CML Microsystems Plc

Preliminary results for the year ended
31 March 2018

1968
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2018

50 years in a connected world

CHAIRMAN'S STATEMENT

Introduction

I am delighted to report on another year of positive progress, delivering against many of our strategic and financial objectives. Pleasingly, the year has seen the business deliver a number of record financial metrics, with the growth in revenue and profit providing us with the means to continue to invest in the business to ensure we have the right structure and product suite to maintain long-term, sustainable growth. While profit growth in the year has been dampened due to the planned increase in overheads, it is this investment that will ensure CML has the capability to drive through to the next stage of growth.

Results and Dividend

Results for the year were positive, with revenues increasing by 14% to a record £31.67m (2017: £27.74m), profit before taxation rising by 9% and basic EPS by 6%. Operating cash generation, always considered of high importance, continues to be very healthy. Total cash balances at 31 March 2018 were a record £13.82m (2017: £12.45m) after dividend payments of £1.58m (2017: £1.13m) relating to the prior financial year and a maiden interim dividend introduced at the half year. The cash generation is particularly pleasing given the levels of ongoing investment in the Group, with another record investment in research and development being made during the year.

The Board is pleased to recommend an increased total dividend payment for the year, with a final dividend of 5.8p raising the total dividend for the year to 7.8p (2017: 7.4p). If approved, this will be paid on 6 August 2018 to shareholders whose names appear on the register at the close of business on 6 July 2018 with an ex-dividend date of 5 July 2018. 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.

Employees

Following the successful integration of Sicomm, we now have over 220 employees around the world. It is their skill and commitment which forms the basis of the continued success of CML and, on behalf of the Board, I would like to thank them for their ongoing dedication and commitment to excellence.

Prospects and Outlook

Our strategy continues to be to invest in the development of products within areas that we know and understand and where the quality of our products and our competitive advantages enable us to achieve acceptable gross margins. The growth achieved in the year demonstrates the success of this strategy and with new product launches feeding into the pipeline we are confident in our ability to deliver long-term sustainable growth. Following the acquisition and integration of Sicomm, 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.

The Company has long held an outstanding reputation for the quality of its engineering and development teams, and this is now supported by a clear strategy, depth of management and a strengthened global sales team. With record net assets of over £41m and net cash of almost £14m we have a strong balance sheet on which to drive the Company forward.

In what is CML's 50th year as a business, we are confident that the Company is in good shape to deliver our objective of long-term, sustainable growth.

Nigel Clark

Group Non-Executive Chairman

OPERATIONAL AND FINANCIAL REVIEW

Introduction

I am pleased to be able to report on another year of continued progress across the Group. Our revenue and adjusted EBITDA performances are at all-time highs, as is the year end cash position. These results, achieved whilst continuing to invest in the business, are further validation of our strong commitment to research and development and the success of working closely with our customers to design and deliver the products that they need to meet commercial requirements.

Particularly pleasing is that this steady growth remains in line with the expectations that we set out three years ago when the current strategy was communicated and we embarked upon a number of investment and organisational initiatives to position the Company for long-term success. The Group has experienced top line growth of 45% through that period although we are yet to see the full operational benefits given the time it takes for early stage customer engagements to become revenue generating.

We have been delighted by the increase in orders across our customer base and product range. The growth in revenues has been derived largely through improved sales to our existing customers, with the majority of our top 40 customers posting a year on year increase. Importantly, we have also seen a selection of relatively new customers reach a meaningful level of sales, indicating their products have passed through the often lengthy qualification period and gained market acceptance.

During the course of the year, we continued our planned resource investment programme into the business and this is now largely complete. While we will carry on our high level of research and development spend, we now have an appropriate operational structure to manage our business and deliver growth over the medium term. Pleasingly, we are already seeing the impact made by these investments into extra resources, particularly in sales and marketing, with our potential sales pipeline growing well, and a healthy level of new design wins being secured. We are experiencing an underlying uplift in our sales opportunity metrics, which bodes well for further sustainable growth.

Financial Review

Group turnover for the year to 31 March 2018 was £31.67m representing an increase of 14% against the prior full year (2017: £27.74m). Revenues were higher across both of the main market areas addressed, namely Communications and Storage, with the shipment of products into Asian and European countries being the driver behind that growth. That said, it is important to note that annual revenue comparisons by region can be misleading as some customers can and do alter their manufacturing locations periodically. A fuller revenue analysis at the market application area level is covered later in this report.

Sales in the second half of the year were slightly lower than the first six-months, with extended raw material lead times and currency headwinds being contributing factors. Revenues in the second half were ahead 7% on the comparable period.

Gross profit improved by 12% to £22.24m (2017: £19.82m) with margins slightly reduced due to product mix.

The year under review represents the first full year of trading following the acquisition of Sicomm in August 2016. As a result of the high levels of investment in research and development and personnel that have been made in the intervening period, distribution and administration costs increased by 15% to £18.52m (2017: £16.12m). It is noteworthy to report that within these costs, the Group recorded a £0.4m foreign exchange loss which, when compared to the gains made in the prior financial year represents a £1.2m negative swing. The overall increase in distribution and administration expenditure was also impacted by higher amortisation of development costs at £4.75m (2017: £4.10m).

As expected, research and development costs for the year remained at elevated levels, totaling £6.87m (2017: £6.82m). Of this amount, £1.19m was expensed (2017: £1.06m) and £5.68m was capitalised under the Group's research and development policy (2017: £5.76m).

Other income consists of three main elements; amounts received from the commercial rental of Group-owned property assets that are now surplus to operational requirements; regional grant income associated with specific engineering development activities and an element of royalty income associated with the sale of third party technology. The amount recorded this year was £0.83m (2017: £0.61m).

Profit from operations increased by 6% to £4.55m compared to a figure of £4.31m for the prior year. After accounting for share-based payments, net finance income and a small uplift in the value of the Group's investment property assets of £0.14m, a profit before tax of £4.58m was recorded (2017: £4.21m), equating to growth of 9%.

Customer dependency for the year reflected some movement against the prior year. Contribution from the top two customers fell slightly to a combined contribution of approximately 28%, although only one of these customers was above the 10% threshold. All other customers remained below the 6% level.

The Group continued to benefit from UK tax credits associated with some of its research and development activities and that is the primary driver behind the lower than average rate of taxation achieved. An income tax expense of £0.44m was posted against a prior year figure of £0.34m.

Profit after tax amounted to £4.14m (2017: £3.87m), an improvement of 7%, with Basic EPS rising 6% to 24.52p (2017: 23.09p) despite a higher number of ordinary shares in issue.

The Group's cash reserves at 31 March 2018 stood at £13.82m, delivering an increase of £1.37m when compared to the same cut-off date one year earlier (31 March 2017: £12.45m). The balance reported follows a research and development spend of £6.87m, dividend payments totaling £1.58m and the payment of a warranty retention associated with the Sicomm acquisition of £0.32m. Included in the cash balance is a conditional customer prepayment of £1.15m made against future product purchases.

The semiconductor industry as a whole has been experiencing extended lead times for raw materials due to capacity constraints. The Group communicated a general tone of caution around the issue at the interim stage and continues to act appropriately to minimize the effects on the business. Against this backdrop, inventory levels at the year-end totaled £2.35m (2017: £2.15m), with all of the increase attributable to raw materials and work in progress. Finished goods stock levels were lower year on year.

The Group has a historic final salary pension scheme that has been closed to both new members and future accruals for many years. Along with the Company, the trustees and their professional advisers have worked diligently in recent years towards achieving the right balance between adequate scheme funding and business growth objectives. As a result, the scheme funding position has improved and for the year under review a deficit of £2.07m has been recorded under accounting rule IAS19 (2017: £3.08m). Separately, the most recent triennial actuarial valuation carried out by an independent professionally qualified actuary, as at 31 March 2017, resulted in a net pension surplus of £1.89m (1 April 2014: net deficit of £1.54m). This actuarial valuation showed that the scheme assets were sufficient to cover 111% of the benefits accrued to members, after allowing for future increases in these benefits.

Strategy Overview

The Group's strategy today remains consistent with that previously communicated. Our semiconductor business continues to be focused on two important niche market areas, industrial storage and industrial communications, 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 a strong and growing reputation in each of these market areas and have a world-class customer base as well as an established sales network which has been improved further through adding resources and the appointment of complementary distributors and representatives in specific regions.

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 have succeeded in generating a diverse revenue stream across a broad range of customers and products and will continue to expand this further. We are, to our customers, a single-source supplier, meaning that once designed in, the displacement of our chips would require some element of end-product redesign.

Ongoing investment in research and development remains a key pillar of our growth strategy and the benefits continue to be 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 deliver significant, profitable revenue generation. We continue to seek acquisition opportunities which meet our strict criteria to complement our ongoing organic growth.

Storage

Our strategy for the Storage market continues to be investment into the expansion of the product range towards increasing our share of existing customer product portfolios whilst simultaneously widening the customer base. Our focus continues to be on strengthening our product portfolio to include all major interface standards used within our intended end-markets and interoperation with all relevant third-party NAND Flash devices from top tier global memory suppliers.

Our enlarged flash memory controller product range now includes CompactFlash, SD, MMC, USB and SATA host interface standards, complemented by an Application Programmers Interface ("API") that our customers are using to develop their own proprietary security or IIoT solutions. A pleasing number of customers have adopted our API through the year and we started to see the resulting end-products launched to market.

Storage revenue for the year amounted to £15.43m (2017: £12.69m) representing an increase of 22% with the main contributors being increased shipments into the automotive, industrial automation and telecom infrastructure markets. The gain made is evidence that our focus on sustainable growth opportunities has traction. Product mix differed from expectations at the beginning of the year with a higher contribution from products shipped in silicon wafer form, resulting in a negative skew to average selling prices. As has been the case for some time, a number of customers reported being affected by continually tight levels of NAND flash supply coupled with elevated pricing although it is not possible to judge the overall impact on the numbers being reported.

It was a busy year in terms of operational progress. In August 2017 the full market launch of a new class-leading CompactFlash controller took place, enabling customers to use more recently available flash memory technologies within their CompactFlash-based storage products and benefit from the advantages they offer. A raised level of promotional activities occurred around industry-specific exhibitions in the US, China and Europe, supplemented by white papers and conference presentations designed to raise awareness of the technical superiority and reliability of our semiconductor solutions. Customer facing resources were enhanced further and a new EU-based distribution agreement was announced.

Encouragingly, the level of interest being generated through promotion of the enlarged product portfolio increased and a number of customer designs from prior years passed through the qualification phase and have begun shipping in production quantities. It was pleasing to record a design win for one of the world's largest server manufacturers. With servers typically containing a number of storage devices, each with a different host interface, the server market represents an additional growth area for the Group.

Overall, our progress with Storage activities was pleasing and the underlying sales opportunity pipeline grew well.

Communications

Our strategy within Communications is to grow customer share and expand the customer base through the development and marketing of products that offer increased functionality within the customers' end product. This includes expanding the product portfolio to include semiconductors with performance characteristics that are expected to widen the addressable market.

The enlarged product range now offers the ability for a single customer product to incorporate up to five separate CML devices. This has the added benefit of generating increased efficiency across our sales and marketing activities and, with the aid of focused demonstration platforms, helps our customers get to market faster and at lower overall cost.

The encouraging progress made in the first six months is reflected in a solid full year performance, with revenues rising 10% to £16.17m (2017: £14.64m). This figure is even more satisfying given the need to navigate through selected third-party raw material supplier delays as the year progressed. This increase is delivered as a growing number of individual customer projects reach production status and is against a particularly strong performance in the prior year.

In terms of products categories, strong increases were made with the sale of baseband processors for use within voice-centric digital radios, particularly those that operate to the DMR global standard. The Group's Data Modems for "Machine-to-Machine ("M2M") / "Industrial Internet of Things" ("IIoT") applications also recorded strong gains against the prior year, as did the sale of RF semiconductors, posting a revenue gain of over 30%.

In total we released five new products across the year targeted at end markets including marine AIS and VDES, where a technology partnership led to release of a module for a new high-speed data exchange system targeting industry adoption over the coming years. Expansion of the RF product range to field products that operate at frequencies >1GHz has been a well communicated focus and the first two products were released to market. These IC's are suitable for use in satellite communications and other more general applications. A second RF power amplifier IC capable of higher output power was also launched.

The various organisational reporting changes and resource level improvements made in the prior year along with the first full year contribution from the acquisition of Sicomm, all collectively served to drive business forward within what is now a scalable operating structure. A new sales channel agreement was signed in the USA during the year and our manufacturer's representative network was bolstered.

As reported at the interim stage, we experienced strong growth across the focus product groups and a high proportion of the opportunities being worked are for multiple CML IC's within each customer end-product. All things considered, it has been another pleasing year.

Market Developments

The long-term trends that we have consistently highlighted within our two niche industrial application areas remain as strong today as ever. The principal factor for both remains the persistent demand for increasing amounts of data to be transmitted and stored more quickly and securely.

Performance for the full year could have been stronger but for well publicised global constraints in the supply of silicon. The semiconductor market as a whole is in a growth phase at the moment and the knock-on effect of that is for a general tone of caution around raw material lead times. We continue to monitor the situation and act appropriately to minimise any effect this might have on the business. It is particularly pleasing to note that the business delivered against expectations, despite this issue and a negative impact from currency movements in the year, demonstrating the strength of our business model.

Within industrial data storage there are several exciting opportunities in which we are securing a growing number of design wins following successful product qualifications. The automotive sector has performed well again this year and continues to present opportunities for continued growth. Again, it is pleasing to note that progression is in keeping with the dynamics that we had foreseen some years ago. Other areas include industrial automation, the telecoms/network infrastructure market and various security related applications. A number of the major original equipment manufacturers ("OEMs") or tier one suppliers to those OEMs are our customers, meaning we are well positioned to benefit from the ever-growing demand.

The Communications market is exhibiting a number of growth areas including the transition to higher-capacity digital networks within voice-centric markets and, in data-centric markets, the increasing data throughput requirements from terrestrial and satellite communications applications. The latter is required to meet the needs of the growing M2M and IIoT sectors. Ancillary markets continue to develop which serves to maintain the very fragmented nature of the Group's communications markets. New product releases over the last few of years should serve to capture a higher share of a growing market over time.

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

Operational Developments

The investment made in senior people towards the end of the prior year and early into this year has created the necessary capacity and skill set to facilitate the Group's continued growth. This process is now largely complete. Whilst our fixed cost base has increased, the benefits are already being seen with the additions in sales, marketing and customer support functions leading to an improved sales opportunity pipeline.

The other significant investment in the year has been in a new enterprise research planning ("ERP") system which is on track to go-live in the second half of this current financial year. Given the increasing scale and global nature of the business, the ERP system will unify our operating systems across different geographies, which will not only create efficiencies but also improve decision making.

Outlook

The business has continued to perform in line with expectations, which gives us confidence in the future. The lead times and sales cycles on our products are long and the revenue growth we are seeing today is the result of the continuous research and development investments that we make to deliver the products our customers need. Group products released three to four years ago are now entering the growth phase amongst the customer base and we envisage a repeat of this cycle with our recently released products and those under development, providing us with a long and sustainable pipeline of sales opportunities

Both market areas addressed are delivering a satisfying performance and continue to be well placed for future growth. Our focus on research and development investment will remain, whilst other spending initiatives will benefit the business in future years.

Clearly it is not possible to predict issues that may arise in the wider market, but a note of caution needs to be conveyed given one or two raw material supplier issues that were a feature of the latter part of the year to 31 March 2018. These events have the potential to affect customer purchasing patterns and, as a result, we currently expect revenue and profit progress for the year ahead to be weighted towards the second half.

The Board believes that CML is well positioned to deliver steady, sustained growth and expectations are for a further advance in profitability for the year to 31 March 2019.

Chris Gurry

Group Managing Director

Consolidated income statement for the year ended 31 March 2018

	Notes	**Unaudited 2018 £'000**	Audited 2017 £'000
Continuing operations			
Revenue	1,2	**31,674**	27,737
Cost of sales		**(9,438)**	(7,922)
Gross profit		**22,236**	19,815
Distribution and administration costs		**(18,518)**	(16,116)
		3,718	3,699
Other operating income		**829**	614
Profit from operations		**4,547**	4,313
Share-based payments		**(143)**	(139)
Profit after share-based payments		**4,404**	4,174
Revaluation of investment properties	7	**140**	—
Finance income		**39**	34
Profit before taxation		**4,583**	4,208
Income tax expense	4	**(444)**	(341)
Profit after taxation		**4,139**	3,867
Profit after taxation attributable to equity owners of the parent		**4,139**	3,867
Basic earnings per share			
From profit for year	5	**24.52p**	23.09p
Diluted earnings per share			
From profit for year	5	**23.95p**	22.84p

Adjusted EBITDA			
Adjusted EBITDA for year	6	**9,998**	8,840

Consolidated statement of total comprehensive income for the year ended 31 March 2018

	Unaudited 2018 £'000	**Unaudited 2018 £'000**	Audited 2017 £'000	Audited 2017 £'000
Profit for the year		**4,139**		3,867
Other comprehensive income, net of tax:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gain/(loss) on retirement benefit obligations	**911**		(1,048)	
Deferred tax on actuarial (gain)/loss	**(155)**		178	
Items reclassified subsequently to profit or loss upon derecognition:				
Foreign exchange differences	**(84)**		1,068	
Other comprehensive income for the year net of taxation attributable to equity owners of the parent		**672**		198
Total comprehensive income for the year attributable to the equity holders of the parent		**4,811**		4,065

Consolidated statement of financial position as at 31 March 2018

	Unaudited 2018 £'000	**Unaudited 2018 £'000**	Audited 2017 £'000	Audited 2017 £'000
Assets				
Non-current assets				
Goodwill		**9,190**		9,306
Other intangible assets		**1,570**		1,339
Property, plant and equipment		**5,410**		5,330
Investment properties		**3,690**		3,550
Investments		**83**		85
Development costs		**12,542**		11,401
Deferred tax assets		**1,068**		1,419
		33,553		32,430
Current assets				
Inventories	**2,351**		2,154	
Trade receivables and prepayments	**3,112**		2,697	
Current tax assets	**675**		971	
Cash and cash equivalents	**13,816**		12,447	
		19,954		18,269
Total assets		**53,507**		50,699
Liabilities				
Current liabilities				
Trade and other payables		**5,292**		5,757
Current tax liabilities		**48**		57
Provision – current		**181**		51
		5,521		5,865
Non-current liabilities				
Deferred tax liabilities	**3,950**		3,692	
Retirement benefit obligation	**2,070**		3,084	
Provision – non current	**196**		423	
		6,216		7,199
Total liabilities		**11,737**		13,064
Net assets		**41,770**		37,635
Capital and reserves attributable to equity owners of the parent				
Share capital		**856**		843
Share premium		**9,068**		8,319
Capital redemption reserve		**9**		9
Treasury shares – own share reserve		**(190)**		(190)
Share-based payments reserve		**443**		504
Foreign exchange reserve		**1,302**		1,386
Accumulated profits		**30,282**		26,764
Total shareholders' equity		**41,770**		37,635

Consolidated cash flow statement for the year ended 31 March 2018

	Unaudited 2018 £'000	Audited 2017 £'000
Operating activities		
Profit for the year before taxation	**4,583**	4,208
Adjustments for:		
Depreciation	**411**	325
Amortisation of development costs	**4,745**	4,100
Amortisation of intangibles recognised on acquisition	**155**	102
Revaluation of investment properties	**(140)**	—
Movement in non-cash items (pension)	**(103)**	(31)
Share-based payments	**143**	139
Movement in provisions	**(48)**	474
Finance income	**(39)**	(34)
Movement in working capital	**(874)**	1,745
Cash flows from operating activities	**8,833**	11,028
Income tax received/(paid)	**309**	(224)
Net cash flows from operating activities	**9,142**	10,804
Investing activities		
Purchase of acquisition, net of cash acquired	**—**	(3,576)
Payment of warranty retention	**(320)**	—
Receipt of escrow cash deposit	**—**	385
Purchase of property, plant and equipment	**(488)**	(450)
Investment in development costs	**(5,680)**	(5,763)
Investment in intangibles	**(392)**	—
Disposal of property, plant and equipment	**—**	17
Finance income	**39**	34
Net cash flows from investing activities	**(6,841)**	(9,353)
Financing activities		
Issue of ordinary shares	**762**	25
Purchase of own shares for cancellation	**—**	(669)
Dividends paid to shareholders	**(1,581)**	(1,134)
Net cash flows from financing activities	**(819)**	(1,778)
Increase/(decrease) in cash and cash equivalents	**1,482**	(327)
Movement in cash and cash equivalents:		
At start of year	**12,447**	13,596
Increase/(decrease) in cash and cash equivalents	**1,482**	(327)
Effects of exchange rate changes	**(113)**	(822)
At end of year	**13,816**	12,447

Consolidated statement of changes in equity for the year ended 31 March 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury Shares reserve £'000	Share-based Payments reserve £'000	Foreign exchange reserve £'000	Accumulated profits £'000	Total £'000
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 gain recognised directly to equity							(1,048)	(1,048)
Deferred tax on actuarial gain							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 – audited	843	8,319	9	(190)	504	1,386	26,764	37,635
Profit for year							**4,139**	**4,139**
Other comprehensive income net of taxes								
Foreign exchange differences						**(84)**		**(84)**
Net actuarial gain recognised directly to equity							**911**	**911**
Deferred tax on actuarial gain							**(155)**	**(155)**
Total comprehensive income for year	—	—	—	—	—	**(84)**	**4,895**	**4,811**
	843	**8,319**	**9**	**(190)**	**504**	**1,302**	**31,659**	**42,446**
Transactions with owners in their capacity as owners								
Issue of ordinary shares	**13**	**749**						**762**
Dividend paid							**(1,581)**	**(1,581)**
Total transactions with owners in their capacity as owners	**13**	**749**	**—**	**—**	**—**	**—**	**(1,581)**	**(819)**
Share-based payments in year					**143**			**143**
Cancellation/transfer of share-based payments					**(204)**		**204**	—
At 31 March 2018 - unaudited	**856**	**9,068**	**9**	**(190)**	**443**	**1,302**	**30,282**	**41,770**

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 2018		Audited 2017	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Total segmental revenue	**31,674**	**31,674**	27,737	27,737
Profit				
Segmental result	**4,404**	**4,404**	4,174	4,174
Finance income		**39**		34
Revaluation of investment properties		**140**		—
Income tax expense		**(444)**		(341)
Profit after taxation		**4,139**		3,867
Assets and liabilities				
Segmental assets	**48,074**		44,759	
Unallocated corporate assets		**48,074**		44,759
Investment properties		**3,690**		3,550
Deferred tax assets		**1,068**		1,419
Current tax assets		**675**		971
Consolidated total assets		**53,507**		50,699
Segmental liabilities	**5,669**		6,231	
Unallocated corporate liabilities		**5,669**		6,231
Deferred tax liabilities		**3,950**		3,692
Current tax liabilities		**48**		57
Retirement benefit obligation		**2,070**		3,084
Consolidated total liabilities		**11,737**		13,064

Other segmental information

	Unaudited 2018		Audited 2017	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**488**	**488**	450	450
Development cost additions	**5,680**	**5,680**	5,763	5,763
Intangible additions	**392**	**392**	—	—
Depreciation	**411**	**411**	325	325
Amortisation of development costs	**4,745**	**4,745**	4,100	4,100
Amortisation of acquired intangibles	**155**	**155**	102	102
Other non-cash income	**103**	**103**	31	31

Geographical information (by origin)

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2018 - unaudited					
Revenue to third parties – by origin	**5,073**	**7,355**	**5,848**	**13,398**	**31,674**
Property, plant and equipment	**5,024**	**290**	**65**	**31**	**5,410**
Investment properties	**3,690**	**—**	**—**	**—**	**3,690**
Development costs	**4,424**	**8,118**	**—**	**—**	**12,542**
Intangibles - software	**392**	**—**	**—**	**—**	**392**
Goodwill	**—**	**3,512**	**—**	**5,678**	**9,190**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,178**	**1,178**
Total assets	**23,915**	**15,556**	**2,582**	**11,454**	**53,507**
Year ended 31 March 2017 - audited					
Revenue to third parties – by origin	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

2 Revenue

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

Continuing business	**Unaudited 2018 £'000**	Audited 2017 £'000
Europe	**9,477**	7,600
Far East	**15,764**	13,460
Americas	**5,919**	6,117
Others	**514**	560
	31,674	27,737

3 Dividend – paid and proposed

During the year a final dividend of 7.4p per ordinary share of 5p was paid in respect of the year ended 31 March 2017. A maiden interim dividend of 2.0p per ordinary was paid on 15 December 2017 to shareholders on the Register on 1 December 2017.

It is proposed to pay a final dividend of 5.8p per ordinary share of 5p, taking the total dividend amount in respect of the year ended 31 March 2018 to 7.8p. It is proposed to pay the final dividend of 5.8p, if approved, on 6 August 2018 to shareholders registered on 6 July 2018 (2017: 7 August 2017 to shareholders registered on 7 July 2017).

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 2018 £'000	Audited 2017 £'000
Current tax		
UK corporation tax on results of the year	**(595)**	(419)
Adjustment in respect of previous years	**44**	(1)
	(551)	(420)
Foreign tax on results of the year	**626**	511
Foreign tax – adjustment in respect of previous years	**(12)**	—
Total current tax	**63**	91
Deferred tax		
Current period movement	**387**	272
Adjustments to deferred tax charge in respect of previous years	**(6)**	(22)
Total deferred tax	**381**	250
Tax charge on profit on ordinary activities	**444**	341

5 Earnings per share

	Unaudited 2018	Audited 2017
Basic earnings per share		
From profit for year	**24.52p**	23.09p
Diluted earnings per share		
From profit for year	**23.95p**	22.84p

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 2018			Audited 2017		
	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	**4,139**	**16,876,684**	**24.52**	3,867	16,745,457	23.09
Diluted earnings per share						
Basic earnings per share	**4,139**	**16,876,684**	**24.52**	3,867	16,745,457	23.09
Dilutive effect of share options	**—**	**402,348**	**(0.57)**	—	183,699	(0.25)
Diluted earnings per share - from profit for year	**4,139**	**17,279,032**	**23.95**	3,867	16,929,156	22.84

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 2018 £'000	Audited 2017 £'000
Profit after taxation (earnings)	**4,139**	3,867
Adjustments for:		
Finance income	**(39)**	(34)
Income tax expense	**444**	341
Depreciation	**411**	325
Amortisation of development costs	**4,745**	4,100
Amortisation of intangibles recognised on acquisition	**155**	102
Share-based payments	**143**	139
Adjusted EBITDA	**9,998**	8,840

7 Investment properties

Investment properties are measured at fair value and are revalued annually by the Directors and in 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 2018, for which the valuation of £3,690,000 has been advised (2017: £3,550,000).

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 though their end-customers may be a diversified portfolio. 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, raw material availabilities, 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 (including the UK's withdrawal from the European Union, or 'Brexit'), political risk, 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 2017 financial statements.

10 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 2017 is based on the statutory accounts for the financial year ended 31 March 2017 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 2018 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 22 June 2018 and delivered to the Registrar of Companies following the Company's Annual General Meeting on 1 August 2018.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31 March 2018 or 2017 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.

11 Approval

The Directors approved this annual results announcement on 11 June 2018.

Glossary

AIS	Automatic Identification System
API	Application Programmers Interface
EBITDA	Earnings before interest, tax, depreciation and amortisation
EU	European Union
DMR	Digital Mobile Radio
IAS	International Accounting Standard
IC	Integrated Circuit
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IP	Intellectual Property
M2M	Machine-to-machine
MMC	Multimedia Card
NAND	Not And
OEM	Original Equipment Manufacturer
R&D	Research and Development
RF	Radio Frequency
SATA	Serial ATA interface
SD	Secure Digital
USB	Universal Serial Bus
VDES	VHF Data Exchange System