



CML Microsystems Plc

Half Yearly Report FY24

About us

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



Contents

Financial highlights	3	Condensed consolidated statement of financial position	10
Operational highlights	3	Condensed consolidated cash flow statement	12
Chairman's statement	4	Condensed consolidated statement of changes in equity	14
Operational and financial review	5	Notes to the condensed consolidated financial statements	17
Condensed consolidated income statement	8	Glossary	22
Condensed consolidated statement of total comprehensive income	9		

Financial highlights

<p>Revenue (\$m)</p> <p>10.58 (HY FY23: 10.05)</p> <p>+5%</p>	<p>Operating profit, before exceptional items (\$m)</p> <p>1.61 (HY FY23: 1.75)</p> <p>Operating profit, reported (\$m)</p> <p>1.61 (HY FY23: 1.75)</p> <p>(10)%</p>	<p>Pre-tax profit (\$m)</p> <p>1.87 (HY FY23: 1.83)</p> <p>+2%</p>	<p>Basic earnings per share³ (p)</p> <p>9.44 (HY FY23: 11.72)</p> <p>(19)%</p>
<p>Adjusted EBITDA¹ (\$m)</p> <p>3.23 (HY FY23: 3.25)</p> <p>(1)%</p>	<p>Dividend (p)</p> <p>5.00 (HY FY23: 5.00)</p> <p>0%</p>	<p>Net assets per share (p)</p> <p>316.89 (HY FY23: 305.19)</p> <p>+4%</p>	<p>Net cash² (\$m)</p> <p>20.95 (HY FY23: 22.67)</p> <p>(8)%</p>

Operational highlights

- Post period end, successful completion of MWT acquisition on 2 October 2023, significantly expanding the Group's product portfolio and complementing existing R&D capabilities
- Increasing presence in new and emerging growth sectors driving growth

- Board and senior management evolution, with appointment of Mark McCabe as Chief Operating Officer, Michelle Jones as Director of Finance and Nathan Zommer soon to be joining as Non-Executive Director.

1. For definition and reconciliation see note 10.

2. Net cash is the total of cash, cash equivalents and short-term deposits see note 7.

3. Basic earnings per share reconciliation see note 5.

Chairman's statement

Introduction

Our relatively recent strategy of concentrating efforts on the communications semiconductor market and expanding the sub-sectors addressed continues to serve us well, despite the challenging macroeconomic conditions. We were very pleased to finally announce on 2 October 2023 the closing of the acquisition of Microwave Technology, Inc ("MwT") but the unexpected delays in completing the transaction due to the associated regulatory processes, means that amalgamation activities that we hoped to have well underway by now have only just started.

We are confident the assimilation work will be achieved successfully but realisation of the benefits will correspondingly move out beyond our initial expectations. That said, MwT substantially enlarges the Group's product portfolio, complements our existing R&D capabilities and expands our system level understanding, allowing us to better capitalise on the market opportunities we see.

Results and trading

Despite the global macroeconomic backdrop, the Group's financial performance for the six months to 30 September 2023 was positive and generally in line with our expectations. In a reverse of the comparative period of the prior year, revenue growth was tempered by the weakening of the average US Dollar rate against Sterling. The movement in currencies becomes less material at the profit level since costs below the revenue line are primarily denominated in other currencies.

Revenue for the first six months increased by 5% to £10.58m (H1 FY22: £10.05m). Gross profit increased 4% to £7.94m (H1 FY22: £7.62m) and profit from operations, increased by 9%, before the £0.30m of external costs incurred in this half relating to the acquisition of MwT. Profit before taxation only marginally increased to £1.87m (H1 FY22: £1.83). The tax charge of 22% is higher than expected but reflects the changes in rules relating to R&D tax credits and a higher corporation tax rate.

The result is that profit after taxation fell to £1.47m (H1 FY22: £1.87m), EBITDA was broadly flat at £3.23m (H1 FY23: £3.25m) and diluted EPS was 9.31p (H1 FY23: 11.58p).

Cash balances at the end of the period stood at £20.95m (31 March 2023: £22.26m), a reduction of £1.31m after a £1.75m spend on share buybacks and £932k on dividend payments.

Dividend

The Board is recommending an unchanged half year dividend of 5.0p per share (H1 FY23: 5.0p per share), payable on 12 January 2024 to shareholders on the Register on 22 December 2023 with an ex-dividend date of 21 December 2023.

Property

Following the sale of the first parcel of land just prior to commencing the current financial year, building work has commenced at the Group's Essex Headquarters site, Oval Park, including relocating the car parks to the rear of the buildings and is scheduled to be completed before the current year end. The remaining excess land, circa 15 acres, which was granted planning permissions in February 2023 was placed on the market early October.

Further interest in the Group's excess commercial property in Fareham, Hampshire is currently being explored, following cessation of the negotiations referenced in the Group's annual report.

Board and senior management

At the time of the Annual General Meeting ("AGM") in August, I announced my intention to revert to the role of Non-Executive Chairman once the MwT acquisition had been completed and for this to coincide with additional appointments. In the last week we have strengthened the Board with the promotion of Mark McCabe to the position of Chief Operating Officer and the promotion of Michelle Jones to the senior management position of Director of Finance.

These actions enhance the Board and leadership team bringing a diverse set of skills, expertise and experience whilst adding impetus. With these enhancements in place, I am stepping back to the position of Non-Executive Chairman with immediate effect. The formalities of appointing Nathan Zommer as a Non-Executive Director are expected to be completed in the next couple of weeks following which an announcement will be made.

Employees

As I indicated at the start of my statement, this is a very demanding year and we clearly need the support of all employees to succeed with our ambitions. Throughout our operations globally, we are fortunate to have a great team of talented, hard-working, and dedicated employees and the Board thanks them all sincerely.

Prospects and outlook

The business continues to make good progress and has the appropriate blend of experience, enthusiasm and skills to continue to achieve its medium-term objectives.

Despite the challenges brought by multiple headwinds facing businesses in all sectors, we currently expect full year revenues to be slightly ahead of current market expectations, with the majority of the growth attributable to the addition of MwT. Profitability is expected to be in line with current market expectations, with anticipated costs relating to the incorporation of MwT likely to temper further growth this year.

Notwithstanding the macroeconomic environment, the Board has confidence in the strategy being followed and believes the robustness of our business model and a continued focus on sustainable growth will deliver a meaningful uplift in performance beyond the current year.

Nigel Clark

Non-Executive Chairman

5 December 2023

Operational and financial review

Introduction

The Group began the current financial year focused on growth, supported by relatively resilient end markets, a healthy order book and an evolving presence in new and emerging growth sectors.

Amidst an inflationary environment, global economic uncertainty and a backdrop of several industry commentators predicting the semiconductor market will shrink by double-digit percentage points in 2023, the delivery of revenue growth through the first six-month period is a pleasing outcome and serves to highlight the resilience of our business.

Equally welcome was the completion of the acquisition of Microwave Technology, Inc (MwT) on 2 October 2023, ending what was a protracted process due to US government national security considerations relating to the technology and skillset the business possesses. Work is now underway to unlock the global potential of the MwT product portfolio and to exploit the synergies that exist.

First half progress has been positive at the revenue level, although larger than anticipated acquisition costs affected the underlying growth in operating profitability. Excluding these one-off costs, profit from operations increased by 9%. Nevertheless, prior investments in people and products coupled with the strategy being followed positions CML well to capture meaningful growth as the enlarged Group moves forward.

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 semiconductor 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 leverage 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 \$1bn.

Continued investment in research and development is essential to enable CML to take full advantage of the large market opportunity available. Various new product programmes are underway comprising mixed-signal complex SoC projects with multi-year engineering cycles along with more rapid micro/millimetre wave developments. The blended result is delivering more products to market each year against what is a relatively stable absolute R&D spend.

Markets and operations

Across the prior full financial year to 31 March 2023, revenues from Group customers producing voice-centric wireless communications equipment delivered good growth, with the contribution from data centric applications slightly weaker due to some customers having procured inventory in excess of their end-market needs.

In the first half of the current financial year, across most of the major customers, the voice equipment manufacturers once again achieved a solid advance in revenues whereas sales increases from data applications, such as IIoT, M2M, AMR were more moderate. We have seen early indications that order intake from this sector is set to improve but across the next few months, we are nonetheless taking a cautious stance.

Geographically, performance across the first six months within Asia was good, with a 7.5% increase in sales revenue. However, the economic and geo-political situation in parts of the region, including China and Korea, has the potential to temper growth prospects. Within China, those customers that are producing end-products for local consumption have better forecast visibility than those reliant on exports. We therefore remain mindful of the backdrop globally and have moderated our expectations for the second half year period.

The global voice communications markets addressed by the Group include the Land Mobile Radio/Private Mobile Radio (LMR/PMR) sector, encompassing high performance mission critical end-applications through to low-cost digital radio standards for use in the leisure and retail sector. For data-centric markets, "smart everything" is driving data throughput increases within industry verticals such as agriculture, construction, smart grid/city and marine safety. CML has been a significant player in these end-application areas for many years and continues to invest appropriately in growth opportunities.

Operational and financial review continued

Markets and operations continued

In recent years, building upon substantial markets knowledge and “design for manufacturing” capabilities for silicon devices, CML commenced the development of high-performance Radio Frequency ICs (“RFICs”) and Monolithic Microwave ICs (“MMICs”) using compound semiconductor technologies, including GaAs and GaN. The twelve-month period to 31 March 2023 represented the first full financial year with availability of a number of new products that are marketed under CML’s SµRF brand and, over time, the flow of revenue from this expanding portfolio of IC’s is expected to constitute a very sizeable proportion of the Group’s total revenues.

One key R&D initiative outlined at the time of announcing the FY23 full year results in June 2023, was a low-power radio receiver solution for Digital Radio Mondiale (“DRM”). DRM is a digital radio broadcast standard that has been adopted for wide area broadcasting in China, India and Pakistan and is expected to be deployed in several other nations. The DRM service provides high quality stereo audio across long distances and wide areas using low-cost, low-power infrastructure.

The DRM module was formally announced at the International Broadcasting Convention (IBC) in Amsterdam in September and is a complete “antenna to speaker” module, containing all hardware, software, IP and patent licences required for a radio equipment manufacturer to easily realise a dual mode (digital and analogue) DRM capable receiver. The module offers a 60% cost reduction and 80% power reduction over existing DRM technologies in the market. At IBC, it was announced that the DRM module has been adopted by leading manufacturer Gossell Digital Radio Technology Co, Ltd for two new portable radio families.

In support of the broadening product portfolio and expansion into new sub-markets, we exhibited at a number of trade shows through the period, including IMS Microwave Week in San Diego, European Microwave Week in Berlin and the International Broadcasting Convention (IBC) in Amsterdam.

The multi-year investments in people, products and equipment have positioned us well to continue to expand the business. The traditional voice and data centric markets have provided strong foundations on which to expand into the micro/millimetre wave and, more latterly, broadcast radio arenas. Within these newer markets we are at the early stages of a journey to drive the business forward strongly and sustainably.

Acquisition of Microwave Technology, Inc

On 2 October 2023, immediately following the half year end, we completed the acquisition of 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 acquisition expands upon the Group’s growing product portfolio and complements its existing capabilities, providing essential knowhow and experience in high-frequency system level understanding, product manufacturing and packaging techniques.

Work is now underway to ensure maximum market exposure for the product range acquired and investment areas have been identified that will improve USA-based production capacity and efficiency positioning the enlarged Group for growth in the years that follow.

As a Group, CML now has internal final testing capabilities in the UK, Asia and the Americas, providing the flexibility required to address regional customer demands as they evolve.

Financial review

Sales revenues for the opening six-month trading period increased by 5% to £10.58m (H1 FY23: £10.05m) and include a currency headwind against the comparable period one year ago. Re-stated on a constant currency basis, revenues increased by 9%. Regionally, the improvements came from greater sales into Europe and the Far East, with the Americas territory posting a decline. Excess inventory across a handful of customers tempered further growth following the supply chain dynamics that have been a feature of the last two years.

Higher sales levels combined with a slight reduction in gross margin delivered a gross profit of £7.94m (H1 FY23: £7.62m) representing an increase of 4%. Given cost of sale pressures, in part due to supplier raw material price increases that were experienced across multiple years, maintenance of the gross margin is a pleasing outcome at this interim stage.

Distribution and administration (D&A) expenses were higher at £6.32m (H1 FY23: £5.77m) and whilst an increase over the previous year was expected, the prolonged process associated with and leading up to completion of the MwT transaction resulted in additional costs of £0.30m being incurred.

Excluding third-party one-off costs associated with the MwT acquisition, profit from operations improved by 9% to £1.90m (H1 FY23: £1.75m). This is a key measure of the Group’s performance over the period under review, although under international accounting standards, the income statement does not highlight these costs as exceptional, hence the reported figure was lower at £1.61m.

Finance income was noticeably up at £0.24m (H1 FY23: £0.10m) and reflected the improved deposit rates being achieved on the Group’s strong cash balances. Finance expenses were negligible.

Operational and financial review continued

Financial review continued

Adjusted EBITDA came in at £3.23m (H1 FY23: £3.25m).

Profit before tax was flat at £1.87m against £1.83m for the prior year first half.

An income tax charge of £0.41m was recorded compared to a credit of £0.04m for the comparable period with the main contributing factors being lower UK R&D tax credits following changes to government policy and an increase in the corporation tax rate from 19% to 25%. The tax charge led to a diluted earnings per share figure of 9.31p against 11.58p for the prior year.

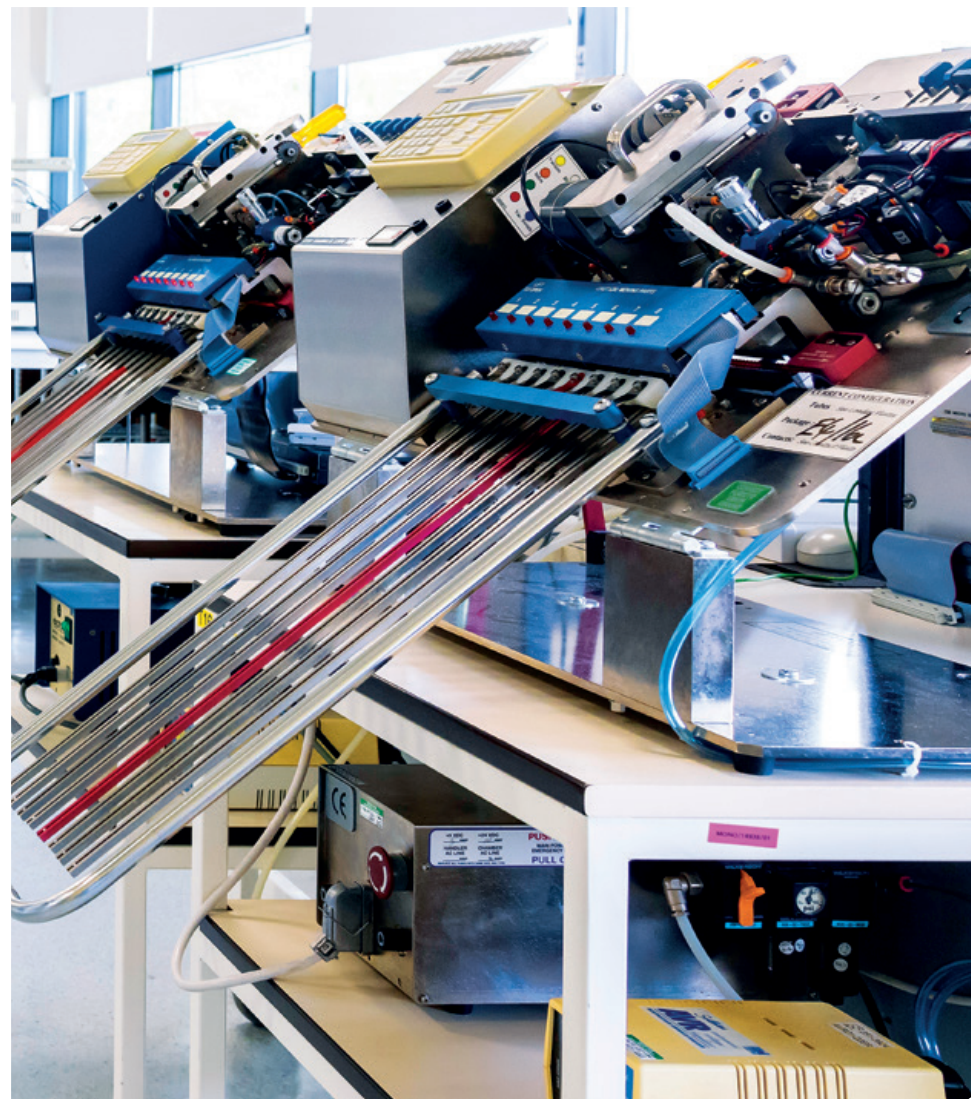
For some time, the Group has deliberately operated with a raised level of inventory in keeping with its strategy to help minimise the impact customers feel from the supply chain dynamics over recent years. This year is no different and despite the slight drop in inventory levels to £2.19m (H1 FY23: £2.30m), expectations are for this to climb to a higher level over the next 12-18 months due to an expanded product range along with growth expectations.

The Group continues to be debt free and had cash balances amounting to £20.95m at 30 September 2023 (31 March 2023: net cash of £22.26m). This follows investments of £2.01m in R&D activities, £0.60m in property, plant and equipment and shareholder returns of £2.57m by way of share repurchases (net of shares issued) and dividend payments. The strong balance sheet gives us a range of options as we look to win new clients and grow organically as well as the potential for future acquisitions in the medium-term.

Chris Gurry

Group Managing Director

5 December 2023



Condensed consolidated income statement

for the six months ended 30 September 2023

	Unaudited 6 months end			Unaudited 6 months end			Audited year end		
	Before exceptional items £'000	Exceptional items £'000	30/09/23 Total £'000	Before exceptional items £'000	Exceptional items £'000	30/09/22 Total £'000	Before exceptional items £'000	Exceptional items £'000	31/03/23 Total £'000
Continuing operations									
Revenue	10,575	—	10,575	10,045	—	10,045	20,643	—	20,643
Cost of sales	(2,631)	—	(2,631)	(2,423)	—	(2,423)	(5,032)	—	(5,032)
Gross profit	7,944	—	7,944	7,622	—	7,622	15,611	—	15,611
Distribution and administration costs	(6,318)	—	(6,318)	(5,765)	—	(5,765)	(12,644)	—	(12,644)
Share-based payments	(103)	—	(103)	(137)	—	(137)	(234)	—	(234)
	1,523	—	1,523	1,720	—	1,720	2,733	—	2,733
Profit on sale of fixed asset	—	—	—	—	—	—	—	2,058	2,058
Other operating income	85	—	85	30	—	30	199	—	199
Profit from operations	1,608	—	1,608	1,750	—	1,750	2,932	2,058	4,990
Other income	50	—	50	4	—	4	18	—	18
Finance income	235	—	235	97	—	97	255	—	255
Finance expense	(20)	—	(20)	(21)	—	(21)	(47)	—	(47)
Profit before taxation	1,873	—	1,873	1,830	—	1,830	3,158	2,058	5,216
Income tax (charge)/credit	(406)	—	(406)	35	—	35	(71)	(335)	(406)
Profit after taxation for period attributable to equity owners of the parent	1,467	—	1,467	1,865	—	1,865	3,087	1,723	4,810

All financial information presented relates to continuing activities.

Earnings per share from total operations attributable to the ordinary equity holders of the Company:

Basic earnings per share	9.44p	11.72p	30.29p
Diluted earnings per share	9.31p	11.58p	29.93p

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 cash flow in the business. For definition and reconciliation see note 10.

Adjusted EBITDA	3,230	3,252	5,901
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Condensed consolidated statement of total comprehensive income

for the six months ended 30 September 2023

	6 months end 30/09/23 £'000	6 months end 30/09/22 £'000	year end 31/03/23 £'000
Profit for the period	1,467	1,865	4,810
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of benefit obligation	—	—	1,393
Deferred tax on actuarial gain	—	—	(348)
Items reclassified subsequently to profit or loss upon derecognition:			
Foreign exchange differences	(493)	829	(140)
Other comprehensive income for the period net of taxation attributable to the equity holders of the parent	(493)	829	905
Total comprehensive income for the period attributable to the equity holders of the parent	974	2,694	5,715

Condensed consolidated statement of financial position

as at 30 September 2023

	Unaudited 30/09/23 £'000	Unaudited 30/09/22 £'000	Audited 31/03/23 £'000
Assets			
Non-current assets			
Goodwill	7,152	7,861	7,429
Other intangible assets	885	1,107	984
Development costs	14,391	12,738	13,801
Property, plant and equipment	6,087	5,479	5,249
Right-of-use assets	910	338	1,022
Deferred tax assets	618	2,605	766
	30,043	30,128	29,251
Current assets			
Property, plant and equipment – held for sale	—	—	485
Investment properties – held for sale	1,975	1,975	1,975
Inventories	2,187	2,302	2,425
Trade receivables and prepayments	2,881	2,156	2,413
Current tax assets	71	—	1,659
Cash and cash equivalents	14,300	20,005	21,041
Short-term cash deposits	6,646	2,663	1,218
	28,060	29,101	31,216
Total assets	58,103	59,229	60,467
Liabilities			
Current liabilities			
Trade and other payables	2,230	3,665	3,036
Lease liabilities	198	133	210
Current tax liabilities	4	96	78
	2,432	3,894	3,324
Non-current liabilities			
Deferred tax liabilities	4,450	4,103	4,343
Lease liabilities	751	229	842
Retirement benefit obligation	1,204	2,439	1,204
	6,405	6,771	6,389
Total liabilities	8,837	10,665	9,713
Net assets	49,266	48,564	50,754

Condensed consolidated statement of financial position continued

as at 30 September 2023

	Unaudited 30/09/23 £'000	Unaudited 30/09/22 £'000	Audited 31/03/23 £'000
Capital and reserves attributable to equity owners of the parent			
Share capital	796	796	796
Share premium	2,327	2,462	2,462
Capital redemption reserve	8,372	8,372	8,372
Treasury shares – own share reserve	(1,822)	—	(324)
Share-based payments reserve	566	395	488
Foreign exchange reserve	549	2,011	1,042
Retained earnings	38,478	34,528	37,918
Total shareholders' equity	49,266	48,564	50,754

Condensed consolidated cash flow statement

for the six months ended 30 September 2023

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Operating activities			
Profit for the period before taxation	1,873	1,830	5,216
Adjustments for:			
Depreciation – on property, plant and equipment	239	219	367
Depreciation – on right-of-use assets	111	142	300
Amortisation of development costs	1,020	831	1,826
Amortisation of intangibles recognised on acquisition and purchased	99	169	224
Profit on disposal of fixed assets	—	—	(2,058)
Employee Retention Credit US	—	109	110
Movement in non-cash items (retirement benefit obligation)	90	90	158
Share-based payments	103	137	234
Finance income	(235)	(97)	(255)
Finance expense	20	21	47
Movement in working capital	(1,381)	32	(653)
Cash flows from operating activities	1,939	3,483	5,516
Income tax received/(paid)	1,483	(75)	(104)
Net cash flows from operating activities	3,422	3,408	5,412

Condensed consolidated cash flow statement continued

for the six months ended 30 September 2023

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Investing activities			
Proceeds from sale of fixed assets	—	—	2,500
Purchase of property, plant and equipment	(597)	(88)	(932)
Investment in development costs	(1,666)	(2,291)	(4,455)
Investment in intangibles	(32)	(67)	(98)
Repayment/(investment) in fixed term deposits (net)	(5,428)	3,295	4,740
Finance income	235	97	255
Net cash (outflow)/inflow investing activities	(7,488)	946	2,010
Financing activities			
Lease liability repayments	(122)	(153)	(321)
Issue of ordinary shares (net of expenses)	117	1,118	1,118
Purchase of own shares for treasury	(1,750)	(4,442)	(4,767)
Dividends paid to shareholders	(932)	(796)	(1,589)
Net cash outflow from financing activities	(2,687)	(4,273)	(5,559)
(Decrease)/increase in cash, cash equivalents and short-term cash deposits	(6,753)	81	1,863
Movement in cash and cash equivalents:			
At start of period/year	21,041	19,084	19,084
(Decrease)/increase in cash, cash equivalents and short-term cash deposits	(6,753)	81	1,863
Effects of exchange rate changes	12	840	94
At end of period	14,300	20,005	21,041

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

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

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2023

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 2022	865	1,362	8,285	(1,670)	490	1,182	39,339	49,853
Profit for period							1,865	1,865
Other comprehensive income net of taxes								
Foreign exchange differences						829		829
Total comprehensive income for the period	—	—	—	—	—	829	1,865	2,694
	865	1,362	8,285	(1,670)	490	2,011	41,204	52,547
Transactions with owners in their capacity as owners								
Issue of ordinary shares – exercise of share options	18	1,100						1,118
Purchase of own shares – treasury				(4,442)				(4,442)
Treasury share cancellation	(87)		87	6,112			(6,112)	—
Dividend paid							(796)	(796)
Total of transactions with owners in their capacity as owners	(69)	1,100	87	1,670	—	—	(6,908)	(4,120)
Share-based payment charge					137			137
Cancellation/transfer of share-based payments					(232)		232	—
At 30 September 2022	796	2,462	8,372	—	395	2,011	34,528	48,564

Condensed consolidated statement of changes in equity continued

for the six months ended 30 September 2023

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 30 September 2022	796	2,462	8,372	—	395	2,011	34,528	48,564
Profit for period							2,945	2,945
Other comprehensive income net of taxes								
Foreign exchange differences						(969)		(969)
Re-measurement of defined benefit obligations							1,393	1,393
Deferred tax on actuarial loss							(348)	(348)
Total comprehensive income for the period	—	—	—	—	—	(969)	3,990	3,021
	796	2,462	8,372	—	395	1,042	38,518	51,585
Transactions with owners in their capacity as owners								
Purchase of own shares – treasury				(325)				(325)
Treasury share cancellation				1			(1)	—
Dividend paid							(793)	(793)
Total of transactions with owners in their capacity as owners	—	—	—	(324)	—	—	(794)	(1,118)
Share-based payment charge					97			97
Deferred tax on share-based payments							190	190
Cancellation/transfer of share-based payments					(4)		4	—
At 31 March 2023	796	2,462	8,372	(324)	488	1,042	37,918	50,754

Condensed consolidated statement of changes in equity continued

for the six months ended 30 September 2023

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 2023	796	2,462	8,372	(324)	488	1,042	37,918	50,754
Profit for period							1,467	1,467
Other comprehensive income net of taxes								
Foreign exchange differences						(493)		(493)
Total comprehensive income for the period	—	—	—	—	—	(493)	1,467	974
	796	2,462	8,372	(324)	488	549	39,385	51,728
Transactions with owners in their capacity as owners								
Issue of treasury shares – exercise of share options		(135)		252				117
Purchase of own shares – treasury				(1,750)				(1,750)
Dividend paid							(932)	(932)
Total of transactions with owners in their capacity as owners	—	(135)	—	(1,498)	—	—	(932)	(2,565)
Share-based payments					103			103
Cancellation/transfer of share-based payments					(25)		25	—
At 30 September 2023	796	2,327	8,372	(1,822)	566	549	38,478	49,266

Notes to the condensed consolidated financial statements

for the six months ended 30 September 2023

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 Group Managing Director, who is the Chief Operating Decision Maker. 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	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2023				
Revenue to third parties – by origin	2,613	1,243	6,719	10,575
Total assets	44,942	1,512	11,649	58,103

Unaudited	UK £'000	Americas £'000	Far East £'000	Total £'000
Six months ended 30 September 2022				
Revenue to third parties – by origin	2,167	1,622	6,256	10,045
Total assets	44,315	1,043	13,871	59,229

Audited	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
Total assets	47,151	1,575	11,741	60,467

Notes to the condensed consolidated financial statements continued

for the six months ended 30 September 2023

2 Revenue

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

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Europe	2,115	1,634	4,009
Far East	6,660	6,194	12,036
Americas	1,471	1,943	3,910
Other	329	274	688
	10,575	10,045	20,643

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

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Semiconductor	10,166	9,595	19,551
Design and development	409	450	1,092
	10,575	10,045	20,643

Semiconductor products, goods and services are transferred at a point in time whereas design and development revenue is transferred 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 or liabilities at 30 September 2023 (£Nil at 31 March 2023) from semiconductors as it does not fulfil any of its performance obligations in advance of invoicing to its customer. The Group has contract assets of £242,000 as at 30 September 2023 (£363,000 at 31 March 2023) from design and development and contract liabilities of £4,000 as at 30 September 2023 (£17,000 at 31 March 2023) from design and development. The Group has contractual balances in the form of trade receivables. See note 20 for disclosure of this in the Annual Report and Accounts for the year ended 31 March 2023.

The Group expects all contractual costs capitalised or any outstanding performance obligations will be completed within the next twelve months.

Notes to the condensed consolidated financial statements continued

for the six months ended 30 September 2023

3 Dividend paid and interim dividend

The Board is declaring an interim dividend of 5p per ordinary share for the half year ended 30 September 2023, payable on 12 January 2024 to shareholders on the Register on 22 December 2023.

A final dividend of 6p per ordinary share was paid on 18 August 2023 and an interim dividend of 5p per ordinary share was paid on 16 December 2022, totalling 11p per ordinary share paid for the year ended 31 March 2023 (2022: 9.0p per ordinary share paid for the year ended 31 March 2022).

4 Income tax expense/(credit)

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Current tax			
UK corporation tax on results of the year	(9)	(23)	(809)
Adjustment in respect of previous years	101	366	(372)
	92	343	(1,183)
Foreign tax on results of the year	139	192	319
Total current tax	231	535	(864)
Deferred tax			
Deferred tax – origination and reversal of temporary differences	153	(99)	683
Change in deferred tax rate	—	—	103
Adjustments to deferred tax charge in respect of previous years	22	(471)	484
Total deferred tax	175	(570)	1,270
Tax expense/(credit) on profit on ordinary activities	406	(35)	406

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 2023 has been calculated by applying the effective tax rate which is expected to apply to the Group for the year ending 31 March 2024, using rates substantially enacted by 30 September 2023.

5 Earnings per share

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Earnings per share from total operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	9.44p	11.72p	30.29p
Diluted earnings per share	9.31p	11.58p	29.93p

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 2023	15,546,906	15,765,610
Six months ended 30 September 2022	15,912,744	16,111,674
Year ended 31 March 2023	15,878,401	16,072,444

Notes to the condensed consolidated financial statements continued

for the six months ended 30 September 2023

6 Investment properties

Investment properties were measured at current market valuation. 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. The open market valuation of investment properties recognised is £Nil (2023: £Nil). Investment properties held for sale is £1,975,000 (£1,975,000 at 31 March 2023).

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.

7 Cash, cash equivalents and short-term deposits

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Cash on deposit	3,016	14,157	13
Cash at bank	11,284	5,848	21,628
	14,300	20,005	21,041
Short-term cash deposits	6,646	2,663	1,218
	20,946	22,668	22,259

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 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 in accordance with IAS 34 Interim Financial Reporting; 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. Full disclosures can be found in Annual Report and Accounts for year ended 31 March 2023 within Strategic Report.

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.

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 2023 financial statements.

Notes to the condensed consolidated financial statements continued

for the six months ended 30 September 2023

10 Adjusted EBITDA

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

	Unaudited 6 months end 30/09/23 £'000	Unaudited 6 months end 30/09/22 £'000	Audited year end 31/03/23 £'000
Profit before taxation (earnings)	1,873	1,830	5,216
Adjustments for:			
Finance income	(235)	(97)	(255)
Finance expense	20	21	47
Depreciation	239	219	367
Depreciation – right-of-use assets	111	142	300
Amortisation of development costs	1,020	831	1,826
Amortisation of intangibles of purchased and acquired intangibles recognised on acquisition	99	169	224
Share-based payments	103	137	234
Profit on sale of fixed asset	—	—	(2,058)
Adjusted EBITDA	3,230	3,252	5,901

11 Events occurring after the reporting period

Acquisition of Microwave Technology, Inc.

Following the announcement on 17 January 2023 that a definitive agreement had been signed to acquire Silicon Valley based semiconductor company Microwave Technology, Inc (MwT) and having obtained US regulatory clearance, the acquisition completed on 2 October 2023. The Group acquired 100% of the issued share capital for a total consideration of \$13.18m, of which \$7.65m is payable in cash and \$5.53m is payable in shares.

Founded in 1982, MwT is a Silicon Valley based company involved 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 financial effects of the transaction have not been included in the results to 30 September 2023. The operating results and assets and liabilities of the company will be included from 2 October 2023.

12 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 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 2023 is based on the statutory accounts for the financial year ended 31 March 2023 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.

13 Approvals

The Directors approved this Half Yearly Report on 5 December 2023.

Glossary

5G	Fifth Generation Cellular Network Technology
AIM	Alternative Investment Market
AMR	Automatic Meter Reading
DRM	Digital Radio Mondiale
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FY	Full Year
GaAs	Gallium Arsenide
GaN	Gallium Nitride
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
LMR	Land Mobile Radio
M2M	Machine to Machine
MMIC	Monolithic Microwave Integrated Circuit
PMR	Private Mobile Radio
R&D	Research and Development
RF	Radio Frequency
RFID	Radio Frequency Identification

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