CML Microsystems Plc

Preliminary results for the year ended 31 March 2017

CHAIRMAN'S STATEMENT

Introduction

Investment is a cornerstone of the CML Group's sustainable growth strategy and has once again been a major theme for CML over the past year. On the one hand the Group has benefited from prior years' focus on Research & Development spend, operational infrastructure including additional staff and from a part year contribution from our largest single investment, the acquisition of Sicomm. On the other hand, we have made further investments to ensure that the Group's prosperity continues long into the future. The platform for this investment lies in the Group's strategic focus on niche markets that we know and understand and where the quality of our products and our competitive advantages enable us to achieve strong gross margins.

In last year's report I mentioned the intended acquisition of Sicomm, which completed on 26 July 2016. I am pleased to inform shareholders that the business has integrated successfully and the benefits are already being seen. Sicomm has performed well this year, and, as anticipated, it has given the Group greater access to the Chinese market with strong local knowledge and customer relationships. Further benefits will be seen in future years as the opportunities increase for cross selling the Group's enlarged product range. Acquisitions will continue to form part of our strategy, coupled with a strong focus on organic growth, and the Board remains alert to opportunities that meet our strict criteria.

Results and Dividend

Results for the year were encouraging and include eight months of the Sicomm business acquired in July. Revenues increased by 22% to £27.74 million (2016: £22.83m), considerably ahead of the expectations set at the start of the year. Profit before taxation increased by 27% and basic EPS increased by 28%. Operating cash generation, always considered of high importance, continues to be very healthy. Total cash balances at 31 March 2017 were £12.45m (2016: £13.60m) after a net cash spend of £3.58m on the acquisition of Sicomm, £0.67m spent on a share buy back at a price of £3.70 per share and a dividend payment relating to the prior financial year of £1.13m. The cash generation is particularly pleasing given the levels of ongoing investment in the Group, with record investment in research and development being made during the year.

The Board is pleased to recommend an improved final dividend of 7.4p (2016: 7.0p) which, if approved, will be paid on 7 August 2017 to shareholders whose names appear on the register at the close of business on 7 July 2017 with an ex-dividend date of 6 July 2017. The dividend is in line with the Company's progressive policy and reflects the performance for the year, coupled with our confidence for the future whilst retaining a strong balance sheet and sufficient cash to take advantage of opportunities that may present themselves.

Management

Throughout the course of the year further appointments were made globally to strengthen the management team and to provide the necessary infrastructure and support to enable the Group to achieve its growth ambitions. I am pleased to report that the Board is confident that we now have the majority of the team in place to deliver those ambitions.

On behalf of the Board I would also like to thank Ron Shashoua for his long and dedicated service to CML. Ron joined the Company in 1996 as a non-executive Director and has been a very active and dedicated contributor to the Group's progress right up to his retirement at the end of March 2017. At the same time I would like to welcome Geoff Barnes our new non-executive Director who joined us on 1 April 2017. Geoff's experience and expertise should strengthen the Board and assist in taking the Group forward.

Behind all of our successes are the highly skilled and talented employees around the world that continue to strive to achieve our goals. On behalf of the Board I would like to thank them for their ongoing dedication and passion. I would also like to officially welcome those employees who have joined us through Sicomm, thank them for their contribution to date and let them know how much we all look forward to a continued strong relationship.

Prospects and Outlook

The Board's strategy of investing for the future is bearing fruit and we will continue along that path. As well as record investment in research and development, CML has invested in further headcount to create the right structure for further success. Obviously this adds to the overheads in the short term but is necessary to deliver long term sustainable growth.

Last year's acquisition of Sicomm has strengthened the product range and solidified our position in the Communications market. This I am sure will enhance our organic growth and we continue to review acquisition opportunities that will complement our skills, market knowledge and enlarged geographical reach.

CML has a strong position in its chosen markets with a clearly defined strategy for growth and a highly capable management team. Coupled with a strong balance sheet and underpinned by good levels of order bookings through the second half of the year just finished, this gives the Board confidence for the financial year just started and beyond.

Nigel Clark
Group Non-Executive Chairman

OPERATIONAL AND FINANCIAL REVIEW

Introduction

I'm pleased to be able to report on another solid year, with progress made across most aspects of the business and further building blocks put in place for the future. The momentum experienced in the first half of the year continued throughout and we began to see the benefits of the ongoing operational and product development investments made. We are well positioned in our chosen niche markets, namely Communication and Storage, with the Communications sector making a particularly pleasing impact. The Sicomm acquisition which completed in July 2016 has improved our footprint in China and added local expertise in an important market. Integration has gone well and the contribution to the Group for the eight months since acquisition has been encouraging, both financially and culturally. Further senior management appointments have been made within our UK and US business units and the Group's geographic footprint expanded through the opening of a sales and support office in Orange County, California. Coupled with the operational changes made at the end of the prior financial year, we believe we now have an enhanced structure in place to execute our strategy.

Financial Review

The Group's financial performance includes an eight month contribution from Sicomm, commencing August 2016. Total revenues for the year amounted to £27.74m (2016: £22.83m) with the contribution from Sicomm being £1.66m. Gross margins remained consistent leading to a 22% increase in gross profit to £19.82m (2016: £16.25m). The Group did benefit from currency movements through the year although it continues to have a somewhat natural hedge in respect of foreign currency exchange rate exposure.

The main driver for organic revenue growth was the continued increase in shipments to existing long-term customers, with a significant number of our top 40 customers increasing their spend. This growth was augmented by the addition of Sicomm, a currency tailwind and an element of revenue from the effects of a last-time-buy programme relating to a number of legacy Communications products.

Overall revenue grew across all major geographic regions although the strongest advance was made in the Far East region which includes predominantly China & Hong Kong, Japan, South Korea, Singapore, Taiwan and Malaysia. Far East revenues grew by 26% and now account for approximately 49% of the Group total. Revenue from the Americas grew by 19% with European revenues ahead by 16%.

As anticipated, distribution and administration costs increased to £16.12m (2016: £13.27m). The three main factors were higher amortisation of R&D activities at £4.10m (2016: £3.33m), higher direct staff costs resulting from investments made in new personnel and associated restructuring activities and the addition of Sicomm to the Group. Additionally, costs associated with onerous lease provisioning were balanced by the positive effects of foreign exchange. The total R&D spend for the year amounting to £6.82m (2016: £6.09m) rose 12% and equates to 25% of Group revenues.

Other operating income for the year amounted to £0.61m (2016: £0.41m) and resulted from rental income obtained from ex-operational property assets along with grant income received from R&D activities. This increase drove profit from operations up 27% to £4.31m (2016: £3.39m).

After adjusting for the combined effect of share-based payments and finance income, a profit before taxation figure of £4.21m was achieved (2016: £3.32m).

Adjusted EBITDA grew by 27% to £8.84m (2016: £6.97m).

The overall tax charge for the year was slightly lower at £0.34m (2016: £0.40m) reflecting the continuing benefit of UK R&D tax credits along with the additional effect of accumulated tax losses within the acquired Sicomm business. Profit after tax increased to £3.87m and represented an increase of 32% year on year (2016: £2.93m).

Cash reserves at 31 March 2017 reduced to £12.45m (31 March 2016: £13.60m) representing a pleasing result following significant cash outflows for the Sicomm acquisition, a dividend payment of £1.13m for the prior financial year, £0.67m spent on the purchase and cancellation of Company shares and a record R&D investment of £6.82m. The cash balance includes a conditional customer prepayment of £1.50m (2016: £1.39m) against future product purchases.

Inventory levels were higher at £2.15m (2016: £1.57m) with the increase mostly attributable to the Sicomm acquisition.

Basic earnings per share advanced 28% to 23.09p (2016: 18.03p).

Strategy Overview

Our semiconductor business continues to be focused on two important niche market areas, industrial storage applications and the industrial communications market, where our proprietary IP along with the quality and reliability of our technology sets us apart from our peers and makes us an integral part of our customers' products. We have developed a strong reputation in each of these sectors and have a world-class customer base and established sales network which has been improved further through the acquisition of Sicomm.

The on-going demand for increasing amounts of data to be delivered faster and stored more reliably and securely continues to drive demand for our products. We are committed to generating a diverse revenue stream across a broad range of customers and products. We are, to our customers, a single-source supplier, meaning that once designed in, the displacement of our chips would require end-product redesign.

Ongoing investment in R&D remains a key pillar of our growth strategy and the benefits are already being seen. This focus on developing new products should lead to design wins with both new and existing customers. This will enable us to improve our market share as well as increase our total addressable market and, we believe, deliver significant revenue generation. We continue to seek acquisition opportunities which meet our strict criteria to complement our ongoing organic growth.

Storage

The main element of our strategy within Storage is to ensure that the Group continues to increase business with our existing customers whilst simultaneously adding new customers through R&D investment. Our focus has been on expanding our product portfolio to include all major interface standards used within our target industrial end-markets and interoperation with all relevant third-party Flash Memory devices from the global tier 1 flash memory suppliers.

We have transitioned from a narrow "Controller" product portfolio with only CompactFlash as the available interface, to an enlarged product range that now also includes USB, SD, SATA & MMC interface technologies. Additionally, we have developed an Application Programmers Interface (API) and licensed it to a number of new customers enabling them to design their own proprietary security or IoT solutions in the knowledge they are built upon our highly reliable standard Controller solutions.

Storage performed well through the year with revenue increasing by 9% to £12.69m (2016: £11.65m). Management continued to focus firmly on sustainable growth opportunities, occasionally at the expense of a short-term gain. Separately, one or two customers reported being affected by the tightening of their NAND flash supply through the second half although it is not possible to judge the overall impact, if any, on the numbers reported. Importantly, from a new business opportunity perspective, the momentum experienced in the first half of the year continued into the second six months assisted by the enlarged and increasingly attractive product portfolio. Particularly pleasing was the addition of Micron Technology Inc., a world leader in innovative memory solutions, to our customer list through our wholly owned subsidiary, Hyperstone, which was announced in March 2017. Hyperstone's USB 3.1 Flash Memory controller solution, U9, has been designed into Micron's new eU500 embedded USB module, an embedded solid state storage solution aimed at networking, telecoms and Industrial Internet of Things (IIoT) markets. This followed on from the addition in the first half of the year of our proprietary hyMap technology to the USB product range which enables our industrial customers to use memory that has a lower “cost per bit”. The contribution from the USB controller product line started to become meaningful, as expected.

Evolution of the hyMap technology continued both in terms of functionality offered and flash memory compatibility. Whilst the objective is to expand the product portfolio and widen the addressable market, a level of R&D spend is required to refresh the product portfolio periodically. In that respect a new Compact Flash controller solution was sampled to initial customers in financial Q4 ahead of the full market launch planned for the first half of the new financial year.

Encouragingly, order book visibility for Storage products improved a little providing greater levels of comfort. However, whether this is indicative of a long term trend or merely the current state of the market remains unclear.

Communications

During the year under review we amalgamated the reporting of the Wireless and Wireline market sectors under the single sector of Communications. Our strategy within Communications is to grow customer share and expand the customer base through R&D investments that increase the functionality that our IC’s deliver within the customers’ end product. This includes growing the product portfolio to include IC’s with performance characteristics intended to widen the addressable market.

The enlarged organic product range has grown further through the acquisition of Sicomm culminating in the ability for a single customer radio design to potentially incorporate up to five separate Group IC’s. This has the added benefit of generating increased efficiency across our sales and marketing activities and, with the aid of focused demonstration platforms, will help our customers get their own products to market faster.

Across the year, we delivered a pleasing performance and strengthened our position in the end markets addressed. Building further upon the performance reported at the interim stage, revenues for the full year increased to £14.64m, representing a gain of 36% against the comparable 12 month period (2016: £10.78m). This growth exceeded internal expectations and was possible through the combined effects of organic growth, a level of “last time buy” activity and the significant contribution from Sicomm whose revenues are wholly reported under the Communications sector.

A number of organisational reporting adjustments and resource level improvements were made throughout the year with a specific focus on Communications activities. This resulted in new senior management and operational personnel being recruited in the UK and USA. These changes were a continuation of the operational investments conveyed at the interim stage and have given the business increased focus and a scalable operating structure.

In total we released three new products across the year culminating in February 2017 with the global launch of our first wireless power amplifier IC which has generated a good level of interest and opens new application areas such as meter reading and RFID. Two additional product releases that were planned for the final quarter of the year experienced delays due to internal qualification processes and extended engineering development timescales. Whilst this is somewhat disappointing, these two products are expected to be released to market during the first half of the year to 31 March 2018.

For the year ahead we are anticipating continuing high levels of R&D investment towards new roadmap products. At the same time, we will be enhancing our silicon development methodologies to ensure resources and activities are performance optimised for evolving customer needs.

Market Developments

Solid long-term underlying growth trends exist within the two main industrial application areas addressed with the principal factor for both being the persistent demand for increasing amounts of data, to be transmitted and stored more quickly and securely.

The industrial data storage market has several specific areas which are exhibiting exciting opportunities for which we have either secured design wins or are at the somewhat earlier stage of qualifying products with our customers. These areas include the telecoms/network infrastructure market, industrial automation, various security applications and the in-vehicle infotainment market.

A number of the major original equipment manufacturers (OEMs) or tier 1 suppliers to those OEMs in each of these markets are our customers meaning we are well positioned to benefit from the growing demand.

Within the Communications market, growth areas include: the transition to higher-capacity digital networks within voice-centric markets and, in data-centric markets, the increasing data throughput requirements within terrestrial and satellite communications applications. The latter is required to meet the needs of the growing Machine to Machine (M2M) and the Industrial Internet of Things sectors (IIoT).

Again, we are already suppliers to, or working with, many of the leading OEMs in these areas and believe we are well placed for future growth.

Customer dependency across the year as a whole was broadly unchanged against the prior year. Two customers contributed greater than 10% to Group revenues with a combined contribution of approximately 25%. All other customers were below the 5% threshold.

Operational Developments

Sicomm acquisition and integration

The acquisition of Sicomm which completed in July 2016 was a significant milestone for the Group. Building on our existing capability in the region, the addition of Sicomm greatly enhances our footprint in China, providing us with a talented workforce with an in-depth knowledge of the dynamics of a key market. The integration has progressed well and we are particularly pleased with the levels of interaction across our global teams. Sicomm has delivered a good performance in line with our expectations. As the opportunities for cross-selling of product lines increases and as we collaborate further in both development and pipeline opportunities we expect to see further benefits.

The Group remains alert to acquisition opportunities that can complement our existing operations and which meet our strict criteria. We believe that there is significant organic growth to be achieved and can therefore afford to be selective.

Investment in People

We continued to enhance our operating structure through further investment in people across our operations globally. Customer service levels are extremely important to CML and we now have the right teams in place to be able to support our increasing levels of engagement as well as to support future growth initiatives.

These additional hires were across a range of skills, including senior management, sales, marketing and engineering support. The opening of an office in Orange County, California, during February improved our geographic coverage and is expected to further improve our service levels.

Outlook

These financial results show the effects of the Group's long term focus on research and development and the strength of our customer relationships. The lead times on new products reaching meaningful revenue generation are typically long and the majority of revenues in this period relate to designs from some years ago. Therefore as more recent new product design-ins start to reach production we would expect to see further revenue advances.

Bookings through the latter part of the financial year were good and momentum into the new financial year is encouraging, although we are starting with a higher cost base reflecting the investments made in people and products. With a strong balance sheet, healthy cash balances and a clear and defined position in the markets in which we operate, we look forward to the year ahead with confidence. Board expectations are for a further advance in profitability to 31 March 2018.

Chris Gurry
Group Managing Director

Consolidated income statement for the year ended 31 March 2017

	Notes	Unaudited 2017 £'000	Audited 2016 £'000
Continuing operations			
Revenue	1,2	**27,737**	22,833
Consisting of:			
Revenue – excluding acquisition		**26,076**	22,833
Revenue - acquisition		**1,661**	—
Cost of sales		**(7,922)**	(6,580)
Gross profit		**19,815**	16,253
Distribution and administration costs		**(16,116)**	(13,272)
		3,699	2,981
Other operating income		**614**	405
Profit from operations		**4,313**	3,386
Share-based payments		**(139)**	(117)
Profit after share-based payments		**4,174**	3,269
Finance income		**34**	55
Profit before taxation		**4,208**	3,324
Consisting of:			
Profit before taxation – excluding acquisition		**3,728**	3,324
Profit before taxation - acquisition		**480**	—
Income tax expense	4	**(341)**	(399)
Profit after taxation		**3,867**	2,925
Profit after taxation attributable to equity owners of the parent		**3,867**	2,925
Basic earnings per share			
From profit for year	5	**23.09p**	18.03p
Diluted earnings per share			
From profit for year	5	**22.84p**	17.94p
Adjusted EBITDA			
Adjusted EBITDA for year	6	**8,840**	6,970
Consisting of:			
Adjusted EBITDA – excluding acquisition	6	**8,247**	6,970
Adjusted EBITDA - acquisition	6	**593**	—

Consolidated statement of total comprehensive income for the year ended 31 March 2017

	Unaudited 2017 £'000	**Unaudited 2017 £'000**	Audited 2016 £'000	Audited 2016 £'000
Profit for the year		**3,867**		2,925
Other comprehensive income, net of tax:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial (loss)/gain on retirement benefit obligations	**(1,048)**		1,570	
Deferred tax on actuarial loss/(gain)	**178**		(283)	
Items reclassified subsequently to profit or loss upon derecognition:				
Foreign exchange differences	**1,068**		584	
Other comprehensive income for the year net of taxation attributable to equity owners of the parent		**198**		1,871
Total comprehensive income for the year attributable to the equity holders of the parent		**4,065**		4,796

Consolidated statement of financial position as at 31 March 2017

	Unaudited 2017 £'000	**Unaudited 2017 £'000**	Audited 2016 £'000	Audited 2016 £'000
Assets				
Non-current assets				
Goodwill		**9,306**		3,512
Other intangible assets arising on acquisition		**1,339**		—
Property, plant and equipment		**5,330**		5,171
Investment properties		**3,550**		3,550
Investments		**85**		—
Development costs		**11,401**		9,292
Deferred tax assets		**1,419**		893
		32,430		22,418
Current assets				
Inventories	**2,154**		1,571	
Trade receivables and prepayments	**2,697**		3,458	
Current tax assets	**971**		830	
Cash and cash equivalents	**12,447**		13,596	
		18,269		19,455
Total assets		**50,699**		41,873
Liabilities				
Current liabilities				
Trade and other payables		**5,757**		4,190
Current tax liabilities		**57**		39
Provision - current		**51**		—
		5,865		4,229
Non-current liabilities				
Deferred tax liabilities	**3,692**		3,001	
Retirement benefit obligation	**3,084**		2,067	
Provision – non current	**423**		—	
		7,199		5,068
Total liabilities		**13,064**		9,297
Net assets		**37,635**		32,576
Capital and reserves attributable to equity owners of the parent				
Share capital		**843**		813
Share premium		**8,319**		5,700
Capital redemption reserve		**9**		—
Treasury shares – own share reserve		**(190)**		(190)
Share-based payments reserve		**504**		388
Foreign exchange reserve		**1,386**		318
Accumulated profits		**26,764**		25,547
Total shareholders' equity		**37,635**		32,576

Consolidated cash flow statement for the year ended 31 March 2017

	Unaudited 2017 £'000	Audited 2016 £'000
Operating activities		
Profit for the year before taxation	**4,208**	3,324
Adjustments for:		
Depreciation	**325**	254
Amortisation of development costs	**4,100**	3,330
Amortisation of intangibles recognised on acquisition	**102**	—
Movement in non-cash items	**(31)**	13
Share-based payments	**139**	117
Movement in provisions	**474**	—
Finance income	**(34)**	(55)
Movement in working capital	**1,745**	317
Cash flows from operating activities	**11,028**	7,300
Income tax (paid)/received	**(224)**	279
Net cash flows from operating activities	**10,804**	7,579
Investing activities		
Purchase of acquisition, net of cash acquired	**(3,576)**	—
Purchase of property, plant and equipment	**(450)**	(443)
Investment in development costs	**(5,763)**	(5,356)
Receipt/(payment) of escrow cash deposit	**385**	(331)
Disposal of property, plant and equipment	**17**	—
Finance income	**34**	55
Net cash flows from investing activities	**(9,353)**	(6,075)
Financing activities		
Issue of ordinary shares	**25**	—
Purchase of treasury shares	**—**	(190)
Purchase of own shares for cancellation	**(669)**	—
Dividend paid to shareholders	**(1,134)**	(1,118)
Net cash flows from financing activities	**(1,778)**	(1,308)
(Decrease)/increase in cash and cash equivalents	**(327)**	196
Movement in cash and cash equivalents:		
At start of year	**13,596**	13,188
(Decrease)/increase in cash and cash equivalents	**(327)**	196
Effects of exchange rate changes	**(822)**	212
At end of year	**12,447**	13,596

Consolidated statement of changes in equity for the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share based payments £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
At 31 March 2015 - audited	813	5,700	—	—	287	(266)	22,437	28,971
Profit for year							2,925	2,925
Other comprehensive income net of taxes								
Foreign exchange differences						584		584
Net actuarial gain recognised directly to equity							1,570	1,570
Deferred tax on actuarial gain							(283)	(283)
Total comprehensive income for year	—	—	—	—	—	584	4,212	4,796
	813	5,700	—	—	287	318	26,649	33,767
Transactions with owners in their capacity as owners								
Dividend paid							(1,118)	(1,118)
Purchase of treasury shares				(190)				(190)
Total transactions with owners in their capacity as owners	—	—	—	(190)	—	—	(1,118)	(1,308)
Share based payments in year					117			117
Cancellation/transfer of share based payments					(16)		16	—
At 31 March 2016 - audited	813	5,700	—	(190)	388	318	25,547	32,576
Profit for year							**3,867**	**3,867**
Other comprehensive income net of taxes								
Foreign exchange differences						**1,068**		**1,068**
Net actuarial loss recognised directly to equity							**(1,048)**	**(1,048)**
Deferred tax on actuarial loss							**178**	**178**
Total comprehensive income for year	—	—	—	—	—	**1,068**	**2,997**	**4,065**
	813	**5,700**	**—**	**(190)**	**388**	**1,386**	**28,544**	**36,641**
Transactions with owners in their capacity as owners								
Issue of ordinary shares re acquisition	**39**	**2,594**						**2,633**
Issue of ordinary shares	**—**	**25**						**25**
Dividend paid							**(1,134)**	**(1,134)**
Share purchase for cancellation	**(9)**		**9**				**(669)**	**(669)**
Total transactions with owners in their capacity as owners	**30**	**2,619**	**9**	**—**	**—**	**—**	**(1,803)**	**855**
Share based payments in year					**139**			**139**
Cancellation/transfer of share based payments					**(23)**		**23**	—
At 31 March 2017 - unaudited	**843**	**8,319**	**9**	**(190)**	**504**	**1,386**	**26,764**	**37,635**

1 Segmental analysis

Reported segments and their results in accordance with IFRS 8, are based on internal management reporting information that is regularly reviewed by the chief operating decision maker (C. A. Gurry). The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its financial statements.

Information about revenue, profit/loss, assets and liabilities

	Unaudited 2017		Audited 2016	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Total segmental revenue	**27,737**	**27,737**	22,833	22,833
Consisting of:				
Segmental revenue – excluding acquisition	**26,076**	**26,076**	22,833	22,833
Segmental revenue - acquisition	**1,661**	**1,661**	—	—
Profit				
Segmental result	**4,174**	**4,174**	3,269	3,269
Consisting of:				
Segmental result – excluding acquisition	**3,694**	**3,694**	3,269	3,269
Segmental result - acquisition	**480**	**480**	—	—
Finance income		**34**		55
Income tax expense		**(341)**		(399)
Profit after taxation		**3,867**		2,925
Assets and liabilities				
Segmental assets	**44,759**	**44,759**	36,600	36,600
Unallocated corporate assets				
Investment properties		**3,550**		3,550
Deferred tax assets		**1,419**		893
Current tax assets		**971**		830
Consolidated total assets		**50,699**		41,873
Segmental liabilities	**6,231**	**6,231**	4,190	4,190
Unallocated corporate liabilities				
Deferred tax liabilities		**3,692**		3,001
Current tax liabilities		**57**		39
Retirement benefit obligation		**3,084**		2,067
Consolidated total liabilities		**13,064**		9,297

Other segmental information

	Unaudited 2017		Audited 2016	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**450**	**450**	443	443
Development cost additions	**5,763**	**5,763**	5,356	5,356
Depreciation	**325**	**325**	254	254
Amortisation of development costs	**4,100**	**4,100**	3,330	3,330
Amortisation of acquired intangibles	**102**	**102**	—	—
Other non-cash income/(expense)	**31**	**31**	(13)	(13)

Geographical information

The acquired Sicomm Group of Companies are included within the ‘Far East’ classification below.

	UK £’000	Rest of Europe £’000	Americas £’000	Far East £’000	Total £’000
Year ended 31 March 2017 - unaudited					
Revenue to third parties	**6,744**	**4,856**	**6,047**	**10,090**	**27,737**
Property, plant and equipment	**5,056**	**243**	**16**	**15**	**5,330**
Investment properties	**3,550**	**—**	**—**	**—**	**3,550**
Development costs	**3,827**	**7,574**	**—**	**—**	**11,401**
Goodwill	**—**	**3,512**	**—**	**5,794**	**9,306**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,339**	**1,339**
Total assets	**35,192**	**11,482**	**1,969**	**2,056**	**50,699**
Year ended 31 March 2016 - audited					
Revenue to third parties	5,037	4,082	4,858	8,856	22,833
Property, plant and equipment	4,997	143	12	19	5,171
Investment properties	3,550	—	—	—	3,550
Development costs	3,121	6,171	—	—	9,292
Goodwill	—	3,512	—	—	3,512
Total assets	28,281	10,100	1,412	2,080	41,873

2 Revenue

The geographical classification of business turnover (by destination) is as follows:

Continuing business	**Unaudited 2017 £’000**	Audited 2016 £’000
Europe	**7,600**	6,571
Far East	**13,460**	10,704
Americas	**6,117**	5,122
Others	**560**	436
	27,737	22,833

3 Dividend – paid and proposed

It is proposed to pay a dividend of 7.4p per ordinary share of 5p in respect of the year ended 31 March 2017. During the year a dividend of 7.0p per ordinary share of 5p was paid in respect of the year ended 31 March 2016. It is proposed to pay the dividend, if approved, on 7 August 2017 to shareholders registered on 7 July 2017 (2016: 29 July 2016 to shareholders registered on 24 June 2016).

4 Income tax expense

The Directors consider that tax will be payable at varying rates according to the country of incorporation of a subsidiary and have provided on that basis.

	Unaudited 2017 £'000	Audited 2016 £'000
Current tax		
UK corporation tax on results of the period	**(419)**	(501)
Adjustment in respect of previous periods	**(1)**	—
	(420)	(501)
Foreign tax on results of the period	**511**	433
Foreign tax – adjustment in respect of previous periods	**—**	(2)
Total current tax	**91**	(70)
Deferred tax		
Current period movement	**272**	453
Adjustments to deferred tax charge in respect of previous periods	**(22)**	16
Total deferred tax	**250**	469
Tax charge on profit on ordinary activities	**341**	399

5 Earnings per share

	Unaudited 2017	Audited 2016
Basic earnings per share		
From profit for year	**23.09p**	18.03p
From operations excluding acquisition	**20.17p**	18.03p
Diluted earnings per share		
From profit for year	**22.84p**	17.94p
From operations excluding acquisition	**19.95p**	17.94p

The calculation of basic and diluted earnings per share is based on the profit attributable to ordinary shareholders, divided by the weighted average number of shares in issue during the year, as shown below:

	Unaudited 2017			Audited 2016		
	Profit	**Weighted average number of shares**	**Earnings per share**	Profit	Weighted average number of shares	Earnings per share
Basic earnings per share	**£'000**	**Number**	**p**	£'000	Number	p
Basic earnings per share – from profit for year	**3,867**	**16,745,457**	**23.09**	2,925	16,219,037	18.03
Basic earnings per share - from operations excluding acquisition	**3,377**	**16,745,457**	**20.17**	2,925	16,219,037	18.03
Diluted earnings per share						
Basic earnings per share	**3,867**	**16,745,457**	**23.09**	2,925	16,219,037	18.03
Dilutive effect of share options	**—**	**183,699**	**(0.25)**	—	86,877	(0.09)
Diluted earnings per share - from profit for year	**3,867**	**16,929,156**	**22.84**	2,925	16,305,914	17.94
Diluted earnings per share - from operations excluding acquisition	**3,377**	**16,929,156**	**19.95**	2,925	16,305,914	17.94

6 Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA') is defined as profit from operations before all interest, tax, depreciation and amortisation charges and before share-based payments. The following is a reconciliation of the Adjusted EBITDA for the years presented:

	Unaudited 2017 £'000	Audited 2016 £'000
Profit after taxation (earnings)	**3,867**	2,925
Adjustments for:		
Finance income	**(34)**	(55)
Income tax expense	**341**	399
Depreciation	**325**	254
Amortisation of development costs	**4,100**	3,330
Amortisation of intangibles recognised on acquisition	**102**	—
Share-based payments	**139**	117
Adjusted EBITDA	**8,840**	6,970

7 Investment properties

Investment properties are revalued at each discrete period end by the directors and every third year by independent Chartered Surveyors on an open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. Everett Newlyn, Chartered Surveyors and Commercial Property Consultants professionally valued the investment properties on the basis of open market value as at 31 March 2015. The Directors do not consider that the present valuation has materially changed as at 31 March 2017 having considered the local property market.

8 Principal risks and uncertainties

Key risks of a financial nature

The principal risks and uncertainties facing the Group are with foreign currencies and customer dependency. With the majority of the Group's earnings being linked to the US Dollar, a decline in this currency will have a direct effect on revenue, although since the majority of the cost of sales are also linked to the US Dollar, this risk is reduced at the gross profit line. Furthermore, the Group does however have significant Euro□denominated fixed costs. Additionally, though the Group has a very diverse customer base in certain market sectors, key customers can represent a significant amount of revenue. Key customer relationships are closely monitored, however changes in buying patterns of a key customer could have an adverse effect on the Group's performance.

Key risks of a non-financial nature

The Group is a small player operating in a highly competitive global market that is undergoing continual and geographical change. The Group's ability to respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and employment of qualified personnel will be key in the achievement of its objectives, but its ultimate success will depend on the demand for its customers' products since the Group is a component supplier. A substantial proportion of the Group's revenue and earnings are derived from outside the UK and so the Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws, terrorist activities, natural disasters or health epidemics.

A substantial proportion of the Group's revenue and earnings are derived from outside the UK and so the Group's ability to achieve its financial objectives could be impacted by risks and uncertainties associated with local legal requirements, the enforceability of laws and contracts, changes in the tax laws, terrorist activities, natural disasters or health epidemics.

9 Significant accounting policies

The accounting policies used in preparation of the annual results announcement are the same accounting policies set out in the year ended 31 March 2016 financial statements.

10 Acquisition of Sicomm group of companies

Following the definitive agreement to acquire all its shares announced on 27 May 2016, and having satisfied the principal regulatory conditions and other transaction closing conditions, the Group took control (100% of voting rights) of the China-based Wuxi Sicomm Technologies Ltd ("Sicomm") and affiliated companies on 3 August 2016. The total consideration was $11.05m (£8.01m), payable in cash and in shares (see below). The 774,181 new shares were admitted for trading by the London Stock Exchange in August 2016. The majority of the shares are subject to specific lock-in restrictions over a three year period and were provided under existing AGM resolution approval.

Founded in 2003, Sicomm is a fabless semiconductor company and solutions provider specialising in the development of integrated baseband processors and RF semiconductors for global wireless communication markets. Sicomm has approximately 30 employees and is headquartered in Wuxi, China, with offices in Shanghai and Quanzhou. The company's product range, which partially competes with existing CML solutions, is targeted for use within consumer, industrial and professional radio products and focuses on the customer need to achieve the right balance between cost, functionality and technical performance.

This acquisition expands the Group's product portfolio, strengthens its Far Eastern regional support resources and reinforces CML's position as a leader in the professional and industrial wireless communication semiconductor market.

For the above reasons, combined with the anticipated profitability of Sicomm products in other Group markets, synergies to arise from integrating the Sicomm business into existing Group businesses, plus the ability to hire the workforce of the Sicomm group of companies (including the founder and management team), the Group paid a premium over the acquisition net assets, giving rise to goodwill. All intangible assets in accordance with IFRS3 Business Combinations were recognised at their provisional fair values on the date of acquisition, with the residual excess over net assets being recognised as goodwill. Intangibles arising from the acquisition consist of brand values, customer relationships and intellectual property and have been independently valued by professional advisors.

The following table summarises the consideration and provisional fair values of assets acquired and liabilities assumed at the date of acquisition:

	Unaudited £'000
Property, plant and equipment	**20**
Long-term equity investment	**84**
Intangible fixed assets:	
Brands	**96**
Customer relationships	**934**
Intellectual property	**402**
Deferred tax assets	**191**
Inventories	**212**
Trade receivables and prepayments	**128**
Cash and cash equivalents	**1,456**
Trade and other payables	**(1,028)**
Deferred tax liabilities	**(154)**
Net assets acquired	**2,341**
Goodwill	**5,669**
Acquisition cost	**8,010**

There are no non-controlling interests in relation to the Sicomm acquisition. Fair values in the above table have only been determined provisionally and may be subject to change in the light of any subsequent new information becoming available in time. The review of the fair value of assets and liabilities acquired will be completed within twelve months of the acquisition date. Receivables at the acquisition date are expected to be collected in accordance with the gross contractual amounts.

The acquisition cost was satisfied by:

	Unaudited £'000
Cash	**5,377**
Share consideration	**2,633**
Total consideration	**8,010**

Net cash outflow arising on acquisition:

	Unaudited £'000
Cash consideration paid (less cash retention)	**5,032**
Cash returned under escrow due diligence deposit	**(385)**
Acquisition-related costs	**281**
Cash and cash equivalents within the Sicomm business on acquisition	**(1,456)**
Total net cash outflow on acquisition	**3,472**

The cash consideration excludes a £348,000 (RMB3m) retention which is included in other payables. Other costs relating to the acquisition have not been included in the consideration cost. Directly attributable acquisition costs include external legal and accounting costs incurred in compiling the acquisition legal contracts and the performance of due diligence activity and amount to £281,000. These costs have been charged in distribution and administrative expenses in the consolidated income statement.

Sicomm, in common with other Chinese companies, has a 31 December calendar year end. In the eight months to 31 March 2017, Sicomm contributed revenue of £1,661,000 and net profit before taxation of £480,000. Had the acquisition taken place from the start of the Group's financial year (from 1 April 2016), and based on figures prior to CML control, management estimate that Sicomm would have contributed revenue of £2,235,000 and net profit before taxation of £569,000 to the Group results.

11 General

The results for the year have been prepared using the recognition and measurement principles of international financial reporting standards as adopted by the EU. Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), as adopted for use in the EU, this announcement does not itself contain sufficient information to comply with IFRSs.

The audited financial information for the year ended 31 March 2016 is based on the statutory accounts for the financial year ended 31 March 2016 that has been filed with the Registrar of Companies. The auditor reported on those accounts: their report was (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 31 March 2017 are expected to be finalised on the basis of the financial information presented by the directors in this preliminary announcement and signed following approval by the Board of Directors on 23 June 2017 and delivered to the Registrar of Companies following the Company's Annual General Meeting on 2 August 2017.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31 March 2017 or 2016 as defined by Section 434 of the Companies Act 2006.

A copy of this announcement can be viewed on the company website

http://www.cmlmicroplc.com.

12 Approval

The Directors approved this annual results announcement on 12 June 2017.

Glossary

API	Application Programmers Interface
EU	European Union
IAS	International Accounting Standard
IC	Integrated Circuit
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IoT	Internet of Things
IP	Intellectual Property
M2M	Machine-to-machine
MMC	Multimedia Card
OEM	Original Equipment Manufacturer
R&D	Research and Development
RF	Radio Frequency
RFID	Radio Frequency Identification
SATA	Serial ATA interface
SD	Secure Digital
USB	Universal Serial Bus

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