CML Microsystems Plc

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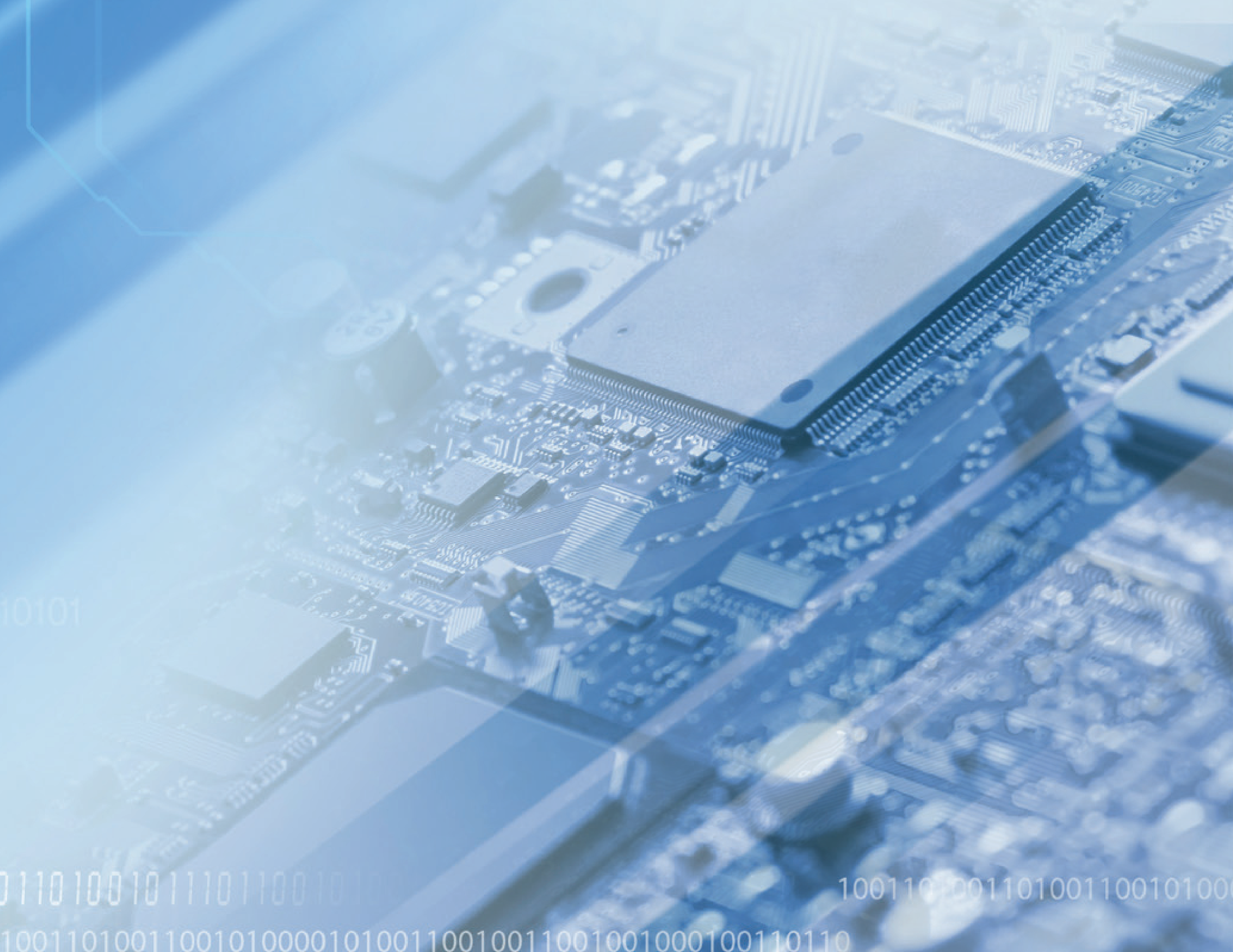
Half Yearly Report FY22



About us

We develop mixed-signal, RF and microwave semiconductors for global communications markets.

Vision

The first choice semiconductor partner to technology innovators, together transforming how the world communicates.

We are driven by our values and guiding principles; they steer our ways of working across our global operations and empower a combined sense of purpose in every facet of our business.

Values

- Trust
- Respect
- Communication
- Creativity

Guiding principles

- Strong business ethics
- Culture of quality with a sense of urgency
- Live and breathe the customer experience
- A passion for excellence
- Inspire our people to innovate

Contents

Financial highlights

8.00	**0.97**	**4.87**
Revenue (£m)	Pre-tax profit/(loss) – continuing operations (£m)	Basic earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company (p)
+30%	+394%	+392%
HY FY21: 6.14	HY FY21: (0.33)	HY FY21: (1.67)

2.12	**1.01**	**4.87**
Adjusted EBITDA[1] (£m)	Pre-tax profit – continuing and discontinued operations (£m)	Basic earnings per share for profit attributable to the ordinary equity holders of the Company (p)
+43%	+31%	+3%
HY FY21: 1.48	HY FY21: 0.77	HY FY21: 4.74

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.

Operational highlights

- Recovery in existing markets, driving growth
- New product releases show early signs of success
- Expanded product range targeting an increasing total addressable market
- Significant R&D investment
- Completed move from standard segment of Main Market to AIM

Chairman's statement

Introduction

CML has enjoyed a strong start to the year. In my Annual Report back in June 2021, I highlighted that I had never before experienced a year with more challenges and opportunities. Whilst many of those challenges remain, it is particularly pleasing to see recovery in the end-markets that were most impacted by the pandemic. The improved trading witnessed in the second half of last year has continued and gathered pace. This is a testament to the Group's multi-year strategic focus on R&D, acting as a partner to our global customer base, creating the products that help them achieve success.

Results and trading

The previously reported figures for the prior year first half included contributions from the Storage Division which was part of the Group throughout the first half of the last financial year (before being sold in February for $49m). For this set of results, we have restated the figures, in line with reporting requirements, but do believe this provides shareholders with a more meaningful picture of the Group's performance. The Communications Division is today the sole operational focus of CML.

The financial performance for the six months to 30 September 2021 is ahead of management's expectations. Revenue for the six months increased by 30% to £8.00m compared to the prior year (H1 FY21: £6.14m). Profit before taxation improved to £1.0m (H1 FY21: loss £0.3m), with adjusted EBITDA improving by 43% to £2.12m (H1 FY21: £1.48m) and diluted EPS showed a dramatic improvement to 4.87p (H1 FY21: loss of 1.67p). Cash balances at the period end stood at £22.59m (31 March 2021: net cash of £31.91m) following a special dividend payment totalling £8.30m to shareholders in August 2021 after completion of the sale of the Storage Division. The Group has no debt.

The Board is recommending a half year dividend of 4.0p per share (H1 FY21: 2.0p per share), payable on 17 December 2021 to shareholders on the Register on 3 December 2021.

Move to AIM

In September this year CML completed its move from the standard segment of the Main Market to the AIM Market of the London Stock Exchange ("AIM"). As highlighted above, the Company enjoys very healthy cash balances and remains debt free. In addition, it has considerable value in a number of non-operational assets that the Board is continually evaluating to enable maximum shareholder value to be delivered. A number of opportunities are currently being actively explored and are at various stages of progression. The Group's addressable market stands at over $1bn annually and alongside our organic growth strategy, which is our core focus, our balance sheet strength gives us the opportunity to seek and consider acquisitions which could help us further our strategic objectives. The move to AIM provides us with greater flexibility to take advantage of any opportunities as and when they are identified.

Employees

The improvement in our trading performance is undoubtedly a reflection of the sheer hard work and determination shown by our highly talented workforce. They have continued to tackle each challenge with vigour and enthusiasm and on behalf of the Board, I offer them my sincere thanks.

Prospects and outlook

With a record order book, a growing product range targeting an increasing total addressable market and a strong balance sheet affording us strategic flexibility, the future for CML has never been brighter. We must remain conscious of the fact that many of the challenges which have been present over recent years are still active and could affect our customers' purchasing decisions in the short term. However, we are confident in both the long-term performance of the business and in meeting this year's expectations.

Nigel Clark
Executive Chairman

23 November 2021

Operational and financial review

Introduction

It is pleasing to report that the positive momentum seen within the business through the second half of the prior financial year has continued through the opening six-months of the current year, with a healthy trading improvement being recorded.

Revenues are ahead of management expectations at the halfway stage, with the associated benefits of operational leverage flowing through. New order intake has been strong, assisted by improving end market conditions and increased demand linked to customer concerns around supply chain constraints within the semiconductor market generally. Alongside the revenue growth achieved, the Group's order book at 30 September 2021 was once again at a record level with scheduled delivery visibility extending into the next financial year.

The progress demonstrated within these interim results follows a multi-year period of enduring headwinds. During this time, the Group has invested heavily in research and development activities targeted at products and application areas that are expected to drive growth over the coming years. The business optimisation that took place prior to this year commencing, coupled with the enhanced strategy now being followed, positions the Group well to take advantage of the increasing number of opportunities being presented.

Strategy

The Group's vision is to be the first-choice semiconductor partner to technology innovators, together transforming how the world communicates.

We are focused on our customers' success by delivering advantages through the improved functionality and performance of class leading IC solutions. R&D activity is targeted at developing the product portfolio to support emerging and evolving customer requirements for size, cost and performance whilst striving to remain our customer's first choice supplier within their advanced communication platforms.

In today's world, 'connected everything' is propelling exponential increases in data consumption – driving growth across wireless communications markets globally. We are expanding our total addressable market having enlarged our market emphasis to include applications within the so-called mega trend areas of Industrial Internet of Things ("IIoT"), 5G and Industry 4.0. This complements the existing markets of public safety, maritime and mission critical wireless voice and data communications, leveraging our systems knowledge, engineering capabilities and routes to market.

Markets and operations

For the comparable period, revenues from voice-centric wireless applications were heavily impacted by the COVID-19 crisis, with the situation across a wide range of data-centric IIoT customers somewhat mixed. More recently, we communicated that customer and market intelligence suggested conditions for voice applications were expected to improve as the year progressed and it is pleasing to report that has proven to be the case.

The order intake from wireless voice product manufacturers has grown, with a significant recovery seen amongst the leading customers. Equally pleasing was the progress from data-centric customers who are producing proprietary wireless communications equipment for a wide range of industrial and mission critical applications including oil, gas, utilities, transport, telecom, enterprise, precision farming, land surveying, environmental monitoring and military applications areas.

The order intake situation is multidimensional. As a complement to the improving market conditions, which was the main driver, growth was assisted by new design-wins moving to the production phase along with increased order receipts associated with customer concerns over semiconductor part availability. Conversely, there is evidence of ordering restraint where customers cannot secure deliveries of more generic parts needed within their end products, such as microprocessors, from other semiconductor suppliers.

Operational and financial review continued

Markets and operations continued

The semiconductor market is being hindered by well documented supply chain issues and the Group has not been immune from associated raw material delays and extended lead times from third-party assembly services providers. We continue to hold a raised level of inventory to help minimise the impact the global semiconductor supply chain scenario is having. Delays do remain and capacity constraints in the supply chain are expected to continue well into 2022. That said, we have an experienced team monitoring the situation closely and have so far been able to minimise end customer disruptions.

The communications market globally is exhibiting a number of growth areas, including the transition to higher-capacity digital networks within voice-centric markets and, in data-centric markets, the increasing throughput requirements from terrestrial and satellite communications applications. As well as the existing wireless voice and data market areas served, our strategy for widening the product portfolio to address broader application areas is well underway.

Through the first six-months of the financial year, a number of new ICs were released, or priority sampled to market, developed to help accelerate the design of RF products operating across a wide range of radio frequencies including microwave and millimetre wave bands. These new products include fully matched MMIC Power Amplifiers (PAs) along with Positive Gain Slope Amplifiers designed to compensate for frequency related gain losses that occur when designing wide band wireless products. Marketed under the SuRF brand, these new ICs are beginning to achieve design-win status with new customers and it is satisfying to report that first orders have been received from early stage adopters within vehicle tracking and smart grid applications. End-customer shipments are scheduled to commence during the second half of the year.

In addition to the SuRF product range, we continue to actively invest in new platform technology and differentiated wireless/baseband products to gain market share in a combination of existing and new end application areas under the communications umbrella. These new releases build upon prior year investments and product introductions that also serve to increase the number of market opportunities we can address.

The quantity of product introductions emanating from the Group is set to increase significantly as we move forward, and this has necessitated several internal organisational and operational adjustments since the start of the year. It is therefore essential to acknowledge the efforts being expended by the whole team in that regard and its importance towards maximising our chances of success in the future.

The Group is now addressing an annual serviceable market of over $1bn, comprising a number of key growth areas including critical infrastructure (public utilities, smart grid, RFID), 5G (repeaters, small/pico cells, fixed wireless access, distributed antenna systems) and satellite communications (terminals, broadband access). We remain in the early stages of penetrating these new market areas but, based upon customer engagements and resulting feedback, we expect to be successful in securing significant design-wins to fuel our growth. Aside from technical performance and commercial competitiveness, the focus on our customers' success and our inherent partnership capabilities are key factors that bode well for the future of the business.

CML has excellent routes to market and over recent years has invested significant effort in ensuring sales channels globally were appropriate for the direction of travel that the business was taking. Where possible, those channels are being exploited to good effect as the release of new products gathers pace although the process is one of evolution and refinement, with ongoing adjustments needed. Customer reach has been extended further through a widening of the existing USA distributor agreement with RFMW to become a global partner, along with the addition of several new manufacturers' representatives in the Americas region.

Outlook

The year commenced with the business in a relatively strong position from which to grow. Through the first six-month period, shipments into those application areas most affected by the pandemic during the prior year have begun to recover and, as we move forward, the operational effort being put towards capturing the growth opportunities already identified should start to bear fruit. Clearly headwinds remain, including the pandemic, geo-political uncertainties and ongoing semiconductor capacity issues, however the advancement the Group is making is encouraging.

Our organic growth prospects are exciting and should drive the business forward over the short term, although an appropriate amount of effort is being devoted to exploring the potential for acquisition opportunities that would accelerate delivery of our objectives.

The foundations for expansion laid during previous years, coupled with the energy and enthusiasm to succeed within the business, is starting to deliver tangible results at the financial level. The Board remains confident that continuing progress will be made through the second half of the year, delivering a very positive outcome for the financial year as a whole.

Financial review

Total revenues for the first six-months of the financial year increased by 30% over the comparable prior year period, totalling £8.00m (H1 FY21: £6.14m). As already explained, several customers active in the Group's voice communication markets have started to recover from the heavy impact of the pandemic. Additionally, data-centric market sectors linked to IIoT and machine-to-machine communications performed strongly.

The higher revenues drove a 29% uplift in gross profitability to £6.05m (H1 FY21: £4.70m). Gross margin as a percentage was relatively stable but is expected to come under pressure as raw material price increases take effect. To help counteract those pressures, it has been necessary to invoke price increases across the Group's product range.

Geographically, sales were higher in each of the major regions serviced, with the Far East showing the strongest growth in absolute terms. It is noteworthy, however, that a number of the Group's customers make use of Asian manufacturing partners for their production requirements and Group revenues are classified geographically in terms of shipping destination.

Distribution and administration expenses increased to £5.59m (H1 FY21: £5.26m) and include the costs associated with the move to an AIM listing from the Main Market (£0.25m).

Other operating income rose to £0.56m (H1 FY21: £0.31m) and included a one-off contribution of £0.28m from a pandemic related US government loan that was ultimately forgiven (H1 FY21: £0m).

Profit from operations was £1.01m (H1 FY21: £0.30m loss) and, after accounting for share-based payments and net finance income, the Group recorded a profit before tax of £1.01m, against a loss of £0.30m for the prior year first half.

Taxation was £0.20m compared to a slight credit during the comparable period, leading to a diluted earnings per share of 4.87p being recorded (H1 FY21: loss of 1.67p).

Adjusted EBITDA increased by 43% to £2.12m (H1 FY21: £1.48m).

Inventory levels increased slightly following the previously communicated policy to maintain a higher level of raw material stocks commensurate with current market dynamics. This strategy continues to help reduce the impact our customers feel from ongoing capacity issues within the semiconductor market generally. At 30 September 2021 inventory levels were £1.53m (H1 FY21: £1.42m).

The Group has no debt and cash balances stood at £22.59m at 30 September 2021 (31 March 2021: net cash of £31.91m) following payment of a special dividend of £8.30m during August 2021. Tight working capital control is being maintained amidst the need to keep inventory levels appropriate.

R&D expenditure for the period was £2.27m (H1 FY21: £1.99m) reflecting an increase in the number of new products being developed. In addition, and linked to expansion of the product range, capital expenditure rose to £0.88m due to necessary investment into additional final test and evaluation equipment capable of handling higher radio frequencies (H1 FY21: £0.13m).

Chris Gurry

Group Managing Director

23 November 2021

Condensed consolidated income statement
for the six months ended 30 September 2021

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Continuing operations			
Revenue	**8,001**	6,138	12,470
Cost of sales	**(1,951)**	(1,435)	(3,197)
Gross profit	**6,050**	4,703	9,273
Distribution and administration costs	**(5,593)**	(5,263)	(10,567)
	457	(560)	(1,294)
Other operating income	**555**	314	830
Profit/(loss) from operations	**1,012**	(246)	(464)
Share-based payments	**(45)**	(80)	(143)
Profit/(loss) after share-based payments	**967**	(326)	(607)
Revaluation of investment properties	**—**	—	579
Finance income	**57**	40	75
Finance expense	**(13)**	(18)	(37)
Profit/(loss) before taxation	**1,011**	(304)	10
Income tax (charge)/credit	**(202)**	26	792
Profit/(loss) from continuing operations	**809**	(278)	802
Profit from discontinued operation	**—**	1,069	22,762
Profit after taxation for period attributable to equity owners of the parent	**809**	791	23,564

The condensed consolidated income statement has been restated for unaudited six months ended 30 September 2020 for the discontinued operation announced on 10 December 2020, where the Group had entered into a definitive agreement to divest its Storage Division, Hyperstone. See note 13 for further details.

Earnings per share from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	**4.87p**	(1.67)p	4.81p
Diluted earnings per share	**4.80p**	(1.67)p	4.79p
Earnings per share from total operations attributable to the ordinary equity holders of the Company (comparatives include discontinued operations):			
Basic earnings per share	**4.87p**	4.74p	141.13p
Diluted earnings per share	**4.80p**	4.73p	140.56p
Adjusted EBITDA[1]	**2,118**	1,477	2,731

1. See note 12 for definition and reconciliation.

Condensed consolidated statement of total comprehensive income
for the six months ended 30 September 2021

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Profit for the period	**809**	791	23,564
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of benefit obligation	**—**	—	(897)
Deferred tax on actuarial loss	**—**	—	170
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	**410**	123	(312)
Reclassification of foreign exchange differences on discontinued operations	**—**	—	(1,100)
Other comprehensive income/(expense) for the period net of taxation attributable to the equity holders of the parent	**410**	123	(2,139)
Total comprehensive income for the period attributable to the equity holders of the parent	**1,219**	914	21,425
Total comprehensive income for the year attributable to the equity owners of the parent:			
Continuing operations	**1,219**	(155)	(237)
Discontinued operations	**—**	1,069	21,662
	1,219	914	21,425

Condensed consolidated statement of financial position

as at 30 September 2021

	Unaudited 30/09/21 £'000	Unaudited 30/09/20 £'000	Audited 31/03/21 £'000
Assets			
Non-current assets			
Goodwill	**7,282**	10,735	7,072
Other intangible assets	**1,198**	1,679	1,276
Development costs	**10,727**	17,999	9,191
Property, plant and equipment	**5,576**	4,903	4,864
Right-of-use assets	**524**	779	409
Investment properties	**3,775**	3,192	3,775
Investment	**—**	83	—
Deferred tax assets	**1,822**	1,188	1,531
	30,904	40,558	28,118
Current assets			
Inventories	**1,532**	2,768	1,450
Trade receivables and prepayments	**2,433**	5,043	2,434
Current tax assets	**1,479**	787	1,046
Cash and cash equivalents	**22,587**	9,014	32,196
	28,031	17,612	37,126
Total assets	**58,935**	58,170	65,244
Liabilities			
Current liabilities			
Bank loans and borrowings	**—**	1,661	282
Trade and other payables	**3,122**	4,277	3,081
Lease liabilities	**174**	333	183
Current tax liabilities	**42**	224	80
	3,338	6,495	3,626
Non-current liabilities			
Deferred tax liabilities	**3,207**	5,145	2,339
Lease liabilities	**220**	382	262
Retirement benefit obligation	**5,570**	4,697	5,570
	8,997	10,224	8,171
Total liabilities	**12,335**	16,719	11,797
Net assets	**46,600**	41,451	53,447
Capital and reserves attributable to equity owners of the parent			
Share capital	**863**	859	859
Share premium	**1,222**	9,286	1,039
Capital redemption reserve	**9**	9	9
Treasury shares – own share reserve	**(1,670)**	(1,670)	(1,670)
Share-based payments reserve	**497**	662	570
Foreign exchange reserve	**712**	1,837	302
Retained earnings	**44,967**	30,468	52,338
Total shareholders' equity	**46,600**	41,451	53,447

Condensed consolidated cash flow statement
for the six months ended 30 September 2021

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Operating activities			
Profit/(loss) for the period before taxation – continuing operations	**1,011**	(304)	10
Profit for the period before taxation – discontinued operations	**—**	1,075	22,762
Adjustments for:			
Depreciation – on property, plant and equipment	**171**	192	370
Depreciation – on right-of-use assets	**126**	263	438
Impairment of development costs	**—**	—	701
Amortisation of development costs	**673**	2,988	3,789
Amortisation of intangibles recognised on acquisition and purchased	**136**	117	212
Loss/(profit) on disposal of property, plant and equipment	**—**	—	16
Revaluation of investment properties	**—**	—	(579)
Gain on disposal of discontinued operations	**—**	—	(21,740)
Movement in non-cash items (retirement benefit obligation and non-refundable PPP loan)	**(190)**	90	201
Share-based payments	**45**	80	143
Finance income	**(57)**	(40)	(75)
Finance expense	**13**	18	37
Movement in working capital	**(560)**	695	1,388
Cash flows from operating activities	**1,368**	5,174	7,673
Income tax (paid)/received	**(118)**	509	494
Net cash flows from operating activities	**1,250**	5,683	8,167
Investing activities			
Disposal of business (net of expenses)	**—**	—	33,261
Acquisition of subsidiary, net of cash acquired	**—**	(100)	(100)
Purchase of property, plant and equipment	**(882)**	(127)	(390)
Investment in development costs	**(2,161)**	(3,834)	(7,270)
Investment in intangibles	**—**	25	25
Finance income	**57**	40	75
Net cash flows used in investing activities	**(2,986)**	(3,996)	25,601
Financing activities			
Lease liability repayments	**(142)**	(302)	(556)
Proceeds from bank loans and borrowings	**—**	1,661	282
Issue of ordinary shares (net of expenses)	**186**	—	29
Purchase of own shares for treasury	**—**	(1,590)	(1,590)
Dividends paid to shareholders	**(8,298)**	(343)	(674)
Share capital redemption	**—**	—	(8,276)
Finance expense	**3**	(16)	(15)
Net cash flows used in financing activities	**(8,251)**	(590)	(10,800)
Increase/(decrease) in cash and cash equivalents	**(9,987)**	1,097	22,968
Movement in cash and cash equivalents:			
At start of period/year	**32,196**	8,479	8,479
Increase/(decrease) in cash and cash equivalents	**(9,987)**	1,097	22,968
Effects of exchange rate changes	**378**	(562)	749
At end of period	**22,587**	9,014	32,196

Cash flows presented exclude sales taxes. Further cash-related disclosure details are provided in notes 6 and 7.

Changes in liabilities arising from financing activities relate to lease liabilities and borrowings only.

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2021

Unaudited	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Retained earnings £'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)
Use 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 payment charge					80			80
At 30 September 2020	859	9,286	9	(1,670)	662	1,837	30,468	41,451
Profit for period							22,773	22,773
Other comprehensive income net of taxes								
Foreign exchange differences						(435)		(435)
Reclassification of foreign exchange differences on discontinued operations						(1,100)		(1,100)
Re-measurement of defined benefit obligations							(897)	(897)
Deferred tax on actuarial loss							170	170
Total comprehensive income for the period	—	—	—	—	—	(1,535)	(727)	(2,262)
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options		29						29
Share capital redemption		(8,276)						(8,276)
Dividend paid							(331)	(331)
Total of transactions with owners in their capacity as owners	—	(8,247)	—	—	—	—	(331)	(8,578)
Share-based payment charge					63			63
Cancellation/transfer of share-based payments					(155)		155	—
At 31 March 2021	859	1,039	9	(1,670)	570	302	52,338	53,447

Unaudited	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000
At 31 March 2021	859	1,039	9	(1,670)	570	302	52,338	53,447
Profit for period							**809**	**809**
Other comprehensive income net of taxes								
Foreign exchange differences						**410**		**410**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**410**	**809**	**1,219**
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	**4**	**183**						**187**
Dividend paid							**(8,298)**	**(8,298)**
Total of transactions with owners in their capacity as owners	**4**	**183**	**—**	**—**	**—**	**—**	**(8,298)**	**(8,111)**
Share-based payments					**45**			**45**
Cancellation/transfer of share-based payments					**(118)**		**118**	**—**
At 30 September 2021	**863**	**1,222**	**9**	**(1,670)**	**497**	**712**	**44,967**	**46,600**

Notes to the condensed consolidated financial statements
for the six months ended 30 September 2021

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 (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 single segment, being semiconductor components for the communications industry.

Geographical segments (by origin)

Unaudited	**UK £'000**	**Rest of Europe £'000**	**Americas £'000**	**Far East £'000**	**Total £'000**
Six months ended 30 September 2021					
Revenue to third parties – by origin	**1,837**	**—**	**916**	**5,248**	**8,001**
Property, plant and equipment	**5,475**	**—**	**17**	**84**	**5,576**
Right-of-use assets	**100**	**—**	**226**	**198**	**524**
Investment properties	**3,775**	**—**	**—**	**—**	**3,775**
Development costs	**9,175**	**—**	**—**	**1,552**	**10,727**
Intangible assets – software and intellectual property	**254**	**—**	**—**	**98**	**352**
Goodwill	**1,531**	**—**	**—**	**5,751**	**7,282**
Other intangible assets arising on acquisition	**197**	**—**	**—**	**649**	**846**
Total assets	**46,109**	**—**	**1,606**	**11,220**	**58,935**

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	—	829	2,209	6,138
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	1,531	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

Audited	UK £'000	Rest of Europe £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2021					
Revenue to third parties – by origin	5,867	—	1,624	4,979	12,470
Property, plant and equipment	4,753	—	22	89	4,864
Right-of-use assets	90	—	255	64	409
Investment properties	3,775	—	—	—	3,775
Development costs	7,942	—	—	1,249	9,191
Intangible assets – software and intellectual property	264	—	—	101	365
Goodwill	1,531	—	—	5,541	7,072
Other intangible assets arising on acquisition	210	—	—	701	911
Total assets	52,228	—	2,467	10,549	65,244

Revenue

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

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Europe	**1,927**	1,259	2,996
Far East	**4,837**	3,718	7,005
Americas	**986**	926	2,000
Other	**251**	235	469
	8,001	6,138	12,470

The operational classification of business turnover (by market) is as follows:

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Semiconductor	**7,652**	5,694	11,622
Design and development	**349**	444	848
	8,001	6,138	12,470

Semiconductor products, goods and services are transferred at a point in time, design and development over the period of the contract on a percentage basis of contract completion, as detailed in the Group's revenue recognition policy within its published Annual Report.

The Group does not have any contract assets at 30 September 2021 (£Nil at 31 March 2021) as the Group does not fulfil any of its performance obligations in advance of invoicing to its customer. The Group however does have contractual balances in the form of trade receivables. See note 21 for disclosure of this in the Annual Report and Accounts for the year ended 31 March 2021. The Group does not have any contractual liabilities at 30 September 2021 (£Nil at 31 March 2021).

The Group also does not have any contractual costs capitalised or any outstanding performance obligations at 30 September 2021 and 31 March 2021.

2 Dividend paid and interim dividend

The Board is declaring an interim dividend of 4.0p per ordinary share of 5p for the half year ended 30 September 2021, payable on 17 December 2021 to shareholders on the Register on 3 December 2021.

A final special dividend of 50.0p per ordinary share of 5p was paid on 13 August 2021 and an interim dividend of 2.0p per ordinary share of 5p was paid on 18 December 2020, totalling 52.0p per ordinary share of 5p paid for the year ended 31 March 2021 (2020: 2.0p per ordinary share of 5p paid for the year ended 31 March 2020).

3 Income tax expense/(credit)

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
UK income tax credit	**(461)**	(495)	(1,126)
Overseas income tax charge	**89**	141	248
Total current tax credit	**(372)**	(354)	(878)
Deferred tax charge	**574**	328	86
Reported income tax charge/(credit)	**202**	(26)	(792)

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.

The tax charge for the six months ended 30 September 2021 has been calculated by applying the effective tax rate which is expected to apply to the Group for the year ended 31 March 2022, using rates substantially enacted by 30 September 2021 as required by IAS 34 – Interim Financial Reporting.

Notes to the condensed consolidated financial statements continued
for the six months ended 30 September 2021

4 Earnings per share

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Earnings per share from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	**4.87p**	(1.67)p	4.81p
Diluted earnings per share	**4.80p**	(1.67)p	4.79p
Earnings per share from total operations attributable to the ordinary equity holders of the Company (comparatives include discontinued operations):			
Basic earnings per share	**4.87p**	4.74p	141.13p
Diluted earnings per share	**4.80p**	4.73p	140.56p

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 2021	**16,608,977**	**16,855,132**
Six months ended 30 September 2020	16,692,935	16,718,813
Year ended 31 March 2021	16,696,060	16,763,946

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 long leasehold investment properties. In accordance with IAS 40, gains and losses arising on revaluation of investment properties are shown in the income statement. At 31 March 2021 the investment properties were professionally valued by Fenn Wright and Lambert Smith Hampton, Commercial Property Consultants, on an open market basis.

6 Cash and cash equivalents

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 £'000	Audited year end 31/03/21 £'000
Cash on deposit	**16,869**	4,183	20,438
Cash at bank	**5,718**	4,831	11,758
	22,587	9,014	32,196

7 Bank loans and borrowings

	Unaudited 6 months end 30/09/21 £'000	Unaudited 6 months end 30/09/20 £'000	Audited year end 31/03/21 £'000
Bank loan	**—**	1,661	—
Borrowings	**—**	—	282
	—	1,661	282

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. 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. The Group's 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

During the pandemic the Group has ensured that its critical infrastructure, resources and activities are organised to provide continuity of our operations which has enabled us to implement a responsive approach to COVID-19 with all non-essential operational employees working from home.

The Group is following the guidance of the World Health Organization and other government health agencies and has implemented a return-to-work strategy which is closely monitored to enable prudent steps to be mitigated in case of further potential impacts to our employees, customers, suppliers and other stakeholders. The Group continues to carry out regular assessments of the modelled scenarios based on management's current understanding of potential income and mitigating actions within the control of management, including reductions in discretionary spend along with tighter internal controls, but no fixed costs reductions have been assumed.

Given the nature of the markets we operate within, we anticipate the majority of 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. Despite 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 a product portfolio that addresses markets that have a positive outlook.

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 2021 and should be read in conjunction with the FY21 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 2021 financial statements.

Notes to the condensed consolidated financial statements continued
for the six months ended 30 September 2021

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 30/09/21 £'000	Unaudited 6 months end 30/09/20 Restated £'000	Audited year end 31/03/21 £'000
Profit/(loss) before taxation (earnings)	**1,011**	(304)	10
Adjustments for:			
Finance income	**(57)**	(40)	(75)
Finance expense	**13**	18	37
Depreciation	**171**	151	310
Depreciation – right-of-use assets	**126**	138	202
Impairment of development costs	**—**	—	701
Amortisation of development costs	**673**	1,317	1,191
Amortisation of intangibles of purchased and acquired intangibles recognised on acquisition	**136**	117	212
Share-based payments	**45**	80	143
Adjusted EBITDA	**2,118**	1,477	2,731

13 Disposal of the Storage Division

The Company announced on 5 February 2021 that it had successfully completed the sale of Hyperstone, the Group's Storage Division ("the Disposal"), for US$49m. The Disposal had not been previously reported in the unaudited accounts ended 30 September 2020, these results have been restated to take this into account. In the audited accounts ended 31 March 2021 this was reported as a discontinued operation.

This reflected a deliberate decision made by the Board to refocus exclusively on the global communications market, with all efforts directed at capturing the exciting growth opportunities that it presents.

Financial information relating to the discontinued operation for the period to the date of disposal and unaudited accounts ended 30 September 2020 is set out below.

	Unaudited 6 months end 30/09/20 £'000	Audited year end 31/03/21 £'000
Revenue	**6,763**	9,505
Cost of sales	**(2,191)**	(3,043)
Gross profit	**4,572**	6,462
Distribution and administration	**(3,478)**	(5,396)
	1,094	1,066
Other operating income	**7**	8
Profit from operation	**1,101**	1,074
Finance income	**—**	—
Finance expenses	**(26)**	(42)
Profit before tax	**1,075**	1,032
Income tax expense	**(6)**	(10)
Profit after income tax of discontinued operation	**1,069**	1,022
Gain on sale of subsidiary after income tax	**—**	21,740
Profit from discontinued operation	**1,069**	22,762

Further information can be found in the Annual Report and Accounts ended 31 March 2021 which can be viewed on the Company website: www.cmlmicroplc.com or obtained from Companies House.

14 Move to the AIM Market of the London Stock Exchange ("AIM")

The Company announced on 25 June 2021 the proposed cancellation of the listing of the Company's ordinary shares of 5p each on the standard segment of the London Stock Exchange's main market for listed securities and its intention to apply for the admission of the ordinary shares to trading on AIM. This was approved at the AGM on 4 August 2021, with the effective date of the Cancellation and Admission taking place on the 3 September 2021. Within the unaudited six months ended 30 September 2021 a cost of £248,000 is attributable to this move.

15 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 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 2021.

The financial information contained in this Half Yearly Report has been prepared in accordance with UK adopted International Accounting Standards. 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 2021 is based on the statutory accounts for the financial year ended 31 March 2021 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.

16 Approvals

The Directors approved this Half Yearly Report on 23 November 2021.

Glossary

5G	Fifth Generation Cellular Network Technology
AIM	Alternative Investment Market
DTR	Disclosure and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
EU	European Union
FY	Full Year
H1	First Half (Financial Year)
IAS	International Accounting Standards
IC	Integrated Circuit
IFRS	International Financial Reporting Standards
IIoT	Industrial Internet of Things
IoT	Internet of Things
IP	Intellectual Property
R&D	Research and Development

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