

PENNANT INTERNATIONAL GROUP PLC**Business Update - Covid-19 Risks;****New & Improved Banking Facilities; £2 million Milestone Achieved;****Revenue Impacts; Order Book and Pipeline Update including Major Programme**

Pennant International Group plc (“**Pennant**”, the “**Group**”, or the “**Company**”), the AIM quoted supplier of integrated training and support solutions, products and services which train and assist operators and maintainers in the defence and regulated civilian sectors, provides the following business update.

In its Covid-19 announcement on 23 March 2020 (the “**Covid-19 RNS**”), the Company identified three key potential impacts linked to the pandemic: (1) delays to milestone payments due to inability to hold contractual review meetings; (2) a reduction in revenues due to lockdown restrictions preventing service delivery; and (3) delays to new orders as customers’ priorities shift in response to the pandemic. This announcement gives further detail on developments within each of these categories since the Covid-19 RNS.

Cash and Working Capital

The first two risks set out in the Covid-19 RNS carry a potential immediate cash impact and, indeed, these risks were further highlighted in the Company’s 2019 annual report (published on 20 April 2020, the “**Annual Report**”) as giving rise to a material uncertainty in that regard, with the Company noting in the report that it was taking various steps to mitigate the potentially detrimental effect on its cashflows.

The Company is therefore pleased to confirm that two key actions have now been completed which significantly improve the Company’s cash and working capital position.

New Banking Facilities

The Company has re-financed with HSBC UK Bank plc, ending its long association with Barclays. HSBC is providing the Company with a range of banking facilities including a £4 million overdraft (an increase of £1 million over the previous overdraft facility) at a rate of 1.95% per annum over the bank’s base lending rate from time to time.

The new facilities are secured against the Company’s freehold property portfolio and do not have any financial covenants attached.

General Dynamics contract

In the Annual Report it was noted that the pandemic had the potential to delay the holding of a contractual event with a £2 million payment milestone attached. This event related to the General Dynamics contract.

With the use of virtual technology to circumvent the lockdown, the event has now been successfully held. The customer has confirmed in writing that the milestone has been achieved, and the £2 million invoice has been raised.

The formal contract amendment for the £1.5 million price uplift announced on 10 March 2020 has also now been executed.

To further assist its cashflow and cost management during this period, the Company continues to make use of the UK government's Coronavirus Job Retention Scheme and has made certain payment arrangements with HMRC. Given the re-financing and milestone achievement mentioned above, the Board has determined that it is not necessary to apply for a Coronavirus Business Interruption Loan at this time.

Revenues

As anticipated in the Covid-19 RNS, the Group is experiencing certain reductions in revenue:

ILS Consultancy

The second risk highlighted in the Covid-19 RNS was to the realisation of consultancy revenues by the Group's 'integrated logistics support' division; the services are typically delivered at a customer's site, so if the relevant sites cannot be accessed due to Covid-19 restrictions, the ability to deliver the services is affected.

While steps have been taken to mitigate this risk (including implementation of remote working and designation as an essential service), revenues from the ILS division are currently running at 20% below budget. The position is expected to improve as restrictions ease and customer operations begin to return to normal levels (although a 'catch up' of lost revenues in respect of the affected months is not anticipated).

UK Helicopter contract

With regard to the Group's £3.4 million contract for the design and build of a helicopter training aid for the UK military (announced on 31 October 2019), key workshops and a contractual review meeting continue to be delayed by Covid-19 and other issues affecting the availability of relevant personnel.

The contract is 'engineered-to-order' for revenue recognition purposes and the Group expects that progress to completion, and therefore revenue recognised, will be less than expected for the current financial year. The customer has been supportive of Pennant in managing the concomitant cash impact of the delay and has part-paid a review event in advance of the event being held.

New Orders

The third risk identified in the Covid-19 RNS was that Pennant's customers would be consumed by their own efforts and concerns relating to Covid-19 and that the award of new contracts to the Group would be affected as a result.

Middle East order

In relation to the potential new Middle East order announced on 19 February 2020, the Group anticipates that, due to Covid-19 impacts on the customer, the order will now be placed in the second half of 2020 (rather than first half, as originally expected). As the order is believed to comprise generic products with lead times greater than six months, receipt of the order in the second half would mean that all revenues associated with the order would be recognised in the 2021 financial year.

Major Programme

The Company has been endeavouring for some time to clarify the timeline for the award of the contract for the major programme for which Pennant was 'down-selected' (as first announced on 9 August 2018). Pennant's contract, if awarded, would be a sub-contract from a prime contractor, with the supply of the training aids forming an integral part of a wider package from the prime contractor to a military end-user.

Pennant's current understanding is that, while the end-user's requirement for the relevant training aids remains, the prime contractor has not yet been able to reach agreement with the end-user as to the terms and scope of the supply for that wider package. It is not believed that Covid-19 is a primary factor in this situation, although it has presumably not been conducive to progress of the relevant negotiations.

Pennant is not a party to these negotiations but remains in regular dialogue with the prime contractor and will provide a further update in due course. Pennant retains the people, knowledge and facilities to deliver the contract and contribute to the UK's economic recovery post-pandemic.

Management's Next Steps

Taking into account the above developments, Pennant's Board anticipates that revenues for 2020 will not materially increase beyond what is currently budgeted based on existing contracts, namely circa £16 million for the year.

A wide-ranging cost reduction exercise was carried out by the Company last year in response to delays to the award of the major programme, and further mitigating actions were recently taken to combat the effects of Covid-19. An additional review of costs is presently being undertaken to ensure operations remain appropriately streamlined but properly resourced for the delivery of core contracted programmes, with costs aligned to baseline revenues.

Notwithstanding the slowdown caused by Covid-19, in addition to its three-year contracted order book of £33 million at last year-end, the Group retains a sizeable pipeline of potential contracts which it will continue to pursue while seeking new revenue opportunities in accordance with its strategy.

Phil Walker, Pennant Group CEO, commented: "Achieving a £2 million contract milestone and securing an increased overdraft significantly improve the Group's cash position, which is particularly important in the current Covid-19 induced climate of slowed revenues and pipeline uncertainty. We continue to work together with our employees, customers and suppliers to manage the direct and indirect impacts of Covid-19. We remain focused on delivering our current contracts, while seeking to convert our pipeline opportunities and win new business across the Group."

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014 ("MAR")) prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

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