month of Strand Hanson ceasing to be the Company's Nominated Adviser, then the admission to trading of the Company's ordinary shares on AIM will be cancelled.

Board and senior management changes

Clive Eplett will be stepping down as the Group's interim CFO in October 2019 and will be undertaking an orderly handover to his successor, Paul Williams, who has been appointed as interim CFO in his stead.

Tony Reeves and Nic Hellyer are currently in discussions with the Board, with regard to resigning as directors of the Company, but wish to work with the Board to enact an orderly handover, both to any newly appointed Nominated Adviser and, potentially, to any new director(s) to be appointed to the Board. Further announcements will be made as required.

Outlook

The results for the first half of 2019 benefited from the one-off payment from BV Tech in respect of the 'right-to-sell' that will not recur.

Accordingly, sales in the second half of 2019 are unlikely to reach the level of the first half and a further operating loss is likely to arise for the full year.

Anthony Reeves

Executive Chairman

30 September 2019

Raffaele Boccardo, Deputy Chairman of Defenx, commented:

"I and BV Tech remain fully supportive of Defenx and I believe that the Company has made significant progress in recent months, particularly with its next generation products. I look forward to providing further updates as matters develop."

Enquiries

Defenx PLC

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Clive Eplett – Interim Chief Financial Officer

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014.

About Defenx

Founded in 2009, Defenx is a cyber-security software group that offers a range of Security, Backup and Protection solutions for smartphones, PCs and networks.

Website

www.defenx.com/company/investors

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

		6 months ended 30 June 2019 Unaudited €000	6 months ended 30 June 2018 Unaudited €000	<i>Year ended 31 December 2018 Audited €000</i>
	Note			
Revenue		1,501	701	1,420
Cost of sales	5	(597)	(670)	(1,988)
Gross profit/(loss)		904	31	(568)
Other operating income	5	27	101	853
Sales & marketing expenses	5	-	(182)	(7)
Research, development & operations' expenses	5	(99)	(514)	(198)
Administrative expenses	5	(741)	(947)	(2,250)
Impairment of trade receivables	5	(24)	-	(1,349)
Operating expenses before transaction costs		(864)	(1,643)	(3,804)
Profit/(loss) from operations		67	(1,511)	(3,519)
Finance income		-	-	-
Finance expense		(143)	(138)	(278)
Loss before tax		(76)	(1,649)	(3,797)
Income tax (charge)/credit		(35)	5	11
Loss for the period		(111)	(1,644)	(3,786)
<i>Attributable to:</i>				
Equity holders of the parent		(144)	(1,598)	(3,730)
Non-controlling interests		33	(46)	(56)
Total comprehensive loss for the period		(111)	(1,644)	(3,786)
Loss per share				
Basic	6	(€0.004)	(€0.069)	(€0.154)
Diluted	6	(€0.004)	(€0.067)	(€0.150)

Unaudited Interim Condensed Consolidated Statement of Financial Position

	Note	30 June 2019 Unaudited €000	30 June 2018 Unaudited €000	31 December 2018 Audited €000
Non-current assets				
Property, plant and equipment		88	136	104
Intangible assets	7	3,662	4,320	3,513
Government grant		1,096	1,522	1,149
		<u>4,846</u>	<u>5,978</u>	<u>4,766</u>
Current assets				
Trade and other receivables	8	280	1,218	600
Government grant		496	168	483
Cash and short-term deposits		252	791	95
		<u>1,028</u>	<u>2,177</u>	<u>1,178</u>
Total assets		<u><u>5,874</u></u>	<u><u>8,155</u></u>	<u><u>5,944</u></u>
Current liabilities				
Trade and other payables		(1,457)	(1,146)	(2,303)
Deferred revenue		(163)	(392)	(253)
Loans and borrowings	9	(145)	(379)	(396)
Income taxes payable		(66)	(389)	-
		<u>(1,831)</u>	<u>(2,306)</u>	<u>(2,952)</u>
Non-current liabilities				
Deferred revenue		(359)	(744)	-
Loans and borrowings	9	(1,403)	(1,423)	(1,392)
Deferred tax liabilities		(22)	(37)	(30)
		<u>(1,784)</u>	<u>(2,204)</u>	<u>(1,422)</u>
Total liabilities		<u><u>(3,615)</u></u>	<u><u>(4,510)</u></u>	<u><u>(4,374)</u></u>
Net assets		<u><u>2,259</u></u>	<u><u>3,645</u></u>	<u><u>1,570</u></u>
Capital and reserves				
Called up share capital	10	817	601	635
Share premium	10	13,064	12,329	12,446
Merger reserve		1,641	1,641	1,641
Convertible bond option reserve		164	164	164
Share based payment reserve		153	237	153
Retained earnings		(13,422)	(11,146)	(13,278)
Attributable to equity holders of the parent		<u>2,417</u>	<u>3,826</u>	<u>1,761</u>
Non-controlling interests		<u>(158)</u>	<u>(181)</u>	<u>(191)</u>
Total equity		<u><u>2,259</u></u>	<u><u>3,645</u></u>	<u><u>1,570</u></u>

Unaudited	Interim	Condensed	Consolidated	Statement	of	Changes	in	Equity		
	Share capital €000	Share premium account €000	Merger reserve €000	Shares to be issued reserve €000	Convertible bond option reserve €000	Share based payment reserve €000	Retained earnings €000	Total €000	Non- controlling interests €000	Total €000
As at 1 January 2019	635	12,446	1,641	-	164	153	(13,278)	1,761	(191)	1,570
<i>Loss for the period</i>	-	-	-	-	-	-	(144)	(144)	33	(111)
<i>Shares issued</i>	182	618	-	-	-	-	-	800	-	800
<i>Share based payments</i>	-	-	-	-	-	-	-	-	-	-
As at 30 June 2019 (unaudited)	817	13,064	1,641	-	164	153	(13,422)	2,417	(158)	2,259
<i>As at 1 January 2018</i>	287	11,370	1,641	37	164	210	(9,548)	4,161	(135)	4,026
<i>Loss for the period</i>	-	-	-	-	-	-	(1,598)	(1,598)	(46)	(1,644)
<i>Shares issued</i>	314	959	-	(37)	-	-	-	1,236	-	1,236
<i>Share based payments</i>	-	-	-	-	-	27	-	27	-	27
As at 30 June 2018 (unaudited)	601	12,329	1,614	-	164	237	(11,146)	3,826	(181)	3,645
<i>As at 1 January 2018</i>	287	11,370	1,641	37	164	210	(9,548)	4,161	(135)	4,026
<i>Loss for the year</i>	-	-	-	-	-	-	(3,730)	(3,730)	(56)	(3,786)
<i>Shares issued</i>	348	1,076	-	-	-	-	-	1,424	-	1,424
<i>Shares to be issued</i>	-	-	-	(37)	-	-	-	(37)	-	(37)
<i>Share based payments</i>	-	-	-	-	-	(57)	-	(57)	-	(57)
As at 31 December 2018 (audited)	635	12,446	1,641	-	164	153	(13,278)	1,761	(191)	1,570

Unaudited Interim Condensed Consolidated Cash Flow Statement

	6 months ended 30 June 2019 Unaudited €000	6 months ended 30 June 2018 Unaudited €000	Year ended 31 December 2018 Audited €000
Cash flows from operating activities			
Loss for the period after taxation	(111)	(1,644)	(3,786)
Income tax (credit)/expense	35	(5)	(11)
Loss before tax	(76)	(1,649)	(3,797)
Net interest expense	143	138	278
Depreciation of property, plant and equipment	16	-	43
Amortisation of intangible assets	521	590	1,881
Impairment of trade receivables	24	-	1,349
Share based payments expense/(credit)	-	27	(94)
Operating cash flows before movements in working capital	628	(894)	(340)
Decrease)/(increase) in trade receivables	296	284	(706)
Increase)/(decrease) in trade and other payables	(780)	75	1,452
(Decrease)/increase in deferred revenue	269	(457)	(1,255)
	(215)	(98)	(509)
Interest paid	(71)	(84)	(278)
Tax paid	(3)	(6)	(243)
Net cash flow from operating activities	339	(1,082)	(1,370)
<i>Investing activities</i>			
Purchase of property, plant and equipment	-	(1)	(12)
Development costs – internally developed	(670)	(6)	(490)
Net cash used in investing activities	(670)	(7)	(502)
<i>Financing activities</i>			
Net proceeds from issue of share capital	800	1,377	1,424
Proceeds from borrowings	-	-	72
Repayment of borrowings	(312)	(426)	(458)
Net cash from financing activities	488	951	1,038
Net increase/(decrease) in cash and cash equivalents	157	(138)	(834)
Cash and cash equivalents at beginning of period	95	929	929
Cash and net cash equivalents at end of period	252	791	95

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

1. General information

Defenx PLC is a public limited company incorporated in England and Wales, registration number 08993398, which is quoted on AIM. Its principal activity is the design and sale of software solutions for the mobile, PC and network that provide privacy and security for an online world. Management and control is exercised from the UK and its main countries of operation are Italy and Switzerland.

2. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting and do not constitute statutory financial statements. They do not include all the information and disclosures required for a complete set of IFRS financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

These unaudited interim financial statements were authorised for issue by Defenx's Board on 30 September 2019.

3. Going

Concern

As set out in the 2018 Accounts, the Group continues to be reliant on the financial support of BV Tech. In addition to the €1.0 million received pursuant to the right-to-sell, of the eight quarterly minimum payments of €150k pursuant to the minimum purchase for 2019 and 2020, three have been paid on time and the Company has also received advance payment on a further three, leaving €300k of the of the €1.2 million still to be received.

This demonstration of continuing financial support enables the Board to continue to view the Group as a going concern, whilst the Group seeks to builds its sales back to and beyond cash breakeven.

4. Accounting policies

There have been no changes to the accounting policies and methods of computation in these financial statements compared with those of the previous full year.

IFRS 16, Lease accounting, has been adopted in these accounts. No material impact arises when contrasted to the previous basis of accounting for leases.

The two sales agreements signed with BV Tech in April 2019, and that comprise the majority of revenue for the period, provide products on the same operating model is sales to third parties. Accordingly, the same revenue recognition policy has been applied to those sales.

5. Loss from operations

	6 months ended 30 June 2019 Unaudited €000	6 months ended 30 June 2018 Unaudited €000	Year ended 31 December 2018 Audited €000
The operating loss is stated after charging:			
Cost of sales			
Amortisation of intangible assets	521	590	1,881
Other operating income			
Research & development tax credit income	(40)	(101)	(838)
Sales, marketing and administrative expenses			
Impairment of trade receivables	24	-	1,349
Depreciation of property, plant and equipment	16	-	43
Staff costs	342	679	677
Share based payment expense	-	27	(57)
Lease payments – land and buildings	26	49	103
Lease payments – plant and machinery	6	-	10
AIM-related expenses	102	100	289

6. Loss per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of Defenx by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of Defenx 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 dilutive deferred shares, the exercise of options and crystallisation of the contingent share consideration.

The following reflects the income and share data used in the basic and diluted EPS computations:

	6 months ended 30 June 2019 Unaudited €000	6 months ended 30 June 2018 Unaudited €000	Year ended 31 December 2018 Audited €000
Loss attributable to ordinary equity holders of Defenx PLC for basic and adjusted EPS	(144)	(1,598)	(3,730)
Weighted average number of Ordinary Shares for basic EPS (thousand)	36,956	22,905	23,812
Effect of:			
- dilution from convertible bond	625	625	625
Weighted average number of Ordinary Shares for diluted EPS (thousands)	37,581	23,530	24,437

7. Intangible Assets

	Goodwill	Development costs	Customer relationships	Total
	€000	€000	€000	€000
Cost				
At 1 January 2019	1,139	13,125	354	14,618
Additions – internally developed	-	670	-	670
Additions – purchased	-	-	-	-
At 30 June 2019	1,139	13,795	354	15,288
Accumulated amortisation				
At 1 January 2019	1,139	9,612	354	11,105
Amortisation charge	-	521	-	521
At 30 June 2019 (unaudited)	1,139	10,133	354	11,626
Net book value				
At 30 June 2019 (unaudited)	-	3,662	-	3,662
At 30 June 2018 (unaudited)	-	4,320	-	4,320
At 31 December 2018 (audited)	-	3,513	-	3,513

The intangible assets booked represent qualifying expenditure on the development of software for resale less accumulated amortisation and impairment costs. The carrying value of these intangible assets is tested for impairment on a half yearly basis, or when there are indications that the value of the assets might be impaired.

The Directors have assessed development projects' individual net present value against forecasts of future sales of the related products, unit sales prices and costs over a five-year period. No sales beyond five years have been included in the calculations. The impairment tests are sensitive to changes in these forecasts and changes could result in impairment; however, the varying bases indicate a net present value in excess of the carrying value of the intangible assets at the balance sheet date.

8. Trade and other receivables

	6 months ended 30 June 2019 Unaudited €000	6 months ended 30 June 2018 Unaudited €000	Year ended 31 December 2018 Audited €000
Gross trade receivables	4,700	4,682	5,013
Offset deferred revenue	-	(454)	(194)
Provision for impairment	(4,590)	(3,217)	(4,566)
Net trade receivables	110	1,011	253
Other receivables	170	207	347
Total receivables	280	1,218	600
<i>Provisions for impairment</i>			
Opening balance	(4,566)	(3,217)	(3,217)
Net increase during the period	(24)	-	(1,349)
Closing balance	(4,590)	(3,217)	(4,566)

9. Loans and borrowing

The book and fair value of interest bearing loans and borrowings was:

	Ultimate maturity	6 months ended 30 June 2019 Unaudited €000	6 months ended 30 June 2018 Unaudited €000	Year ended 31 December 2018 Audited €000
Current				
Overdrafts	On demand	-	-	-
	On demand	-	-	-
Invoice discounting facility	Up to 120 days	-	-	149
Supply chain facility	Up to 90 days	-	-	-
Bank loans – unsecured	30/06/2019	-	203	102
Bank loans – unsecured	22/11/2021	130	123	130
Vendor loans from business combinations	31/07/2018	15	53	15
		145	379	396
Non-current				
Bank loans – unsecured	30/06/2019	-	-	-
Bank loans – unsecured	22/11/2021	177	306	238
Vendor loans from business combinations	31/07/2018	-	-	-
Convertible bonds	31/08/2020	1,226	1,117	1,154
		1,403	1,423	1,392
Total loans and borrowing		1,548	1,802	1,788

Overdrafts and other short term facilities, excluding the supply chain facility, attract variable interest at between 3% and 6% per annum. The supply chain facility, denominated in Sterling, attracts a fixed rate of interest of 1.65% per month. The bank and vendor loans, both denominated in Euros, attract interest at 3% over 3-month EURIBOR and at 8% fixed per annum respectively.

The average effective interest rate for the period ended 30 June 2018 was 8.3% (30 June 2018: 7.5%).

At 30 June 2019, the Group had available €70,000 (30 June 2018: €270,000) of undrawn committed borrowing facilities.

10. Share capital

	Number of shares <i>thousands</i>	Share capital €000	Share premium €000
As at 1 January 2019	29,810	635	12,446
Issue of new ordinary shares – BV-Tech SpA	8,899	182	618
As at 30 June 2019 (unaudited)	38,709	817	13,064
As at 1 January 2018	12,952	287	11,370
Issue of new ordinary shares – BV-Tech SpA	11,777	244	840
Issue of new ordinary shares – Open offer	3,186	66	227
Issue of new ordinary shares – MBooster	243	4	51
Equity issue costs	-	-	(159)
As at 30 June 2018 (unaudited)	28,158	601	12,329

The ordinary shares of £0.018 carry the right to one vote per share at general meetings of the Company and the rights to share in any distribution of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up. The shares are denominated in Sterling.

11. Availability of the interims

The Interim Report will shortly be available on the Company's website at www.investors.defenx.com.