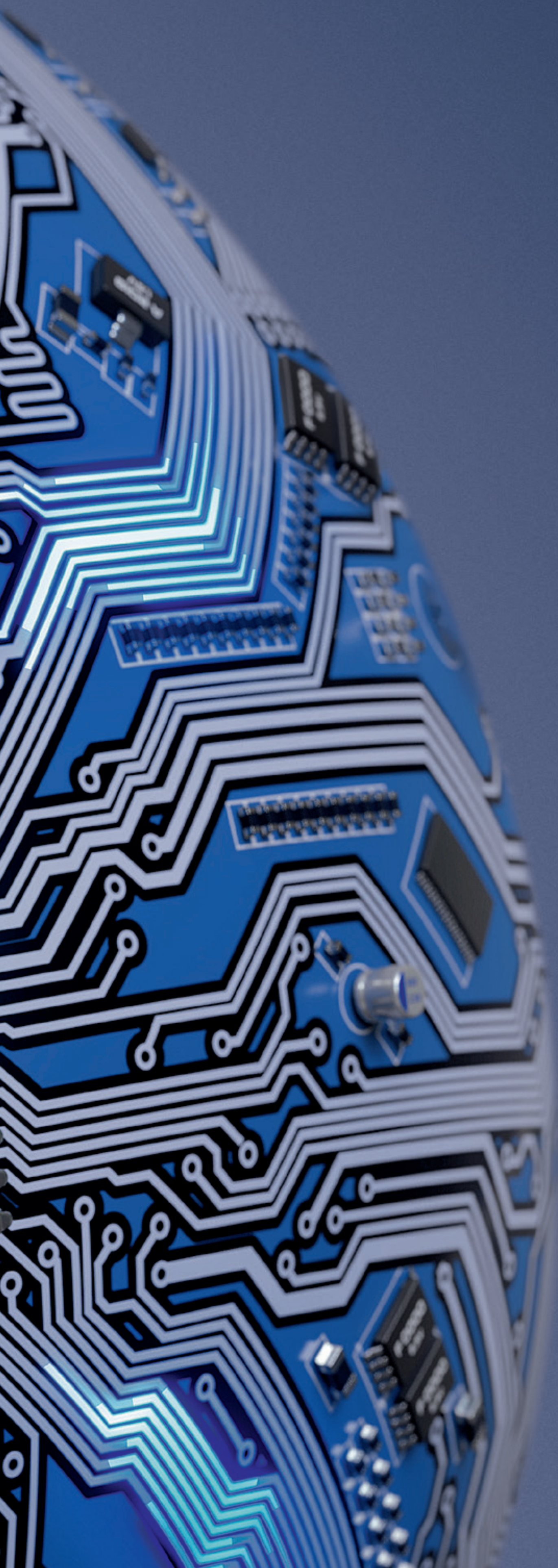
CML Microsystems Plc



Semiconductors for a connected world

Half Yearly Report

FY20

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)

13.06 -13.22%

HY FY16	11.0
HY FY17	13.04
HY FY18	16.02
HY FY19	15.05
HY FY20	**13.06**

Pre-tax profit (£m)

0.91 -61.44%

HY FY16	1.51
HY FY17	1.94
HY FY18	2.31
HY FY19	2.36
HY FY20	**0.91**

Adjusted EBITDA[1] (£m)

4.36 -15.83%

HY FY16	3.33
HY FY17	4.23
HY FY18	4.90
HY FY19	5.18
HY FY20	**4.36**

Shareholders' equity (£m)

42.69 +0.87%

HY FY18	38.40
FY18	41.77
HY FY19	43.21
FY19	42.32
HY FY20	**42.69**

Net cash (£m)

11.20 -12.57%

HY FY18	12.72
FY18	13.82
HY FY19	13.54
FY19	12.81
HY FY20	**11.20**

Basic earnings per share (p)

6.00 -52.57%

HY FY16	7.69
HY FY17	10.25
HY FY18	11.74
HY FY19	12.65
HY FY20	**6.00**

1. For definition and reconciliation see Note 10. HY FY20 includes the effects of the first time adoption of IFRS 16.

OPERATIONAL HIGHLIGHTS

- Period of stabilisation and continued R&D investment against a continuing difficult backdrop
- Sequential six-monthly order bookings a little ahead
- Shorter timescale between customer order placement and requested delivery date, a positive indicator for the Group
- Shipments into wireless Public Safety applications robust
- Storage continued to be impacted by memory market cycle and economic conflicts
- Product mix supported profitability
- Continued focus on R&D to drive long term, sustainable profitability
- Growing pipeline of opportunity

CHAIRMAN'S STATEMENT

The depth of our product portfolio, customer base and sales operation, means that our pipeline of opportunities continues to improve.

Introduction

As we entered this financial year we advised shareholders that we expected it to be a year of consolidation in tough market conditions, a sentiment that was re-iterated at the Company's AGM. The challenges, including a softening Chinese economy and the ongoing geopolitical issues, that caused the downturn in the second half of the last financial year have persisted through the period under review.

The depth and breadth of our product portfolio, customer base and sales operation, means that our pipeline of opportunities continues to improve. Our stated strategic focus of investing strongly in R&D to deliver future sales growth remains unchanged, whilst the Board continues to closely monitor our cost base, in keeping with the current macroeconomic environment.

CML benefits from a strong balance sheet and is financially robust and the Board re-iterates its belief that the current market conditions may create opportunities for the Company to develop its corporate structure further.

Results and Dividend

The financial performance of the six months to 30 September 2019 has been very similar to the second half of the prior year, albeit at improved margins reflecting product mix. Revenues for the first half dropped to £13.06m (H1 2018: £15.05m), with profit before taxation at £0.91m (H1 2018: £2.36m) and basic EPS being 6.0p (H1 2018: 12.65p). Cash at the period end was £11.20m (31 March 2019: £12.81m) despite the fall in revenues, dividend payments of £0.99m and increased investment in research and development.

The Board is recommending a maintained half year dividend of 2.0p per share (H1 2018: 2.0p per share).

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 outlook for the second half currently looks more promising than the first. Visibility has not significantly improved since the AGM statement but we believe we are at or around the bottom of the current trading cycle and see signs that lead us to expect an improving trading environment through this coming period.

We remain confident that over the longer term we have a strategy in place that will ensure we yield significant growth in revenue and profits as that occurs.

Nigel Clark
Group Non-Executive Chairman
18 November 2019

OPERATIONAL AND FINANCIAL REVIEW

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.

Introduction

The overriding sense that this year will prove to be one of stabilisation holds true. Challenging trading conditions persist but with total first half revenues flat sequentially and new order bookings across the same period a little ahead, we have not experienced any further deterioration.

Raw material supply chain lead times, that were a feature of the prior year, have eased although ongoing geopolitical issues, combined with the softening Chinese economy continue to present a difficult backdrop. Our global reach coupled with longstanding and deep customer relationships offers a level of resilience towards some of the challenges and our ability to supply and support product on three continents is an important asset.

While we are yet to experience a meaningful uplift in customer order intake, across a selection of the customer base there is a noticeable decrease in the timescale between customer order placement and the requested delivery date, suggesting that inventory levels are becoming depleted, which is a positive indicator for the Group. The Group's own temporarily higher stock levels have so far helped us react to short-term demands and we continue to maintain a flexible approach to be able to satisfy the anticipated growth in demand.

The ongoing investment in R&D is delivering an extensive pipeline of opportunity on which we expect to capitalise in the future. We continue to see greater attention paid to security features across the industry, underpinning investments made in that area and playing to our core product strengths.

Financial Review

Group revenues for the first half of the financial year totalled £13.06m representing a decline of 13% compared to the first half of the prior year (H1 2018: £15.05m). Gross margin as a percentage increased due to a favourable product mix, resulting in a 9% reduction in Gross Profit to £9.73m (H1 2018: £10.72m).

Amidst adverse market conditions, a disciplined focus on non-R&D spending helped keep distribution and administration costs relatively stable at £9.08m (H1 2018: £8.81m). This is despite higher R&D amortisation charges, inflationary measures and a lower gain on foreign currency exchange of £105k (H1 2018: £254k).

As a consequence of the reduced sales revenues, profit from operations fell to £0.99m (H1 2018: £2.19m). This figure included a contribution of £338k from 'other income' activities (H1 2018: £290k), namely a combination of rental receipts from the leasing of non-operational commercial property assets along with the sale of specific third party intellectual property that gets included and delivered as part of an overall CML solution in some instances. It is noteworthy that the prior year first half period also included a one-off gain of £222k from the sale of a property asset.

At the pre-tax level, profit amounted to £0.91m (H1 2018: £2.36m).

Cash balances at 30 September 2019 totalled £11.20m (31 March 2019: £12.81m) following payment of a £0.99m dividend in respect of the previous year and a continued high level of R&D spend in the period of £3.90m (H1 2018: £3.77m).

In keeping with the previously communicated policy to hold a raised level of inventory, in part to accommodate a reduced visibility trading environment, inventory levels were maintained at £2.86m (31 March 2019: £2.88m).

The Group, along with many other companies under IFRS GAAP, adopted the new leasing standard (IFRS 16) with effect from 1 April 2019. The overall effect has been to record operating leases (such as property, vehicle and office equipment rentals etc.) as an asset on the balance sheet as if those items had been purchased, with the corresponding lease payments recognised as a liability. The net result of these changes is negligible. Rentals are now replaced by depreciation and interest which has had little impact on net profitability, but the EBITDA calculation benefits by £0.26m for the period. Adjusted EBITDA fell to £4.36m (H1 2018: £5.18m) and, assisted by an improved tax rate, the basic earnings per share figure was 6.0p (H1 2018: 12.65p).

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

Strategy Overview

The Group's strategy today remains consistent with that previously communicated. Our business remains 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 market conditions ease.

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. Throughout the difficult trading conditions, we have continued our investment into R&D as we have no doubt that this approach will serve us best in the long run and deliver superior, sustainable returns for our shareholders. With that said, as a Board we are mindful of the ongoing conditions and continue to monitor investment levels carefully.

The Company has a proven track record of successful corporate activity and will continue to seek and evaluate appropriate opportunities to complement our organic growth.

Communications

Our strategic objectives are to grow customer share and expand the customer base through the introduction of new semiconductor products that build upon our very extensive intellectual property library with a clear focus to widen the addressable market.

Revenues from the sale of semiconductor solutions into a variety of communications sub-markets were £7.68m representing a reduction of 4% against the comparable period (H1 2018: £7.97m). In Asia, sales continue to be influenced by the protracted trade war between USA and China, impacting both regional exports and localised investment levels. On a sequential six-month basis it is pleasing to note that revenues rose 7%, from the £7.18m recorded for the second half of the prior financial year.

Shipments into wireless public safety customers were generally quite robust while the situation across a wide range of data-centric Industrial Internet of Things (IIoT) customers was mixed and biased towards customer products prioritising high performance and reliability.

Three new product releases occurred during the opening six-months of the year targeting application areas including voice privacy for access control systems, durable long-range wireless communications systems, including CubeSat products, and a fully integrated marine AIS processor IC with embedded protocol stack.

The Communications market continues to exhibit 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 and reliability requirements from terrestrial and satellite communications applications. The latter is required to meet the needs of the growing Machine-to-Machine (M2M) and IIoT sectors.

Storage

Key facets of our strategy within Storage are to expand and enhance the product range to increase the total available market whilst also enabling customers to benefit from bill-of-materials cost efficiencies linked to new flash memory technologies. This is being executed while maintaining the class-leading levels of reliability and durability that the Group's Hyperstone brand has become globally recognised for.

Across the opening six-month trading period, proceeds from the sale of Storage semiconductors continued to be impacted by the memory market cycle, inventory over build and the economic conflict between the USA and China. Accordingly, the challenges associated with this environment delivered revenue for the first half year of £5.38m (H1 2018: £7.02m) representing a comparable decline of 23%. On a sequential six-month basis sales were 9% lower.

Throughout the various markets served, telecoms infrastructure and industrial automation applications contributed to a large proportion of the sales generated, with 4G/5G infrastructure design-wins and a number of industrial SATA SSD opportunities poised to drive growth in the future. Entry into the industrial eMMC market was achieved through a key market leader who launched their first industrial eMMC solution for high-reliability applications.

The industrial data storage market has several specific areas which represent attractive growth opportunities playing to the core strengths of the business. These include applications within industrial automation, the telecoms/network infrastructure market and an increasing number of security-conscious sub-markets where the Group's proprietary technology and bespoke programming capabilities offer customers enhanced levels of security compared to competitor products.

Operational Developments

The Group has continued to perform well at an operational level with disciplined execution across a number of areas. During the first six months of the year, the Chinese parent of a large semi-conductor IC assembly house in Indonesia announced the rapid closure of one of its sites, creating a significant headache across the semiconductor industry as a whole. It is a great credit to our operations team that impact on the business was limited. Through diligent management, the increased raw material levels that we began the year with have remained constant, despite short order cycles that are commensurate with a low-visibility environment.

A new global Enterprise Resource Planning ("ERP") system that commenced live rollout in the prior calendar year has been successfully deployed and is near completion. The Group is already benefitting from efficiencies associated with running a unified system and, in light of current conditions, continues to assess and streamline activities where appropriate.

Outlook

The extended difficult trading environment remains a frustration although the business continues to execute operationally with a keen focus on converting the growing pipeline of opportunities into sustainable revenue growth. Indications from our end markets continue to suggest that we will flourish as conditions normalise and customers go to market with products based upon our expanded portfolio of semiconductor solutions. Whilst the timing of that is difficult to predict, for our customers as much as it is for ourselves, we do anticipate a clearer picture to emerge early in the new calendar year.

Our well communicated growth strategy continues to be executed upon and forward-looking actions are underway globally to improve effectiveness. An assessment of resources and capabilities to make sure each remains closely aligned with the direction of travel of the business is ongoing.

Macro-economic and geopolitical uncertainties do remain. However an increasing pipeline of opportunity coupled with continuing investment in R&D to expand the addressable markets gives the Board confidence that meaningful progress will be made as end market dynamics normalise. Management expectations are for a sequential improvement in sales revenue for the second half year in conjunction with a favourable product mix and tight cost control that were characteristics of the first six month period.

Chris Gurry

Group Managing Director

18 November 2019

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 September 2019

	Unaudited 6 months end 30/09/19 £'000	Unaudited 6 months end 30/09/18 £'000	Audited year end 31/03/19 £'000
Continuing operations			
Revenue	**13,056**	15,052	28,140
Cost of sales	**(3,326)**	(4,336)	(7,887)
Gross profit	**9,730**	10,716	20,253
Distribution and administration costs	**(9,079)**	(8,813)	(18,074)
	651	1,903	2,179
Other operating income	**338**	290	635
Profit from operations	**989**	2,193	2,814
Share-based payments	**(86)**	(81)	(117)
Profit after share-based payments	**903**	2,112	2,697
Profit on disposal of property	**—**	222	222
Finance income	**54**	22	64
Finance expense	**(50)**	—	(1)
Profit before taxation	**907**	2,356	2,982
Income tax credit/(expense)	**119**	(195)	(288)
Profit after taxation	**1,026**	2,161	2,694
Profit after taxation for period attributable to equity owners of the parent	**1,026**	2,161	2,694
Basic earnings per share			
From profit for the period	**6.00p**	12.65p	15.77p
Diluted earnings per share			
From profit for the period	**5.98p**	12.46p	15.36p
Adjusted EBITDA[1]	**4,357**	5,175	8,754

1. See Note 10 for definition and reconciliation. HY FY20 includes the effects of the first time adoption of IFRS 16.

CONDENSED CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

for the six months ended 30 September 2019

	Unaudited 6 months end 30/09/19 £'000	Unaudited 6 months end 30/09/18 £'000	Audited year end 31/03/19 £'000
Profit for the period	**1,026**	2,161	2,694
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on retirement benefit obligations	**—**	—	(1,317)
Deferred tax on actuarial loss	**—**	—	224
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	**275**	94	104
Other comprehensive income/(expense) for the period net of taxation attributable to the equity holders of the parent	**275**	94	(989)
Total comprehensive income for the period attributable to the equity holders of the parent	**1,301**	2,255	1,705

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2019

	Unaudited 30/09/19 £'000	Unaudited 30/09/18 £'000	Audited 31/03/19 £'000
Assets			
Non-current assets			
Goodwill	**9,209**	9,097	9,235
Other intangible assets	**1,676**	1,635	1,775
Development costs	**15,578**	13,710	14,495
Property, plant and equipment – owned assets	**5,129**	5,393	5,307
Property, plant and equipment – right of use assets	**973**	—	—
Investment properties	**3,170**	3,170	3,170
Investment	**83**	81	83
Deferred tax assets	**973**	1,101	908
	36,791	34,187	34,973
Current assets			
Inventories	**2,858**	2,660	2,882
Trade receivables and prepayments	**3,407**	4,149	3,430
Current tax assets	**1,152**	1,088	1,118
Cash and cash equivalents	**11,197**	13,542	13,471
	18,614	21,439	20,901
Total assets	**55,405**	55,626	55,874
Liabilities			
Current liabilities			
Bank loans and overdrafts	**—**	—	662
Trade and other payables	**3,573**	5,575	4,634
Lease liabilities	**415**	—	—
Current tax liabilities	**61**	250	77
Provision – current	**—**	194	195
	4,049	6,019	5,568
Non-current liabilities			
Deferred tax liabilities	**4,559**	4,210	4,420
Lease liabilities	**560**	—	—
Retirement benefit obligation	**3,548**	2,070	3,548
Provision – non-current	**—**	114	16
	8,667	6,394	7,984
Total liabilities	**12,716**	12,413	13,552
Net assets	**42,689**	43,213	42,322
Capital and reserves attributable to equity owners of the parent			
Share capital	**859**	857	859
Share premium	**9,279**	9,164	9,279
Capital redemption reserve	**9**	9	9
Treasury shares – own share reserve	**(328)**	(190)	(342)
Share-based payments reserve	**577**	496	507
Foreign exchange reserve	**1,681**	1,396	1,406
Accumulated profits reserve	**30,612**	31,481	30,604
Total shareholders' equity	**42,689**	43,213	42,322

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 September 2019

	Unaudited 6 months end 30/09/19 £'000	Unaudited 6 months end 30/09/18 £'000	Audited year end 31/03/19 £'000
Operating activities			
Profit for the period before taxation	**907**	2,356	2,982
Adjustments for:			
Depreciation	**205**	202	400
Depreciation – lease liabilities	**234**	—	—
Amortisation of development costs	**2,826**	2,481	5,146
Amortisation of intangibles recognised on acquisition and purchased	**103**	77	172
Profit on disposal of property, plant and equipment	**(4)**	(222)	(222)
Movement in non-cash items (pension)	**—**	—	161
Share-based payments	**86**	81	117
Movement in provision	**(70)**	(95)	(193)
Finance income	**(54)**	(22)	(64)
Finance expense	**20**	—	1
Finance expense – lease liabilities	**30**	—	—
Movement in working capital	**(722)**	(1,222)	(1,743)
Cash flows from operating activities	**3,561**	3,636	6,757
Income tax received	**137**	1	454
Net cash flows from operating activities	**3,698**	3,637	7,211
Investing activities			
Purchase of property, plant and equipment	**(24)**	(177)	(294)
Lease liability repayments	**(265)**	—	—
Investment in development costs	**(3,659)**	(3,530)	(7,169)
Proceeds from disposal of property, plant and equipment	**11**	750	750
Investment in intangibles	**(11)**	(159)	(368)
Investment in loan note	**(325)**	—	—
Finance income	**54**	22	64
Finance expense	**(20)**	—	(1)
Finance expense – lease liabilities	**(30)**	—	—
Net cash flows used in investing activities	**(4,269)**	(3,094)	(7,018)
Financing activities			
Issue of ordinary shares	**—**	97	214
Purchase of own shares for treasury	**—**	—	(152)
Dividends paid to shareholders	**(990)**	(990)	(1,332)
Net cash flows used in financing activities	**(990)**	(893)	(1,270)
Decrease in cash and cash equivalents	**(1,561)**	(350)	(1,077)
Movement in cash and cash equivalents:			
At start of period/year	**12,809**	13,816	13,816
Decrease in cash and cash equivalents	**(1,561)**	(350)	(1,077)
Effects of exchange rate changes	**(51)**	76	70
At end of period	**11,197**	13,542	12,809

Cash flows presented exclude sales taxes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2019

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 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
Profit for period							533	533
Other comprehensive income net of taxes								
Foreign exchange differences						10		10
Net actuarial loss on retirement benefit obligation							(1,317)	(1,317)
Deferred tax movement on actuarial loss							224	224
Total comprehensive income for the period	—	—	—	—	—	10	(560)	(550)
Transactions with owners in their capacity as owners								
Issue of ordinary shares	2	115						117
Purchase of own shares for treasury				(152)				(152)
Dividend paid							(342)	(342)
Total of transactions with owners in their capacity as owners	2	115	—	(152)	—	—	(342)	(377)
Share-based payments					36			36
Cancellation/exercise of share-based payments					(25)		25	—
At 31 March 2019	859	9,279	9	(342)	507	1,406	30,604	42,322

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 2019	859	9,279	9	(342)	507	1,406	30,604	42,322
Change in accounting policy (IFRS 16 – see Note 9)							(30)	(30)
At 31 March 2019 (as restated)	859	9,279	9	(342)	507	1,406	30,574	42,292
Profit for period							**1,026**	**1,026**
Other comprehensive income net of taxes								
Foreign exchange differences						**275**		**275**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**275**	**1,026**	**1,301**
Transactions with owners in their capacity as owners								
Dividend paid							**(990)**	**(990)**
Use of own shares for treasury				**14**			**(14)**	**—**
Total of transactions with owners in their capacity as owners	**—**	**—**	**—**	**14**	**—**	**—**	**(1,004)**	**(990)**
Share-based payments					**86**			**86**
Cancellation/exercise of share-based payments					**(16)**		**16**	**—**
At 30 September 2019	**859**	**9,279**	**9**	**(328)**	**577**	**1,681**	**30,612**	**42,689**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30 September 2019

1 Segmental analysis

Information about revenue, profit/loss, assets and liabilities

	Unaudited 6 months end 30/09/19		Unaudited 6 months end 30/09/18		Audited year end 31/03/19	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Total segmental revenue	**13,056**	**13,056**	15,052	15,052	28,140	28,140
Profit						
Segmental result	**903**	**903**	2,112	2,112	2,697	2,697
Finance income		**54**		22		64
Finance expense		**(20)**		—		(1)
Finance expense – lease liabilities		**(30)**		—		—
Profit on disposal of property		**—**		222		222
Income tax credit/(expense)		**119**		(195)		(288)
Profit after taxation		**1,026**		2,161		2,694
Assets and liabilities						
Segmental assets	**50,110**	**50,110**	50,267	50,267	50,678	50,678
Unallocated corporate assets						
Investment properties		**3,170**		3,170		3,170
Deferred tax assets		**973**		1,101		908
Current tax assets		**1,152**		1,088		1,118
Consolidated total assets		**55,405**		55,626		55,874
Segmental liabilities	**4,548**	**4,548**	5,883	5,883	5,507	5,507
Unallocated corporate liabilities						
Deferred tax liabilities		**4,559**		4,210		4,420
Current tax liabilities		**61**		250		77
Retirement benefit obligation		**3,548**		2,070		3,548
Consolidated total liabilities		**12,716**		12,413		13,552

Other segmental information

	Unaudited 6 months end 30/09/19		Unaudited 6 months end 30/09/18		Audited year end 31/03/19	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**24**	**24**	177	177	294	294
Development cost additions	**3,659**	**3,659**	3,530	3,530	7,169	7,169
Intangible asset additions	**11**	**11**	159	159	368	368
Depreciation	**205**	**205**	202	202	400	400
Depreciation – lease liabilities	**234**	**234**	—	—	—	—
Amortisation of development costs	**2,826**	**2,826**	2,481	2,481	5,146	5,146
Amortisation of acquired and purchased intangibles	**103**	**103**	77	77	172	172
Other non-cash expenditure (pension)	**—**	**—**	—	—	(161)	(161)

Geographical segments

Unaudited	**UK £'000**	**Rest of Europe £'000**	**Americas £'000**	**Far East £'000**	**Total £'000**
Six months ended 30 September 2019					
Revenue to third parties	**3,965**	**2,521**	**2,671**	**3,899**	**13,056**
Property, plant and equipment	**4,813**	**223**	**59**	**34**	**5,129**
Property, plant and equipment – right of use assets	**144**	**87**	**582**	**160**	**973**
Investment properties	**3,170**	**—**	**—**	**—**	**3,170**
Development costs	**6,152**	**9,426**	**—**	**—**	**15,578**
Intangible assets – software	**601**	**—**	**—**	**—**	**601**
Goodwill	**—**	**3,512**	**—**	**5,697**	**9,209**
Other intangible assets arising on acquisition	**—**	**—**	**—**	**1,075**	**1,075**
Total assets	**24,137**	**16,100**	**2,423**	**12,745**	**55,405**

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	—	—	—	1,084	1,084
Total assets	24,837	16,497	2,149	12,143	55,626

Audited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2019					
Revenue to third parties	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
Intangible assets – software	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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the six months ended 30 September 2019

1 Segmental analysis continued
Revenue

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

	Unaudited 6 months end 30/09/19 £'000	Unaudited 6 months end 30/09/18 £'000	Audited year end 31/03/19 £'000
Europe	**3,984**	3,890	7,201
Far East	**6,187**	7,940	15,348
Americas	**2,682**	3,068	5,251
Other	**203**	154	340
	13,056	15,052	28,140

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 2019, payable on 13 December 2019 to shareholders on the Register on 29 November 2019.

A final dividend of 5.8p per 5p ordinary share was paid on 5 August 2019 and an interim dividend of 2.0p per 5p ordinary share was paid on 14 December 2018, totalling 7.8p per 5p ordinary share paid for the year ended 31 March 2019 (2018: 7.8p per 5p ordinary share in respect of the year ended 31 March 2018).

3 Income tax (credit)/expense

	Unaudited 6 months end 30/09/19 £'000	Unaudited 6 months end 30/09/18 £'000	Audited year end 31/03/19 £'000
UK income tax credit	**(256)**	(300)	(718)
Overseas income tax (credit)/charge	**(83)**	296	96
Total current tax credit	**(339)**	(4)	(622)
Deferred tax charge	**220**	199	910
Reported income tax (credit)/expense	**(119)**	195	288

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 30/09/19	Unaudited 6 months end 30/09/18	Audited year end 31/03/19
Basic earnings per share			
From profit for the period	**6.00p**	12.65p	15.77p
Diluted earnings per share			
From profit for the period	**5.98p**	12.46p	15.36p

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 2019	**17,075,166**	**17,152,397**
Six months ended 30 September 2018	17,084,130	17,342,440
Year ended 31 March 2019	17,087,788	17,536,099

5 Investment properties

Investment properties are measured at fair value and are revalued annually by the Directors and in every third year by independent Chartered Surveyors on an open market basis. No depreciation is provided on freehold investment properties or on leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. No formal market valuation was conducted in the half year.

During the prior (half) year, the Company disposed of some surplus land for a consideration of £750,000, previously held with a carrying value of £520,000 by the Company, and before incidental transaction costs. The disposal of this surplus land accordingly reduced the open market value of the investment properties recognised to £3,170,000 (2018: £3,690,000).

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 2019 and should be read in conjunction with the FY19 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;
- 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the six months ended 30 September 2019

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 2019 financial statements with the exception of the adoption of IFRS 16 Leases. The impact of the adoption of this standard is set out below:

IFRS 16 Leases
The Group has adopted IFRS 16 Leases for the financial year ending 31 March 2020, and it has chosen to use a modified retrospective approach to adoption. The approach adopted does not require the restatement of prior year figures. As a result of the fact the right-of-use assets are measured based on the lease commencement date compared to the lease liabilities being calculated based on the initial application date, there is an adjustment to brought forward reserves as shown in the condensed consolidated statement of changes in equity. The Group have also applied the practical expedient of using the incremental borrowing rate as at the date of initial application, instead of at the lease commencement date.

IFRS 16 eliminates the distinction of classification of leases as either operating or finance leases for lessees in financial accounting terms and introduces a single accounting model which is similar to the accounting model for finance leases under IAS 17 Leases. These half-year results are the first results to be produced in accordance with IFRS 16, with the first Annual Report and Accounts published in accordance with IFRS 16 to be for the year ending 31 March 2020.

Under the IFRS 16 single lessee accounting model, the Group recognises a lease liability and a 'right-of-use' asset at 1 April 2019 on the consolidated statement of financial position for leases previously classified as operating leases. Within the consolidated income statement, rental expense is replaced by depreciation and interest expense with the permitted exception of:

- leases of low value assets; and
- leases with duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease, whether specified or calculable, unless this is not readily determinable, in which case the Group has applied a notional discount rate of 7% for motor vehicles and 4% for office rentals.

When the Group revises its estimate of the term of any lease (for example, it reassesses the probability of a lessee extension or termination option), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same rate discount rate to that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

The most significant impact of the adoption of the standard is in relation to the Group's land and buildings leases (as lessee) which are recognised as 'right-of-use' assets and lease liabilities within the consolidated statement of financial position, together with motor vehicles and office equipment which are also leased in the normal course of business and also shown as 'right-of-use' assets under IFRS 16.

As a result of the transition to IFRS 16, the following adjustments were recognised as at 1 April 2019: recognition of right-of-use assets of £960,000 and recognition of lease liabilities of £1,201,000. The group's onerous lease provision of £211,000, previously disclosed as a provision within the consolidated statement of financial position, has been reflected as an impairment to the right-of-use assets on transition to IFRS 16. An adjustment has also been made to the accumulated profit reserve on transition of £30,000.

At 30 September 2019, the following amounts are recognised in the statement of financial position: 'right-of-use' assets of £973,000 along with a liability amount of £975,000. Adjusted EBITDA, as discussed above, sees rental costs being replaced by depreciation and interest (see Note 10). For further reference, the Group's rental costs for the half year ended 30 September 2019 would have amounted to £262,000 under IAS17 and the right-of-use depreciation impact under IFRS 16 is £234,000.

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 and includes the effects of the first time adoption of IFRS 16 in the current half year period under the modified retrospective approach (see Note 9):

	Unaudited 6 months end 30/09/19 £'000	Unaudited 6 months end 30/09/18 £'000	Audited year end 31/03/19 £'000
Profit after taxation (earnings)	**1,026**	2,161	2,694
Adjustments for:			
Finance income	**(54)**	(22)	(64)
Finance expense	**20**	—	1
Finance expense – lease liabilities	**30**	—	—
Income tax (credit)/expense	**(119)**	195	288
Depreciation	**205**	202	400
Depreciation – lease liabilities	**234**	—	—
Amortisation of development costs	**2,826**	2,481	5,146
Amortisation of intangibles of purchased and acquired intangibles recognised on acquisition	**103**	77	172
Share-based payments	**86**	81	117
Adjusted EBITDA	**4,357**	5,175	8,754

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 2019.

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 2019 is based on the statutory accounts for the financial year ended 31 March 2019 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 18 November 2019.

GLOSSARY

AIS	Automatic Identification System
DTR	Disclosure and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
eMMC	Embedded Multimedia Card
EU	European Union
FY	Full Year
GAAP	Generally Accepted Accounting Principles
H1	First Half (Financial Year)
IAS	International Accounting Standards
IC	Integrated Circuit
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IP	Intellectual Property
M2M	Machine-to-Machine
R&D	Research and Development
SATA	Serial ATA Interface
SSD	Solid State Drive

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lyonsbennett
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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