CML Microsystems Plc

Half yearly report FY19

50

1968 - 2018

50 years in a connected world

Growth in a connected world

CML Microsystems Plc designs, manufactures and markets semiconductor solutions primarily for global communication and solid state storage markets.

Founded in 1968, CML operates internationally with subsidiaries across the UK, the USA, Germany, China, Singapore and Taiwan.

Our mission is to be the first choice key-component supplier within our chosen end-markets.

Our vision for the business is to build on our existing core strengths, seizing the growth opportunities in a connected world to be an emphatic leader on the global industrial technological stage.

Our focus is one of delivering sustainable, long-term growth; whether organically or by acquisition, grow the business and grow returns for our stakeholders.

Contents

Financial highlights

Revenue (£m)

15.05 -6%

Pre-tax profit (£m)

2.36 +2%

Adjusted EBITDA[1] (£m)

5.18 +6%

Shareholders' equity (£m)

43.21 +3%

Cash (£m)

13.54 -2%

Basic earnings per share (p)

12.65 +8%

1. For definition and reconciliation see Note 10.

Operational highlights

- Strong results against a difficult backdrop
- Order intake across wider customer base mitigating impact of supply difficulties
- Product mix supported profitability
- Increased purchasing of raw materials to address constraints on supply chain
- Three new products launched
- Continued focus on R&D to drive long term, sustainable profitability
- Growing pipeline of opportunity

Chairman's statement

I am pleased to say that though we are navigating difficult conditions, due to short term external market forces, I believe we have the best management team we have ever had in place to address these challenges.

I am pleased to report on another period of continued progress for CML. It has long been our stated objective to achieve long-term, sustainable growth and these results demonstrate the effectiveness of our strategy, delivering impressive returns despite challenging market conditions. The strategies implemented by the management team to manage the extended raw material lead times and disruptive purchasing patterns following NAND flash capacity constraints have mitigated their impact on our current trading position and the underlying business indicators have grown.

The solid financial performance reflects the R&D investments made in previous years and the breadth of the business, with sales of newer products offsetting some of the impact of the market issues. We will continue to maintain our levels of investment into the business and R&D activities, to provide the pipeline for our future growth.

The end markets in which we operate remain robust, and while the NAND flash-related issues have impacted short-term order inflow within our storage division we have seen continued design wins across both divisions. There are firm underlying growth drivers in each of these markets, and future drivers, such as IIoT within Communications and the transition to 5G within Storage, present exciting long-term prospects.

As anticipated, revenue in the period fell to £15.05m (H1 2017: £16.02m), against a strong comparative half. Gross margins were positively impacted due to the sales mix. Pre-tax profits marginally improved to £2.36m (H1 2017: £2.31m) being bolstered by tight cost control and an improvement in other income which included profit on the sale of an investment property. Profit after tax was £2.16m (H1 2017: £1.98m) due to improved tax rates, as anticipated. Cash levels, which are always a key management focus, remained high at £13.54m (31 March 2018: £13.82m). The reduction reflected a requirement to increase raw material levels in the face of supply issues, significantly higher R&D spend at £3.77m (H1 2017: £3.13m) and the dividend payment of £0.99m. We continue to have no borrowings.

Organic growth is the cornerstone of our stated strategy, but we continue to monitor acquisition opportunities to support our growth.

This year marks CML's 50th anniversary as a business. I have been part of the Company for over 38 years and I am pleased to say that though we are currently navigating difficult conditions, due to short term external market forces, I believe we have the best management team we have ever had in place to address these challenges. This gives me confidence that meaningful growth will be achieved as soon as our market conditions improve.

In the light of this environment and based on our customers' current buying patterns, we believe that whilst revenues for the full year may be weaker than expected, management's stewardship and changes in the product mix give us confidence of meeting profit expectations. We introduced an interim dividend for the first time last year and despite the challenging environment, I am pleased to say this will be maintained at the same level, supported by on-going cash generation and profitable trading. An interim dividend of 2.0p per share will be paid on 14 December 2018 to shareholders on the register on 30 November 2018.

Finally what must never be forgotten is that a major key to our progress is, of course, our loyal and dedicated staff, a number of whom have been with us for many years. I would once again like to take this opportunity to thank them for their continued commitment and support.

N G Clark
Group Non-Executive Chairman
19 November 2018

Operational and financial review

Despite the well-publicised global supply constraints, I am pleased to be able to report a strong set of results for the first half of the financial year.

Introduction

Despite the well-publicised global supply constraints in the semiconductor industry, I am pleased to be able to report a strong set of results for the first half of the financial year. While some of our customers have been impacted by raw material supply difficulties, we have seen a growing number of orders coming through across the wider customer base, particularly for newer products. The resulting product mix had a positive impact on our profit margin and supported improved our first half profitability.

To partially mitigate the overall supply chain impact on the Group's results, we have been purchasing increased quantities of raw materials and expect this policy to continue for the remainder of the financial year.

Our investment into R&D continues to deliver the desired results. The product range has continued to grow with three new products launched in the period and the new design wins from recent years are starting to enter their ramp phases as expected.

Financial Review

Group revenues for the first half of the financial year were £15.05m representing a decline of 6% compared to the strong first half of the prior year (H1 2017: £16.02m). Gross margin as a percentage increased due to a favourable product mix, generating gross profit of £10.72m (H1 2017: £11.23m).

Given the general market conditions, a keen focus on non-R&D spending helped reduce distribution and administration costs to £8.81m (H1 2017: £9.25m). Other reasons for the improvement included lower direct staff costs following reorganisation expenditure in the prior year comparable period along with a gain on foreign exchange amounting to £0.25m (H1 2017: loss on exchange of £0.17m).

Excluding other operating income, profit from operations equated to £1.90m (H1 2017: £1.98m).

Non-operating income rose to £0.51m (H1 2017: £0.38m) enhanced by the sale of a non-operational property asset which generated a one-off gain of £0.22m.

At the pre-tax level, profit amounted to £2.36m (H1 2017: £2.31m).

Cash balances at 30 September 2018 totalled £13.54m (31 March 2018: £13.82m) following payment of a £0.99m dividend in respect of the previous year and a continued high level of R&D cash spend in the period of £3.77m (H1 2017: £3.13m). For reasons previously given, inventory levels rose to £2.66m (31 March 2018: £2.35m).

Adjusted EBITDA grew by 6% to £5.18m (H1 2017: £4.90m) and, assisted by an improved tax rate, basic earnings per share increased to 12.65p (H1 2017: 11.74p).

Strategy Overview

Our business remains focussed on two important markets, namely industrial Communications and industrial Storage, 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 both of these markets and we continue to supply a growing world class customer base. This, coupled with an extensive sales network and expanded presence globally, will enable us to scale further.

Growth in both markets is continually being driven by the persistent demand for increasing amounts of data to be delivered faster and stored more reliably and securely. We remain committed to generating a diverse revenue stream across a broad range of customers. We are a single-source supplier to our customers, meaning that once designed in, the displacement of our chips would require our customers to undertake an element of product redesign.

R&D is a key tenet of our growth strategy. Our focus is on developing products which will lead to design wins with new and existing customers that we believe have the potential to develop into long-term, significant revenue generators. The Company has a proven track record of successful acquisitions and will continue to seek further appropriate opportunities to complement our organic growth.

Operational and financial review continued

Communications

Our strategic objectives are to grow customer share and expand the customer base through new product introductions that increase the functionality that our ICs deliver and serve to widen the addressable market.

In recent years we have introduced a number of new products that have been conceived to operate either on a 'stand alone' basis or as part of an optimised CML chip set. The consolidated product portfolio now offers customers a greater selection of technical functionality whilst improving commercial competitiveness.

Operating through a backdrop of extended raw material lead times, progress for the first six months of the year has been good. Revenues improved to £7.97m representing a 1% increase against a particularly strong prior year first half period (H1 2017: £7.86m).

Semiconductor solutions targeted at applications for voice and data-centric customer products demanding high performance RF technology were the main revenue generators across the period. This included use within Real-Time Kinematic (RTK) products for enhanced GPS positioning end uses along with a strong contribution from digital radio, for both commercial and public safety markets.

New product releases were focussed around two main areas; reference designs aimed at assisting our customers to accelerate the development of their own products and, post the half year end, the launch of a highly integrated, ultra low-power voice codec targeted at an array of voice communication end applications including security alarm panels and voice controlled equipment.

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 Machine-to-Machine (M2M) and Industrial Internet of Things sectors (IIoT).

Storage

The key objectives of our strategy within Storage are to increase the penetration of our existing customers' product portfolios whilst simultaneously adding new customers through the timely introduction of innovative new products that will enlarge the serviceable market. Our focus continues to be the expansion of the product range to include all major interface standards used within our target industrial end markets and ensure interoperation with the relevant Flash Memory devices produced by the major suppliers.

In recent years, 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.

During the period under review, revenue derived from Storage semiconductor products was £7.02m (H1 2017: £8.09m). Shipments continued to be impacted by the hangover from pricing and supply dynamics associated with NAND flash memory technology itself, which sits alongside our controllers in all customer end products. This impacted the majority of our customers.

Notable markets included a pleasing contribution from telecoms infrastructure projects based upon more recently released controller products and a selection of industrial automation end-applications. Despite the decline in sales against what was a very strong prior year first half, the product mix differed significantly and favoured those solutions commanding a higher selling price.

R&D spend through the period was simultaneously focussed on enhancements and roadmap developments for the Group's HyMap controller firmware along with progressing a key silicon development that is scheduled for release during financial Q4.

Operationally, enhancements were made to the third-party sales channels that expand our routes to market within Asia.

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 and an increasing number of security-related applications where the Group's proprietary technology offers our customers greater levels of comfort. Many major original equipment manufacturers (OEMs) are either starting or continuing to utilise our storage solutions meaning we are well positioned to benefit from growing demand as NAND flash market dynamics normalise.

Market Development

The underlying growth trends within our two main industrial application areas continue to strengthen and underpin confidence in our strategy. The persistent demand for increasing amounts of data to be transmitted and stored more quickly and securely remains and through our strong focus on R&D, we have a relevant and growing suite of products to meet these needs.

We continue to add customers to our already impressive list of leading OEMs and the diversification of our customer base has helped us to deliver these results in difficult market conditions.

Operational Developments

The investments in and adjustments to headcount in prior years is bearing fruit as we continue to see growth in the pipeline of opportunities being worked globally. These investments have enabled us to strengthen our sales efforts in certain territories as well as improve our routes to market.

As a result, the Company has a growing Total Addressable Market in which to sell its increasing suite of products.

Outlook

Profits grew through the first half year period and an underlying indicator for future growth, namely the pipeline of opportunity, has risen nicely. The combined effects of extended raw material lead times and NAND flash market dynamics along with customer purchasing patterns uncertainty created around ongoing trade issues between China and the USA, continues to affect progress. The Group is focussed on operational activities to mitigate some of these effects where possible.

It currently looks challenging for second half revenues to show material improvement over the first six months although at the profit before tax level, the impact is expected to be less pronounced due to the anticipated product mix. Therefore, a full year advance in profitability remains likely, in-line with market expectations.

With a growing number of customer products reaching production, the Board is confident that meaningful advances will be made as end market dynamics normalise and remains excited about the Group's future prospects.

C A Gurry
Group Managing Director
19 November 2018

Condensed consolidated income statement
for the six months ended 30 September 2018

	Unaudited 6 months end 30/09/18 £'000	Unaudited 6 months end 30/09/17 £'000	Audited Year end 31/03/18 £'000
Continuing operations			
Revenue	**15,052**	16,016	31,674
Cost of sales	**(4,336)**	(4,782)	(9,438)
Gross profit	**10,716**	11,234	22,236
Distribution and administration costs	**(8,813)**	(9,253)	(18,518)
	1,903	1,981	3,718
Other operating income	**290**	385	829
Profit from operations	**2,193**	2,366	4,547
Share-based payments	**(81)**	(71)	(143)
Profit after share-based payments	**2,112**	2,295	4,404
Profit on disposal of property	**222**	—	—
Revaluation of investment properties	**—**	—	140
Finance income	**22**	16	39
Profit before taxation	**2,356**	2,311	4,583
Income tax expense	**(195)**	(336)	(444)
Profit after taxation	**2,161**	1,975	4,139
Profit after taxation for period attributable to equity owners of the parent	**2,161**	1,975	4,139
Basic earnings per share			
From profit for the period	**12.65p**	11.74p	24.52p
Diluted earnings per share			
From profit for the period	**12.46p**	11.56p	23.95p
Adjusted EBITDA[1]	**5,175**	4,902	9,998

1. See Note 10 for definition and reconciliation.

Condensed consolidated statement of total comprehensive income
for the six months ended 30 September 2018

	Unaudited 6 months end 30/09/18 £'000	Unaudited 6 months end 30/09/17 £'000	Audited Year end 31/03/18 £'000
Profit for the period	**2,161**	1,975	4,139
Other comprehensive income, net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on retirement benefit obligations	**—**	—	911
Deferred tax on actuarial gain	**—**	—	(155)
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	**94**	(57)	(84)
Other comprehensive income/(expense) for the period net of taxation attributable to equity holders of the parent	**94**	(57)	672
Total comprehensive income for the period attributable to the equity holders of the parent	**2,255**	1,918	4,811

Condensed consolidated statement of financial position
as at 30 September 2018

	Unaudited 30/09/18 £'000	Unaudited 30/09/17 £'000	Audited 31/03/18 £'000
Assets			
Non-current assets			
Goodwill	**9,097**	9,134	9,190
Other intangible assets	**1,635**	1,242	1,570
Property, plant and equipment	**5,393**	5,371	5,410
Investment properties	**3,170**	3,550	3,690
Investment	**81**	82	83
Development costs	**13,710**	12,053	12,542
Deferred tax assets	**1,101**	1,352	1,068
	34,187	32,784	33,553
Current assets			
Inventories	**2,660**	2,154	2,351
Trade receivables and prepayments	**4,149**	2,607	3,112
Current tax assets	**1,088**	1,085	675
Cash and cash equivalents	**13,542**	12,716	13,816
	21,439	18,562	19,954
Total assets	**55,626**	51,346	53,507
Liabilities			
Current liabilities			
Trade and other payables	**5,575**	5,163	5,292
Current tax liabilities	**250**	446	48
Provision – current	**194**	142	181
	6,019	5,751	5,521
Non-current liabilities			
Deferred tax liabilities	**4,210**	3,813	3,950
Retirement benefit obligation	**2,070**	3,084	2,070
Provision – non current	**114**	299	196
	6,394	7,196	6,216
Total liabilities	**12,413**	12,947	11,737
Net assets	**43,213**	38,399	41,770
Capital and reserves attributable to equity owners of the parent			
Share capital	**857**	843	856
Share premium	**9,164**	8,338	9,068
Capital redemption reserve	**9**	9	9
Treasury shares – own share reserve	**(190)**	(190)	(190)
Share-based payments reserve	**496**	558	443
Foreign exchange reserve	**1,396**	1,329	1,302
Accumulated profits reserve	**31,481**	27,512	30,282
Total shareholders' equity	**43,213**	38,399	41,770

Condensed consolidated cash flow statement

for the six months ended 30 September 2018

	Unaudited 6 months end 30/09/18 £'000	Unaudited 6 months end 30/09/17 £'000	Audited Year end 31/03/18 £'000
Operating activities			
Profit for the period before taxation	**2,356**	2,311	4,583
Adjustments for:			
Depreciation	**202**	195	411
Amortisation of development costs	**2,481**	2,263	4,745
Amortisation of intangibles recognised on acquisition	**77**	78	155
Profit on disposal of property	**(222)**	—	—
Revaluation of investment properties	**—**	—	(140)
Movement in non-cash items (pension)	**—**	—	(103)
Share-based payments	**81**	71	143
Movement in provisions	**(95)**	—	(48)
Finance income	**(22)**	(16)	(39)
Movement in working capital	**(1,222)**	(504)	(874)
Cash flows from operating activities	**3,636**	4,398	8,833
Income tax received/(paid)	**1**	(33)	309
Net cash flows from operating activities	**3,637**	4,365	9,142
Investing activities			
Payment of warranty retention	**—**	—	(320)
Purchase of property, plant and equipment	**(177)**	(233)	(488)
Investment in development costs	**(3,530)**	(2,692)	(5,680)
Proceeds from disposal of property	**750**	—	—
Investment in intangibles	**(159)**	—	(392)
Finance income	**22**	16	39
Net cash flows used in investing activities	**(3,094)**	(2,909)	(6,841)
Financing activities			
Issue of ordinary shares	**97**	19	762
Dividends paid to shareholders	**(990)**	(1,244)	(1,581)
Net cash flows used in financing activities	**(893)**	(1,225)	(819)
(Decrease)/increase in cash and cash equivalents	**(350)**	231	1,482
Movement in cash and cash equivalents:			
At start of period/year	**13,816**	12,447	12,447
(Decrease)/increase in cash and cash equivalents	**(350)**	231	1,482
Effects of exchange rate changes	**76**	38	(113)
At end of period	**13,542**	12,716	13,816

Cash flows presented exclude sales taxes.

Condensed consolidated statement of changes in equity
for the six months ended 30 September 2018

Unaudited	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Accumulated profits reserve £'000	Total £'000
At 31 March 2017	843	8,319	9	(190)	504	1,386	26,764	37,635
Profit for period							1,975	1,975
Other comprehensive income net of taxes								
Foreign exchange differences						(57)		(57)
Total comprehensive income for the period	—	—	—	—	—	(57)	1,975	1,918
Transactions with owners in their capacity as owners							—	—
Dividend paid							(1,244)	(1,244)
Issue of ordinary shares	—	19						19
Total of transactions with owners in their capacity as owners	—	19	—	—	—	—	(1,244)	(1,225)
Share-based payments					71			71
Cancellation/exercise of share-based payments					(17)		17	—
At 30 September 2017	843	8,338	9	(190)	558	1,329	27,512	38,399
Profit for period							2,164	2,164
Other comprehensive income net of taxes								
Foreign exchange differences						(27)		(27)
Net actuarial loss on retirement benefit obligation							911	911
Deferred tax movement on actuarial loss							(155)	(155)
Total comprehensive income for the period	843	8,338	9	(190)	558	1,302	30,432	41,292
Transactions with owners in their capacity as owners								
Issue of ordinary shares	13	730						743
Dividend paid							(337)	(337)
Total of transactions with owners in their capacity as owners	13	730	—	—	—	—	(337)	406
Share-based payments					72			72
Cancellation/exercise of share-based payments					(187)		187	—
At 31 March 2018	856	9,068	9	(190)	443	1,302	30,282	41,770
Profit for period							**2,161**	**2,161**
Other comprehensive income net of taxes								
Foreign exchange differences						**94**		**94**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**94**	**2,161**	**2,255**
Transactions with owners in their capacity as owners								
Dividend paid							**(990)**	**(990)**
Issue of ordinary shares	**1**	**96**						**97**
Total of transactions with owners in their capacity as owners	**1**	**96**	**—**	**—**	**—**	**—**	**(990)**	**(893)**
Share-based payments					**81**			**81**
Cancellation/exercise of share-based payments					**(28)**		**28**	**—**
At 30 September 2018	**857**	**9,164**	**9**	**(190)**	**496**	**1,396**	**31,481**	**43,213**

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2018

1 Segmental analysis

Information about revenue, profit/loss, assets and liabilities

	Unaudited 6 months end 30/09/18		Unaudited 6 months end 30/09/17		Audited Year end 31/03/18	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Total segmental revenue	**15,052**	**15,052**	16,016	16,016	31,674	31,674
Profit						
Segmental result	**2,112**	**2,112**	2,295	2,295	4,404	4,404
Finance income		**22**		16		39
Profit on disposal of property		**222**		—		—
Revaluation of investment properties		**—**		—		140
Income tax expense		**(195)**		(336)		(444)
Profit after taxation		**2,161**		1,975		4,139
Assets and liabilities						
Segmental assets	**50,267**	**50,267**	45,359	45,359	48,074	48,074
Unallocated corporate assets						
Investment properties		**3,170**		3,550		3,690
Deferred tax assets		**1,101**		1,352		1,068
Current tax assets		**1,088**		1,085		675
Consolidated total assets		**55,626**		51,346		53,507
Segmental liabilities	**5,883**	**5,883**	5,604	5,604	5,669	5,669
Unallocated corporate liabilities						
Deferred tax liabilities		**4,210**		3,813		3,950
Current tax liabilities		**250**		446		48
Retirement benefit obligation		**2,070**		3,084		2,070
Consolidated total liabilities		**12,413**		12,947		11,737

Other segmental information

	Unaudited 6 months end 30/09/18		Unaudited 6 months end 30/09/17		Audited Year end 31/03/18	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**177**	**177**	233	233	488	488
Development cost additions	**3,530**	**3,530**	2,692	2,692	5,680	5,680
Intangible asset additions	**159**	**159**	—	—	392	392
Depreciation	**202**	**202**	195	195	411	411
Amortisation of development costs	**2,481**	**2,481**	2,263	2,263	4,745	4,745
Amortisation of acquired intangibles	**77**	**77**	78	78	155	155
Other non-cash income	**—**	**—**	—	—	103	103

Notes to the condensed consolidated financial statements continued
for the six months ended 30 September 2018

1 Segmental analysis continued
Geographical segments

Unaudited	**UK £'000**	**Rest of Europe £'000**	**Americas £'000**	**Far East £'000**	**Total £'000**
Six months ended 30 September 2018					
Revenue to third parties	**3,539**	**3,447**	**3,045**	**5,021**	**15,052**
Property, plant and equipment	**4,997**	**270**	**80**	**46**	**5,393**
Investment properties	**3,170**	**—**	**—**	**—**	**3,170**
Development costs	**5,201**	**8,509**	**—**	**—**	**13,710**
Intangible assets - software	**551**	**—**	**—**	**—**	**551**
Goodwill	**—**	**3,512**	**—**	**5,585**	**9,097**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,083**	**1,083**
Total assets	**24,837**	**16,497**	**2,149**	**12,143**	**55,626**

Unaudited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2017					
Revenue to third parties	3,865	3,737	2,868	5,546	16,016
Property, plant and equipment	4,989	314	31	37	5,371
Investment properties	3,550	—	—	—	3,550
Development costs	4,148	7,905	—	—	12,053
Goodwill	—	3,512	—	5,622	9,134
Other intangible assets arising on acquisition	—	—	—	1,242	1,242
Total assets	21,216	16,496	1,804	11,830	51,346

Audited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2018					
Revenue to third parties	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
Intangible assets – 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

Segmental reporting is, in accordance with IFRS 8, based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies the Group uses for segmental reporting under IFRS 8 are the same as those used in its full year financial statements.

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

	Unaudited 6 months end 30/09/18 £'000	Unaudited 6 months end 30/09/17 £'000	Audited Year end 31/03/18 £'000
Europe	**3,890**	4,823	9,477
Far East	**7,940**	8,006	15,764
Americas	**3,068**	2,918	5,919
Other	**154**	269	514
	15,052	16,016	31,674

2 Dividend paid and interim dividend

The Board is declaring an interim dividend of 2.0p per 5p ordinary share for the half year ended 30 September 2018, payable on 14 December 2018 to shareholders on the Register on 30 November 2018.

A final dividend of 5.8p per 5p ordinary share was paid on 6 August 2018 and an interim dividend of 2.0p per 5p ordinary share was paid on 15 December 2017, totalling 7.8p per 5p ordinary share paid for the year ended 31 March 2018 (2017: 7.4p per 5p ordinary share in respect of the year ended 31 March 2017).

3 Income tax expense

	Unaudited 6 months end 30/09/18 £'000	Unaudited 6 months end 30/09/17 £'000	Audited Year end 31/03/18 £'000
UK income tax credit	**(300)**	(272)	(551)
Overseas income tax charge	**296**	508	614
Total current tax (credit)/charge	**(4)**	236	63
Deferred tax charge	**199**	100	381
Reported income tax expense	**195**	336	444

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

4 Earnings per share

	Unaudited 6 months end 30/09/18	Unaudited 6 months end 30/09/17	Audited Year end 31/03/18
Basic earnings per share			
From profit for the period	**12.65p**	11.74p	24.52p
Diluted earnings per share			
From profit for the period	**12.46p**	11.56p	23.95p

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 explained below:

	Ordinary 5p shares	
	Weighted average number	Diluted number
Six months ended 30 September 2018	**17,084,130**	**17,342,440**
Six months ended 30 September 2017	16,815,949	17,087,298
Year ended 31 March 2018	16,876,684	17,279,032

On 8 December 2017, the staff exercised 233,026 staff options under the terms of the staff share option schemes at a price of 500p per share.

5 Investment properties

Investment properties are revalued at each discrete year 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. At 31 March 2018 the investment properties were professionally valued by Everett Newlyn, Chartered Surveyors and Commercial Property Consultants, on an open market basis, for which an investment value of £3,690,000 was advised.

On the 12 September 2018, the Company disposed of one its investment properties, Burghey Brook Farm, for a consideration of £750,000, previously held with a carrying value of £520,000 by the Company, and before incidental transaction costs.

6 Retirement benefit obligations

The Directors have not obtained an actuarial IAS 19 Employee Benefits report in respect of the defined benefit pension scheme for the purpose of this Half Yearly Report.

7 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.

8 Directors' statement pursuant to the Disclosure and Transparency Rules

The Directors confirm that, to the best of their knowledge:

- Except as described in Note 9, these condensed set of financial statements have been prepared on a consistent basis with the financial statements for the year ended 31 March 2018 and should be read in conjunction with the FY18 Annual Report and Accounts. The annual consolidated financial statements of the Group are prepared in accordance with IFRS and IFRIC pronouncements as adopted by the EU; and
- the condensed set of financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and
- the Chairman's statement and Group Managing Director's operational and financial review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors are also responsible for the maintenance and integrity of the CML Microsystems Plc website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

9 Basis of preparation

The basis of preparation and accounting policies used in preparation of this Half Year Report have been prepared in accordance with the same accounting policies set out in the year ended 31 March 2018 financial statements with the exception of the adoption of IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments. The impact of the adoption is set out below:

(i) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It has replaced existing revenue recognition guidance, including IAS 18 Revenue. IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a stand-alone selling price basis, based on a five-step model (identification of contracts; performance obligations; transaction prices; allocation of price to performance obligations; and recognition of revenue). Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It has replaced existing revenue recognition guidance, including IAS 18 Revenue. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

Following a high level review and an impact assessment of this standard it was concluded that the Group's revenue streams are currently recognised at the point of its performance obligation and at a determined transaction price and therefore under IFRS 15, there was no material change in the timing and recognition of its revenue. Microchips involve both hardware and embedded software within a chip product, and revenues are recognised when invoices are raised and chip products are despatched. The group recognises its revenue in any given period in accordance with these measures and therefore does not recognise future revenues within current revenue. Therefore, there is no requirement to restate prior year revenue recognised from contracts in the statement of comprehensive income.

Contract balances relate to customer pricing agreements which are less than one year in duration and therefore there are no requirements to disclose customer contract balances separately in the financial position. While many of our companies have warranty arrangements with their customers, having reviewed the details of the warranty arrangements, these have been determined to be of an assurance nature and as such there is no material change in accounting required by IFRS 15.

(ii) IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' determines the basis of the financial instrument and how a financial asset should be classified and measured. It also provides a forward-looking expected losses impairment model for financial assets, including trading receivables, and includes amendments to classification and measurement of financial instruments. It has replaced existing standard IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

Following a high level review and further impact assessment, it was concluded that the Group's use of financial instruments is limited to short term trading balances such as receivables and payables. The Group has no financial borrowings and does not have complex financial instruments in place in relation to foreign exchange. Given the straightforward nature of the financial assets for the Group, it is not anticipated that there will be a material change in any level of impairment recognised compared to that based on current procedures and there have been no material changes arising from the adoption of the expected losses impairment model. Therefore, there is no requirement to restate prior year balances in the statement of comprehensive income.

10 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 three periods presented:

	Unaudited 6 months end 30/09/18 £'000	Unaudited 6 months end 30/09/17 £'000	Audited Year end 31/03/18 £'000
Profit after taxation (earnings)	**2,161**	1,975	4,139
Adjustments for:			
Finance income	**(22)**	(16)	(39)
Income tax expense	**195**	336	444
Depreciation	**202**	195	411
Amortisation of development costs	**2,481**	2,263	4,745
Amortisation of intangibles recognised on acquisition	**77**	78	155
Share-based payments	**81**	71	143
Adjusted EBITDA	**5,175**	4,902	9,998

11 General

Other than already stated within the Chairman's statement and Group Managing Director's operational and financial review, there have been no important events during the first six months of the financial year that have impacted this Half Yearly Report.

There have been no related party transactions or changes in related party transactions described in the latest Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

The principal risks and uncertainties within the business are contained within this report in Note 7 above.

This Half Yearly Report includes a fair review of the information required by DTR 4.2.7/8 (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year).

This Half Yearly Report does not include all the information and disclosures required in the Annual Report, and should be read in conjunction with the consolidated Annual Report for the year ended 31 March 2018.

The financial information contained in this Half Yearly Report has been prepared on a basis which is consistent with International Financial Reporting Standards as adopted by the European Union. This Half Yearly Report does not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The financial information for the year ended 31 March 2018 is based on the statutory accounts for the financial year ended 31 March 2018 that have been filed with the Registrar of Companies and on which the Auditor gave an unqualified audit opinion.

The Auditor's report on those accounts did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. This Half Yearly Report has not been audited or reviewed by the Group Auditor.

A copy of this Half Yearly Report can be viewed on the Company website: www.cmlmicroplc.com.

12 Approvals

The Directors approved this Half Yearly Report on 19 November 2018.

Glossary

DTR	Disclosure and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
EU	European Union
FY	Full Year
H1	First Half (Financial Year)
IAS	International Accounting Standards
IC	Integrated Circuit
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
GPS	Global Positioning System
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
RTK	Real-Time Kinematic
SATA	Serial ATA Interface
SD	Secure Digital Card
USB	Universal Serial Bus

Designed and produced by
lyonsbennett
www.lyonsbennett.com

CML
Microsystems
Plc

Visit us online at
cmlmicroplc.com

CML Microsystems Plc
Oval Park, Langford
Maldon, Essex
CM9 6WG

T: +44 (0)1621 875500
F: +44 (0)1621 875606

group@cmlmicroplc.com