

Future focused

ZYTRONIC PLC
INTERIM REPORT FOR THE SIX MONTHS TO 31 MARCH 2024





OUR VISION

To make our unique touch sensor technology pre-eminent in markets that require medium to large-sized touch interactive systems.

Review of the period

- 1 Financial overview
- 2 Chair's statement

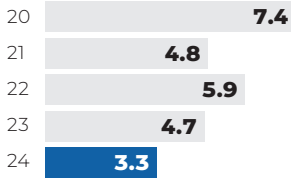
Financial statements

- 4 Consolidated statement of comprehensive income
- 4 Consolidated statement of changes in equity
- 5 Consolidated statement of financial position
- 6 Consolidated cashflow statement
- 7 Notes to the interim report
- 10 Corporate information

FINANCIAL OVERVIEW

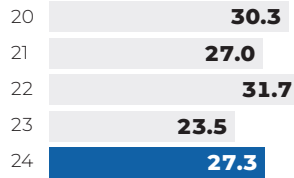
Group revenue (£m)

£3.3m



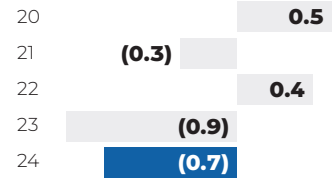
Gross profit margin (%)

27.3%



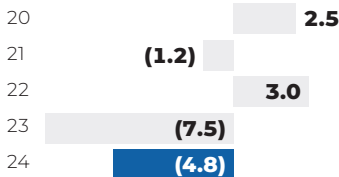
(Loss)/profit before tax (£m)

£(0.7)m



Basic (loss)/earnings per share (p)

(4.8)p



Interim dividend (p)

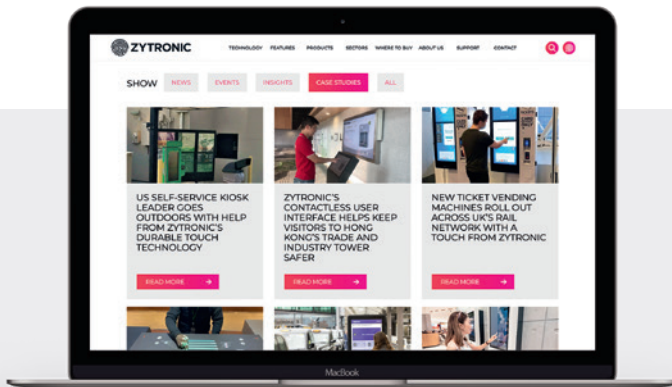
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- ▶ Group revenue of £3.3m (2023: £4.7m)
- ▶ Order intake 2024 Q2 at £2.1m, versus £2.6m combined 2023 Q4 and 2024 Q1
- ▶ Loss before tax of £0.6m (2023: £0.9m)
- ▶ Basic loss per share of 4.8p (2023: 7.5p)
- ▶ Cash used in operations £1.0m (2023: £0.4m), with working capital increases of £0.5m
- ▶ Net cash of £3.7m (30 September 2023: £4.7m)

Operational highlights

- ▶ Successful participation in numerous major trade shows to illustrate new product developments
- ▶ New Sales Director appointed in October 2023; undertook a review of the opportunities pipeline to provide the Board with a reliable view of sales prospects
- ▶ A process is now planned for a full business and operational review over the summer months, with conclusions to follow, to inform strategic initiatives and direction



Learn more
<https://www.zytronic.co.uk/>



Introduction

This is my first interim results statement as Chair of the Group and follows on from my inaugural statement in the annual results for the financial year ended 30 September 2023 ("FY23"), and the AGM trading update announced in February 2024. In these I commented that the year-to-date performance continued to follow the trends observed over the second half of the prior fiscal year. In line with the Board's expectations, first-half revenue to 31 March 2024 ("FY24 H1") was £3.3m (FY23 H1: £4.7m; H2: £3.9m). In the annual report I also highlighted the operations restructuring which occurred in September 2023, to reduce the cost base in anticipation of the trend.

The FY24 H1 performance continues to reflect the project-driven nature of the Group's operations, exacerbated over this period by the particularly low order intake levels observed over the last quarter of FY23 and the first quarter of FY24, being £2.6m combined. It is pleasing, however, to note that the order intake has improved over the second quarter of the current year, concluding at £2.1m.

During the first half of this year, research and development work has continued, to provide enhanced offerings for the future, including Electroglaz™ design solutions, integrated buttons and dials, and improved controller hardware and software for our PCAP touch. Preparatory work for the planned wide-reaching business and operational review has also been undertaken, and the review will take place during the summer, with conclusions to follow.

Results

Group revenue for FY24 H1 was £3.3m (FY23 H1: £4.7m). The resultant gross margin was 27.3% (FY23 H1: 23.5%), which included a 6.5 basis point benefit due to the almost full reversal of the £0.2m stock impairment charge created last year by the bankruptcy events of Aruze Gaming Americas ("AGA"). Margin and revenue both benefited from sales of £0.3m in the first half to the entity which purchased the auctioned AGA assets. This resulted in a reported LBITDA of £0.5m (FY23 H1: LBITDA of £0.6m) and a loss before tax ("LBT") of £0.6m (FY23 H1: LBT of £0.9m). Both measures benefited from the £0.1m part reversal of last year's £0.3m impairment of trade receivables, as associated with products supplied for ultimate sale by AGA. The basic loss per share was 4.8p (FY23 H1: LPS of 7.5p).

Revenues over FY24 H1 have been significantly impacted in comparison to FY23 H1: in Gaming, down by 50% to £0.8m (FY23 H1: £1.5m), and Vending, down by 43% to £0.9m (FY23 H1: £1.5m). Both reductions generally arose from a continuation of the half-year trends seen in H2 vs H1 of FY23 (Gaming down £0.6m and Vending down £0.4m across the two halves of FY23) as previously described in the FY23 results. Two notable developments were first: pleasingly, the above-mentioned benefit in Gaming of £0.3m in sales to the new Aruze entity; and second, in Vending which, over FY24 H1, saw a disappointing reduction in demand from our channel partner in Spain, associated with EV charging station activity.

In our other markets, we observed varying degrees of revenue performance over the first half, from a 13% decline in Financial to £0.5m (FY23 H1: £0.6m), to a 56% improvement in our combined "Other" categories at £0.4m (FY23 H1: £0.3m). In aggregate, across all markets excluding Gaming and Vending, there was a broadly neutral comparative performance between the first halves of FY23 and FY24.

Activity

We continue to monitor the activity performance levels and movements of opportunities within our CRM system. As noted in the FY23 results, the Board had requested in October 2023 the new Sales Director, appointed on 17 October 2023, to undertake an immediate review of all opportunities considered to be active (defined as "Open") in our CRM system, which concluded by the end of November 2023. The aim was to provide the Board with confidence that the opportunities in the CRM system were all live prospects, albeit of uncertain outcome. The number of "Open" opportunities "Closed" over that review period was 124 with a customer projected lifetime value ("CPLV") of £8.5m, with 111 and £7.2m respectively being as a direct consequence of the review.

In summary, following this opportunity review and the normal process of new opportunities being added, existing opportunities becoming orders or losses to competitors, or projects discontinued by customers, on 31 March 2024, the number of “Open” opportunities stood at 487 with a CPLV of £57.9m, with 119 and £10.2m respectively being FY24 H1 entries, compared to 564 and £68.6m respectively at the end of FY23. The Board is now confident that the CRM opportunities in the system provide a reliable view of the sales prospects.

A good example of a long maturation period of prospects, as discussed in previous annual reports, is an FY24 opportunity conversion, as part of a medical equipment project which entered the CRM system in FY18 Q3, for which production orders were received, and the opportunity then “Closed” as won, in FY24 Q1. By 31 March 2024, deliveries of this multi-year project had contributed an initial £0.1m of revenue, from a £1.1m CPLV.

Since the start of FY24 we have successfully participated in, or supported our channel partners at numerous major trade shows to illustrate new product developments. These included:

- ▶ showing our “floating” button concepts for casino gaming video button deck opportunities;
- ▶ an improvement in the optics of our touch sensors utilising a different material concept; and
- ▶ launching a fully integrated interactive table product and a hybrid unit for advanced human-to-machine interface solutions for industrial process equipment.

The development work on the Group’s new combined website is progressing well. New business development videos have been commissioned and are in preparation for integration with the new website to highlight the Group’s market solutions and overall operational capabilities.

Cash

Cash at the period end was £3.7m (30 September 2023: £4.7m), the change resulting mainly from the operational loss before tax made in H1 of £0.6m. Working capital increased by £0.5m over the first half of the year, £0.3m of which was from a rise in stock, as the Group had a commitment to receive microprocessor componentry that had been ordered at least twelve months prior, because of supply chain restrictions at that time. £0.1m was used in investing activities through continued spend on intangible assets of almost £0.2m, partly offset by almost £0.1m of interest earned. The Group did not undertake any financing activities during the first half of the year.

Dividends

Based on the reported interim results and the Board’s stated policy to only pay covered interim or full year dividends, the Board is not proposing to pay an interim dividend this year (FY23 H1: Nil).

Strategic direction

The Group has now formalised its plans and process to undertake a complete business and operational review, which will take place over the summer, with conclusions to follow. Terms of reference have been agreed by the Board and the senior executive management team, and an external strategy facilitator has been appointed after a comprehensive search process.

The review is designed to consider all potential options for improvement in operational and fundamental performance and to enhance the Company’s positioning and prospects for growth, and to enable the Board to identify prioritised strategies whilst also considering the interests of all stakeholders.

Outlook

The Board is cautiously encouraged by the observed improvement in the Group order intake during the last several months and the progression of business development activities, which are now firmly re-established with customers and partners showing interest in our innovative product solutions. While it is too early to call this the start of a sequence of recovering quarters, it does give some grounds for optimism while we undertake a formal business and operational review process, to establish an enhanced strategic direction for the Group, for the benefit of all stakeholders. A core objective remains the return to positive cash generation and growth over the medium term.

Chris Potts

Chair
14 May 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2024

	Notes	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Group revenue		3,316	4,728	8,610
Cost of sales		(2,411)	(3,617)	(7,109)
Cost of sales excluding exceptional items		(2,627)	(3,403)	(6,500)
Exceptional items – Goodwill impairment		—	—	(235)
Exceptional items – Other	3a	216	(214)	(374)
Gross profit		905	1,111	1,501
Distribution costs		(65)	(107)	(159)
Administration expenses		(1,549)	(1,980)	(3,547)
Administration expenses excluding exceptional items		(1,650)	(1,638)	(3,092)
Exceptional items	3b	101	(342)	(455)
Group operating loss		(709)	(976)	(2,205)
Finance revenue		94	79	200
Loss before tax		(615)	(897)	(2,005)
Tax credit	4	123	134	441
Loss for the period		(492)	(763)	(1,564)
Other comprehensive income		—	—	—
Total comprehensive loss		(492)	(763)	(1,564)
Loss per share				
Basic	5	(4.8)p	(7.5)p	(15.4)p

All activities are from continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2024

	Equity share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2023	102	8,994	58	4,245	13,399
Loss for the period	—	—	—	(492)	(492)
At 31 March 2024 (unaudited)	102	8,994	58	3,753	12,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
UNAUDITED RESULTS AT 31 MARCH 2024

	Notes	At 31 March 2024 Unaudited £'000	At 31 March 2023 Unaudited £'000	At 30 September 2023 Audited £'000
Assets				
Non-current assets				
Intangible assets		926	872	840
Property, plant and equipment		4,768	5,154	4,958
		5,694	6,026	5,798
Current assets				
Inventories		3,056	2,292	2,711
Trade and other receivables		1,419	1,834	1,252
Cash and short-term deposits	7	3,665	5,385	4,706
		8,140	9,511	8,669
Total assets		13,834	15,537	14,467
Equity and liabilities				
Current liabilities				
Trade and other payables		559	326	488
Accruals		342	543	554
		901	869	1,042
Non-current liabilities				
Deferred tax liabilities (net)		26	468	26
		26	468	26
Total liabilities		927	1,337	1,068
Net assets		12,907	14,200	13,399
Capital and reserves				
Equity share capital		102	102	102
Share premium		8,994	8,994	8,994
Capital redemption reserve		58	58	58
Retained earnings		3,753	5,046	4,245
Total equity		12,907	14,200	13,399

CONSOLIDATED CASHFLOW STATEMENT
UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2024

	Notes	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Operating activities				
Loss before tax		(615)	(897)	(2,005)
Finance income		(94)	(79)	(200)
Depreciation and impairment of property, plant and equipment		193	233	445
Amortisation, impairment and write-off of intangible assets		58	102	140
Impairment of goodwill		—	—	235
Fair value movement on foreign exchange forward contracts		—	(92)	(92)
Working capital adjustments				
Increase in inventories		(345)	(108)	(527)
(Increase)/decrease in trade and other receivables		(167)	1,123	1,705
Decrease in trade and other payables and provisions		(7)	(680)	(723)
Cash used in operations		(977)	(398)	(1,022)
Tax received		—	77	137
Net cashflow used in operating activities		(977)	(321)	(885)
Investing activities				
Interest received		83	70	189
Payments to acquire property, plant and equipment		(3)	(280)	(296)
Payments to acquire intangible assets		(144)	(263)	(481)
Net cashflow used in investing activities		(64)	(473)	(588)
Financing activities				
Dividends paid to equity shareholders of the Parent		—	(224)	(224)
Net cashflow used in financing activities		—	(224)	(224)
Decrease in cash and cash equivalents		(1,041)	(1,018)	(1,697)
Cash and cash equivalents at the beginning of the period		4,706	6,403	6,403
Cash and cash equivalents at the end of the period	7	3,665	5,385	4,706

NOTES TO THE INTERIM REPORT

UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2024

1. Basis of preparation

The financial information in these interim statements is prepared under the historical cost convention and in accordance with International Accounting Standards. It does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006 and does not reflect all the information contained in the Group's annual report and financial statements.

The tax charge is calculated by applying the Directors' best estimate of the annual tax rate to the loss for the period. Other expenses are accrued in accordance with the same principles used in the preparation of the annual report and financial statements.

The interim results for the six months to 31 March 2024 are not reviewed by Crowe U.K. LLP and accordingly no opinion has been given.

The interim financial statements have been prepared using the same accounting policies and methods of computation used to prepare the 2023 annual report and financial statements.

The financial information for the six months to 31 March 2024 and the comparative financial information for the six months to 31 March 2023 have not been audited. The comparative financial information for the year ended 30 September 2023 has been extracted from the 2023 annual report and financial statements.

The annual report and financial statements for the year ended 30 September 2023, which were approved by the Board of Directors on 8 January 2024, received an unqualified audit report, did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006 and have been filed with the Registrar of Companies.

The Group has one reportable business segment comprising the development and manufacture of customised optical products to enhance electronic display performance. Products in this reportable business segment include touch sensors, filters and other laminated products. All revenue, profits or losses before tax and net assets are attributable to this reportable business segment.

2. Basis of consolidation

The Group results consolidate the accounts of Zytronic plc and all its subsidiary undertakings drawn up to 31 March 2024.

3. Exceptional costs

(a) Cost of sales

	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Write-down of stock associated with doubtful debt	—	214	239
Write-back of stock associated with doubtful debt	(216)	—	—
Costs of goodwill impairment	—	—	235
Costs of restructuring	—	—	135
Total exceptional costs	(216)	214	609

The write-down of stock in the consolidated statement of comprehensive income relates to the effects on the Group of AGA filing a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the State of Nevada. The write-back of stock relates to sales made in the period of the prior year's written down stock.

The goodwill impairment costs of write-down relate to the operations of Intasolve Limited.

The Group undertook a restructuring exercise in the prior year and these costs are classed as exceptional as this was a one-off event.

(b) Administration expenses

	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Write-down of doubtful debt	—	342	332
Write-back of doubtful debt	(101)	—	—
Costs of restructuring	—	—	123
Total exceptional costs	(101)	342	455

The write-down of debt in the consolidated statement of comprehensive income relates to the effects on the Group of AGA filing a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the State of Nevada. Over the course of the first half period of the current year, one of the two associated customers whose debt was impaired has since made a part repayment of it.

The Group undertook a restructuring exercise in FY2023 and those costs were classed as exceptional as this was a one-off event.

NOTES TO THE INTERIM REPORT CONTINUED
UNAUDITED RESULTS FOR THE SIX MONTHS TO 31 MARCH 2024

4. Tax charge on loss on ordinary activities

The estimated tax rate for the year of 20% has been applied to the half year's loss before tax, in accordance with the Auditing Standards Board's statement on interim reports.

5. Loss per share ("LPS")

Basic LPS is calculated by dividing the loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. All activities are continuing operations and therefore there is no difference between LPS arising from total operations and LPS arising from continuing operations.

For the six months to 31 March 2024 and 2023

	Loss 31 March 2024 £'000	Weighted average number of shares 31 March 2024 Thousands	LPS 31 March 2024 Pence	Loss 31 March 2023 £'000	Weighted average number of shares 31 March 2023 Thousands	LPS 31 March 2023 Pence
Loss on ordinary activities after tax	(492)	10,162	(4.8)	(763)	10,162	(7.5)
Basic LPS	(492)	10,162	(4.8)	(763)	10,162	(7.5)

For the year to 30 September 2023

	Loss 30 September 2023 £'000	Weighted average number of shares 30 September 2023 Thousands	LPS 30 September 2023 Pence
Loss on ordinary activities after tax	(1,564)	10,162	(15.4)
Basic LPS	(1,564)	10,162	(15.4)

6. Dividends

As the Group has not made a profit for the period, the Directors considered it prudent not to pay an interim dividend. Accordingly, no interim dividend is proposed for the period (2023: £Nil). The table below reflects historical dividend payments.

	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Ordinary dividends on equity shares			
Final dividend of 2.2p per ordinary share paid on 24 February 2023	—	224	224
	—	224	224

7. Cash and cash equivalents

	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Cash at bank and in hand	3,665	5,385	4,706

For the purpose of the consolidated cashflow statement, cash and cash equivalents comprise the following:

	Six months to 31 March 2024 Unaudited £'000	Six months to 31 March 2023 Unaudited £'000	Year to 30 September 2023 Audited £'000
Cash at bank and in hand	1,004	850	2,113
Short term deposits	2,661	4,535	2,593
	3,665	5,385	4,706

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for variable lengths, depending on the immediate cash requirements of the Group, and earn interest at variable rates.

At 31 March 2024 the Group had available a net £1.5m (cash less overdrawn accounts) overdraft facility from Barclays Bank plc, which will fall for review in October 2024.

The fair value of cash and cash equivalents is £3.7m (2023: £5.4m).

8. Availability of the interim report

The interim report and interim results presentation are available online at the Company's corporate website, www.zytronicplc.com. Copies can be requested from the Company's registered office: Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ.

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