CML Microsystems Plc

semiconductors for a connected world

Preliminary results for the year ended
31 March 2020

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for the year ended 31 March 2020

CHAIRMAN'S STATEMENT

Introduction

As I look back over the year, I take pride in the resilience of the Group; its people, operational structure and balance sheet strength. We entered the year faced with the ongoing market-wide challenges of extended raw material supply times and the US/China trade war, and we closed the year facing the unprecedented challenge presented by COVID-19. However, against this backdrop, the Group has delivered a year of stabilisation. While COVID-19 may impact a return to growth in the short term, the depth and quality of our product portfolio, the breadth of our customer base and the strength of our extended sales operation mean the long-term opportunity for the Company is undiminished.

Results and dividend

Revenues for the year fell by 6.1% to £26.42m (2019: £28.14m). With costs of £0.7m relating to M&A activities and restructuring announced in November 2019, profit before taxation fell by 54% to £1.37m (2019: £2.98m) and basic EPS by 43% to 8.98p (2019: 15.77p). Net cash at the year end was £8.48m, a drop of £4.33m (2019:£12.81m), reflecting record R&D investment, the acquisition of PRFI and two dividend payments totalling £1.33m.

The Group continues to benefit from a strong balance sheet with a healthy net cash position and operating cash generation. The Board remains committed to its dividend policy of being progressive in line with revenues and profitability. Despite the ongoing uncertainty caused by the COVID-19 pandemic, the Board is confident in the Group's ability to continue to generate cash underpinned by a robust balance sheet. As such, the Board has recommended a final dividend of 2.0p per ordinary 5p share, equating to a total for the year of 4.0p (2019: 7.8p). If approved, this will be paid on 7 August 2020 to shareholders whose names appear on the register at close of business 24 July 2020.

Strengthened operational structure

This has been a year of significant strategic activity across the Group, to ensure our resources and capabilities are closely aligned with our ambitions. This activity has resulted in global operational changes that will improve our effectiveness and efficiency as we enter the next financial year and help accelerate delivery of the business strategy. The acquisition of Cambridge-based specialist design house, Plextek RFI Ltd (**"PRFI"**), in March 2020 was another important element of this activity, complementing our plans for expansion within the Communications markets.

COVID-19

Our primary focus since January has been the welfare of our teams around the world in the face of the COVID-19 pandemic. We have closed locations in a timely manner as government legislation has required us to do so, and only maintained production activity where it has been deemed possible to achieve within government safety guidelines. At this time, our China operations based in Wuxi and Shanghai are once again fully operational, in line with all relevant government safeguarding legislation. Travel restrictions within China are gradually being lifted. We have maintained a reduced production team at our UK operations, with all office-based staff working remotely. We have had no requirement to furlough any staff. Supply chain disruptions to date are minimal and of a short-term nature.

Given the nature of the professional markets in which we operate, we anticipate our end customers being insulated from a consumer downturn to some extent, although the roll-out of some new products may be delayed, dampening demand for our semiconductors. Our current order book is strong, however it is not yet clear as to whether this will be a long-term trend or reflects a precautionary increase in inventory by our customers.

Employees

The positive response by our teams to the changes we have been required to implement to our working practices has been very supportive. Once again, the CML teams across the world have proven their resilience and dedication, for which we, the Board, are extremely grateful. They have continued to work tirelessly under difficult circumstances and their dedication both to CML and our customers has not wavered. While many of us have not been able to meet our new colleagues from PRFI face to face, they have integrated well and we have enjoyed welcoming them into the Group. As we continue to face the challenges of COVID-19, we do so with the support of a dedicated, talented team around the world.

Our Company has a rich culture having been in operation for over 50 years, which runs through all of our operations and with a combined sense of purpose is evident in every facet of our business.

The Board

As announced in November 2019, our CFO Neil Pritchard resigned to pursue other business opportunities and the Board would like to thank him for his service to the Company. Having previously held the position of Group CFO, I re-assumed the role on an interim basis until such time as we are able to commence a full recruitment process, which at this stage we anticipate will be in the second half of the current financial year. In the meantime, I have stepped off the Audit Committee until such time as a replacement CFO has been recruited.

Prospects and outlook

Clearly these are difficult times with a global pandemic, geo-political trade issues and Brexit looming but, as a Board, even in these difficult times, we still maintain the belief that the Group is well placed to move positively forward in the medium to long term. This belief is underpinned by a strong balance sheet and no debt, coupled with a sound product portfolio that addresses markets that have a positive outlook. The strategy in place, when eventually these current global uncertainties and negative influences subside, should mean, we are well placed to return a meaningful uplift in the Group's performance.

Nigel Clark
Group Non-Executive Chairman

OPERATIONAL AND FINANCIAL REVIEW

Introduction

As we entered into the 2019/2020 financial year our strong belief was that it would prove to be a year of stabilisation, following previous periods of inventory correction, raw material constraints and political headwinds. I'm pleased to report that despite the highly challenging conditions, including the COVID-19 pandemic, this has proved to be the case. The first half of the financial year confirmed our view that there was no further deterioration in our end markets with sequential six-monthly order bookings a little ahead. A shortening of the timescale between customer order placement and requested delivery date was also evidenced, which is another good indicator for our business.

Following the interim results announcement in November 2019, order intake was improving before the outbreak of the coronavirus hampered this progress as companies, firstly in China and then globally, initiated their business continuity processes. Nevertheless, overall revenues for the second half were similar to those of the first half.

During the course of the year we have continually assessed the resources and capabilities within CML to ensure that they are aligned with the direction of travel for our business and a number of operational changes have been made which will improve our effectiveness and efficiency. These follow the investments made in previous periods to broaden and augment our sales reach, which have improved our pipeline of opportunities. In tandem with this, in March we acquired Plextek RFI Ltd ("PRFI") a UK based design house specialising in the design and development of RF, Microwave and Millimetre-wave (mm-wave) ICs and modules. PRFI's design expertise expands upon the Group's existing skills and provides a new independent services and consulting income stream for CML. Most of the costs associated with these operational changes and corporate activities have been recognised in this year under review, which impacted pre-tax profits for the year.

Financial review

Total revenues for the year fell by 6.1% to £26.42m (2019: £28.14m) including a small one month contribution (£0.06m) from the acquisition of PRFI Limited during March 2020. At the gross profit level, an improved margin helped reduce the decline to just over 3%, delivering a gross profit of £19.57m (2019: £20.25m).

Geographically, the Far East region was the single largest contributor to the overall drop in sales, delivering a reduction of £2.17m (16%) and exceeding the overall Group revenue drop of £1.72m. The remaining regions either grew or were robust by comparison. The Far East accounted for 50% of Group revenues with sales into Europe, the Americas and Others representing 30%, 19% and 1% of Group revenues respectively.

Distribution and administration costs increased to £18.75m (2019: £18.07m) driven by abnormal costs of £0.7m and higher R&D amortisation charges. These abnormal costs result from a combination of M&A activities, one of which resulted in the acquisition of PRFI Ltd, along with global restructuring expenses that were incurred following completion of an assessment of the Group's resources and capabilities, first communicated to the market in November 2019.

Total R&D spend for the year rose slightly to £8.46m (2019: £8.24m) with associated amortisation of development costs climbing £0.56m to £5.71m (2019: £5.15m).

The Group operated a tight cost control policy throughout the year under review and aside from non-recurring expenses and the increased R&D spend, underlying costs were relatively stable.

The Group recorded a small loss of £0.05m from foreign currency exchange compared to a gain of £0.26m in the prior year although continues to have a somewhat natural hedge at the gross profit line in respect of foreign currency exposure, given that the majority of both revenues and raw material costs are US Dollar denominated.

Other operating income for the year amounted to £0.69m (2019: £0.64m) and was a result of rental income obtained from ex-operational property assets, grant income received from R&D activities and an element of profit on third-party product re-sales.

Profit from operations fell by 44% to £1.50m (2019: £2.81m).

After adjusting for the combined effects of share-based payments and finance income, a profit before taxation figure of £1.37m was achieved (2019: £2.98m) which included a small loss of £0.02m from newly acquired PRFI Ltd.

An income tax credit of £0.16m was recorded for the year against a charge of £0.29m in the preceding year reflecting lower profitability for the year and the ongoing benefit of UK R&D tax credits. Profit after tax was £1.54m (2019: £2.69m).

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 shows the depreciation for these 'right-of-use' assets as an additional add-back adjustment of £0.46m for the period. Adjusted EBITDA was £8.27m (2019: £8.75m) and assisted by an improved tax rate, the basic earnings per share figure recorded was 8.98p (2019: 15.77p).

Cash management across the Group remained an important focus area throughout the year. Net cash reserves at 31 March 2020 stood at £8.48m (31 March 2019: £12.81m) following record R&D investment, the acquisition of PRFI and two dividend payments totalling £1.33m; being the final payment for the FY19 financial year (£0.99m) and an interim payment in respect of FY20 (£0.34m).

Overall inventory levels at the financial year end were 17% lower than the beginning of the year at £2.39m (2019: £2.88m) with finished goods stocks in particular at very low levels. The policy that the Group had in place to mitigate certain supply chain difficulties helped react promptly to the improving order intake that was seen as we entered the current calendar year

The pension deficit associated with the Group's historic final salary scheme, as calculated under IAS 19, increased to £4.70m (2019: £3.55m). The assets of the scheme fell to £19.18m (2019: £20.63m) with the present value of funded obligations reducing to £23.87m (2019: £24.18m). The main reasons for the increased deficit in the IAS 19 accounting position relate to (i) changes in the assumptions in using a lower discount rate due to the fall in corporate bond yields at the period end; and (ii) the Scheme's investments return was lower than the IAS 19 mandated increase in the obligation over the year.

Separately from the IAS 19 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 2019 which, when viewed as a continuing scheme, showed a net surplus of £3.15m (31 March 2018: £3.17m). The report further stated that the scheme assets remained sufficient to cover 118% of the benefits accrued to members, after allowing for future increases in these benefits.

COVID-19

The welfare and safety of our employees has been of paramount importance throughout the pandemic and remains a priority. Our China-based operations were the first to be affected in January and we were swift to implement the necessary precautions and measures in line with guidance and were able to supply our workforce there with personal protective equipment that was scarce locally. Our experience in China helped us as we implemented similar processes throughout our operations as the virus spread, again in line with all local guidance.

Due to the nature of our work, our facilities, and indeed those of our key suppliers, are clean and manufacturing facilities need to meet strict hygiene regulations, with access limited to the workforce. As at the time of publication of this report, our operations are fully functional, albeit through a change in working methodologies and it is comforting to note that we have had no confirmed incidences of COVID-19 related ill health. Travel restrictions, both within individual countries as well as internationally, affect our sales teams' ability to mobilise and physically meet with customers but they have reacted well to remote working.

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. This has served us particularly well recently as geo-political issues have made international trade between certain countries more difficult. Rather than sourcing locally produced goods as potential replacements, the evidence is that customers are insisting on our products due to their proven quality and reliability.

R&D remains 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 acquisition of PRFI was a further example of our desire to add businesses which can help us achieve our strategic goals and complement our organic growth. The Company has a proven track record of successful corporate activity and will continue to seek and evaluate appropriate opportunities.

Communications

Our strategy within the Communications market is to grow revenues through wider customer engagement and drive a larger serviceable market from an expanded semiconductor product range that builds upon an extensive intellectual property library.

The Group has been a key component supplier to major blue chip OEMs within numerous sub-sectors of the global Communications market for a number of decades. Product functionality over time has evolved from tone switches and decoders through to signal processing solutions, baseband processors and integrated modem solutions for a variety of dedicated industrial wireless networks around the world.

The feature sets of those products are generally radio frequency (“RF”) agnostic, but over the last ten years or so, significant investments have been made into engineering skills and associated R&D activities to introduce a range of RF components. The resulting combined chip-sets now cover customer functionality needs from the antenna through to the microprocessor of choice. Initial product releases focussed on operating frequency bands below 1GHz, while more recently the range has been extended to encompass frequencies up to 3.6GHz.

Sales revenues from applications within the Communications sector were slightly down year on year and amounted to £15.00m (2019: £15.14m). 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. Revenues from the Americas and Europe posted good gains but were unable to make up a significant shortfall from the Far East customer base. Continued uncertainty over the trade war with the USA remains, including expectations that phase two of a trade agreement will not be in place ahead of the US elections in the autumn. This is still impacting government spending on some local infrastructure projects, such as railway and power, whilst customers in surrounding countries who depend upon exports into China are also affected.

Five new products were released across the year targeted at a number of communications sub-markets including satellite communications, wireless power telemetry networks and marine collision avoidance. Associated demonstration and development platforms were also released, including the Group’s first

Raspberry Pi platform bringing the advanced features of the CMX655D audio codec, launched during the prior year, to the Raspberry Pi community. The Raspberry Pi is a series of small single-board computers originally developed in the United Kingdom by the Raspberry Pi Foundation to promote teaching of basic computer science in schools and in developing countries. As time has progressed, alongside traditional educational use, more serious industrial and commercial uses are foreseen making it a viable solution for "IIoT" applications.

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

The focus within the Storage market sector has been on expanding our product portfolio to include all major interface standards used within the target industrial end-markets and to ensure interoperation with all relevant third-party Flash Memory devices from a number of leading global suppliers. This enables customers to benefit from bill-of-materials cost efficiencies linked to new flash technologies.

Over the last few years, the product portfolio has transitioned from a narrow "Controller" product portfolio with only CompactFlash as the available interface, to an enlarged product range that now also includes USB, SD, SATA & MMC interface technologies. An associated proprietary Application Programmers Interface ("API") enables customers to either develop or "port" their own solutions to the Group's standard Controller solutions and benefit from the class-leading levels of reliability and durability that the Group's Hyperstone brand is becoming increasingly recognised for globally.

Storage revenue for the majority of the year continued to feel the combined effects of customer inventory over build and the economic trade conflict between the USA and China. The challenges associated with this environment resulted in a revenue decline of 11% for the year as a whole to £11.42m (2019: £12.94m). That said, sales in the six months to March 31 2020 were up 12% sequentially following a stronger period of order bookings and subsequent shipments during the closing months of the year. As with the Communications sector, uncertainties persist around US-China trade relations but, encouragingly, there are one or two end application areas that are bucking the trend.

At the interim stage, we reported that 4G/5G infrastructure design wins and a number of industrial SATA SSD opportunities were poised to drive growth in the future. It is therefore pleasing to report that at the turn of the calendar year the situation began to improve, evidenced by increased order bookings and subsequent shipments related to a number of prior design wins in multi-year growth application areas, including 5G infrastructure and data security for point of sale applications.

In November 2019 we announced mass production availability of the X1 SATA3 controller following its sampling availability in the early part of the calendar year. The product has subsequently achieved design-in status across a number of major industrial customers with several customer designs ongoing including mSATA and CFAST industrial form factors. Three new products were released over the period, targeted at specific Compact-Flash and USB host interface variants. Several new API customers were secured and the evolution of the hyMap firmware continued, specifically related to functionality and flash memory compatibility which are essential factors in the success of the complete controller product range. Advanced health monitoring and SMART tools were also developed to optimise Controller solutions for specific applications and ensure fail safe operation.

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.

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. For Communications markets this equates to more product opportunities through higher speed requirements, enhanced error correction techniques and operation at higher radio frequencies where wider RF channels are permitted. Within industrial Storage markets, the transition to solid state technology from hard disk drives is well and truly underway at a time when our product portfolio has expanded, positioning the business well to capture share over time.

Operational developments

The performance of the business at an operational level has been particularly encouraging given the environment created by the COVID-19 pandemic. A new global Enterprise Resource Planning ("ERP") system that commenced live rollout in the prior calendar year has been successfully deployed throughout the Group with the exception of the China operations due to travel restrictions associated with COVID-19. That aside, the Group benefited from the efficiencies associated with running a unified system during the year.

The Group has continued to perform well at an operational level with disciplined execution across a number of areas. The operations team overcame several challenges associated with a combination of temporary and permanent supplier factory closures across the year and it is a great credit to our operations team that impact on the business was limited.

The investments made in sales and marketing capabilities during prior years has helped to increase the pipeline of opportunities and improved our overall reach and routes to market. As a consequence, further enhancements and efficiencies were made to the sales channels over the last year, resulting in the appointment of additional distribution partners in the USA, the consolidation of existing sales channels within Europe and the closing of our own warehousing facility in North America.

We periodically assess the wider resource levels and capabilities within the Group to ensure that they reflect the direction of travel on which the Group is heading. As a result, various changes have been made during the year, touching operations in the UK, Asia and the Americas. The resulting structure and associated capability mix positions us well for growth

Outlook

There is no hiding from the fact that the year under review has been difficult, and the current environment is delaying realisation of the benefits to come from the hard work taking place behind the scenes.

The current financial year did commence with a healthier order book than the prior year, although it remains to be seen how this translates to actual market consumption as there may be an element attributable to COVID-19 related supply concerns amongst the customer base.

Nevertheless, following the operational adjustments made across the prior year, the business is tuned to react swiftly to a revival in demand and the Board remain convinced that a return to growth will be secured as conditions improve.

Chris Gurry
Group Managing Director

Preliminary results
for the year ended 31 March 2020

Consolidated income statement for the year ended 31 March 2020

	Notes	**Unaudited 2020 £'000**	Audited 2019 £'000
Continuing operations			
Revenue	1,2	**26,420**	28,140
Cost of sales		**(6,855)**	(7,887)
Gross profit		**19,565**	20,253
Distribution and administration costs		**(18,762)**	(18,074)
		803	2,179
Other operating income		**689**	635
Profit from operations		**1,492**	2,814
Share-based payments		**(139)**	(117)
Profit after share-based payments		**1,353**	2,697
Profit on disposal of property	7	**-**	222
Profit on disposal of property, plant and equipment		**11**	-
Finance income		**106**	64
Finance expense		**(96)**	(1)
Profit before taxation		**1,374**	2,982
Income tax credit / (expense)	4	**162**	(288)
Profit after taxation		**1,536**	2,694
Profit after taxation attributable to equity owners of the parent		**1,536**	2,694
Basic earnings per share			
From profit for year	5	**8.98p**	15.77p
Diluted earnings per share			
From profit for year	5	**8.94p**	15.36p

Adjusted EBITDA			
Adjusted EBITDA for year	6	**8,276**	8,754

Consolidated statement of total comprehensive income for the year ended 31 March 2020

	Unaudited 2020 £'000	**Unaudited 2020 £'000**	Audited 2019 £'000	Audited 2019 £'000
Profit for the year		**1,536**		2,694
Other comprehensive (expense)/income:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial loss on retirement benefit obligations	**(995)**		(1,317)	
Deferred tax on actuarial loss	**187**		224	
Items reclassified subsequently to profit or loss upon derecognition:				
Foreign exchange differences	**308**		104	
Other comprehensive expense for the year net of taxation attributable to equity owners of the parent		**(500)**		(989)
Total comprehensive income for the year attributable to the equity owners of the parent		**1,036**		1,705

Preliminary results
for the year ended 31 March 2020

Consolidated statement of financial position as at 31 March 2020

	Unaudited 2020 £'000	**Unaudited 2020 £'000**	Audited 2019 £'000	Audited 2019 £'000
Assets				
Non-current assets				
Goodwill		**10,741**		9,235
Other intangible assets		**1,823**		1,775
Development costs		**16,930**		14,495
Property, plant and equipment		**4,976**		5,307
Right-of-use assets		**1,184**		-
Investment properties		**3,170**		3,170
Investments		**83**		83
Deferred tax assets		**1,343**		908
		40,250		34,973
Current assets				
Inventories	**2,390**		2,882	
Trade receivables and prepayments	**5,075**		3,430	
Current tax assets	**1,044**		1,118	
Cash and cash equivalents	**8,479**		13,471	
		16,988		20,901
Total assets		**57,238**		55,874
Liabilities				
Current liabilities				
Bank loans and overdrafts		**-**		662
Trade and other payables		**4,036**		4,634
Lease liabilities		**502**		-
Current tax liabilities		**85**		77
Provisions – current		**-**		195
		4,623		5,568
Non-current liabilities				
Deferred tax liabilities	**4,960**		4,420	
Lease liabilities	**568**		-	
Retirement benefit obligation	**4,697**		3,548	
Provisions – non current	**-**		16	
		10,225		7,984
Total liabilities		**14,848**		13,552
Net assets		**42,390**		42,322
Capital and reserves attributable to equity owners of the parent				
Share capital		**859**		859
Share premium		**9,286**		9,279
Capital redemption reserve		**9**		9
Treasury shares – own share reserve		**(80)**		(342)
Share-based payments reserve		**582**		507
Foreign exchange reserve		**1,714**		1,406
Accumulated profits reserve		**30,020**		30,604
Total shareholders' equity		**42,390**		42,322

Consolidated cash flow statement for the year ended 31 March 2020

	Unaudited 2020 £'000	Audited 2019 £'000
Operating activities		
Profit for the year before taxation	**1,374**	2,982
Adjustments for:		
Depreciation – on property, plant and equipment	**397**	400
Depreciation – on right-of-use assets	**456**	-
Amortisation of development costs	**5,708**	5,146
Amortisation of intangibles recognised on acquisition and purchased	**212**	172
Profit on disposal of property, plant and equipment	**(5)**	(222)
Movement in non-cash items (pension)	**154**	161
Share-based payments	**139**	117
Movement in provisions	**-**	(193)
Finance income	**(106)**	(64)
Finance expense	**96**	1
Movement in working capital	**(1,868)**	(1,743)
Cash flows from operating activities	**6,557**	6,757
Income tax received	**526**	454
Net cash flows from operating activities	**7,083**	7,211
Investing activities		
Acquisition of subsidiary, net of cash acquired	**(1,295)**	-
Purchase of property, plant and equipment	**(57)**	(294)
Lease liability repayments	**(682)**	-
Investment in development costs	**(7,936)**	(7,169)
Investment in intangibles	**(28)**	(368)
Investment in loan note	**(323)**	-
Proceeds from disposal of property	**11**	750
Finance income	**106**	64
Finance expense	**(34)**	(1)
Net cash flows used in investing activities	**(10,238)**	(7,018)
Financing activities		
Issue of ordinary shares	**7**	214
Purchase of own shares for treasury	**-**	(152)
Dividends paid to shareholders	**(1,332)**	(1,332)
Net cash flows used in financing activities	**(1,325)**	(1,270)
Decrease in cash and cash equivalents	**(4,480)**	(1,077)
Movement in cash and cash equivalents:		
At start of year	**12,809**	13,816
Decrease in cash and cash equivalents	**(4,480)**	(1,077)
Effects of exchange rate changes	**150**	70
At end of year	**8,479**	12,809

Cash flows presented exclude sales taxes.

Consolidated statement of changes in equity for the year ended 31 March 2020

	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 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 – audited	**859**	**9,279**	**9**	**(342)**	**507**	**1,406**	**30,604**	**42,322**
Changes in accounting policy- IFRS 16							**(30)**	**(30)**
Restated at 31 March 2019	859	9,279	9	(342)	507	1,406	**30,574**	**42,292**
Profit for year							**1,536**	**1,536**
Other comprehensive income								
Foreign exchange differences						**308**		**308**
Net actuarial gain recognised directly to equity on retirement benefit obligations							**(995)**	**(995)**
Deferred tax on actuarial gain							**187**	**187**
Total comprehensive income for year	**-**	**-**	**-**	**-**	**-**	**308**	**728**	**1,036**
	859	**9,279**	**9**	**(342)**	**507**	**1,714**	**31,302**	**43,328**
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options		**7**						**7**
Purchase of own shares - treasury				**262**			**(14)**	**248**
Dividend paid							**(1,332)**	**(1,332)**
Total transactions with owners in their capacity as owners	**-**	**7**	**-**	**262**	**-**	**-**	**(1,346)**	**1,077**
Share-based payment charge					**139**			**139**
Cancellation/transfer of share-based payments					**(64)**		**64**	-
At 31 March 2020 - unaudited	**859**	**9,286**	**9**	**(80)**	**582**	**1,714**	**30,020**	**42,390**

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 2020		Audited 2019	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Total segmental revenue	**26,420**	**26,420**	28,140	28,140
Profit				
Segmental result	**1,353**	**1,353**	2,697	2,697
Finance income		**106**		64
Finance expense		**(96)**		**(1)**
Profit on disposal of property, plant and equipment		**11**		222
Income tax expense		**162**		(288)
Profit after taxation		**1,536**		2,694
Assets and liabilities				
Segmental assets	**51,681**		50,678	
		51,681		50,678
Unallocated corporate assets				
Investment properties		**3,170**		3,170
Deferred tax assets		**1,343**		908
Current tax assets		**1,044**		1,118
Consolidated total assets		**57,238**		55,874
Segmental liabilities	**5,106**		5,507	
		5,106		5,507
Unallocated corporate liabilities				
Deferred tax liabilities		**4,960**		4,420
Current tax liabilities		**85**		77
Retirement benefit obligation		**4,697**		3,548
Consolidated total liabilities		**14,848**		13,552

Other segmental information

	Unaudited 2020		Audited 2019	
	Semiconductor components £'000	**Group £'000**	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	**57**	**57**	294	294
Right-of-use assets additions	**86**	**86**	-	-
Development cost additions	**7,936**	**7,936**	7,169	7,169
Intangible asset additions	**28**	**28**	368	368
Depreciation	**397**	**397**	400	400
Depreciation – right-of-use assets	**456**	**456**	-	-
Amortisation of development costs	**5,708**	**5,708**	5,146	5,146
Amortisation of acquired and purchased intangibles	**212**	**212**	172	172
Other non-cash expenditure (pension)	**154**	**154**	161	161

Geographical information (by origin)

	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2020 - unaudited					
Revenue to third parties – by origin	**6,793**	**5,903**	**4,856**	**8,868**	**26,420**
Property, plant and equipment	**4,724**	**182**	**30**	**40**	**4,976**
Right –of-use assets	**164**	**244**	**547**	**229**	**1,184**
Investment properties	**3,170**	**-**	**-**	**-**	**3,170**
Development costs	**6,161**	**9,793**	**-**	**976**	**16,930**
Intangibles - software and intellectual property	**596**	**-**	**-**	**118**	**714**
Goodwill	**1,531**	**3,512**	**-**	**5,698**	**10,741**
Other intangible assets arising on acquisition	**235**	**-**	**-**	**874**	**1,109**
Total assets	**24,606**	**16,984**	**2,203**	**13,445**	**57,238**
Year ended 31 March 2019 - audited					
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

2 Revenue

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

Continuing business	**Unaudited 2020 £'000**	Audited 2019 £'000
Europe	**7,844**	7,201
Far East	**13,182**	15,348
Americas	**4,907**	5,251
Others	**487**	340
	26,420	28,140

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 2019. An interim dividend of 2.0p per ordinary was paid on 13 December 2019 to shareholders on the Register on 29 November 2019.

It is proposed to pay a final dividend of 2.0p per ordinary share of 5p, taking the total dividend amount in respect of the year ended 31 March 2020 to 4.0p. It is proposed to pay the final dividend of 2.0p, if approved, on 7 August 2020 to shareholders registered on 24 July 2020 (2019: paid 5 August 2019 to shareholders registered on 5 July 2019).

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 2020 £'000	Audited 2019 £'000
Current tax		
UK corporation tax on results of the year	**(588)**	(722)
Adjustment in respect of previous years	**-**	4
	(588)	(718)
Foreign tax on results of the year	**245**	92
Foreign tax – adjustment in respect of previous years	**1**	4
Total current tax	**(342)**	(622)
Deferred tax		
Deferred tax - Origination and reversal of temporary differences	**97**	913
Deferred tax – relating to changes in rates	**106**	-
Adjustments to deferred tax charge in respect of previous years	**(23)**	(3)
Total deferred tax	**180**	910
Tax (income)/ charge on profit on ordinary activities	**(162)**	288

5 Earnings per share

	Unaudited 2020	Audited 2019
Basic earnings per share		
From profit for year	**8.98p**	15.77p
Diluted earnings per share		
From profit for year	**8.94p**	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 shown below:

	Unaudited 2020			Audited 2019		
	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	**1,536**	**17,099,216**	**8.98**	2,694	17,087,788	15.77
Diluted earnings per share						
Basic earnings per share	**1,536**	**17,099,216**	**8.98**	2,694	17,087,788	15.77
Dilutive effect of share options	**-**	**88,355**	**(0.04)**	-	448,311	(0.41)
Diluted earnings per share - from profit for year	**1,536**	**17,187,571**	**8.94**	2,694	17,536,099	15.36

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 2020 £'000	Audited 2019 £'000
Profit after taxation (earnings)	**1,536**	2,694
Adjustments for:		
Finance income	**(106)**	(64)
Finance expense	**96**	1
Income tax (expense)/credit	**(162)**	288
Depreciation	**397**	400
Depreciation – right-of-use assets	**456**	-
Amortisation of development costs	**5,708**	5,146
Amortisation of acquired and purchased intangibles recognised on acquisition	**212**	172
Share-based payments	**139**	117
Adjusted EBITDA	**8,276**	8,754

7 Investment properties

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

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. 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.

Brexit

The Group has assessed the risks relating to Brexit and the impact it will have on its customer base and supply chain. Brexit developments are being monitored, and the risks status regularly assessed to respond to any market effects of uncertainty that may be caused by the outcome of the negotiations between the UK Government and the EU.

COVID-19
During the period leading up to the date of this report the global impact of COVID-19 escalated. The Board have considered possible impacts of the COVID-19 outbreak on the Group's trading and cashflow forecasts. In preparing this analysis a number of scenarios were modelled based on the management's current understanding of potential income. In each scenario, mitigating actions within the control of management, including reductions in discretionary spend and tighter internal controls, have been modelled, but no fixed costs reductions have been assumed.

Given the nature of the markets we operate within, we anticipate our end customers being insulated from a consumer downturn to some extent, although the roll-out of some of the new products may be delayed, dampening demand for our semiconductors. Even in these difficult times, we still maintain the belief that the Group is well placed to move positively forward in the medium to long term. This belief is underpinned by a strong balance sheet and no debt, along with product portfolio that addresses markets that have a positive outlook.

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

(i) 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.

- Property leases
- Office equipment leases
- Motor Vehicle leases
- Other leases

These leases have been recognised on the balance sheet, in financial liabilities, by recognising the future cash-flows of the lease obligation, discounted using an implicit interest rate of 4% for property leases, for office equipment and 7% for motor vehicles. These rates are in line with industry published discount rates.

Corresponding right-of-use assets have been recognised in the Group balance sheet for right-of-use assets property, office equipment and motor vehicles and have been measured as being equal to the discounted lease liability at the date of inception plus any lease payments made at or before the inception of the lease. Cash-flows from these leases have been recognised by including the lease payments in cash-flows from investing activities

As the Group has chosen to adopt IFRS 16 using the modified retrospective approach, comparatives have not been restated and are accounted for under the Group's previous lease accounting policy:

Under this approach, prior year figures have not been restated to reflect leases that were in effect at that time. On transition to IFRS 16, the group has applied the practical expedient of using a single discount rate to a portfolio of leases with reasonably similar characteristics:

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Group has chosen to transition all leases previously identified under IAS 17 to IFRS 16 and has not reassessed whether these contracts are leases.

- Reliance on the assessment of onerous leases at the 31st March 2019 instead of performing an impairment review on transition at 1st April 2019.

- In assessing the length of the lease, where options to extend or terminate the contract exist at the transition date these have been taken into account or the known length of the lease has been used.

Key judgements and estimates

The Group determines the lease term as the non-cancellable term of the lease together with any periods covered by an option to extend the lease it is reasonable certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonable certain not to be exercised.

Where the implicit rate of interest relating to a lease is not readily available, the Group has used a discounted rate of 4% for property leases and 7% for motor vehicles.

	£'000
Undiscounted operating lease obligations as at 31 March 2019	1,038
Discounting	(48)
Lease Liabilities at 1 April 2019	990

The effect of adoption of IFRS 16 as at 1st April 2019 increase/(decrease) is as follows:

	£'000
Non-current assets	
Right of use assets	960
Total assets	**960**
Liabilities	
Lease liabilities	990
Total liabilities	**990**
Equity	
Reserves	(30)
Total Equity	**(30)**

10 Acquisition of Plextek RFI Limited

Following the acquisition announced on the 3 March 2020 and having satisfied the principal regulatory conditions and other transaction closing conditions, the Group took control (100% of voting rights) of UK based Plextek RFI Limited ("PRFI"). The total consideration was £1.9m, payable in cash and from issuing of treasury shares.

Founded in 2015, PRFI is a UK based design house specialising in the design and development of RF, Microwave and Millimetre-wave (mm-wave) ICs and modules.

The acquisition expands and strengthens the Group's product design capabilities. For this reason combined with the anticipated synergies to arise from integrating the PRFI business into existing Group businesses, the Group paid a premium over the acquisition net assets, giving rise to goodwill. All intangible assets in accordance with IFRS 3 Business Combinations were recognised at their provisional fair values on the date of acquisition, with the residual excess over net assets being recognised as goodwill. Intangibles arising from the acquisition consist of brand values, customer relationships and intellectual property and have been independently valued by professional advisors.

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

	£'000
Property, plant and equipment	25
Intangible fixed assets:	
Brands	37
Customer relationships	25
Intellectual property	175
Trade receivables and prepayments	187
Cash and cash equivalents	105
Trade and other payables	(101)
Deferred tax liabilities	(43)
Net assets acquired	410
Goodwill	1,531
Consideration	1,941

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

The acquisition cost was satisfied by:

	£'000
Cash	1,693
Treasury shares issued	248
Lease Liabilities at 1 April 2019	1,941

Net cash outflow arising on acquisition:

	£'000
Cash consideration paid (less cash retention)	1,400
Cash and cash equivalents within PRFI business on acquisition	(105)
Total net cash outflow on acquisition	1,295

The cash consideration excludes a £100,000 retention which is included in other payables. Other costs relating to the acquisition have not been included in the consideration cost. Directly attributable acquisition costs include external legal and accounting costs incurred in compiling the acquisition legal contracts and the performance of due diligence activity and amount to £145,000. These costs have been charged in distribution and administrative expenses in the consolidated income statement.

PRFI has a 29 February 2020 financial period end, in the one month period to 31 March 2020, PRFI contributed revenue of £64,000 and net loss before taxation of £15,000. If PRFI was part of the group for the full reporting period the contributed revenue would have been £790,000 and net loss before taxation of £187,000.

11 General

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

The audited financial information for the year ended 31 March 2019 is based on the statutory accounts for the financial year ended 31 March 2019 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 2020 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 19 June 2020 and delivered to the Registrar of Companies following the Company's Annual General Meeting on 29 July 2020.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31 March 2020 or 2019 as defined by Section 434 of the Companies Act 2006.

A copy of this announcement can be viewed on the company website http://www.cmlmicroplc.com.

12 Approval

The Directors approved this preliminary results announcement on 8 June 2020.

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

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