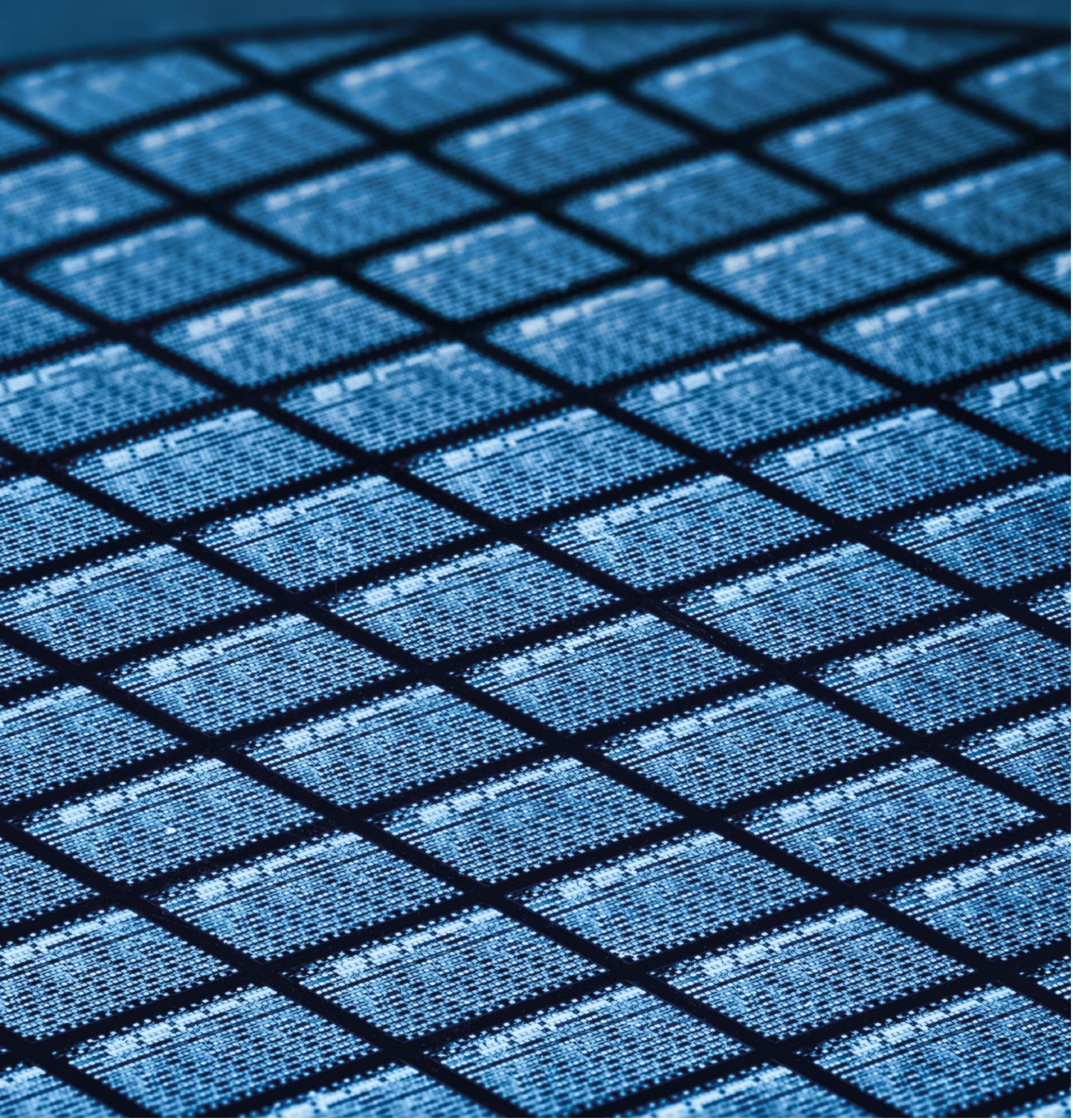
CML Microsystems Plc

Results announced for the year ended 31 March 2023



CHAIRMAN'S STATEMENT

Introduction

I am extremely pleased with the performance of CML over the last few years, and my colleagues throughout the whole Group should be justly proud of their achievements against a very challenging backdrop. This has been a transformational time for the Company, set against a period of numerous macro headwinds including COVID-19, Brexit, the conflict in Ukraine and increased economic and geopolitical uncertainty. It is therefore encouraging to see the business moving forward in such a positive manner.

The communications semiconductor market is one in which we have operated for over 50 years. It is a market we understand, where we have good customer relationships and see tremendous growth opportunities, as explained within the Strategic Report that follows. I am pleased to report that our strategy of concentrating our efforts on this market and expanding the sub-sectors we address is working well. Our focus on organic growth supplemented with appropriate acquisitions is beginning to yield the anticipated results.

We are still in the process of securing the exciting opportunity for the proposed acquisition of Microwave Technology, Inc ("MwT") which we announced on 17 January 2023. This is currently subject to the US regulatory clearance process, and we are in the final stages. Once completed, we will have substantially expanded the Group's product portfolio, strengthened and enhanced our support resources, and increased our R&D capabilities. Additionally, this will add to the Group's expertise through expanding our system level understanding, product manufacturing and packaging techniques, allowing us to capitalise on the market opportunity more effectively.

Results

Our financial focus is on constantly improving results in a number of areas, including revenues, operating profit, balance sheet strength and cash. While it is pleasing to show significant pre-tax profit growth in the income statement, we strongly believe that it is the operating profit line (excluding exceptional items) which most effectively demonstrates how the underlying business is performing. Exceptional items tend to be non-recurring, such as this year's profit on the disposal of excess land. That said, this extra profit is an important supplement to the progress being made and is obviously cash generative.

I am delighted with the strong organic growth achieved this year. Revenues increased 22% year-on-year to £20.64m (FY22: £16.96m), reflecting good progress across the established product range alongside the newer products which are already starting to make meaningful progress. The gross profit margin was maintained on the revenue increase but with inflationary pressures, a general increase in global business activity levels and acquisition related costs, expenses increased. Profit from operations before exceptional items increased to £2.93m (FY22: £1.21m), an advance of 142%. The growth in profit before tax to £5.22m (FY22: £1.74m) was assisted by the completion on the sale of the first parcel of excess land at Oval Park, yielding a £2.06m profit and occurring just prior to the year-end. Adjusted EBITDA improved 37% to £5.90m (FY22: £4.31m). Despite the share buyback programme and dividend payments, net assets per share grew 7% to 319.65p (FY22: 299.81p) and the Group's cash position remained healthy at £22.6m with no debt (FY22: £25.04m).

Property

Following our announcement on 17 February 2023 regarding the grant of planning permissions on excess land at the Group's Essex Headquarters site, Oval Park, as stated in the results section, I am pleased to note that we completed the sale of the first parcel of land just prior to the year-end. Following this transaction, circa 15 acres remain available for disposal.

Additionally, the Group has commercial property in Fareham, Hampshire, that is excess to operational needs and therefore held for sale. Negotiations are currently in progress regarding this site.

The Board's objective of raising cash from its excess property interests remains important as this will help to yield funds for future acquisition opportunities and/or allow the return of additional monies to shareholders. I must again stress these property transactions are separate from, and additional to, the Group's planned operational profits growth.

Share Buyback and dividend

Through the year, £3.65m net was spent on the share buyback programme (£4.77m purchased net of £1.12m issued in satisfaction of employee share options) and, following the financial year end in April, a further £1.75m was spent on an additional buyback. This shows the Board's continued commitment to returning funds to shareholders and enhancing earnings where possible.

The Board continues to maintain its progressive dividend policy whilst ensuring it has adequate cash to cover its growth objectives, including strong R&D investments, and the completion of the MwT acquisition. The interim dividend was increased from 4p to 5p per share and the Board is recommending an increased final dividend of 6p per share, taking the full year dividend to 11p per share (FY22: 9p per share). This is an increase for the full year dividend of 22% and reflects the Board's confidence in the future. Subject to shareholder approval, the dividend will be paid to shareholders on 18 August 2023 whose names appear on the register at close of business on 4 August 2023.

ESG

The Company has an Environment, Social and Governance ("ESG") strategy that is supporting sustainable and inclusive economic growth. We believe that it is important to focus our efforts on areas where our actions can make a difference, rather than simply paying lip service to the topic. Full disclosure of how we address this subject can be found in the Group's Annual Report and Accounts.

Employees

Clearly the life blood and success of any company is attributable to its workforce, and on behalf of the Board I would like to thank every one of our employees for their energy, enthusiasm and commitment which is evident to all and much appreciated.

Outlook

As a business, we are confident that the strategy we are following is going to yield the sustainable long-term growth we are looking to achieve, and these results are a clear endorsement of this. That said, it is important not to underestimate the ongoing challenges facing the Group, not only within our market sector, but the global economy in general. Whilst headwinds do persist, I believe the Group is well placed to navigate these challenges effectively and continue our growth trajectory.

We have exciting opportunities ahead of us, an expanding product line and a robust ongoing R&D programme. In addition to this, we have the planned assimilation of MwT into the Group with the expected benefits from the combined business helping to expand expertise, increase operational efficiencies and scale alongside the market. Whilst this will be another busy year for the Group, we look to the future with confidence that further progress will be made against our strategic objectives.

Nigel G Clark
Executive Chairman

OPERATIONAL AND FINANCIAL REVIEW

Introduction

For the year to 31 March 2023, our ambition was to deliver a firm improvement in the Group’s financial and operational performance. It is very satisfying to report that those objectives were accomplished despite a challenging macroeconomic backdrop and prolonged electronic component supply chain challenges amongst the Group’s customer base.

According to a number of industry commentators, the semiconductor market as a whole grew by 3-4% for the calendar year to December 2022, with the second half weaker than the first. In comparison, the Group's full year revenues to 31 March 2023 advanced by 22% with the second six-month period delivering a stronger performance than the first. This highlights the resilience of the Group's end markets where the focus is currently weighted towards industrial and critical communications application areas in contrast to the memory, personal computer and consumer markets which tend to exhibit more volatility.

The improvement in profitability for the year is further validation of the Group’s pivotal decision to divest our Storage Division in 2021 in favour of an increased focus on global communications markets, with expansion into end-applications requiring microwave and millimetre wave (“mmWave”) products a key major objective.

Good progress is being made in this area, with the Group continuing to invest heavily in research and development activities targeted at products for application areas that are expected to drive growth over the coming years, along with the investment in the personnel and equipment required for the business to maintain a competitive edge.

Strategy

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

Our focus is on the definition, development and marketing of standard integrated circuit (“IC”) products that deliver compelling technical and commercial benefits to our customers. In turn, our customers utilise these solutions to develop and subsequently market end-products that are essential for the efficient and reliable transportation of voice and/or data across a predominantly wireless medium.

The global communications market is huge, with a myriad of end-application areas ranging from mobile/cellular networks to precise positioning systems to short-range remote-control devices. Within this vast landscape of opportunity, CML is actively participating in a number of sub-markets that play to our strengths and have excellent growth potential on a sustainable basis. These markets include mission critical communications, wireless networks and satellite, Industrial Internet of Things (“IIoT”) and more recently, broadcast radio. The addressable market in terms of semiconductor content easily exceeds $1 billion.

Continued investment in research and development is essential to allow CML to take full advantage of the large market opportunity available. The Group’s product portfolio is evolving to support customer requirements for size, cost and performance enhancements whilst also encompassing new technologies that will permit entry into markets that were previously not addressable.

Our strategy for allocating capital to R&D comprises four main areas of investment; “Defend & Grow” revenues in core CML markets, expand into adjacent markets (SµRF product range), innovative product initiatives aimed at new high-growth markets and an element of internal research and innovation that could benefit any or all of the aforementioned categories.

Markets

The mission critical communications sector is a multi-billion dollar market that is estimated to grow at a CAGR of close to 9% over the next five years. Applications include public safety, government agencies, transportation, energy and utilities, mining and others. Growth is being driven by the increased adoption from energy and utility sectors, rising investment by defence sectors and trends within the transportation industry where real-time data is being used to support dynamic decision-making. Mission critical communications has been a cornerstone of CML's global business for many years and the year under review was no exception. An overall increase in revenues from the Group's top customers who are active in this sector contributed well to the Group's underlying performance. Outside of mission critical end markets, revenues from customers producing similar products for industrial and commercial business users, also grew well and overall, the two sectors combined to deliver a very pleasing performance across the year.

One area where the Group sees great potential is the rapid development of 5G and satellite-based communications. Advancements in this area are propelling us towards a future where faster, cheaper, and more accessible internet connectivity becomes a reality for all. 5G's high-speed, low-latency capabilities, combined with satellite technology's wide coverage and reach, enable a bridging of the digital divide, connecting remote regions, enabling faster communication and empowering industries. To build this new reality, a vast 5G network of base stations, small cells and other mmWave infrastructure will be required.

Using our expertise in advanced compound semiconductor IC design, CML has begun producing high performance Radio Frequency ICs ("RFICs") and Monolithic Microwave ICs ("MMICs") that are relatively simple to use from a customer perspective but have the technical characteristics and commercial competitiveness required to be successful in these mass-market applications areas. FY23 represented the first full year period of availability for a number of new products that are marketed under CML's SμRF brand. Prior year product releases have started generating income and, over time, the flow of revenue from this portfolio of IC's is expected to constitute a very sizeable proportion of the Group's total revenues.

CML has a long history in supporting IIoT & M2M applications, with decades of experience in helping to solve customers' design problems. Our semiconductor solutions include off-the-shelf baseband modem ICs, offering engineers a fast time to market by avoiding unnecessary software development. These products typically provide high performance with relatively low-power consumption and are highly integrated, targeting application areas including M2M, automatic meter reading ("AMR"), advanced metering infrastructure ("AMI"), asset tracking and, more recently, Radio Frequency Identification ("RFID"). Combined product shipments into the Group's top customers active in these sectors was slightly weaker than the prior year due in part to the unusual purchasing patterns that some customers employed whilst navigating through their own supply chain disruptions across the last two years.

Towards the end of the financial year, a key R&D initiative that fits the "*innovative product for new high growth markets"* category reached the stage of development whereby it could be released to early adopters. This new product represents a first for CML in that it paves the way for entry into the broadcast radio market which, although invented more than 100 years ago, remains a highly important media. In many parts of the world radio remains the method whereby large populations get their trusted news and information and in times of natural disaster provides a vital service when other infrastructure has been compromised.

Digital Radio Mondiale ("DRM") is a digital radio broadcast standard that has been adopted for wide area broadcasting in China India and Pakistan whilst being targeted for deployment in several other emerging nations in the near term. In India, near national area coverage is achieved from 35 transmitting sites. The DRM service provides high quality stereo audio across long distances and wide areas. DRM is an "open standard" to ensure a wide diversity of equipment, receivers, and IP suppliers. The radio spectrum is a limited natural resource, DRM uses that resource more cost effectively than analogue or other digital broadcast methods whilst the infrastructure required for DRM is both low cost and low power - offering a 10:1 power consumption advantage over equivalent analogue FM transmissions.

Current DRM IC solutions are targeted at the automotive market where low-power operation is less of a necessity and they are therefore not well suited to portable receivers. CML has developed a highly integrated Software Defined Radio ("SDR") tuner IC targeted at the market for DRM receivers. To complement the IC, CML has worked with Cambridge Consultants Limited to produce a miniature module, seen as a core component to implement a full DRM capable broadcast receiver covering all transmission bands. The IC will be sampled during the first half of this financial year with full launch of the module planned for the second half.

The Group's market exposure is evolving in tandem with a number of new and emerging growth sectors that have something in common, a fundamental need for semiconductor solutions that CML has the inherent capability to produce.

Operations

During the year, the Group formally launched seven new products to market. The majority of these are for use in microwave or mmWave applications across a number of the previously mentioned market sectors. Customer adoption of the Group's products marketed under the SμRF brand continues to gather pace, and progress during the first full year of production has been very encouraging.

One of our guiding principles is to foster a culture of quality with a sense of urgency. Operationally, the CML team continued to excel in that regard, despite the increased demands that an ongoing and rapid expansion of the product range places upon personnel and systems. Our future success depends upon the skills and dedication of our employees, and it is important to recognise the exceptional efforts being made by the whole team in that regard.

The growing product range, coupled with a simultaneous expansion into new and adjacent market sectors, places a great deal of emphasis on ensuring that the Group's routes to market remain appropriate for the direction of travel that the business is taking. The process is one of evolution and refinement over time, and during the year a number of enhancements were made, including territorial changes within Europe and new partners in the Americas and South Africa.

Following travel and tradeshow restrictions due to the pandemic, the Company participated at a number of trade shows relevant to the sectors and industries being targeted. These included European Microwave week (London), IMS2022 (Denver) and BES Expo (New Delhi). These activities have led to an increase in associated costs that is further explained in the financial review that follows. However, they are an important ingredient for success given the strategy being followed and another year of strong investment is planned.

The Group's orderbook climbed significantly across the last two and a half years as customers placed longer term scheduled orders amidst concerns about the general supply situation for semiconductors that was extensively reported on at the time. It is apparent that the supply situation has improved and some customers are becoming more relaxed about product availability leading to adjustments to their ordering patterns. The Group's order book remains healthy, at a level more than double that prior to the pandemic and stretching well into 2024. A 'new normal' will be established following the unusual market dynamics of the last three years and the growth of the customer base as we continue to expand into wider markets.

Acquisition of Microwave Technology, Inc

On 17 January 2023 we announced the entering of a definitive agreement to acquire Silicon Valley based semiconductor company Microwave Technology, Inc. ("MwT"). Founded in 1982, MwT is a recognised leader in the design, manufacturing and marketing of GaAs and GaN based MMICs, Discrete Devices, and Hybrid Amplifier Products for commercial wireless communication, defence, space, and medical (MRI) applications.

The proposed acquisition expands the Group's product portfolio, strengthens its support resources and increases its R&D capabilities. MwT's products are complementary to CML's and the majority of its focus and client concentration remains within the USA. The CML Board believes there is a significant opportunity to increase market share by internationalising MwT's products.

Currently, the transaction remains subject to US regulatory approval. Expectations were for the transaction to complete during the first half of 2023, however, the nature of the technology that MwT possesses along with the constitution of its customer base has necessitated extended discussions with the relevant US authorities whose remit it is to protect national security interests. Whilst a definitive date for completion is not yet available, we are in regular contact with the relevant departments and expect a conclusion to be reached in the coming weeks. A further announcement will be made at the appropriate time.

Outlook

Market expansion through the addition of microwave/millimetre wave ICs to the Group's product portfolio is now delivering tangible results, with good growth expected for the year ahead. A high level of R&D investment continues to ensure the Group is well placed to capture new opportunities within the markets that dominate the current revenue stream, whilst making appropriate investment into exciting new markets with strong growth potential.

Clearly the world has its issues, not least geo-political uncertainties, an inflationary environment and economic uncertainty. Whilst remaining mindful of the backdrop and risk-aware, CML is focussed on growth, with a confidence supported by our resilient existing markets, a healthy orderbook and an evolving presence in new and emerging growth sectors.

As is evident, the business continues to make good progress and has the appropriate blend of experience, enthusiasm and skills to continue to achieve its objectives. Subject to unforeseen circumstances the period to 31 March 2024 is expected to be a further year of improvement, with solid growth in revenues and operational profitability.

FINANCIAL REVIEW

Revenue

Group full year revenues of £20.64m (FY22: £16.96m) slightly exceeded market expectations that had been raised at the time of the interim results, after factoring in the positive momentum being achieved. This increase in revenues represented growth of 22% over the prior year and was assisted by a foreign exchange tailwind. Currency effects are less pronounced at the gross profit level where the Group has a somewhat natural hedge, due to a significant amount of raw material procurement being conducted in US Dollars.

The revenue advances were broad-based across the three main geographical areas addressed, with the Far East (+25%) and Americas (+35%) delivering the strongest gains whilst Europe was 8% higher. It is important to note that annual revenue comparisons by region can be misleading because customers can and do alter their manufacturing locations periodically. From a customer perspective, close to 80% of the top 25 customers grew their business with CML year-on-year, with the dominant sectors addressed encompassing narrowband voice communications and mission critical data applications.

Gross Profit

Gross profit for the year was £15.61m (FY22: £12.80m), representing a 21% increase. This is a pleasing outcome given the raw material price rises encountered and the need to impose increased prices across the Group’s product range on more than one occasion. At the start of the year, higher inventory costs were anticipated, and allowances were factored into managements' growth expectations, nevertheless, the operational teams responsible deserve much credit for achieving the targeted outcome.

Distribution and Administration costs

D&A expenses increased by 9% to £12.64m (FY22: £11.56m). One driver was the resumption of certain business activities such as travel, marketing and exhibition costs as countries around the world eased their COVID-19 restrictions. There was an increased need to support the workforce in navigating a high inflationary period through a combination of salary rises and cost of living payments, whilst higher energy prices, acquisition related costs and the amortisation of development costs also added to the overall increase.

The Group continued with a strong level of R&D investment focussed at capitalising on the secular growth expected from the market and application areas being targeted. R&D expenditure for the year was slightly up in absolute terms at £5.13m (FY22: £4.79m) but expressed as a percentage of sales, fell to 25% (FY22: 28%). Of this amount, £0.68m was expensed (FY22: £1.26m) with the balance capitalised under the Group’s research and development policy.

Operating profit

As per the previous financial year, a strong sales performance supported by stable gross margins drove the Group's profit from operations before exceptional items to £2.93m (FY22: £1.21m) with other operating income contributing £0.20m (FY22: £0.08m). This results in a doubling of the operating margin before exceptional items to 14% (FY22: 7%) and is particularly pleasing given the industry-specific headwinds over recent years along with the prevailing inflationary climate.

Profit before tax

Excluding the exceptional profit realised from the sale of excess land at the Group's Oval Park Headquarters, profit before tax and exceptional items improved by 77% to £3.16m and included net finance and other income of £0.23m (FY22: £0.57m).

As reported in recent years, the Group has been actively engaging with the local authority and interested parties to obtain planning permission on and subsequently dispose of excess land at the CML Group headquarters in Essex, UK. During the period leading up to the financial year end, detailed planning permission was obtained on two separate parcels of land along with outline planning permission for a business park on a third plot. One land parcel was successfully divested during March 2023 and the profit from that transaction amounted to £2.06m. While there is no certainty on the timing for realising value from the remaining excess land, the Company continues to engage with interested parties and currently expects to conclude the disposals during the next 12 months.

The total profit before tax recorded for the year was £5.22m (FY22: £1.74m).

Profit after tax

The Group continued to benefit from the R&D tax credit scheme that has existed for some years in the UK. For the year under review, tax assessed for the period is lower than the 19% standard rate of corporation tax in the UK, providing an effective tax rate of 7.8%.

EPS

Excluding the exceptional property transaction previously mentioned, fully diluted earnings per share for the year climbed by 161% to 19.20p (FY22: 7.35p). When profits from the land sale are included, diluted earnings per share equated to 29.93p (FY22: 7.35p).

Dividend

The Board is proposing a final dividend of 6p (FY22: 5p), giving a full year dividend of 11p (FY22: 9p) as communicated in the Chairman's Statement.

Cash

The Group's cash reserves as at 31 March 2023 were £22.26m, including short-term cash deposits of £1.22m. This represents a reduction of £2.78m from the prior year equivalent date (31 March 2022: £25.04m) primarily due to R&D cash spend of £5.13m, net share buybacks totalling £3.65m, dividend payments of £1.59m and a £0.93m investment in capital equipment. Whilst the total net cash inflow from operating activities was £5.41m and from investing activities the sale of land at £2.50m.

Inventories

Raised inventory levels have been an intentional element of the Group's approach to addressing semiconductor supply chain disruptions that have been a feature in recent years and in support of an expanding product range. At 31 March 2023, inventories were valued at £2.43m (FY22: £2.26m) with 38% being held as raw material (FY22: 39%) and the balance either work In progress or as finished goods.

Pension schemes

The Group operates several pension schemes globally, mostly of a defined contribution nature. In the UK, the Company historically operated a defined benefit scheme that was closed to new members on 1 April 2002 and to future accruals in 2009. The funding position of this scheme improved through the year when calculated under IAS 19 methodology, with a deficit of £1.20m being recorded (FY22: £2.44m).

Separately, the most recent actuarial estimate carried out by an independent professionally qualified actuary, as at 31 March 2023 and based upon existing funding principles, indicated a net pension surplus with the funding level at 112%. 2023 is an actuarial valuation year with the formal triennial valuation not expected to be published until early 2024.

All administrative expenses of running the scheme are met directly by the scheme along with pension protection fund levies.

Chris Gurry
Group Managing Director

Consolidated income statement for the year ended 31 March 2023

	Notes	2023 Before exceptional items £'000	2023 Exceptional items £'000	2023 Total £'000	2022 Before exceptional items £'000	2022 Exceptional items £'000	2022 Total £'000
Revenue	1,2	**20,643**	**-**	**20,643**	16,964	-	16,964
Cost of sales		**(5,032)**	**-**	**(5,032)**	(4,169)	-	(4,169)
Gross profit		**15,611**	**-**	**15,611**	12,765	-	12,795
Distribution and administration costs		**(12,644)**	**-**	**(12,644)**	(11,562)	-	(11,562)
Share-based payments		**(234)**	**-**	**(234)**	(98)	-	(98)
		2,733	**-**	**2,733**	1,135	-	1,135
Profit on sale of fixed asset		**-**	**2,058**	**2,058**	-	-	-
Other operating income		**199**	**-**	**199**	79	-	79
Profit from operations		**2,932**	**2,058**	**4,990**	1,214	-	1,214
Other income		**18**	**-**	**18**	216	284	500
Loss on sale of investment property		**-**	**-**	**-**	-	(50)	(50)
Finance income		**255**	**-**	**255**	106	-	106
Finance expense		**(47)**	**-**	**(47)**	(33)	-	(33)
Profit before taxation		**3,158**	**2,058**	**5,216**	1,503	234	1,737
Income tax charge	4	**(71)**	**(335)**	**(406)**	(499)	-	(499)
Profit after taxation attributable to equity owners of the parent		**3,087**	**1,723**	**4,810**	1,004	234	1,238

All financial information presented relates to continuing activities.

	Notes	2023	2022
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	5	**30.29p**	7.45p
Diluted earnings per share	5	**29.93p**	7.35p

The following measure is considered an alternative performance measure not a generally accepted accounting principle. This ratio is useful to ensure that the level of borrowings in the business can be supported by the cashflow in the business. For definition and reconciliation see note 6.

	Notes	2023	2022
Adjusted EBITDA	6	**5,901**	4,308

Consolidated statement of total comprehensive income for the year ended 31 March 2023

	2023 **£'000**	**2023** **£'000**	2022 £'000	2022 £'000
Profit for the year		**4,810**		1,238
Other comprehensive income/(expense):				
Items that will not be reclassified subsequently to profit or loss:				
Re-measurement of defined benefit obligation	**1,393**		3,307	
Deferred tax on actuarial loss	**(348)**		(827)	
Change in deferred tax rate on defined benefit obligation	**-**		345	
Items reclassified subsequently to profit or loss upon derecognition:				
Foreign exchange differences	**(140)**		880	
Other comprehensive income for the year net of taxation attributable to equity owners of the parent		**905**		3,705
Total comprehensive income for the year attributable to the equity owners of the parent		**5,715**		4,943

Consolidated statement of financial position as at 31 March 2023

	2023 £'000	**2023 £'000**	2022 £'000	2022 £'000
Assets				
Non-current assets				
Goodwill		**7,429**		7,531
Other intangible assets		**984**		1,119
Development costs		**13,801**		11,197
Property, plant and equipment		**5,249**		5,593
Right-of-use assets		**1,022**		458
Deferred tax assets		**766**		1,550
		29,251		27,448
Current assets				
Property, plant and equipment – held for sale	**485**		-	
Investment properties – held for sale	**1,975**		1,975	
Inventories	**2,425**		2,258	
Trade receivables and prepayments	**2,413**		2,199	
Current tax assets	**1,659**		409	
Cash and cash equivalents	**21,041**		19,084	
Short term cash deposits	**1,218**		5,958	
		31,216		31,883
Total assets		**60,467**		59,331
Liabilities				
Current liabilities				
Trade and other payables		**3,036**		2,827
Lease liabilities		**210**		230
Current tax liabilities		**78**		42
		3,324		3,099
Non-current liabilities				
Deferred tax liabilities	**4,343**		3,702	
Lease liabilities	**842**		238	
Retirement benefit obligation	**1,204**		2,439	
		6,389		6,379
Total liabilities		**9,713**		9,478
Net assets		**50,754**		49,853
Capital and reserves attributable to equity owners of the parent				
Share capital		**796**		865
Share premium		**2,462**		1,362
Capital redemption reserve		**8,372**		8,285
Treasury shares – own share reserve		**(324)**		(1,670)
Share-based payments reserve		**488**		490
Foreign exchange reserve		**1,042**		1,182
Accumulated profits reserve		**37,918**		39,339
Total shareholders' equity		**50,754**		49,853

Consolidated cash flow statement for the year ended 31 March 2023

	2023 **£'000**	2022 £'000
Operating activities		
Profit for the year before taxation	**5,216**	1,737
Adjustments for:		
Depreciation – on property, plant and equipment	**367**	375
Depreciation – on right-of-use assets	**300**	258
Impairment of development costs	**-**	123
Amortisation of development costs	**1,826**	1,507
Amortisation of intangibles recognised on acquisition and purchased	**224**	283
Profit on disposal of fixed assets	**(2,058)**	-
Loss on disposal of investment properties	**-**	50
Rental income	**-**	(215)
Forgiveness US PPP loan	**-**	(284)
Employee retention credit – US	**110**	-
Movement in non-cash items (Retirement benefit obligation)	**158**	176
Share-based payments	**234**	98
Finance income	**(255)**	(106)
Finance expense	**47**	33
Movement in working capital	**(653)**	(1,025)
Cash flows from operating activities	**5,516**	3,010
Income tax (paid) / received	**(104)**	905
Net cash flows from operating activities	**5,412**	3,915
Investing activities		
Proceeds from sale of fixed assets	**2,500**	-
Proceeds from sale of investment	**-**	1,750
Purchase of property, plant and equipment	**(932)**	(1,105)
Investment in development costs	**(4,455)**	(3,532)
Repayment in fixed term deposits	**4,740**	4,192
Repayment of Investment loan note	**-**	293
Investment in intangibles	**(98)**	-
Rental income	**-**	215
Finance income	**255**	106
Net cash flows from investing activities	**2,010**	1,919
Financing activities		
Lease liability repayments	**(321)**	(287)
Issue of ordinary shares	**1,118**	329
Purchase of own shares for treasury	**(4,767)**	-
Dividends paid to shareholders	**(1,589)**	(8,964)
Net cash flows used in financing activities	**(5,559)**	(8,922)
Increase / (decrease) in cash and cash equivalents	**1,863**	(3,088)
Movement in cash, cash equivalents and fixed term deposits:		
At start of year	**19,084**	22,046
Increase / (decrease) in cash, cash equivalents and fixed term deposits	**1,863**	(3,088)
Effects of exchange rate changes	**94**	126
At end of year	**21,041**	19,084

Cash flows presented exclude sales taxes.

Consolidated statement of changes in equity for the year ended 31 March 2023

	Share capital £'000	Share premium £'000	Redemption reserve £'000	Treasury shares £'000	Share-based payments £'000	Foreign exchange reserves £'000	Retained earnings £'000	Total £'000
At 31 March 2021	859	1,039	8,285	(1,670)	570	302	44,062	53,447
Profit for year							**1,238**	**1,238**
Other comprehensive								
income								
Foreign exchange differences						**880**		**880**
Net actuarial gain recognised directly to								
equity on retirement benefit obligations							**3,307**	**3,307**
Deferred tax on actuarial gain							**(827)**	**(827)**
Change in deferred tax rate on defined								
benefit obligation							**345**	**345**
Total comprehensive income for year								
capacity as owners	-	-	-	-	-	**880**	**4,063**	**4,943**
Transactions with owners in their								
capacity as owners	**859**	**1,039**	**8,285**	**(1,670)**	**570**	**1,182**	**48,125**	**58,390**
Issue of ordinary shares	**6**	**323**						**329**
Dividend paid							**(8,964)**	**(8,964)**
Total transactions with owners in their								
capacity as owners	**6**	**323**	**-**	**-**	**-**	**-**	**(8,964)**	**(8,635)**
Share-based payments in year					**98**			**98**
Cancellation/transfer of share-based								
payments					**(178)**		**178**	**--**
At 31 March 2022	**865**	**1,362**	**8,285**	**(1,670)**	**490**	**1,182**	**39,339**	**49,853**
Profit for year							**4,810**	**4,810**
Other comprehensive								
income								
Foreign exchange differences						**(140)**		**(140)**
Net actuarial gain recognised directly to							**1,393**	**1,393**
equity on retirement benefit obligations								
Deferred tax on actuarial gain							**(348)**	**(348)**
Total comprehensive income for year						**(140)**	**5,855**	**5,715**
capacity as owners	**-**	**-**	**-**	**-**	**-**			
Transactions with owners	**865**	**1,362**			**490**	**1,042**	**45,194**	**55,568**
in their capacity as owners			**8,285**	**(1,670)**				
Issue of ordinary shares – exercise of		**1,100**						**1,118**
share options	**18**							
Purchase of own shares – treasury				(4,767)				**(4,767)**
Cancellation of treasury shares	**(87)**		**87**	6,113			**(6,113)**	**-**
Dividend paid							**(1,589)**	**1,589)**
Total transactions with owners in their	**(69)**	**1,100**	**87**	**1,346**			**(7,702)**	**(5,238)**
capacity as owners					**-**	**-**		
Share-based payment charge					**234**			**234**
Deferred tax on share based payments							**190**	**190**
Cancellation/transfer of share-based								
payments					**(236)**		**236**	**-**
At 31 March 2023	**796**	**2,462**	**8,372**	**(324)**	**488**	**1,042**	**37,918**	**50,754**

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 operating segment, which is reported as 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 information (by origin)

	UK £'000	Americas £'000	Far East £'000	Total £'000
Year ended 31 March 2023				
Revenue to third parties – by origin	**5,024**	**3,413**	**12,206**	**20,643**
Property, plant and equipment	**5,074**	**80**	**95**	**5,249**
Right-of-use assets	**473**	**330**	**219**	**1,022**
Property, plant and equipment – held for sale	**485**	**-**	**-**	**485**
Investment properties – held for sale	**1,975**	**-**	**-**	**1,975**
Development costs	**12,416**	**-**	**1,385**	**13,801**
Intangibles - software and intellectual property	**320**	**-**	**80**	**400**
Goodwill	**1,531**	**-**	**5,898**	**7,429**
Other intangible assets arising on acquisition	**159**	**-**	**425**	**584**
Total assets	**47,151**	**1,575**	**11,741**	**60,467**
Year ended 31 March 2022				
Revenue to third parties – by origin (restated)	4,569	2,572	9,823	16,964
Property, plant and equipment	5,504	12	77	5,593
Right-of-use assets	227	60	171	458
Investment properties – held for sale	1,975	-	-	1,975
Development costs	9,714	-	1,483	11,197
Intangibles - software and intellectual property	243	-	96	339
Goodwill	1,531	-	6,000	7,531
Other intangible assets arising on acquisition	184	-	596	780
Total assets	46,024	1,163	12,144	59,331

2 Revenue

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

	2023 £'000	2022 £'000
Europe	**4,009**	3,705
Far East	**12,036**	9,603
Americas	**3,910**	2,901
Others	**688**	755
	20,643	16,964

3 Dividend – paid and proposed

During the year a final dividend of 5.0p per ordinary share of 5p was paid in respect of the year ended 31 March 2022. An interim dividend of 5.0p per ordinary share was paid on 16 December 2022 to shareholders on the Register on 2 December 2022.

It is proposed to pay a final dividend of 6.0p per ordinary share of 5p, taking the total dividend amount in respect of the year ended 31 March 2023 to 11.0p. It is proposed to pay the final dividend of 6.0p, if approved, on 18 August 2023 to shareholders registered on 4 August 2023 (2022: paid 19 August 2022 to shareholders registered on 5 August 2022).

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.

	2023 £'000	2022 £'000
Current tax		
UK corporation tax on results of the year	**(809)**	(415)
Adjustment in respect of previous years	**(372)**	(6)
	(1,183)	(421)
Foreign tax on results of the year	**319**	121
Total current tax	**(864)**	(300)
Deferred tax		
Deferred tax - Origination and reversal of temporary differences	**683**	6
Change in deferred tax rate	**103**	833
Adjustments to deferred tax charge in respect of previous years	**494**	(40)
Total deferred tax	**1,270**	799
Tax expense on profit on ordinary activities	**406**	499

5 Earnings per share

	2023	2022
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**30.29p**	7.45p
Diluted earnings per share	**29.93p**	7.35p

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:

	2023			2022		
	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	**4,810**	**15,878,401**	**30.29**	1,238	16,628,301	7.45
Diluted earnings per share						
Basic earnings per share	**4,810**	**15,878,401**	**30.29**	1,238	16,628,301	7.45
Dilutive effect of share options	**-**	**194,043**	**(0.36)**	-	219,95	(0.10)
Diluted earnings per share - from profit for year	**4,810**	**16,072,444**	**29.93**	1,238	16,848,252	7.35

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, exceptional items and before share-based payments. The following is a reconciliation of the Adjusted EBITDA for the years presented:

	2023	2022
	£’000	£’000
Profit before taxation (earnings)	**5,216**	1,737
Adjustments for:		
Finance income	**(255)**	(106)
Finance expense	**47**	33
Depreciation	**367**	375
Depreciation – right-of-use assets	**300**	258
Impairment of development costs	**-**	123
Amortisation of development costs	**1,826**	1,507
Amortisation of acquired and purchased intangibles recognised on acquisition	**224**	283
Share-based payments	**234**	98
Profit on sale of fixed asset	**(2,058)**	-
Adjusted EBITDA	**5,901**	4,308

7 Cash, cash equivalents and fixed term deposits

	2023	2022
	£’000	£’000
Cash on deposit	**13**	10,275
Cash at bank	**21,038**	8,809
	21,041	19,084
Short term cash deposits	**1,218**	5,958
	22,259	25,042

8 Investment properties

The investment property was reclassified on 31 March 2022 as held for sale as the property became vacant with no prospective tenant in place and is held based upon the current market valuation methodology. The property is currently expected to sell within the next twelve months. Investment properties held for sale £1,975,000 (2022: £1,975,000).

9 Principal risks and uncertainties

Key risks of a financial nature

Foreign exchange
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.

Customer dependency
The Group has a very diverse customer base generally, however 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 key customers could have an adverse effect on the Group’s performance.

Supply chain dependency, interruption and cost inflation
The Group has a number of key supplier relationships, which are closely maintained to minimise the impact from any potential supply chain disruption. Some of the raw materials used within the Group’s semiconductor products are sole sourced from highly specialised suppliers on a global basis. To partially mitigate unexpected but temporary raw material delivery delays, an appropriate level of excess inventory is held. If a key raw material supplier was unable to continue supply on a permanent basis, then the Group would need to invest the R&D effort and associated costs to replace the supplier, subject to that being considered commercially viable.

Supplier prices, currency exchange rates and gross margins are continually monitored which can lead to pricing adjustments with customers.

IT system – failure or malicious damage
The Group has a standardised systematic approach to maintaining and operating its IT systems globally consisting of an internal team supported by a number of world class external partners. The backup and recovery of its global IT systems has been real-time tested. The threat from malicious cyber activity is an ever-increasing risk with awareness and responsibility at Board level and appropriate investments being made.

Cost-of-living crisis
During 2023, a cost-of-living crisis has been triggered due to the combined impact of COVID 19 and the various economic effects of the Russian invasion of Ukraine. Rising energy prices and supply chain dependency are contributing to significant price inflation and associated rises in interest rates. The Group understands that this is impacting all aspects of day-to-day living and placing real pressure on the current market and are continuing to monitor the impact.

Key risks of a non-financial nature

Customer product demand
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.

Legal requirements
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.

Understanding of the development, performance or position of the Company's business
The Directors do not believe that environmental matters (including the impact of the Company's business on the environment), details of the Company's employees (including gender) and social, community and human rights issues are needed for an understanding of the development, performance or position of the Company's business and accordingly have not included these within the Strategic Report, but have added these to the Directors' Report and Environment, social and governance sections of this Annual Report.

10 Post balance sheet events

Share Buyback Programme
In April 2023, a £1,750,000 Share Buyback Programme was put in place for the principal purpose of reducing the share capital of the Company and returning funds to shareholders. During April, the £1,750,000 had been used in its entirety to repurchase 337,900 ordinary shares and these shares were taken into treasury.

Acquisition of Microwave Technology, Inc.
On 17 January 2023, CML Microsystems Plc entered into a definitive agreement to acquire a Silicon Valley based semiconductor company, Microwave Technology, Inc (MwT), which is subject to US regulatory clearance.

The acquisition will expand the Group's product portfolio, strengthen and enhance its support resources and increase its R&D capabilities, providing essential knowhow and experience in system level understanding, product manufacturing and packaging techniques.

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 £464,000. These costs have been charged in distribution and administrative expenses in the Consolidated Income Statement.

11 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 2023 financial statements.

12 General

These Condensed Consolidated Financial Statements have been prepared in accordance with UK adopted International Accounting Standards and are in conformity with the requirements of the Companies Act 2006. They do not include all of the information required for full annual statements and should be read in conjunction with the 2023 Annual Report.

The comparative figures for the financial year 31 March 2022 have been extracted from the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 March 2022 have 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 2023 were approved by the Board of Directors on 26 June 2023 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 9 August 2023.

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31 March 2023 or 2022 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.

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