



CML
Microsystems
Plc

semiconductors for a
connected world ●

Half Yearly Report

FY21

semiconductors for 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 US, 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.

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financial highlights

Revenue (\$m) 12.90 -1.23%	HY FY21		12.90	Shareholders' equity (\$m) 41.45 -2.90%	HY FY21		41.45
	HY FY20		13.06		HY FY20		42.69
	HY FY19		15.05		HY FY19		43.21
	HY FY18		16.02		HY FY18		38.40
	HY FY17		13.04		HY FY17		36.80
Pre-tax profit (\$m) 0.77 -15.38%	HY FY21		0.77	Net cash² (\$m) 7.35 -34.38%	HY FY21		7.35
	HY FY20		0.91		HY FY20		11.20
	HY FY19		2.36		HY FY19		13.54
	HY FY18		2.31		HY FY18		12.72
	HY FY17		1.94		HY FY17		11.56
Adjusted EBITDA¹ (\$m) 4.42 +1.38%	HY FY21		4.42	Basic earnings per share (p) 4.74 -21.00%	HY FY21		4.74
	HY FY20		4.36		HY FY20		6.00
	HY FY19		5.18		HY FY19		12.65
	HY FY18		4.90		HY FY18		11.74
	HY FY17		4.23		HY FY17		10.25

operational highlights

- Storage revenues up 25%
- Enhancement to Communications strategy
- Sales opportunity pipeline growth
- Continued high level of R&D investment
- Strong improvement in operating cash flow to £5.20m (H1 FY20: £3.56m)
- PRFI successfully integrated

1. For definition and reconciliation see note 12.

2. Net cash is the net of cash and cash equivalents and bank loans and overdrafts see notes 6 and 7.



Against a challenging backdrop, the performance of the business from both a trading and operational standpoint has been encouragingly resilient.

Nigel Clark
Group Non-Executive Chairman

Introduction

The first half of the year has been dominated by the global COVID pandemic. From a business point of view it has served to create further disruption within some of our end markets, particularly voice-centric radio manufacturers. As a result, it delayed the return to normalised trading conditions following previously notified headwinds related to our industry, as well as the ongoing trade dispute between China and the US.

Against this backdrop, the performance of the business from both a trading and operational standpoint has been encouragingly resilient. This reflects the strong management focus on maximising all aspects within our control and the investments and structural changes implemented over prior periods.

Results and dividend

The financial performance for the six months to 30 September 2020 highlights the financial discipline of the business. Revenue for the six months decreased slightly to £12.90m compared to the prior year (H1 FY20: £13.06m), largely as a result of the COVID pandemic. Profit before taxation declined 15% to £0.77m (H1 FY20: £0.91m) although adjusted EBITDA improved to £4.44m (H1 FY20: £4.36m), with basic earnings per share of 4.74p (H1 FY20: 6.0p). Net cash at the period end of £7.35m (March 31 2020: £8.50m) represented a good result following payment of a dividend (£0.34m), a share buyback (£1.59m) and continued strong investment in R&D (£3.97m). A strong operational cash flow improvement was recorded to £5.20m (H1 FY20: £3.56m).

The Board is recommending a half-year dividend of 2.0p per share (H1 FY20: 2.0p per share) payable on 18 December 2020 to shareholders on the Register on 4 December 2020.

Employees

It is hard to envisage more testing conditions for a workforce to endure. As well as health and wellbeing concerns, our employees have also had to contend with restrictions on travel and other demands which have made their roles more difficult. The professionalism that they have shown is a great credit to them and, on behalf of the Board, I sincerely thank them.

Prospects and outlook

In recent years, the Group has moved forward with a clear and stable long-term strategic vision, backed by a hardworking team amid a changing and challenging global environment. To complement that, the Board is always on the lookout for beneficial situations which present themselves, such as the acquisition of Plextek RFI Ltd ("PRFI"). The Board continues to explore options to supplement its operational strategy with corporate strategy.

There are exciting business opportunities being pursued and the investment decisions taken in prior years will undoubtedly lead to more arising. With the extended management team executing well on identifying and securing expansion paths, the Board continues to believe that the Group will experience a sustainable return to greater profitability once prevailing headwinds subside.

Nigel Clark

Group Non-Executive Chairman
24 November 2020



The Group continues to perform well operationally and our employees have responded to the COVID pandemic with great determination.

Chris Gurry
Group Managing Director

Introduction

As a Board, we are pleased with the progress that has been made, given the difficult trading conditions which have persisted throughout the first half of the year. We have endured significant headwinds for the past two years and therefore concentrated heavily on optimising our business, enhancing our strategic focus and positioning ourselves to take full advantage once a more favourable environment presents itself.

There are many signs which demonstrate we are on the right path, including the growing number of new customer opportunities being addressed and the improvement in sequential period profitability despite a decrease in revenues.

Conditions within Storage have improved over the prior year and both sales and new order intake have been at healthy levels. Communications markets deteriorated against last year's first half, largely driven by a reduction in demand from voice-centric radio manufacturers which was mostly related to the COVID pandemic and exacerbated by the China/US trade dispute. Data driven communications has been less impacted.

The Group's focus on R&D has resulted in a number of newer products now being available and ready for adoption, whilst PRFI has been integrated well despite the acquisition completing in March just prior to the national lockdown.

Financial review

Total revenues for the opening six months of the financial year were £12.90m, a decline of 1% against the comparable half-year period (H1 FY20: £13.06m). On a constant currency basis, revenues were broadly flat with the product mix weighted towards lower margin Storage semiconductors, a reversal of the mix associated with the comparable six-month period last year. As a result, gross profit declined 5% to £9.28m (H1 FY20: £9.73m).

Distribution and administration costs were reduced to £8.74m (H1 FY20: £9.08m), partially due to the global reorganisation that took place during the previous financial year following an assessment of the Group's resources and capabilities. These lower overall costs also include higher depreciation and amortisation charges, reflecting tight management control of spending through what continued to be challenging times.

Notwithstanding the reduction in expenses, the drop in gross profitability guided profit from operations lower at £0.86m (H1 FY20: £0.99m). This figure included a contribution of £0.32m (H1 FY20: £0.34m) from 'other income'; principally commercial property rental receipts, government grants and the sale of specific third-party technologies.

At the pre-tax level, the Group recorded a profit of £0.77m for the period, being approximately 18% lower than the prior year (H1 FY20: £0.91m). That said, on a sequential six-month basis, pre-tax profits were ahead over 65% despite a reduction in revenues. Taxation was £0.1m higher leading to diluted earnings per share of 4.73p (H1 FY20: 5.98p). Adjusted EBITDA amounted to £4.42m (H1 FY20: £4.36m).

operational and financial review continued

Financial review continued

Inventories at 30 September 2020 were more normalised at £2.77m compared to the start of the financial year (31 March 2020 £2.39m) and reflect the need to ensure continuity of supply amidst mixed market conditions.

Net cash balances at 30 September 2020 totalled £7.35m (31 March 2020: £8.48m) after tight control of working capital following an increase in inventory levels, payment of a £0.34m dividend in respect of the previous year (H1 FY20: £0.99m) and an ongoing steady level of R&D expenditure at £3.97m (H1 FY20: £3.90m). In addition, during September 2020, the Company made the final £0.1m retention payment relating to the acquisition of PRFI and also conducted a share buy-back of 615,000 ordinary shares of 5p ("Shares") each in the Company at a cost of £1.59m (H1 FY20: Nil). These Shares are currently held in treasury.

Strategy overview

The Group's overall strategy remains unchanged, yet has undoubtedly been enhanced and accelerated through the release to market of our newer products and the acquisition of PRFI in March of this year. The business today addresses two important market areas, 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 each of these markets and continue to supply a growing world class customer base.

Growth in both markets is being driven by the persistent demand for increasing amounts of data to be delivered faster and stored more reliably and securely. We remain committed to generating a diverse revenue stream across a broad range of customers. We are a single-source supplier to our customers, meaning that once designed in, the displacement of our chips would require our customers to undertake a significant 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. PRFI, and the enhanced capabilities and experience they provide, brings a new dynamic. This should deliver advantages in opportunity capture and new product time to market that will enhance the return on investment in future years.

The financial commitment that has been made in prior periods, including sales and marketing resources as well as engineering, positions us well to take our enlarged product set to a greater addressable market.

Communications

Our strategy for the Communications markets has been to invest strongly in R&D 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 and widen the addressable market.

Revenues from the sale of semiconductor solutions into voice-centric Communications applications were heavily impacted by the COVID crisis, with all of the leading customers for commercial and industrial radio equipment reporting significant declines in demand. Shipments into wireless public safety customers were particularly affected while the situation across a wide range of data-centric IIoT customers was mixed and continued to be biased towards mission critical applications. Overall, Communications revenues were down 20% to £6.17m (H1 FY20: £7.68m) and included a lower than normal contribution from a collection of mature wireline communications products.

Whilst first half shipments have been disappointing, the underlying operational progression was pleasing. The product portfolio has expanded over the last three years, with the main additions being semiconductor solutions that operate at the lower end of the radio spectrum and, in particular, "narrowband" applications utilising data rates measured in the tens or low hundreds of kilobits per second. Across the first six months of this financial year, that strategy has been significantly enhanced to include products that operate on microwave and millimetre-wave frequencies, including wide band applications. This enhancement has been achieved through a combination of resource blend and new customer engagements. Progress has been swift with the first products emanating from this enhanced capability scheduled to be launched through the first half of the next calendar year.

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 enhancements made will expand the addressable market to include true 5G applications across a variety of industrial, mission critical and military applications.

Storage

Our strategy within Storage has evolved to the stage where the product range has been expanded to include most major interface standards used within the application areas being targeted, thereby increasing the size of the available market. Furthermore, more recent products enable customers to benefit from bill-of-materials cost efficiencies associated with new flash memory technologies while maintaining the class-leading levels of reliability and durability that the Group's Hyperstone brand has become globally recognised for.

The sale of Storage semiconductors across the opening six months increased by 25% against the comparable period to £6.73m (H1 FY20: £5.38m), representing slightly over 50% of Group revenues. This is a continuation of the improving demand seen in the closing months of the prior full financial year. Restrictions associated with China/US trade continued to have an influence but healthy regional demand from telecoms infrastructure customers along with robust sales into industrial applications drove revenues higher.

Released during the prior year, the controller product targeted at the SATA3 interface standard has seen a steady increase in adoption with several customers now moving into production and a number of others at advanced stages of end-product development. A new SD controller has been developed and is expected to be launched to market during the first half of the next calendar year. This product will be another key contributor to growth and builds upon many years of intellectual property development, incorporating advanced functionality for mission critical applications. A selection of mature products manufactured at a silicon foundry in Japan were moved to end-of-life status and the resulting additional new order intake is expected to satisfy the customer base while they transition across to newer products from our portfolio.

The industrial data storage market continues to have 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. R&D activities have commenced on new Storage solutions that customers will require in the future and will expand the available market size further still.

Operational developments

The Group continues to perform well at an operational level and our employees globally have responded to the difficulties presented by the COVID pandemic with great determination and professionalism. We have been able to maintain high levels of business continuity throughout whilst also ensuring the safety and protection of our people.

It has been a pleasure to welcome the team that joined us from PRFI in March. As highlighted earlier, the speed to market of future products emanating from the combined teams should drive a faster return on R&D investment and is scheduled to commence with the launch of initial products expected towards the back end of the current financial year.

Summary & outlook

The timing of the resumption to a normalised trading environment remains difficult to predict, although activity within Storage is encouraging and order intake from Communications customers in the last weeks of the half was promising.

As market conditions improve, either related to COVID or China/US trade, and ideally both, we are very well placed to benefit. We have a growing world class customer base and a product portfolio enabling a greater total market opportunity. The Company's cost base has remained stable and our global investment in sales and marketing over recent periods will enable us to take the wider range of highly technical products to a growing audience.

Back in June, we stated that the current environment was delaying realisation of the benefits of the hard work taking place behind the scenes. Enhancements made to the Group's business strategy highlight the ongoing focus for increasing the size of the available market and improving the return on R&D investment levels.

The Board maintains its belief that the business will capitalise on the opportunities it sees and deliver the shareholder benefits expected over the medium to longer term.

Chris Gurry

Group Managing Director
24 November 2020

condensed consolidated income statement for the six months ended 30 September 2020

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Continuing operations			
Revenue	12,901	13,056	26,420
Cost of sales	(3,626)	(3,326)	(6,855)
Gross profit	9,275	9,730	19,565
Distribution and administration costs	(8,741)	(9,079)	(18,762)
	534	651	803
Other operating income	321	338	689
Profit from operations	855	989	1,492
Share-based payments	(80)	(86)	(139)
Profit after share-based payments	775	903	1,353
Profit on disposal of property, plant and equipment	—	—	11
Finance income	40	54	106
Finance expense	(44)	(50)	(96)
Profit before taxation	771	907	1,374
Income tax credit	20	119	162
Profit after taxation for period attributable to equity owners of the parent	791	1,026	1,536
Basic earnings per share			
From profit for the period	4.74p	6.00p	8.98p
Diluted earnings per share			
From profit for the period	4.73p	5.98p	8.94p
Adjusted EBITDA¹	4,415	4,357	8,276

1. See note 12 for definition and reconciliation.

condensed consolidated statement of total comprehensive income for the six months ended 30 September 2020

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Profit for the period	791	1,026	1,536
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on retirement benefit obligations	—	—	(995)
Deferred tax on actuarial loss	—	—	187
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	123	275	308
Other comprehensive income/(expense) for the period net of taxation attributable to the equity holders of the parent	123	275	(500)
Total comprehensive income for the period attributable to the equity holders of the parent	914	1,301	1,036

condensed consolidated statement of financial position as at 30 September 2020

	Unaudited 30/09/20 £'000	Unaudited 30/09/19 £'000	Audited 31/03/20 £'000
Assets			
Non-current assets			
Goodwill	10,735	9,209	10,741
Other intangible assets	1,679	1,676	1,823
Development costs	17,999	15,578	16,930
Property, plant and equipment	4,903	5,129	4,976
Right-of-use assets	779	973	1,184
Investment properties	3,192	3,170	3,170
Investment	83	83	83
Deferred tax assets	1,188	973	1,343
	40,558	36,791	40,250
Current assets			
Inventories	2,768	2,858	2,390
Trade receivables and prepayments	5,043	3,407	5,075
Current tax assets	787	1,152	1,044
Cash and cash equivalents	9,014	11,197	8,479
	17,612	18,614	16,988
Total assets	58,170	55,405	57,238
Liabilities			
Current liabilities			
Bank loans	1,661	—	—
Trade and other payables	4,277	3,573	4,036
Lease liabilities	333	415	502
Current tax liabilities	224	61	85
	6,495	4,049	4,623
Non-current liabilities			
Deferred tax liabilities	5,145	4,559	4,960
Lease liabilities	382	560	568
Retirement benefit obligation	4,697	3,548	4,697
	10,224	8,667	10,225
Total liabilities	16,719	12,716	14,848
Net assets	41,451	42,689	42,390
Capital and reserves attributable to equity owners of the parent			
Share capital	859	859	859
Share premium	9,286	9,279	9,286
Capital redemption reserve	9	9	9
Treasury shares – own share reserve	(1,670)	(328)	(80)
Share-based payments reserve	662	577	582
Foreign exchange reserve	1,837	1,681	1,714
Accumulated profits reserve	30,468	30,612	30,020
Total shareholders' equity	41,451	42,689	42,390

condensed consolidated cash flow statement for the six months ended 30 September 2020

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Operating activities			
Profit for the period before taxation	771	907	1,374
Adjustments for:			
Depreciation – on property, plant and equipment	192	205	397
Depreciation – on right-of-use assets	263	234	456
Amortisation of development costs	2,988	2,826	5,708
Amortisation of intangibles recognised on acquisition and purchased	117	103	212
Profit on disposal of property, plant and equipment	—	(4)	(5)
Movement in non-cash items (pension)	90	—	154
Share-based payments	80	86	139
Movement in provision	—	(70)	—
Finance income	(40)	(54)	(106)
Finance expense	44	50	96
Movement in working capital	695	(722)	(1,868)
Cash flows from operating activities	5,200	3,561	6,557
Income tax received	509	137	526
Net cash flows from operating activities	5,709	3,698	7,083
Investing activities			
Acquisition of subsidiary, net of cash acquired	(100)	—	(1,295)
Purchase of property, plant and equipment	(127)	(24)	(57)
Investment in development costs	(3,834)	(3,659)	(7,936)
Lease liability repayments	(302)	(265)	(682)
Proceeds from disposal of property, plant and equipment	—	11	11
Investment in intangibles	25	(11)	(28)
Investment in loan note	—	(325)	(323)
Finance income	40	54	106
Finance expense	(16)	(50)	(34)
Net cash flows used in investing activities	(4,314)	(4,269)	(10,238)
Financing activities			
Proceeds from borrowings	1,661	—	—
Issue of ordinary shares	—	—	7
Purchase of own shares for treasury	(1,590)	—	—
Dividends paid to shareholders	(343)	(990)	(1,332)
Net cash flows used in financing activities	(272)	(990)	(1,325)
Increase/(decrease) in cash and cash equivalents	1,123	(1,561)	(4,480)
Movement in cash and cash equivalents:			
At start of period/year	8,479	12,809	12,809
Increase/(decrease) in cash and cash equivalents	1,123	(1,561)	(4,480)
Effects of exchange rate changes	(588)	(51)	150
At end of period	9,014	11,197	8,479

Cash flows presented exclude sales taxes.

condensed consolidated statement of changes in equity for the six months ended 30 September 2020

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	30,574	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
Profit for period							510	510
Other comprehensive income net of taxes								
Foreign exchange differences						33		33
Net actuarial loss on retirement benefit obligation							(995)	(995)
Deferred tax movement on actuarial loss							187	187
Total comprehensive income for the period	—	—	—	—	—	33	(298)	(265)
Transactions with owners in their capacity as owners								
Issue of ordinary shares		7						7
Issue of own shares for treasury				248				248
Dividend paid							(342)	(342)
Total of transactions with owners in their capacity as owners	—	7	—	248	—	—	(342)	(87)
Share-based payments					53			53
Cancellation/exercise of share-based payments					(48)		48	—
At 31 March 2020	859	9,286	9	(80)	582	1,714	30,020	42,390

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 2020	859	9,286	9	(80)	582	1,714	30,020	42,390
Profit for period							791	791
Other comprehensive income net of taxes								
Foreign exchange differences						123		123
Total comprehensive income for the period	—	—	—	—	—	123	791	914
Transactions with owners in their capacity as owners								
Dividend paid							(343)	(343)
Purchase of own shares for treasury				(1,590)			—	(1,590)
Total of transactions with owners in their capacity as owners	—	—	—	(1,590)	—	—	(343)	(1,933)
Share-based payments					80			80
At 30 September 2020	859	9,286	9	(1,670)	662	1,837	30,468	41,451

notes to the condensed consolidated financial statements for the six months ended 30 September 2020

1 Segmental analysis

Information about revenue, profit/loss, assets and liabilities

	Unaudited 6 months end 30/09/20		Unaudited 6 months end 30/09/19		Audited year end 31/03/20	
	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Total segmental revenue	12,901	12,901	13,056	13,056	26,420	26,420
Profit						
Segmental result	775	775	903	903	1,353	1,353
Finance income		40		54		106
Finance expense		(44)		(50)		(96)
Profit on disposal of property, plant and equipment		—		—		11
Income tax credit		20		119		162
Profit after taxation		791		1,026		1,536
Assets and liabilities						
Segmental assets	53,003	53,003	50,110	50,110	51,681	51,681
Unallocated corporate assets						
Investment properties		3,192		3,170		3,170
Deferred tax assets		1,188		973		1,343
Current tax assets		787		1,152		1,044
Consolidated total assets		58,170		55,405		57,238
Segmental liabilities	6,653	6,653	4,548	4,548	5,106	5,106
Unallocated corporate liabilities						
Deferred tax liabilities		5,145		4,559		4,960
Current tax liabilities		224		61		85
Retirement benefit obligation		4,697		3,548		4,697
Consolidated total liabilities		16,719		12,716		14,848

Other segmental information

	Unaudited 6 months end 30/09/20		Unaudited 6 months end 30/09/19		Audited year end 31/03/20	
	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000	Semiconductor components £'000	Group £'000
Property, plant and equipment additions	127	127	24	24	57	57
Right-of-use assets additions	70	70	—	—	86	86
Development cost additions	3,834	3,834	3,659	3,659	7,936	7,936
Intangible additions	—	—	11	11	28	28
Depreciation	192	192	205	205	397	397
Depreciation – right-of-use assets	263	263	234	234	456	456
Amortisation of development costs	2,988	2,988	2,826	2,826	5,708	5,708
Amortisation of acquired and purchased intangibles	117	117	103	103	212	212
Other non-cash expenditure (pension)	90	90	—	—	154	154

Geographical segments

Unaudited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2020					
Revenue to third parties – by origin	3,100	3,097	2,057	4,647	12,901
Property, plant and equipment	4,662	175	—	66	4,903
Right-of-use assets	108	174	357	140	779
Investment properties	3,192	—	—	—	3,192
Development costs	6,629	10,298	—	1,072	17,999
Intangible assets – software and intellectual property	550	—	—	—	550
Goodwill	1,51	3,512	—	5,692	10,735
Other intangible assets arising on acquisition	—	—	—	1,129	1,129
Total assets	24,443	17,831	2,127	13,769	58,170
Unaudited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2019					
Revenue to third parties – by origin	3,965	2,521	2,671	3,899	13,056
Property, plant and equipment	4,813	223	59	34	5,129
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 and intellectual property	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
Audited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2020					
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
Intangible assets – software and intellectual property	596	—	—	—	596
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

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 (Chris 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 2020

1 Segmental analysis continued

Revenue

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

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Europe	4,356	3,984	7,844
Far East	6,156	6,187	13,182
Americas	2,154	2,682	4,907
Other	235	203	487
	12,901	13,056	26,420

2 Dividend paid and interim dividend

The Board is declaring an interim dividend of 2.0p per ordinary share of 5p for the half year ended 30 September 2020, payable on 18 December 2020 to shareholders on the Register on 4 December 2020.

A final dividend of 2.0p per ordinary share of 5p was paid on 7 August 2020 and an interim dividend of 2.0p per ordinary share of 5p was paid on 13 December 2019, totalling 4.0p per ordinary share of 5p paid for the year ended 31 March 2020 (2019: 7.8p per ordinary share of 5p in respect of the year ended 31 March 2019).

3 Income tax (credit)/expense

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
UK income tax credit	(495)	(256)	(588)
Overseas income tax charge/(credit)	147	(83)	246
Total current tax credit	(348)	(339)	(342)
Deferred tax charge	328	220	180
Reported income tax credit	(20)	(119)	(162)

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 30/09/20	Unaudited 6 months end 30/09/19	Audited year end 31/03/20
Basic earnings per share			
From profit for the period	4.74p	6.00p	8.98p
Diluted earnings per share			
From profit for the period	4.73p	5.98p	8.94p

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 2020	16,692,935	16,718,813
Six months ended 30 September 2019	17,075,166	17,152,397
Year ended 31 March 2020	17,099,216	17,187,571

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.

6 Cash and cash equivalents

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Cash on deposit	4,183	6,784	3,591
Cash at bank	4,831	4,413	4,888
	9,014	11,197	8,479

7 Bank loans

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Bank loan	1,661	—	—
	1,661	—	—

8 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.

9 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. 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.

COVID-19

The unprecedented global crisis has challenged the current economic conditions and affected some of the markets in which the business operates, the Group has remained resilient and is well placed in the market to move positively forward. This belief is underpinned by a strong balance sheet, along with a product portfolio that addresses markets that have a positive outlook.

The Group has given due consideration as to the impact of uncertainty arising from COVID related factors on the production of the interim financial statements. This included a going concern assessment, reviewing its current and projected financial performance and position, including current assets and liabilities, debt maturity profile, future commitments and forecasted cash flows. The downside scenarios tested outline the impact of adverse cases and show that there is sufficient headroom for liquidity.

notes to the condensed consolidated financial statements **continued** for the six months ended 30 September 2020

10 Directors' statement pursuant to the Disclosure and Transparency Rules

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

- the condensed set of financial statements have been prepared on a consistent basis with the financial statements for the year ended 31 March 2020 and should be read in conjunction with the FY20 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.

11 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 2020 financial statements.

12 Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") is defined as profit from operations before all interest, tax, depreciation and amortisation charges and before share-based payments. The following is a reconciliation of the Adjusted EBITDA for the three periods presented:

	Unaudited 6 months end 30/09/20 £'000	Unaudited 6 months end 30/09/19 £'000	Audited year end 31/03/20 £'000
Profit after taxation (earnings)	791	1,026	1,536
Adjustments for:			
Finance income	(40)	(54)	(106)
Finance expense	44	50	96
Income tax credit	(20)	(119)	(162)
Depreciation	192	205	397
Depreciation – right-of-use assets	263	234	456
Amortisation of development costs	2,988	2,826	5,708
Amortisation of intangibles of purchased and acquired intangibles recognised on acquisition	117	103	212
Share-based payments	80	86	139
Adjusted EBITDA	4,415	4,357	8,276

13 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 9 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 2020.

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 2020 is based on the statutory accounts for the financial year ended 31 March 2020 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.

14 Approvals

The Directors approved this Half Yearly Report on 24 November 2020.

glossary

5G	Fifth Generation Cellular Network Technology
DTR	Disclosure and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
EU	European Union
FY	Full Year
H1	First Half (Financial Year)
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IP	Intellectual Property
R&D	Research and Development
SATA	Serial ATA Interface



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