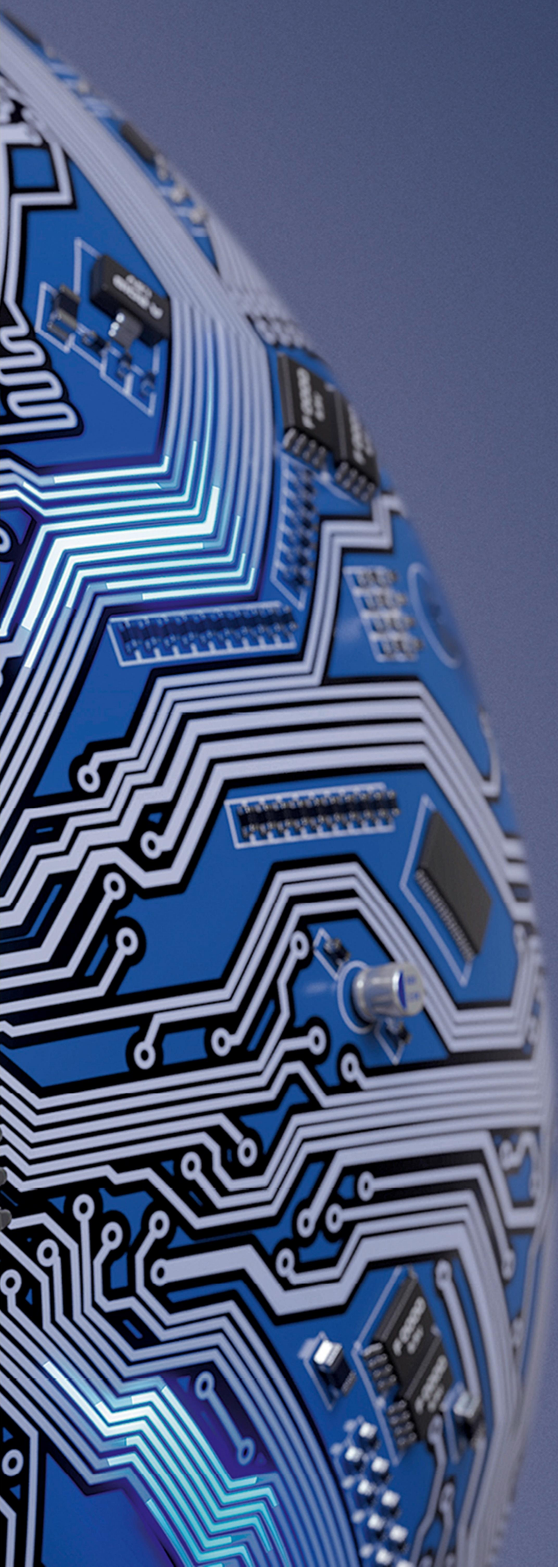
CML Microsystems Plc



Preliminary results for the year ended
31 March 2019

Semiconductors for a connected world

CHAIRMAN'S STATEMENT

Introduction

The Group has continued to make strong strategic progress during the course of the year. However, it has proved a frustrating year in terms of performance. The financial momentum that was building through previous years has been impeded by a number of macroeconomic factors outside of the Company's control. Extended raw material supply chain lead times, weaker automotive sales, a softening of the Chinese economy and ongoing geopolitical issues have been some of the headwinds that we have had to endure.

While this has been disappointing, the depth of our product portfolio, customer base and sales operation, have mitigated the impact to some extent, and the opportunity for the Company is undiminished. Our stated strategic focus of investing strongly in R&D to deliver future sales growth remains unchanged.

Results and Dividend

Revenues for the year fell by 11% to £28.14m (2018: £31.67m), with profit before taxation falling by 35% and basic EPS by 36%. Operating cash generation was strong, given the circumstances, and it is a credit to the financial management of the Company that net cash at the year end was only £1.0m lower than the previous year at £12.8m, despite the fall in revenues, a share buy-back, dividend payments of £1.33m and increased investment in R&D.

In recent years the Company has operated a progressive dividend policy, in line with sequentially higher revenues and profitability. In balancing shareholder returns with ongoing trading patterns and the future needs of the business, the Board is recommending a final dividend of 5.8p per 5p ordinary share maintaining the total for the year at 7.8p (2018: 7.8p). If approved, this will be paid on 5 August 2019 to shareholders whose names appear on the register at close of business 5 July 2019.

Employees

Despite the challenges that we have faced, our employees have worked tirelessly and their commitment and dedication have not waivered. On behalf of the Board I would like to thank them all.

Prospects and Outlook

The medium to long term prospects for the Company continue to strengthen and the pipeline of opportunity builds year on year. The Board believes that as and when conditions normalise, sales will recover and return to growth. We have invested in raw material inventory to be able to meet such levels of demand as they occur, however, trying to estimate when that might happen is difficult and the trading environment at the start of this new financial year remains challenging. Current expectations are that conditions should stabilise through the year and that, when they do, we will be ideally placed to deliver growing returns.

Nigel Clark
Group Non-Executive Chairman

OPERATIONAL AND FINANCIAL REVIEW

Introduction

The disappointing financial performance this year is a reflection of a trading environment which became increasingly difficult as the period progressed. At the start of the financial year, we warned that raw material supplier issues had started to become a feature and that we therefore expected revenue and profit generation in this year to be weighted towards the second half. Nevertheless, strong financial management and a favourable product mix enabled the Company to report encouraging levels of profitability at the half year stage, but it was clear that the second half of the year would need to witness improved market conditions to achieve expectations.

A softening of the Chinese economy, along with ongoing geo-political issues, further dampened demand, with some customers choosing to delay orders due to uncertainty and others remaining in an inventory correction pattern. This resulted in a full year performance that fell below our objectives.

Measures have been taken throughout the year, including increasing levels of raw material inventory to mitigate the long lead times, which we believe are prudent in these circumstances. While market conditions across the year have not been favourable, we are confident our underlying strategy is working, as evidenced by the continued strong growth in our project pipeline and widening of our customer base. Previous investments into our sales and marketing capabilities have delivered a consistently higher level of design wins over the last two years, building a solid opportunity base for long-term sustainable revenue growth.

Financial Review

Sales revenue for the year amounted to £28.14m, representing a decrease of 11% when compared to the record prior full year period (2018: £31.67m). The reduction was across both main market application areas although the drop in sales from semiconductor products targeted at Storage applications contributed most to the decline. Sales in the second half of the year were lower than the first six-months as order intake was impacted further by a combination of industry, market sector and political headwinds.

Shipments into the Group's two largest customers fell materially as a result of the aforementioned headwinds whilst pleasingly, across the broader customer base, just over half of the top 40 customers increased their absolute spend.

Despite a reduction in sales revenue, the product mix favoured solutions that are well suited to applications where quality, reliability and technical performance command a premium, leading to improved gross profit margins of 72% (2018: 70%). Gross profit for the year was £20.25m (2018: £22.24m).

Distribution and administration costs fell to £18.07m for the year, a £0.45m reduction on the comparable period (2018: £18.52m). A gain on foreign exchange of £0.25m (2018: £0.45m loss) and a tight focus on operational spend more than compensated for an increase in the amortisation of development costs to £5.15m (2018: £4.75m) and the effect of accounting for pensions under International Accounting Standards (IAS 19), which impacted costs by £0.16m (2018: £0.1m credit).

In recent years the Group has operated at an elevated level of research and development investment with a policy designed to maximise growth potential through the development of new products that will expand the size of the Group's serviceable market. At the same time, there is also a need to protect existing revenue streams through the periodic refresh of the product portfolio to cope with changes in customer needs and market requirements. Throughout the year we committed to new developments to complement the underlying core roadmap programmes already underway. This resulted in a 20% increase in spend on research and development costs for the year to £8.24m (2018: £6.87m) with £1.07m expensed (2018: £1.19m) and £7.17m capitalised under the Group's long-standing policy (2018: £5.68m).

The Group receives other income from a combination of rental income (commercial rental of non-operational property assets), grant income associated with specific engineering development activities and royalty income (sale of third party technology incorporated within semiconductor solutions). The amount recorded for the year was £0.64m (2018: £0.83m).

Profit from operations fell £1.74m to £2.81m (2018: £4.55m).

During the first six-months of the year, the Group completed the sale of a non-operational property asset in Essex, generating a profit on disposal of £0.22m. There were no such transactions in the comparable year, although the Group's investment properties did receive an uplift in valuation amounting to £0.14m. After accounting for share-based payments and net finance income, a profit before tax of £2.98m was recorded (2018: £4.58m).

Contribution from the top two customers fell significantly with both of these customers operating in the Storage sector and themselves impacted by the market dynamics that remained a feature across the year. Similar to the prior year, only one customer contributed more than 10% of the Group's revenues.

A higher UK tax credit associated with the Group's research and development activities was the primary driver behind a lower than average rate of taxation, at 10% (2018: 10%), leading to an income tax expense of £0.29m being recorded (2018: £0.44m).

Profit after tax equated to £2.70m (2018: £4.14m) representing a reduction of 35%. Basic earnings per share was 15.77p (2018: 24.52p) with a slightly higher number of shares in issue.

Cash management across the Group throughout the year was an important focus area. At 31 March 2019, Group net cash balances amounted to £12.81m, a reduction of £1.01m from the start of the financial year (1 April 2018: £13.82m). This is a particularly pleasing performance following the need to navigate current and potential future inventory issues, another record year of R&D spend (£8.24m) and payment of a £1.33m dividend in respect of the prior financial year. Included in the cash balance is a conditional customer prepayment of £0.70m made against future product purchases.

At the beginning of the year, we communicated that the semiconductor industry as a whole had been experiencing extended lead times for raw materials. In varying forms, this message permeated the year and suitable measures were initiated to mitigate any impact where possible. Resulting inventory levels at the 31 March 2019 were £2.88m (2018: £2.35m).

As reported within the prior year's annual report, the deficit associated with the Group's historic final salary pension scheme, as calculated under IAS 19, had fallen to £2.07m. For this financial year, whilst the assets of the scheme have remained fairly stable at £20.63m (2018: £20.68m), the assumptions used within the calculation of liabilities has had a significant impact. Predominantly, a movement in the discount rate used at the end of the financial year drove the net pension liability up to £3.55m. Additionally, for this year, an IAS19 expense of £0.16m was charged to the income statement in part associated with the recent mandatory introduction of Guaranteed Minimum Pension (GMP) gender equalization rules.

Separately from the IAS19 calculation, the most recent triennial actuarial valuation on the scheme carried out by an independent professionally qualified actuary, as at 31 March 2017, resulted in a net pension surplus of £1.89m. An approximate update of the funding position was carried out as at 31 March 2018 which, when viewed as a continuing scheme, showed a net surplus of £3.17m. The report further stated that the scheme assets were sufficient to cover 118% 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 business is focused 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 once current market conditions ease.

Growth in both markets is 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.

Communications

The ongoing strategy within Communications markets is to develop new products that enable us to grow customer share, widen the customer base and expand the size of the serviceable market through enabling new functionality and improved performance within the customers' end product.

The Group's Communication semiconductor portfolio now exceeds 70 solutions and our continued system-level focus permits a single customer wireless product to contain up to five separate CML devices. This increases our content value within the end product but, importantly, with the aid of focused demonstration platforms and global technical support teams, helps our customers get to market faster and at a lower overall cost.

Revenue from the sale of semiconductors into the Communications sector amounted to £15.14m (2018: £16.17m), a decline of 6% over the previous full year. At the interim stage, an advance of 1% had been recorded against a particularly strong comparable period which serves to highlight the trading deterioration through the final months of the year. Shipments into both the Americas and Asia were lower and reflected a combination of the aforementioned headwinds and associated customer inventory level dynamics.

Digital baseband processors, modem IC's and radio frequency (RF) solutions contributed the bulk of shipments through the year with some application sectors achieving good results despite challenging circumstances. A solid performance came from a number of professional and commercial mobile radio customers, where the Group produces focussed solutions for standards such as TETRA, P25 and DMR along with regional derivatives, targeted at emergency warning applications as an example. An encouraging contribution was made from the use of CML chip sets within data-centric proprietary wireless network solutions that are deployed for a variety of secure data control, monitoring and logging requirements on a fairly localised basis. Included within this are Real-Time Kinematic (RTK) products for enhanced GPS positioning uses and narrowband wireless products for monitoring and utility substation automation. The sale of products specifically into satellite applications was softer year-on-year, as were revenues from the mature wireline telecom portfolio.

The Group released a selection of new products across the year supported by appropriate demonstration platforms to aid the design-in process. These new products are expected to follow the typical multi-year cycle from customer introduction through to meaningful revenue generation. Our ultra-low power audio codec that was released in the second half of the year fits neatly into current application areas but, as a general purpose audio codec plus class-D amplifier solution, should also serve to expand our market sector reach. Following the financial year end, and in keeping with our stated strategy to widen the serviceable market size, the Group released its first focussed 2.4GHz wireless transceiver solution, the SCT2400. Its long-range low power credentials and security features make it an ideal solution for digital voice and data applications that require traditional mobile radio functionality but on globally accepted, license-free radio channels.

Storage

Over recent years, we have significantly expanded the Storage product portfolio to encompass most of the interface standards used within the high reliability markets that remain a strong focus for growth. Investment levels have been high but that has positioned us well to capture the increasing number of opportunities that a wider target market presents. However, from a purely financial performance viewpoint, the contribution this year from the Storage sector fell well short of management expectations.

Sales revenues were £12.87m equating to a disappointing 17% reduction against the prior year (2018: £15.43m). It is particularly frustrating to report a fall of this magnitude given that the principal causes were either related to specific market dynamics or as a result of the uncertainties associated with ongoing geo-political issues. Our customer purchasing patterns continued to be impacted by the hangover from pricing and supply fluctuations associated with NAND flash memory technology itself, which sits alongside our controller in the customers' end product. This affected the majority of our customers to a degree, with some managing the situation more successfully than others. Sales into the automotive infotainment market were weaker following a globally reported weakness in that particular sector, but also due to the limited customer base the Group has in this relatively new market for us.

Further analysis of the total revenue number for Storage shows that the situation was mixed, with a selection of mature products experiencing a decline that was partially countered by an increased contribution from more recent product introductions.

Despite the broad-based fall in Storage revenues and the prevailing market conditions, a number of our customers supplying solutions into the Telecom Infrastructure and Industrial Automation markets increased their spend with us. We received notification that storage solutions based upon our semiconductors passed qualification at four of the top five cellular infrastructure manufacturers and subsequent shipment volumes grew across the year as a whole. Additionally, and in keeping with our stated strategy for growth, we secured design-wins in several new areas, including voting machines, cashier systems and black box "dataloggers" for railway applications.

In February we announced a new SATA 3 product, the X1, which is designed to satisfy the specific needs of the industrial, high reliability markets. It is the first dual-core product we have produced and uses our proprietary processor technology offering enhanced levels of data security. Compatible with current and next generation NAND flashes, the solution offers class-leading endurance at speeds up to 6.0Gb/s and is ideal for customers who have power and space constraints. The X1 significantly increases the size of the Group's serviceable market and is expected to be a major growth contributor in future years. A selection of early stage lead customers are already evaluating the product whilst a number of qualification and compliance activities are underway ahead of mass production availability later in the calendar year.

Whilst the X1 is seen as a flagship product both technically and in terms of future revenue generation, R&D spend through the period was simultaneously focussed on enhancements and roadmap developments for the Group's HyMap controller firmware and towards refreshing certain existing products to ensure future compatibility with commercially available NAND flash technology.

Market Developments

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.

The Communications market continues to exhibit a multitude of growth areas. Demand for inexpensive and reliable land mobile radios, growing significance of efficient critical communications operations, application of land mobile radios in diverse industries and the transition of communication devices from analogue technology to digital are some of the factors driving the voice-centric market. For M2M and IIoT applications, internet connectivity for intelligent transportation, data accuracy and continuity for agricultural and construction sectors, control and data acquisition for Public Utilities and the increasing data throughput requirements from terrestrial and satellite communications applications all combine to drive growth through the years ahead.

Within the industrial data storage market, there are several exciting opportunities demonstrating solid growth characteristics. The Industrial control and factory automation market is growing through the increasing use of enabling technologies in manufacturing, rising adoption of industrial robots in the manufacturing sector and the connected supply chain. In Telecoms Infrastructure, the 5G rollout has commenced and is expected to start gathering pace by the end of the calendar year. The global enterprise Networking market is expected to expand significantly driven by the surge in connected devices that will generate a need for secure & real-time communication between devices such as networking switches and routers. A common feature of each of these markets is the need for secure, localised data storage.

An overriding facet encompassing both main markets addressed is that security is playing an increasing role in the customers' decision making process.

For Communications systems, there are security benefits to using proprietary radio standards where the over-air radio protocols are confidential to the OEM and the unauthorised interception and/or manipulation of customer data becomes more difficult. Within Storage applications, security conscious customers are increasingly reticent to provide detailed requirement specifications to a third-party. Using our proprietary API toolkit, customers have the ability to purchase one of our standard off-the-shelf Controller solutions and then enhance the features themselves through in-house software development, in complete confidence.

Through our continued strong focus on R&D, we have a relevant and growing suite of products developed to meet the needs of the developing market.

Operational Developments

We added new customers to our already impressive list of leading OEMs and the diversification of our customer base has helped us to mitigate some of the short-term impact on these results. The Group retains a strong balance sheet and growing product portfolio. These factors have provided us with the confidence to maintain our investments into the business, to ensure we emerge from these market conditions in a position of strength.

We have expanded our Sales and Marketing capabilities in the year, securing additional routes to market through one of the leading global online distributors, Digi-Key, additional regional distributors in Asia and the hiring of a VP sales for Storage products in the Americas. Actions are underway to further augment our routes to market in that region and to ensure that globally we maintain sales channel partners that fit well with the expanded product portfolio.

Outlook

The Board is confident that the medium to long term drivers remain strong. With an enlarged customer base, more products ready to enter the ramping phase, expanded global sales coverage and a stronger pipeline of opportunities than ever before, the foundations are in place to capitalise as the trading environment improves. Whilst the timing of this improvement is difficult to foresee, we do not currently expect further deterioration.

The strength of our balance sheet provides us with the security of being able to continue to invest in R&D to maximise the long-term opportunities, rather than react to short term forces which would impact future growth objectives.

We currently anticipate revenues will advance as we progress through the year ahead although the necessity for a continued high level of R&D investment is expected to put downward pressure on the Group's overall profitability. Though the Board and senior management team will be working to minimise the impact of this pressure, the current trading year looks likely to be one of stabilisation.

As and when conditions show a significant pattern of change we will update shareholders accordingly. In the meantime, the Board believes we continue to be well placed for future growth as market conditions become more favourable.

Chris Gurry
Group Managing Director

Consolidated income statement for the year ended 31 March 2019

	Notes	Unaudited 2019 £'000	Audited 2018 £'000
Continuing operations			
Revenue	1,2	**28,140**	31,674
Cost of sales		**(7,887)**	(9,438)
Gross profit		**20,253**	22,236
Distribution and administration costs		**(18,074)**	(18,518)
		2,179	3,718
Other operating income		**635**	829
Profit from operations		**2,814**	4,547
Share-based payments		**(117)**	(143)
Profit after share-based payments		**2,697**	4,404
Profit on disposal of property	7	**222**	—
Revaluation of investment properties	7	**—**	140
Finance income		**64**	39
Finance expense		**(1)**	—
Profit before taxation		**2,982**	4,583
Income tax expense	4	**(288)**	(444)
Profit after taxation		**2,694**	4,139
Profit after taxation attributable to equity owners of the parent		**2,694**	4,139
Basic earnings per share			
From profit for year	5	**15.77p**	24.52p
Diluted earnings per share			
From profit for year	5	**15.36p**	23.95p

Adjusted EBITDA			
Adjusted EBITDA for year	6	**8,754**	9,998

Consolidated statement of total comprehensive income for the year ended 31 March 2019

	Unaudited 2019 £'000	**Unaudited 2019 £'000**	Audited 2018 £'000	Audited 2018 £'000
Profit for the year		**2,694**		4,139
Other comprehensive (expense)/income:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial (loss)/gain on retirement benefit obligations	**(1,317)**		911	
Deferred tax on actuarial (gain)/loss	**224**		(155)	
Items reclassified subsequently to profit or loss upon derecognition:				
Foreign exchange differences	**104**		(84)	
Other comprehensive (expense)/income for the year net of taxation attributable to equity owners of the parent		**(989)**		672
Total comprehensive income for the year attributable to the equity owners of the parent		**1,705**		4,811

Consolidated statement of financial position as at 31 March 2019

	Unaudited 2019 £'000	Unaudited 2019 £'000	Audited 2018 £'000	Audited 2018 £'000
Assets				
Non-current assets				
Goodwill		**9,235**		9,190
Other intangible assets		**1,775**		1,570
Development costs		**14,495**		12,542
Property, plant and equipment		**5,307**		5,410
Investment properties		**3,170**		3,690
Investments		**83**		83
Deferred tax assets		**908**		1,068
		34,973		33,553
Current assets				
Inventories	**2,882**		2,351	
Trade receivables and prepayments	**3,430**		3,112	
Current tax assets	**1,118**		675	
Cash and cash equivalents	**13,471**		13,816	
		20,901		19,954
Total assets		**55,874**		53,507
Liabilities				
Current liabilities				
Bank loans and overdrafts		**662**		—
Trade and other payables		**4,634**		5,292
Current tax liabilities		**77**		48
Provisions – current		**195**		181
		5,568		5,521
Non-current liabilities				
Deferred tax liabilities	**4,420**		3,950	
Retirement benefit obligation	**3,548**		2,070	
Provisions – non current	**16**		196	
		7,984		6,216
Total liabilities		**13,552**		11,737
Net assets		**42,322**		41,770
Capital and reserves attributable to equity owners of the parent				
Share capital		**859**		856
Share premium		**9,279**		9,068
Capital redemption reserve		**9**		9
Treasury shares – own share reserve		**(342)**		(190)
Share-based payments reserve		**507**		443
Foreign exchange reserve		**1,406**		1,302
Accumulated profits reserve		**30,604**		30,282
Total shareholders' equity		**42,322**		41,770

Consolidated cash flow statement for the year ended 31 March 2019

	Unaudited 2019 £'000	Audited 2018 £'000
Operating activities		
Profit for the year before taxation	**2,982**	4,583
Adjustments for:		
Depreciation	**400**	411
Amortisation of development costs	**5,146**	4,745
Amortisation of intangibles recognised on acquisition and purchased	**172**	155
Profit on disposal of property	**(222)**	—
Revaluation of investment properties	**—**	(140)
Movement in non-cash items (pension)	**161**	(103)
Share-based payments	**117**	143
Movement in provisions	**(193)**	(48)
Finance income	**(64)**	(39)
Finance expense	**1**	—
Movement in working capital	**(1,743)**	(874)
Cash flows from operating activities	**6,757**	8,833
Income tax received	**454**	309
Net cash flows from operating activities	**7,211**	9,142
Investing activities		
Payment of warranty retention	**—**	(320)
Purchase of property, plant and equipment	**(294)**	(488)
Investment in development costs	**(7,169)**	(5,680)
Investment in intangibles	**(368)**	(392)
Proceeds from disposal of property	**750**	—
Finance income	**64**	39
Finance expense	**(1)**	—-
Net cash flows used in investing activities	**(7,018)**	(6,841)
Financing activities		
Issue of ordinary shares	**214**	762
Purchase of own shares for treasury	**(152)**	—
Receipt from short term borrowing	**662**	—
Dividends paid to shareholders[1]	**(1,332)**	(1,581)
Net cash flows used in financing activities	**(608)**	(819)
(Decrease)/Increase in cash and cash equivalents	**(415)**	1,482
Movement in cash and cash equivalents:		
At start of year	**13,816**	12,447
(Decrease)/Increase in cash and cash equivalents	**(415)**	1,482
Increase in short term borrowings	**(662)**	—
Effects of exchange rate changes	**70**	(113)
At end of year	**12,809**	13,816

Cash flows presented exclude sales taxes.
[1] The comparative period dividend cash outflow included the full year dividend plus initiation of an interim dividend.

Consolidated statement of changes in equity for the year ended 31 March 2019

	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 reserve £'000	Total £'000
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								
Foreign exchange differences						(84)		(84)
Net actuarial gain recognised directly to equity on retirement benefit obligations							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 – audited	856	9,068	9	(190)	443	1,302	30,282	41,770
Profit for year							**2,694**	**2,694**
Other comprehensive income								
Foreign exchange differences						**104**		**104**
Net actuarial gain recognised directly to equity on retirement benefit obligations							**(1,317)**	**(1,317)**
Deferred tax on actuarial gain							**224**	**224**
Total comprehensive income for year	—	—	—	—	—	**104**	**1,601**	**1,705**
	856	**9,068**	**9**	**(190)**	**443**	**1,406**	**31,883**	**43,475**
Transactions with owners in their capacity as owners								
Issue of ordinary shares	**3**	**211**						**214**
Purchase of own shares - treasury				**(152)**				**(152)**
Dividend paid							**(1,332)**	**(1,332)**
Total transactions with owners in their capacity as owners	**3**	**211**	**—**	**(152)**	**—**	**—**	**(1,332)**	**(1,270)**
Share-based payments in year					**117**			**117**
Cancellation/transfer of share-based payments					**(53)**		**53**	—
At 31 March 2019 - unaudited	**859**	**9,279**	**9**	**(342)**	**507**	**1,406**	**30,604**	**42,322**

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.

The Group is focused for management purposes on one primary reporting segment, being the semiconductor segment, with similar economic characteristics, risks and returns and the Directors therefore consider there to be one business segment classification.

Information about revenue, profit/loss, assets and liabilities

	Unaudited 2019		Audited 2018	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Total segmental revenue	**28,140**	**28,140**	31,674	31,674
Profit				
Segmental result	**2,697**	**2,697**	4,404	4,404
Finance income		**64**		39
Finance expense		**(1)**		—
Profit on disposal of property		**222**		—
Revaluation of investment properties		**—**		140
Income tax expense		**(288)**		(444)
Profit after taxation		**2,694**		4,139
Assets and liabilities				
Segmental assets	**50,678**		48,074	
		50,678		48,074
Unallocated corporate assets				
Investment properties		**3,170**		3,690
Deferred tax assets		**908**		1,068
Current tax assets		**1,118**		675
Consolidated total assets		**55,874**		53,507
Segmental liabilities	**5,507**		5,669	
		5,507		5,669
Unallocated corporate liabilities				
Deferred tax liabilities		**4,420**		3,950
Current tax liabilities		**77**		48
Retirement benefit obligation		**3,548**		2,070
Consolidated total liabilities		**13,552**		11,737

Other segmental information

	Unaudited 2019		Audited 2018	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**294**	**294**	488	488
Development cost additions	**7,169**	**7,169**	5,680	5,680
Intangible asset additions	**368**	**368**	392	392
Depreciation	**400**	**400**	411	411
Amortisation of development costs	**5,146**	**5,146**	4,745	4,745
Amortisation of acquired and purchased intangibles	**172**	**172**	155	155
Other non-cash (expenditure)/income (pension)	**(161)**	**(161)**	103	103

Geographical information (by origin)

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2019 - unaudited					
Revenue to third parties – by origin	**7,419**	**6,051**	**5,207**	**9,463**	**28,140**
Property, plant and equipment	**4,941**	**260**	**66**	**40**	**5,307**
Investment properties	**3,170**	**—**	**—**	**—**	**3,170**
Development costs	**5,359**	**9,136**	**—**	**—**	**14,495**
Intangibles - software and intellectual property	**611**	**—**	**—**	**—**	**611**
Goodwill	**—**	**3,512**	**—**	**5,723**	**9,235**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,164**	**1,164**
Total assets	**25,174**	**16,070**	**1,594**	**13,036**	**55,874**
Year ended 31 March 2018 - audited					
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 and intellectual property	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

2 Revenue

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

Continuing business	**Unaudited 2019 £'000**	Audited 2018 £'000
Europe	**7,201**	9,477
Far East	**15,348**	15,764
Americas	**5,251**	5,919
Others	**340**	514
	28,140	31,674

3 Dividend – paid and proposed

During the year a final dividend of 5.8p per ordinary share of 5p was paid in respect of the year ended 31 March 2018. A maiden interim dividend of 2.0p per ordinary was paid on 14 December 2018 to shareholders on the Register on 30 November 2018.

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 2019 to 7.8p. It is proposed to pay the final dividend of 5.8p, if approved, on 5 August 2019 to shareholders registered on 5 July 2019 (2018: paid 6 August 2018 to shareholders registered on 6 July 2018).

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 2019 £'000	Audited 2018 £'000
Current tax		
UK corporation tax on results of the year	**(722)**	(595)
Adjustment in respect of previous years	**4**	44
	(718)	(551)
Foreign tax on results of the year	**92**	626
Foreign tax – adjustment in respect of previous years	**4**	(12)
Total current tax	**(622)**	63
Deferred tax		
Current year movement	**913**	387
Adjustments to deferred tax charge in respect of previous years	**(3)**	(6)
Total deferred tax	**910**	381
Tax charge on profit on ordinary activities	**288**	444

5 Earnings per share

	Unaudited 2019	Audited 2018
Basic earnings per share		
From profit for year	**15.77p**	24.52p
Diluted earnings per share		
From profit for year	**15.36p**	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 shown below:

	Unaudited 2019			Audited 2018		
	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	**2,694**	**17,087,788**	**15.77**	4,139	16,876,684	24.52
Diluted earnings per share						
Basic earnings per share	**2,694**	**17,087,788**	**15.77**	4,139	16,876,684	24.52
Dilutive effect of share options	**—**	**448,311**	**(0.41)**	—	402,348	(0.57)
Diluted earnings per share - from profit for year	**2,694**	**17,536,099**	**15.36**	4,139	17,279,032	23.95

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 2019 £'000	Audited 2018 £'000
Profit after taxation (earnings)	**2,694**	4,139
Adjustments for:		
Finance income	**(64)**	(39)
Finance expense	**1**	-
Income tax expense	**288**	444
Depreciation	**400**	411
Amortisation of development costs	**5,146**	4,745
Amortisation of acquired and purchased intangibles recognised on acquisition	**172**	155
Share-based payments	**117**	143
Adjusted EBITDA	**8,754**	9,998

7 Profit on disposal of property and investment properties

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.

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. During the period, the disposal of Burghey Brook Farm has accordingly reduced the open market value of the investment properties recognised to £3,170,000 (2018: £3,690,000).

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 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'

With effect from 1 April 2018, the Group adopted full retrospective transition approach of IFRS15 'Revenue from Contracts with Customers' which introduces a new five step approach to measuring and recognising revenue from contracts with customers. 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.

The Group performed a 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 so does not recognise future revenues within current revenue. Therefore, there is no need to restate prior year revenue recognised from contracts in the statement of comprehensive income.

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'

With effect from 1 April 2018 the Group adopted full retrospective transition approach of IFRS9 'Financial Instruments' which introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. It has replaced existing standard IAS 39 'Financial Instruments: Recognition and Measurement'.

Following a 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 net 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, there have been no material changes in any level of impairment recognised compared to that based on current procedures and, due to the Group's receivable profile at the end of the reporting period in the current and prior year and history of bad debts, there have been no material changes arising from the adoption of the expected losses impairment model or loss allowance provisions made. Therefore, there is no requirement to restate prior year balances in the consolidated statement of comprehensive income.

Impairment of financial assets

An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

(iii) IFRS 16 'Leases'
The group will adopt a modified retrospective approach of IFRS 16 'Leases' with effect from 1 April 2019. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees and introduces a single accounting model which is similar to the current account model for finance leases under IAS 17 Leases. The half-year results for the six months ended 30 September 2019 will be the first results to be produced in accordance with IFRS 16, with the first Annual Report published in accordance with IFRS 16 being for the year ending 31 March 2020.

Lessees will be required to recognise on the financial position a 'right-of-use' assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of 'right–of-use' assets and interest on lease liabilities will be charged to the income statement, replacing the corresponding operating lease rentals.

The Group has assessed the impact of the new standard. The most significant impact identified is in relation to the Group's land and buildings leases which are taken up as lessee's that will now be brought on to the balance sheet as assets and lease liabilities, along with motor vehicles and office equipment which are currently leased. The current carrying onerous lease provision would also be eliminated with the impact of the new standard. The aggregated discounted amount to be recognised as assets on the financial position is £931,000 along with a liability amount of £1,280,000. (Adjusted) EBITDA, as discussed above, sees rental costs being replaced by depreciation and the Group's rental costs for the year ended 31 March 2019 amounted to £525,000, a right-of-use depreciation impact of £543,000. IFRS16 is not anticipated to have a material effect on the Group where it is acting in its capacity as lessor.

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 2018 is based on the statutory accounts for the financial year ended 31 March 2018 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 2019 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 21 June 2019 and delivered to the Registrar of Companies following the Company's Annual General Meeting on 31 July 2019.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31 March 2019 or 2018 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 preliminary results announcement on 10 June 2019.

Glossary

5G	Fifth Generation Cellular Network Technology
API	Application Programmers Interface
EBITDA	Earnings before interest, tax, depreciation and amortisation
EU	European Union
DMR	Digital Mobile Radio
GMP	Guaranteed Minimum Pension
GPS	Global Positioning System
IAS	International Accounting Standard
IC	Integrated Circuit
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IP	Intellectual Property
M2M	Machine-to-machine
NAND	Not And
OEM	Original Equipment Manufacturer
P25	Project 25 digital mobile radio public safety standard
R&D	Research and Development
RF	Radio Frequency
RTK	Real-Time Kinematic
SATA	Serial ATA interface
SD	Secure Digital
TETRA	Terrestrial Trunked Radio
VP	Vice-President