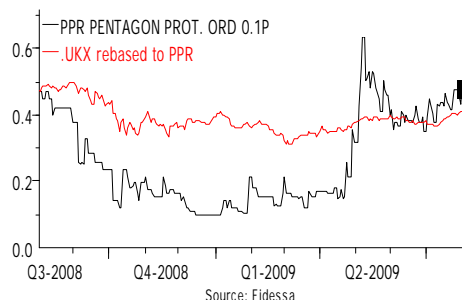


**Pentagon Protection Plc**  
A Turnaround Story.

**0.475p**

5 August 2009

**Share Price: 0.475p**



**12m High:** 0.6354p

**12m Low:** 0.0988p

**Market Cap:** £3.05m

**Shares in Issue:** 641.42m

**NAV/Share:** 0.3p (2008 Actual)

**Gearing:** Nil

**Interest Cover:** N/A

**EPIC Code:** PPR

**Sector:** Support Services

**Market:** London AIM

**Broker:** Dowgate Capital

**NOMAD:** Seymour Pierce

**Website:** pentagonprotection.com

**Description:** Global specialist of enhanced glass protection and specialist in high risk security consulting, training and the supply of security equipment and products.

**Analyst:** Yingheng Chen

**Tel:** +44(0)207 929 3399

**Email:** research@hardmanandco.com

Pentagon is a high risk 'penny stock' that may be about to shake off a six year record of under-achievement for its investors.

Its core business until this year has been the installation of Hi-Tech polyester film on windows to provide blast protection for office premises and Government buildings. This business pleases its customers but not the company shareholders, often running on poor gross margins, producing losses, requiring frequent injections of additional equity capital and changes of management. £10,000 invested in the shares at their flotation had, by mid-2008, become worth only £350.

Then in 2008, a company-changing seven figure contract was won – only for the benefits to be soaked up by a damaging, though ultimately successful, legal battle against a former partner. This took up a significant amount of the management team's focus and time. We are glad to know that this issue has been resolved and no further consequence is expected in FY09.

2008 was an eventful year for Pentagon. A major acquisition, SDS Group, has hugely expanded the range of products and services that Pentagon offers. SDS brings a new dimension of expertise and an extensive client base including government agencies and police forces to Pentagon. SDS is likely to produce 50% of total sales in the current financial year, and will additionally provide a boost for the 'traditional' polyester film business with cross-selling opportunities. The film business, meanwhile, has also improved its margins by a strategic change of direction.

We believe that Pentagon Protection will produce a much better set of results in the current year, with strong sales growth, although it will still declare a loss because of the deficit already announced for the first half.

We expect further growth with a small margin expansion in 2010, based on its latest agreement with Frost & Sullivan and strategic partnerships with two other security companies. We believe this should produce a small profit. However we are not at this stage publishing forecasts for either 2009 or 2010.

Pentagon has recently completed a successful modest fundraising of £275,000, which will help to support the current higher level of sales. We would like to see a share consolidation but accept that there are valid arguments for remaining a 'penny stock'.

The shares have quadrupled from their low point, but the company is still only capitalised at £3.05m, and has little debt. There is scope for significant capital appreciation for investors prepared to accept a high risk stock that is at present sub-institutional quality.

Y/E	Sales	Declared Pre-tax Profit	Adjusted Pre-tax Profit	Adjusted EPS (Basic)	P/E ratio	Divi	Yield
	£000	£000	£000	p.	x	p.	%
2007A	1,736	-326	-326	-0.10	-	-	-
2008A	1,444	-2,991	-602	-0.15	-	-	-
2009E	No	forecasts					
2010E	No	forecasts					

## SWOT Analysis

### Strengths

- Enthusiastic management team with extensive knowledge and experience in the protective glass film industry and the security sector.
- High quality security equipment increasingly being recognised by government agencies, police forces and militaries.
- Dr Wyatt and his team have strong links with various government departments.
- Excellent reputation in the security industry and a strong network with government bodies, police and armed forces worldwide.
- New hotel security project gives the company exclusive access to substantial new business.
- Pentagon has a global network of agents in 32 countries.
- Both company subsidiaries has excellent proven track records, for example, London's Waterloo International Eurostar Terminal, Singapore's Changi Airport and security consultation for the UN and several of its agencies in Europe, the Middle East and North Africa.

### Weaknesses

- The company currently has an outsourced part-time CFO and no CEO, although previous CEO, Alan Nicholl, will remain as a consultant to the Board until a new CEO is appointed.
- More project leaders are required for future growth.
- Clear, appropriate development strategies are needed for further business development. We are pleased to see the company is moving toward this goal, from the recent strategic partnership agreements with Eruma plc and Frost & Sullivan.
- Consultancy operations in SDS rely heavily on Dr Wyatt.
- The film market is very competitive and margins are being squeezed by both suppliers and customers.
- Pentagon relies heavily on new contract wins, with minimal regular recurring revenue from its film business, although there has been some maintenance and repair revenue from recent large equipment sales contracts.

### Opportunities

- Taking advantage of the higher health and safety regulatory requirements and current global crisis on terrorism for future growth.
- Rising global warming concerns along with the government's target of £375m energy savings in building over the next two years, Pentagon's market-leading energy saving films are well positioned to benefit from this market.
- The London 2012 Olympic Games requires a significant amount of security equipment, consultancy services and personnel training. These are open for tender and Dr Wyatt is an advisor with the London Olympic Group.

### Threats

- The retro-fit film market is competitive, and Pentagon is only a relatively small player amidst other international players and many small private suppliers.
- SDS' target market is correlated to global turbulence.

## Pentagon Protection Plc

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### The Business

Chesham-based Pentagon Protection Plc specialises in the development and advancement of protective window films and glass containment anchoring systems. Its original business was co-founded by Mr Geoffrey Russell and Mr Peter Mukherjee in 1992, and was mainly involved in the application of solar-protective film (window tinting) to motor vehicles. Pentagon has since moved on and become a provider of immediate and cost-effective retro-fit solutions to problems associated with architectural glass and glazing in commercial and residential buildings. The company has two subsidiaries, Pentagon Protection (UK) Limited, which is engaged in the supply and application of solar control, safety and security films to buildings, and SDS Group Limited, a provider of bespoke security consultancy services, training programmes and the supply of a comprehensive range of security equipment.

Mr Alan Nicholl, Pentagon's ex-Chairman, has been one of the main forces behind the company's transformation. Mr Nicholl was appointed as the Managing Director of Pentagon in August 2005. He then became the company's Chairman in 2006. Mr Nicholl has made great contributions to the company during this period. He helped with the disposal of Pentagon's loss-making automotive division in 2006 and the decision to acquire SDS in 2008. He stepped down as Chairman last year, but remains as a consultant to the Board and is a shareholder of the company.

#### Pentagon Protection (UK) Limited

Pentagon Protection (UK) Limited (Pentagon Limited) was re-branded from its former self, Pentagon Filmtek Limited, after the disposal of the company's original business, the automotive division, in 2006. It then shifted its focus to solar control and energy saving films in order to take advantage of the rising concern about global warming. Pentagon's focus also includes anti-shatter/safety films, bomb blast mitigation and enhanced security protection for glass and glazing with increasing awareness for duty of care, business continuity and increased safety requirements for glass in all commercial and public buildings.

Global security concerns have been at their highest in countries worldwide since the 9/11 World Trade Centre disaster. Companies are required to operate with a duty of care to provide an environment that is safe for their employees and visitors. Pentagon's proprietary film, for which it owns the IP, can absorb to a large degree the shock wave of a blast. This, combined with Pentagon's Anchoring Systems, provides a further improved level of protection from bomb blast or attack and protection against other unforeseeable glass failures. Pentagon has an excellent track record of installations globally, including London Waterloo International Eurostar Terminal, Singapore's Changi Airport, Ares Tower in Vienna, Dubai International Airport and British Council offices worldwide.

Pentagon also provides cost-effective solutions for improving energy efficiency and consequently reducing carbon emissions. These films can reduce heat ingress and hotspots in buildings, whilst allowing the continuance of natural light.

Pentagon's products and solutions are marketed through a global network of agents located throughout the world.

#### SDS Group Limited

In September 2008, Pentagon Protection Plc acquired SDS Group Limited, a leading bespoke security consultancy specialist and equipment provider that was founded by Dr John Wyatt over 30 years ago. SDS also provides training in equipment operation, incident and risk management for a wide range of clients, including various government bodies.

SDS has an extended global network and strong relationships with numerous governments, military and police forces. Dr Wyatt gained his reputation through his 25 year career in the British Army, most of which was spent in bomb-disposal and counter-terrorist search operations and his subsequent academic background as a PhD in Explosive Engineering. Although not unique, this combination of 'hands-on' experience and technical knowledge of the subject is very rare. Dr Wyatt is highly respected in this field and widely known both in

**'SDS has an extended global network and strong relationships with governments, military and police forces.'**

Pentagon Protection Plc

5 August 2009

the UK and overseas in the security and bomb disposal industry. Dr Wyatt, therefore, leads all security consulting projects and training courses provided by SDS. An example of this is blast analysis for the United Nations.

SDS supplies security equipment, including highly specialised security and search equipment, mainly to governments, police forces and security and defence forces in the UK and around the world. SDS has built a reputation for providing top-of-the-range equipment in this industry, selling over 70 security related products ranging from lightweight portable screening equipment to high-tech x-ray equipment as used by the Armed Forces. Neither SDS nor Pentagon manufactures this equipment, but for the majority of the equipment sold, SDS has exclusive distribution rights. Dr Wyatt has also designed one of the detectors, namely the 'Falcon', portable search equipment that detects the presence of hidden organic material by signalling and showing unexpected changes in the density of thickness behind a barrier material.

Industry Background

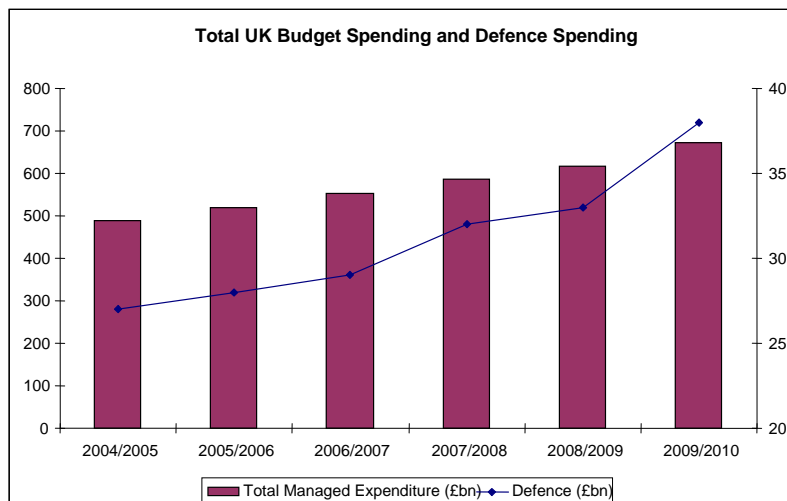
Global military spending rose by 4% in 2008 to a record \$1.464 trillion (£914 billion), an increase of over 45% since 1999, (as reported by peace research institute Sipri). UK, as one of the world's biggest spenders in this area, with a defence budget of \$65.35bn, was ranked fourth in the overall spending list of 2008. The top three, above the UK were the US, China and France, with spending of \$607bn, \$84.9bn and \$65.74bn respectively.

According to Dr Sam Perlo-Freeman, head of the Military Expenditure Project at Sipri, 'the idea of the 'war-on-terror' has encouraged many countries to see their problems through a highly militarised lens, using this to justify high military spending.' However, this vision does not come without problems. This continuous increase in military expenditures and the implication it may have on budget deficits, could eventually mean that companies may find themselves facing reduced future demand from governments if military spending budgets are cut. We are in a sensitive period now as the UK government stalls on long-term investment decisions before the next general election. It is highly unlikely that the new government will completely scrap a major capability unit. However, it is likely that several procurement programmes will be reviewed, given the lack of resources.

In the 2009 budget, the Chancellor of Exchequer, Alistair Darling, forecast UK GDP to drop 3.5%, a contraction of the economy for the first time in the post-war period. However, in order to maintain macroeconomic stability, the government will continue to improve and invest in public services. The total managed expenditure in 2009-10 is expected to be around £671bn, where spending in defence represents 6.2% of the total spending.

**'Spending in defence has increased to £38bn in the 2009 budget.'**

The following chart shows the total UK budget spending and spending in defence over the past six budgets. The total budget spending has an average growth rate of 6.58% in the past six years, while spending in defence grew at an average of 7.18%.

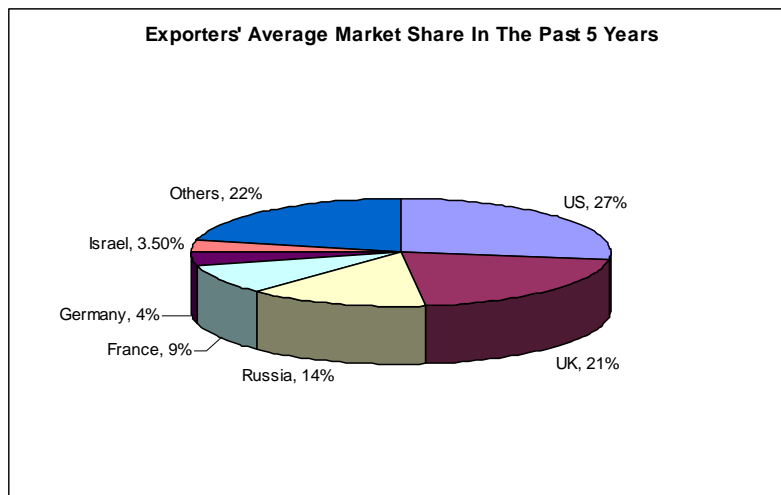


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Despite this uncertainty, the UK-based defence industry is a vital sector for the nation. According to the statistics released by UK Trade & Investment's Defence and Security Organisation (UKTI DSO), the UK was the second most successful global exporter in 2008, achieving a total value of over £4.2bn. This represents 17% of the global market share in this sector, whereas the long term target is 20%. The top exporters' average market shares over the past five years were: US (27%), UK (21%), Russia (14%), France (9%), Germany (4%) and Israel (3.5%).

**'In 2008, the UK was the second most successful global exporter in the defence industry.'**



A mid-year assessment by UKTI DSO has shown that so far there is no significant drop in global export orders compared to the same period in previous years. This shows the defence and security sectors are weathering the storm better than many other sectors. The statistics also predict that there are strong growth prospects for companies in the security sector over the next decade with services ranging from integrated surveillance and screening to access control.

### The Olympics

Security during the Olympic Games is a substantial task, in terms of protecting high-profile dignitaries, royalty and leaders from around the world along with the athletes and hundreds of thousands of spectators. The defence industry's focus has now turned to the security preparations for the Vancouver 2010 Winter Olympics and London's 2012 Olympic Games.

The security budget for the 2010 Winter Games is estimated to be C\$900m. This is believed to be the largest security operation in Canada for which planning began in 2006 and will be used as a blueprint for other major events such as the meeting of G8 leaders.

Security planners and organisers for London 2012 have learnt from the Beijing model, while acknowledging the national and logistical differences, where the Beijing Olympics achieved a military level of security and a budget to match with more than 150,000 estimated security personnel on duty on peak days, plus an unknown number of Chinese defence forces. However, this will not fit well with the lower profile security plans for Vancouver and London. Without such a large number of security personnel, there will be a much greater requirement for the use of security equipment.

The UK's strategic safety and security planning for the Games is led by the Olympic Security Directorate (OSD), which is acting on behalf of the Home Secretary. The Games will begin in London on 27 July 2012 and conclude on 9 September 2012. The Games are estimated to have over 250,000 accredited people (including 14,000 athletes from over 200 participating countries, 6,000 coaches and officials and 20,000 media representatives), and an estimated 9 million tickets are likely to be sold.

The Games are centred on the Olympic Park in Stratford, East London and other venues across the capital. Other events across the UK include: cycling (Essex), sailing (Weymouth & Portland), canoeing (Hertfordshire) and rowing (Eton). It is estimated that 12 police forces

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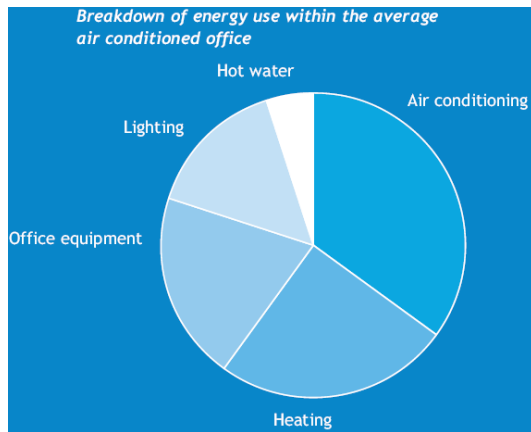
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will be directly involved in the preparations at this stage and 6,000 extra police will be on the streets throughout the Games. This will be the largest, most complex security challenge the UK has ever faced and there is still much to be progressed, such as physical barriers, screening equipment, access control, and hotel security especially following the Pakistan and India hotel attacks. The Olympics present huge potential for the security industry. Dr John Wyatt is an advisor to the London Olympic Group.

### Energy Saving

The widely accepted 'greener' office space concept is one of the main driving forces for Pentagon's film business. Air-conditioned office space has tripled over the last decade and continues to be on the rise. Electricity usage in office buildings is one of the areas where great savings can be easily achieved.

According to the Carbon Trust, 'office based business activities are responsible for the emission of around 6.8 million tonnes of carbon dioxide a year'. It is estimated that up to 20%, equivalent to over £157m, in energy savings are possible.



Source: The Carbon Trust

In April's Budgets, Chancellor Alistair Darling announced spending of £375m on energy efficiency in businesses, public buildings and households over the next two years. The Chancellor also said that energy efficiency – stopping heat leaking out of buildings – is the easiest and quickest way to reduce carbon emissions and improvements can be achieved in homes, offices and public buildings.

## Latest Developments

### JV with a global research organisation – The Hotel Security Excellence Rating Project

High-end hotels and resorts around the world tend to focus on comfort rather than safety. However, since the wide spread of terrorist attacks, e.g. 9/11 in New York and the July bombing in London, security alert levels around the world are at a record high. With airports and other transport hubs having deployed highly sophisticated security measures, terrorists are turning to softer targets. Following the recent attacks in India and Pakistan, a growing number of corporate customers are demanding higher levels of security and safety from international hotel chains.

Business travel agents are increasingly being asked to advise on the levels of guest protection in place at hotels and other hospitality venues by their key customer firms and Government agencies. Insurance companies are also looking closely at this aspect when putting together insurance policies for the hospitality sector. Security features are now being considered as one of hotel chains' marketing tools in the battle of attracting customers in the economic downturn.

Pentagon sees this urgent need for advice on best security practices as a very good opportunity to expand the security consultancy services that SDS offers.

The company, in partnership with Frost & Sullivan (F&S) ([www.frost.com](http://www.frost.com)), is proposing a set of security-focused deliverables for the global hospitality industry including:

- An Industry White Paper on 'Improving Hotel Security in Today's Unpredictable Global Environment'.
- A comprehensive survey of the status and standard of security measures in place in luxury hotels around the world.
- Specialist training courses for hotel security managers and other hospitality personnel, featuring top class instructors with hands-on experience in combating terrorist attacks.
- A security benchmarking and best practices website.
- Best of Breed Products and System Integration.

Frost & Sullivan, one of the world's most eminent consultancy companies, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. F&S is widely recognised for its comprehensive industry research and consultancy capabilities as well as its management training programmes and benchmarking expertise. F&S' Growth Partnership Service provides client company's CEOs and their Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. F&S leverages over 45 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from more than 35 offices on six continents.

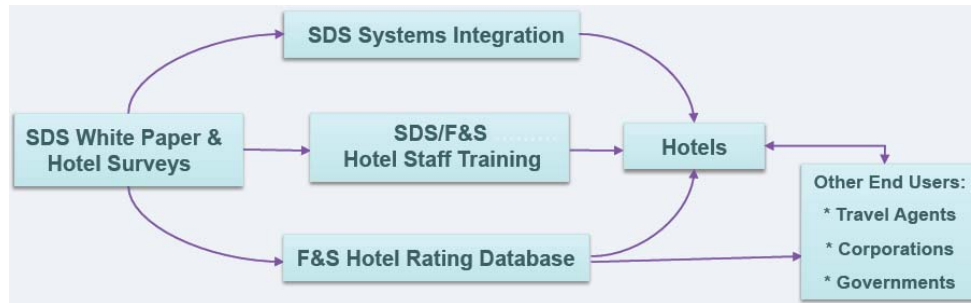
Luxury hotels around the world have never before been rated on their security levels. This will be a very welcome rating system to organisations and individuals who believe hotel security is as important as comfort. SDS and F&S have already received a positive response to this groundbreaking initiative from several global hotel chains, travel agents and authorities. The top 200 hotel groups worldwide represent a potential market of over 43,000 luxury hotels, that is approx. 5.5 million rooms. This new venture is likely to keep SDS busy for quite some time.

**'SDS, partnered with F&S, is creating the world's first rating system on hotel security levels.'**

**'Potential market of over 43,000 luxury hotels worldwide.'**

Pentagon Protection Plc

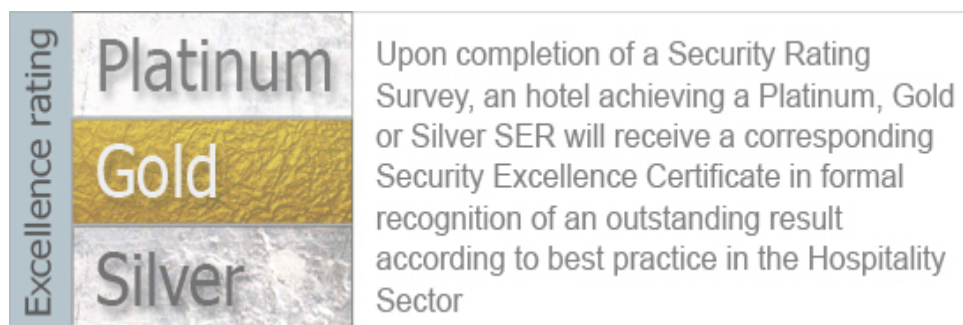
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Source: Pentagon Protection

In this JV between Pentagon and F&S, all hotel Critical Risk Assessment & Containment surveys and reports will be carried out by SDS, and projects examined by experts from a team of over 20 that will be led by Dr Wyatt. Parallel to the Security Excellence reports and surveys, SDS and F&S are providing thorough training courses for hotel security managers and other hospitality personnel, featuring highly seasoned instructors with hands-on experience in securing hotels and other high-value soft targets on a global basis.

The Security Excellence data will then be compiled by F&S, using their pre-existing industrial benchmarking system and the information collected during the comprehensive on-site survey by SDS. As a result of the surveys, F&S and SDS will in association with Hospitality Industry Bodies and Leading Hotel Groups create an Internationally recognized benchmark standard. One of the key criteria to be assessed during a survey is the vulnerability of the glazing – the use of anti-shatter blast films on windows and doors can be critical. This is an obvious cross-selling opportunity for Pentagon’s protective film and anchoring division.



Source: Pentagon Protection

Dr Wyatt and his team have substantially expanded their team of expert consultants and training personnel to manage the expected increase in business and will need further expansion in order for this project to have the scalability that the concept clearly demands and to become a truly international operation.

**‘Further expansion of the team of experts will be needed.’**

**Strategic Partnership with Eruma plc**

Pentagon has signed a Memorandum of Understanding (MOU) with Eruma plc. This MOU is for the formation of a strategic partnership between Pentagon and Eruma, which will aim to jointly develop business globally within the counter-terrorism and environmental protection markets, which according to Pentagon, are worth in excess of £30bn per annum. In this partnership, both companies will promote each others products, collaborate on joint bids and share sales leads, market intelligence and key contacts. This formation is based on the fact that Pentagon and Eruma have worked with each other on a number of successful bids both in the UK and overseas. *(For further details on Eruma, please see section below – Comparators.)*

**‘Strategic partnership has enabled future collaborations’**

Strategic partnerships of this type will help accelerate Pentagon’s global expansion. This is one of the company’s business development strategies for the future and the company is currently in talks with several potential partners aiming to form similar relationships.

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### Other Developments

Several contract wins have been announced by Pentagon since its year end in September 2008. The most notable of these are as follows:

#### Police Forces and Government Contracts

In April 2009, Pentagon's wholly owned subsidiary SDS Group Ltd was awarded a contract with a value of more than £635,000 by the Metropolitan Police. This contract is for the supply of 11 portable x-ray search units. SDS has been working with the Metropolitan Police for a number of years and considers this to have huge potential, with other forces likely to follow suit.

Following the success of the Metropolitan Police contract, which was won in a competitive tender, SDS was then awarded a contract to supply similar portable x-ray equipment to the Home Office with a value of £138,000 and to the Sussex Police Force with a value of £57,500.

A separate contract of £85,000 was awarded by the New Zealand Defence Force for key anti-terrorist equipment that utilises the latest technology in explosive and drug detection.

Because of the quality of the products SDS offers and their obvious popularity among the UK and overseas police forces, SDS was awarded a £235,000 contract for the supply of top-of-the-range portable x-ray equipment along with other counter-terrorist equipment from the MOD.

#### Trinidad & Tobago Government

Being responsible for the Fifth Summit of the Americas in April 2009, as President Obama's first major overseas conference, the Trinidad and Tobago High Commission in London invited Dr Wyatt to present on counter-terrorist search equipment and procedures in December 2008. As a result SDS were contracted to supply relevant equipment to the value of £125,000. The company envisages that further equipment will be needed for the much larger Commonwealth Heads of Government Meeting (CHOGM) towards the end of 2009.

#### Major overseas government

Another significant contract was awarded to Pentagon by an unnamed 'Major Overseas Government' with an initial value of £2m in June 2008. This project is to install Pentagon's specialist retro-fit glass containment window film and anchoring system and window replacement for approx. 70 buildings of this government's global property portfolio over a three year period. This project commenced in August last year and Pentagon has now completed work on eight buildings across four countries. In addition to the original contract, Pentagon has the opportunity as an approved supplier to bid for other security products and services in an additional contract running in tandem with the glazing uplift programme.

During the early stages of this project, the company became involved in a legal dispute with another party. It was eventually successfully resolved, but absorbed a large amount of the management team's focus and time. This ultimately led to a decrease in sales in 2H08. Now that the legal dispute is over, Pentagon is anticipating further growth in the contract value through the provision of other approved security and consultancy services to the same client.

#### Retail Sector

Pentagon was recently awarded a contract by one of the biggest shopping centres in the UK. This contract, with a value of over £205,000, is for the supply and installation of an energy efficient coating to high level glazing as a solution to overheating issues at the shopping centre. A confidentiality agreement prevents the name and location of this shopping centre being published.

Another contract was awarded to Pentagon by one of the UK's largest retail chemists with an initial value of £58,000, to upgrade existing glazing to meet Health and Safety Regulations at a number of its units throughout the UK.

## Management Team

### Haytham ElZayn – Chairman

Haytham is President/CEO of Pentagon Protection USA, a leader in security film attachment systems. In addition, he is the President of National Glass Service Group and Zola Distributing. The aforementioned companies are leading providers of glass related film and tool solutions in the United States. With over 19 years of experience in the insurance industry, Haytham is considered an expert in the service contract industry. He is also known for his expertise in developing innovative programs and pricing service contracts that are both successful and profitable.

### Danielle Stewart – Financial Director

Danielle is a partner in the Business Advisory Department of Baker Tilly, the 7<sup>th</sup> largest firm of Chartered Accountants in the UK. She is acting as an outsourced Finance Director to the business, working with the Directors of Pentagon to develop commercial strategy and ensure that its financial systems and procedures are robust. Danielle qualified in 1984, and has over the last 15 years, worked as a business advisor to a wide range of companies. She has acted as Financial Advisor to the Board on the flotation of a number of companies, including PPP, raised finance from many different sources across a broad range of industries, and acted as an outsourced FD for companies with turnover ranging from £2m to £100m.

### Stephen HARRY – Sales Director

Stephen HARRY has over 20 years experience in the window film industry with project experience throughout Europe, the Middle East and Asia. He is an integral part of the Pentagon management team, having been with the company since 1987. He is one of Pentagon's global team of experts specialising in the advancement, testing and installation of enhanced glass protection systems. Mr HARRY was appointed an affiliate member of the Security Institute in 2007 and is also a member of ASIS UK Chapter 208.

### Dr John Wyatt MBE, MIMgt, MIExpE, PhD – Director

Dr John Wyatt was the Chairman and Technical Director of SDS Group Limited and Search Training International Limited for over 30 and 20 years respectively, until the acquisition of both companies by Pentagon in September 2008. Dr Wyatt has extensive knowledge and experience in high risk security consulting and the supply of security equipment and products. Prior to setting up SDS, Dr Wyatt spent 25 years in the British Army, most of which was as a Bomb Disposal Officer and Head of the UK's High Risk counter terrorist search operations. He is highly respected in the risk assessment sector, especially in bomb disposal. Dr Wyatt also obtained a PhD in Explosive Engineering, with only one other expert in the UK holds such a qualification.

### Patric Fransko – Director

Patric Fransko is Senior Vice President of Operations of National Glass Service Group, LLC and Zola Distributing of Dublin, Ohio, USA. Prior to that, he was Director of Sales and Marketing of Performance Films & Tools Distributing in Dublin, Ohio. Mr. Fransko has worked with the leading companies in the window film industry for more than 9 years, particularly in the field of film related glazing solutions.

## Latest Results

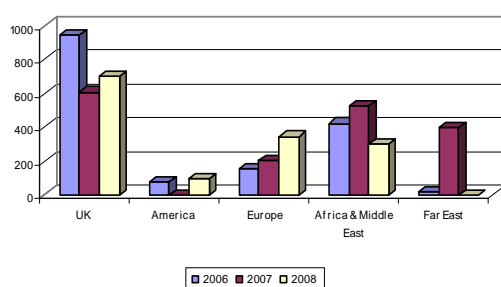
Pentagon Protection's interim results, to end March 2009, were announced at the end of last month. This is the first set of interim results since the acquisition of SDS in September 2008. As summarised in the following table, the company's turnover has increased by 8.17%, to £0.988m, compared to 1H08. On a like-for-like basis, i.e. stripping out the contribution from SDS, turnover has decreased by 21.7%, to £715,000.

	1H09	1H09*	1H08
£000	Actual	Excl. SDS	Actual
Sales	988	715	913
Gross Profit	383	286	492
Gross Profit Margin	38.8%	40.0%	53.9%
Adjusted EBIT**	-369	-326	-81
Adjusted Pre-tax Profit	-369	-326	-79
Net Income	-408	-366	-79
Basic EPS p.	-0.077	-0.069	-0.023
Adjusted Basic EPS p.	-0.069	-0.061	-0.023

\*Results excluding SDS but including group expenses in order to compare on a like-for-like basis.

\*\*Figures are adjusted for £40,000 of one-off bad debt.

Sales By Region (2006-2008)



The gross margin decreased to 39% in 1H09, compared to 54% in 1H08, although a big improvement compared to the gross margin of 26% in FY08. The gross margin was hammered badly by the pricing of contracts in 2H08. Pentagon has changed its pricing strategy since the beginning of FY09, but the company still suffered from a low contract winning rate during this period. This was largely due to the uncertainties in the current economic downturn with many companies cutting

down on their capital expenditure. Pentagon also saw a noticeable decrease in contract sizes. The company has started regaining traction noticeably since the end of the six month period to March. As the market starts to recover, Pentagon has seen an increasing number of ad hoc enquiries. Combined with the management team's effort, Pentagon has announced a series of contract wins from both divisions with a total value of over £1.6m, which is c. 69% more than has been announced in this set of interim results.

### Cost Cutting

Administrative expenses in 1H09 of £0.71m reflect an increase of 54% in expenditure. This is the first set of interim results that include contributions from SDS. On a like-for-like basis, overheads have increased by 13.7%. This increase includes a £40,000 write-off of bad debts.

The cost saving process started by making 50% of the company's window film applicators redundant. Pentagon will be using a team of subcontractors for window film application, which means this cost is now variable rather than fixed. Pentagon has also made the entire sales team, apart from the company's sale director, redundant. The full benefit of this redundancy process is expected to be seen in FY10.

Going forward, Pentagon's sales will rely on the company's global network of distributors and the strategic partnerships entered into with two other companies in the industry, where Pentagon will utilise the partners' agency network for sale generation. With a clear increase in contract wins, this strategy is evidently working out better for Pentagon.

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**Pentagon Protection Plc**

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**SDS and Sales Volatility**

This is the first set of interim results from Pentagon's newly acquired SDS, which was ahead of the company's expectation. Sales were over £273,000, with a gross margin of 34.5%. We cannot compare the results with historic financial data as the company did not provide historical data. SDS provides bespoke security consultancy, training programmes and supplies security equipment to government departments, police forces globally and many other defence related entities. The turnover can be volatile as it correlates to the global security crisis, but demand of security equipment and hotel safety requirements are expected to be rising steadily as we get closer to global events such as the Olympic Games in 2012.

Operating loss for 1H09 was £42,402. The main reason behind this is the huge amount of time spent by the management team on negotiations and legal matters regarding the acquisition, rather than focussing on revenue generation. We are pleased to see that SDS has now returned to its pre-acquisition levels of activity with some very significant contracts being announced since the end of the interim period with a total value of £1.3m.

SDS has a very strong client network. It is a long term equipment supplier to the MOD, the Home Office, and various domestic and international police forces. For the tax year ended 30 April 2008, SDS had a turnover of over £0.8m, with gross margin of 36%. Over 70% of the turnover was from sales of equipment. Net profit for the tax year 2008 was £69,415.

**Exceptional Costs**

Pentagon has decided to write-off a bad debt with a value of £40,000. This is related to a £100,000 contract. However, the company managed to retrieve part of the material cost/works.

**Cash Flow**

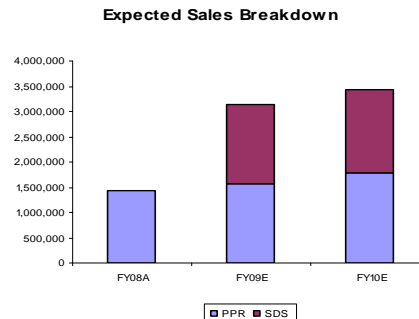
Pentagon reported £0.44m operating cash outflow for 1H09, compared to £0.27m in 1H08 and £0.6m in FY08.

**Balance Sheet**

Pentagon had current assets of £1.13m at the end of 1H09 (FY07: £0.1.24m), with £157,000 cash in the bank. Both trade receivables and trades payable days are at around 110 days.

## Forecasts

The rising concerns of common threats we all face, from theft, personal and workspace safety, to the more serious risk of terrorism on an international scale, as well as the concern of climate change and increasingly strict safety regulatory requirements, all suggest that these factors will be the main driving forces of Pentagon's business for the foreseeable future. Hence, we believe Pentagon is well positioned in this market and the company is seeing increasing demand in both of its subsidiaries.



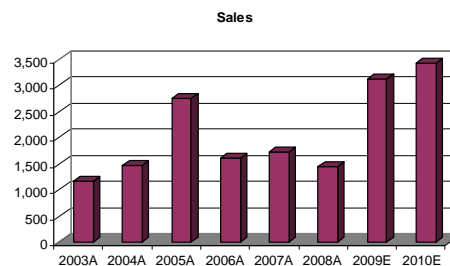
A series of contract wins means Pentagon is well ahead of sales compared to FY08. We expect good growth from both the film business and SDS, with Pentagon UK Limited contributing approx. 50% of revenues in FY09 and 52% in FY10. Looking further ahead, we anticipate that Pentagon will plan to increase SDS' revenue contribution by organic growth and acquisitions in business units that are related to the existing business.

### Profit Forecasts

We have not issued forecasts with this research note. After the loss already reported for H1, it is clear that even with a strong H2 performance the full year to September 2009 will show a loss. We believe a profit is likely in y/e September 2010, but that it will be relatively modest, especially in relation to past declared losses. The key point, we believe, will be the rapidly rising sales as a result of the strategic change of direction of the group, and the new emphasis on obtaining adequate gross margins. An indication of the sales progress we think likely is shown in the charts on the previous page and below.

We anticipate strong growth in sales from the glass film division in 2009, a bounce back from a low year in FY08, with strengthening margins as one of the management team's primary focus. Turnover is expected to rise at a decent level leading to the 2012 London Olympic Games. Margins should also continue to rise as the higher margin consultancy and training work continue to expand.

Future growth strategy of Pentagon is to primarily concentrate on its higher margin business of SDS by building a team of experts with similar academic and hands-on experiences to Dr John Wyatt and expanding the consultancy and training capabilities on a global scale. The implementation of the Hotel Security Excellence Rating Project will certainly be the initial key development of SDS' consulting unit and through this presents potential opportunities for the supply of other security services and equipment.



Administrative expenses in FY09 will be higher than normal due to some one-off costs that have incurred during the year. This includes the write off of £40,000 worth of bad debt, some redundancy costs and legal costs arising from the acquisition of SDS. This should be back to a normal level in FY10.

As business starts to pick up, working capital requirements are expected to increase accordingly. We are expecting an increase of approx. £260,000 in working capital requirements, which will be funded by the fundraising of £275,000 in June. Shareholders should be prepared for the possibility of further future fundraisings.

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**Comparators**

**Eruma plc** – (SP: 1.625p, Mkt Cap: £2.09m)

Eruma plc is specialist provider and manufacturer of counter-terrorism and intruder prevention products, such as security blinds, and intelligent emergency lighting systems. Eruma’s products focus on providing physical protection to property and personnel and the company has developed a bomb blast resistant blind that can be used to combat terrorism.

**Red24 plc** – (SP: 4.125p, MktCap: £1.83m)

Red24 provides a range of security risk management services, offering preventative and reactive advice to help individuals and organisations. This security management business focuses mainly on the travel industry. Its products are distributed through the formation of partnerships with leading international financial service companies and other travel service providers. Red24 plc also operates a training business called the Arc Training International Academy for Security Management. Its training courses offer a range of qualification, education, training and certification routes for full-time security professionals. Red24 has received good booking rates for its 2009 course.

**Romag Holdings PLC** – (SP: 38p, MktCap: £19.0m)

Romag Holdings is a manufacturer of transparent composites to the security, renewable energy, architectural and specialist transportation markets. The company produces a range of laminates, including laminated solar panels generating renewable energy. Its glass provides bullet and bomb blast protection to high-risk military vehicles, government buildings, embassies, and VIP residences worldwide.

**Aegis Defence Services Limited** – (Private company)

Aegis is a London based privately owned, British security and risk management company with overseas offices in Afghanistan, Bahrain, Iraq and USA. It offers a comprehensive range of advisory services from corporate operations, counter-terrorism and support services to governments. Aegis is a registered and active UN contractor, a major security provider to the US government and security advisor to the Lloyds Joint War Risk Committee.

Last final results of these four companies:

	Pentagon Protection	Eruma	Red24 plc	Romag	Aegis
EPIC Code	PPR	ERU	REDT	ROM	Privately Co
Financial Year End	Sept 08	Dec 08	Mar 09	Sept 08	Dec 08
Share Price p.*	0.475	1.5	5.25	41.5	N/A
% Change in SP (3 months)	+50.7%	+9.1%	+100%	-13%	N/A
MktCap £m	3.05	1.93	2.33	21.26	N/A
Turnover £000	1,444	658	3,321	33,634	126,295
Gross Margin (%)	26.1	33.0	78.1	21.8	24.5
EBIT £000	-610	-1,480	584	4,353	11,476
PBT £000	-2,991	-1,475	537	3,734	11,398
EPS .p	-0.076	-1.12	0.95	5.1	N/A
P/E Ratio x.	-	-	5.53	8.14	N/A

\*Based on 3 August 2009 closing share price

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**Pentagon Protection Plc**

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**Summary**

Pentagon has been through some troubled times. The Pentagon of 2009 is a very different company from the Pentagon of 2005, however, and even from the Pentagon of 2008. The new look Pentagon is well positioned and ready to take advantage of the demand caused by increasing concern over security levels and tougher health and safety regulatory requirements in workspaces and public areas. There are also strong growth prospects from the upcoming 2012 London Olympic Games and from other global events.

SDS in particular has huge potential. As we mentioned earlier in our report, the key figure in this subsidiary is Dr John Wyatt. We believe that a bigger team of experts is necessary if SDS is to take full advantage of the opportunities available to it and this is currently one of the company's priorities.

Since it joined AIM six years ago, Pentagon has seen a series of changes, from the disposal of its original automotive glass film business to its latest acquisition. Its share price is highly correlated with the announcements of contract wins, mainly because the nature of the business generates little recurring revenue. We expect considerable activity on this front.

Pentagon has one important managerial weakness at present – it only has a part time CFO and has no CEO. While it was small, this was not a critical issue. As turnover grows and the business becomes more international, it will rapidly become so. Management is aware of this and appropriate action is being taken. Also, the very essence of security work involves a certain amount of secrecy, so there are some aspects of this business, such as the identity of certain clients, which cannot be released into the public domain. With these two caveats, we are very enthusiastic about Pentagon, and see it as a classic early stage, high risk – high reward investment with considerable attractions.

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**Profit & Loss**

Y/E Sept	2007A	2008A
	£000	£000
<b>Revenue</b>	<b>1,736</b>	<b>1,444</b>
Growth Rate	7.40%	-16.81%
Cost of Sales	-917	-1,068
<b>Gross Profit</b>	<b>819</b>	<b>377</b>
Gross Margin	47.16%	26.08%
Distribution Costs	-357	-257
Administrative Expenses	-792	-730
<b>Operating Profit (Loss)</b>	<b>-330</b>	<b>-610</b>
Adjusted Operating Profit (Loss)	-330	-610
Impairment of Goodwill	-	-2,389
Interests	4	8
<b>Pre-tax Profit (Loss)</b>	<b>-326</b>	<b>-2,991</b>
Adjusted Pre-tax Profit (Loss)	-326	-602
Tax	0	0
Tax Charge	28.00%	28.00%
<b>Profit From Continuing Operations</b>	<b>-326</b>	<b>-2,991</b>
Adjusted Profit From Continuing Operations	-326	-602
<b>Net Profit (Loss)</b>	<b>-326</b>	<b>-2,991</b>
Adjusted Net Profit (Loss)	-326	-602
<b>EPS (Basic) .p</b>	<b>-0.10</b>	<b>-0.76</b>
Adjusted EPS (Basic) .p	-0.10	-0.15

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**Balance Sheet**

£000	2007A	2008A
<b>Non-Current Assets</b>		
Intangible Assets	-	28
Property, Plant and Equipment	6	38
Investment	-	-
Goodwill	2,389	351
	<b>2,396</b>	<b>417</b>
<b>Current Assets</b>		
Inventories	106	196
Trade and other receivables	496	554
Cash and cash equivalents	261	523
	<b>863</b>	<b>1,273</b>
<b>Total Assets</b>	<b>3,259</b>	<b>1,690</b>
<b>Current Liabilities</b>		
Trade and other payables	267	456
Borrowings	20	40
	<b>287</b>	<b>496</b>
<b>Non-Current Liabilities</b>		
Borrowings	0	10
Provisions	59	0
Deferred Tax Liabilities	0	0
	<b>59</b>	<b>10</b>
<b>Total Liabilities</b>	<b>346</b>	<b>506</b>
<b>Net Assets</b>	<b>2,912</b>	<b>1,184</b>

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**Cash Flow**

£000	2007A	2008A
<b>EBIT</b>	<b>-330</b>	<b>-610</b>
Depreciation of PP&E	16	6
Loss on disposal of PP&E	0	2
Working Capital	-100	55
Decrease in Provisions	-	-59
Interest	4	8
<b>Cash from Operating Activities</b>	<b>-409</b>	<b>-598</b>
Payment to acquire intangibles	-	-28
Payment to acquire PP&E	-1	-29
Receipts from Sales of PP&E	1	0
Payment against provision for purchase of subsidiary undertaking	-125	0
Acquisition of a subsidiary net of cash acquired	0	-267
<b>Cash from Investing Activities</b>	<b>-124</b>	<b>-323</b>
Increase (Decrease) in factor finance	-48	14
Capital element of finance lease rental	0	15
Net proceeds from issue of shares	121	1,155
<b>Cash from Financing Activities</b>	<b>73</b>	<b>1,184</b>
<b>Net cash inflow (outflow)</b>	<b>-460</b>	<b>262</b>

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Management	Major Shareholders	
<b>Chairman:</b> Haytham ElZayn	K&C Corporation Pte	8.11%
<b>Finance Director:</b> Danielle Stewart	D Thomas	6.33%
<b>Sales Director:</b> Stephen HARRY	John Ross Wyatt	5.85%
<b>Technical Director:</b> Dr John Wyatt	Haytham ElZayn	5.35%
<b>Director:</b> Patric Fransko	Boyce Investments Ltd	5.02%
<b>Company Secretary:</b> Alan Nicholl		
Key Dates	Key Milestones	
<b>Next Full Year Results:</b> March 2010	<b>2003:</b> Admission to AIM	
<b>Next Interim Results:</b> June 2010	<b>2006:</b> Disposal of the Automotive Division	
	<b>2008:</b> Acquired SDS Group Limited	

## Pentagon Protection Plc

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