Zytronic PLC - ZYT

Preliminary Results

Released 07:00 11-Dec-2018

RNS Number : 0427K

Zytronic PLC

11 December 2018

11 December 2018

Zytronic plc

**("Zytronic" or the "Company"
and, together with its subsidiaries, the "Group")**

Preliminary Results for the year ended 30 September 2018 (audited)

Zytronic plc, a leading specialist manufacturer of touch sensors, announces its preliminary results for the year ended 30 September 2018.

Overview

§ Group revenues of £22.3m (2017: £22.9m), impacted by a £1.3m reduction in revenues generated from the Financial market, offset in part by growth in the Gaming market

§ Gross margin reduced to 37% (2017: 41.1%), reflecting the impact from reduced Financial market products on production efficiencies and the combined effects of some new product and process introductions

§ Administration costs of £3.6m (2017: £3.6m); with savings in salaries offset by £0.3m of one-off, settled litigation costs

§ Reported profit before tax of £4.2m (2017: £5.4m), as a result of reduced revenues, lower gross margin and litigation costs

§ Final dividend of 15.2p proposed (2017: 15.2p), bringing total dividends for the year to 22.8p (2017: 19.0p), up 20% year on year

§ Basic earnings per share of 22.7p (2017: 29.0p)

§ Finalisation of new MPCT™ ASIC chip development and new ZXY500 series controller family

Commenting on the outlook, Chairman, Tudor Davies said:

"We are in a strong financial position and cash generative which provides a strong platform on which to develop our business, and to grow profits and dividends for shareholders. Revenues and trading are currently at similar levels as last year, and the focus will be to improve margins from production efficiencies and to secure new projects from the launch of the new electronic ASIC controllers."

It is intended that the AGM will take place at the Company's offices at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear, NE21 5NJ on Wednesday 6 February 2019 at 9.30 a.m. Notice of the AGM will be sent to shareholders with the annual report and accounts in due course.

Enquiries:

Zytronic plc	**Today: 020 7496 3000;**
Mark Cambridge, Chief Executive	**Thereafter 0191 414 5511**
Claire Smith, Group Finance Director	
N+1 Singer	**020 7496 3000**
(Nominated Adviser & Broker)	
Aubrey Powell/Alex Bond (Corporate Finance)	
Rachel Hayes (Corporate Broking)	

Notes to Editors

Zytronic is a world renowned developer and manufacturer of a unique range of internationally award winning optically transparent interactive touch sensor overlay products for use with electronic displays in industrial, self-service and public access equipment.

Zytronic's products employ a sensing solution that is readily configurable and is embedded in a laminate core which offers significant durability, environmental stability and optical enhancement benefits to system designers specific requirements.

Zytronic has continually developed process and technological know-how and IP since the late 1990's around two sensing methodologies; the first being single touch self-capacitive which Zytronic markets as PCT™ ("Projected Capacitive Technology") and the second being multi-touch, multi-user mutual-capacitive which Zytronic markets as MPCT™ ("Mutual Projected Capacitive Technology"), in which Zytronic holds eight granted patents.

Operating from a single site near Newcastle-upon-Tyne in the United Kingdom, Zytronic is relatively unique in the touch eco-system as it offers a complete one-stop solution from processing internally the form and factor of the glass substrates, assembles their touch overlay products to customers specific requirements, in environmentally controlled cleanrooms and develops the bespoke firmware, software and electronic hardware to link the interactive overlays to customer's integrated systems and products.

Chairman’s review

Introduction

After four years of uninterrupted growth we have this year experienced a flattening of revenues and a change in the mix of our business but, despite lower profits, we have continued to generate more than our profits in cash enabling us to increase dividends for shareholders by 20%.

Results

Revenues for the year ended 30 September 2018 were slightly lower at £22.3m (2017: £22.9m) but a lower gross margin of 37.0% (2017: 41.1%) was the main contributor to the fall in reported profit before tax to £4.2m (2017: £5.4m).

This year we continued to experience encouraging growth in sales of our touchscreens to the Gaming sector which somewhat offset the decline in the sales to Financial markets. However, the benefit of growth in this market area was partly offset by lower margins, principally from labour and material inefficiencies, as new and different products and methods associated with Gaming replaced more familiar tried and tested touchscreens for the ATM sector.

Distribution and administration costs remained tightly controlled at £4.1m (2017: £4.0m) even after incurring £0.3m of one-off costs associated with an intellectual property claim which was settled during the year.

Cash generation

Net cashflow from operating activities was £4.8m (2017: £4.7m). £0.7m was invested in capital expenditure during the year and after the payment of dividends of £3.7m (2017: £2.4m) resulted in a net increase in cash of £0.5m to £14.6m (2017: £14.1m).

Dividend

The Directors have recommended a final dividend of 15.2p which, together with the interim dividend of 7.6p paid in July 2018, has resulted in an increase in the total dividend payable for the year ended 30 September 2018 of 20% to 22.8p (2017: 19.0p).

Outlook

We are in a strong financial position and cash generative which provides a strong platform on which to develop our business, and to grow profits and dividends for shareholders. Revenues and trading are currently at similar levels as last year, and the focus will be to improve margins from production efficiencies and to secure new projects from the launch of the new electronic ASIC controllers.

Tudor Davies

Chairman

10 December 2018

2018 Chief Executive Officer's review

I would like to start this review by thanking all employees for their valued contribution to the performance of the business over the reporting period.

The information detailed below provides insights into the various operational aspects of Zytronic Displays Limited ("ZDL"), our wholly owned operating subsidiary, that have influenced the reported trading performance over the fiscal year, drawing comparisons with the prior periods where necessary.

Sales

The second half trading revenues of £11.7m showed a 10% improvement on the £10.6m reported for the first half. However, as detailed at the interims, first half revenues were affected by the performance of the Financial market (comprising ATM touch and non-touch products), which at £2.8m was £1.1m lower than the prior year (H1 2017: £3.9m). The second half performance was also impacted by the Financial market, but to a lesser degree, as the improvement in the level of sales did not materialise as quickly as hoped. As a result, the total impact was £1.3m of reduced Financial sales for the full year, composed of £0.9m of touch and £0.4m of non-touch. Although growth was seen in other areas such as Gaming, it was the reduced Financial market revenues that significantly contributed to the reported 3% full-year reduction in trading revenues to £22.3m (2017: £22.9m). Total export revenues (as measured by ZDL, being the location of the customers to whom products are invoiced), were £19.5m (2017: £19.9m).

Revenues generated by sales of our touch products were lower than the prior year at £20.1m (2017: £20.6m). As inferred above, the Financial market significantly contributed to this reduction, as Financial touch revenues reduced from £6.3m to £5.4m. Export touch product revenues remained flat at £18.0m, even though all of our Financial touch products are exported, with the Americas (North, Central and South America) and Asia Pacific ("APAC") regions growing, by £0.2m to £4.0m (2017: £3.8m) and £1.0m to £8.2m (2017: £7.2m) respectively. Europe, Middle East and Africa ("EMEA") experienced the brunt of the Financial market decline, reducing to £5.8m (2017: £7.0m).

Touch sales

Gaming, which was dominated by casino-based upright cabinet designs, as it was in the prior year, has continued to be our top revenue-generating application market, with growth in both units produced at 23,000 (2017: 20,000 units) and revenues generated, contributing £8.2m (2017: £7.7m). This growth reflects the maturation of existing projects and new predominantly Asian invoiced PCT™ and MPCT™ projects which moved into production during the period.

Financial touch sales saw a decline on the back of total unit volumes falling by 6,000 to 44,000 units. We believe the observed decline has been down to several factors which have generally been felt by the larger ATM OEMs in the market. These were: an imposed change in procurement practices in China for the Chinese market; a slower than anticipated change to the outsourcing of ATM assembly to third parties; and the move by Financial institutions to a Windows 10 operating system from the previously deployed Windows 7 and the consequent delays caused in them placing new unit orders. There is also little doubt that consumer digital money management may be influencing future ATM deployment levels.

Vending continued to be our second highest market in terms of units produced at 28,000 units, but this was 7,000 units lower than the prior year, due in the main to two factors: the finalised supply of the Freestyle™ Coca Cola® drinks machine and a reduced supply into a German-based customer in the field of parking management and fare collection. In terms of revenue, it remained our third largest market at £3.0m (2017: £3.5m).

The Industrial market (comprising applications for control panels in difficult operating environments and non-transactional kiosks) saw an 8,000 unit increase in sensors sold to 24,000 units, and an increase in revenues generated to £1.8m (2017: £1.6m). The Signage market increased to £1.2m (2017: £0.8m), on the back of a 1,000 unit increase in large sensors sold to 2,000 units as the number of Smart City type street furniture deployments increased, particularly for cities in the USA, which offer on the street internet, wayfinding and wifi hotspot capabilities.

The other markets which are predominantly in the small size ranges and are open to much greater competition from alternative suppliers are Home Automation, Healthcare and Telematics, in total decreased to £0.5m (2017: £0.7m). This reflects the units supplied to Home Automation almost halving to 5,000 units, as the Bosch cooktop moves towards end of design life and those supplied to Health reduced by nearly two thirds to 1,000 units.

As has been well documented in prior years, ZDL's touch revenues are not only linked to the markets, which influence the number of touch sensors produced, but more substantially to the mix of the sensor sizes, as large format units carry a higher price per unit, as well as technology choice between MPCT™ and PCT™ and sensor shape. The total number of sensor units supplied was lower than that of 2017 by 5,000 units to 133,000 units (2017: 138,000 units) but, as the below table illustrates, there was growth in the higher priced large format sensors.

	2018		2017		Variance	
Sensor Size	Units ('000)	% total	Units ('000)	% total	Units ('000)	% total
Small - (0 -14.9")	35	26	33	24	2	6

Medium - (15.0 -29.9")	79	60	87	63	(8)	(9)
Large - (30.0" +)	19	14	18	13	1	6
TOTALS	133	100	138	100	(5)	(4)

Within the 133,000 totals, we had a 5,000 unit increase in the number of MPCT™ sensors sold to 17,000, as well as continued opportunities in and the uptake of non-flat touch sensors, with the volume of shaped sensors increasing to 10,000 units from 9,000 units in 2017.

Strategic sales and marketing initiatives

As a business, ZDL focuses on the development and production of touch interactive component solutions for self-service and commercial use, providing its bespoke touch componentry to equipment designers and manufacturers across several market sectors, as detailed above.

As a UK operating business with the overwhelming majority of sales represented by exports, we employ a team of sales and business development managers located at our headquarters and in more recent years have expanded to provide equivalent direct local support in international locations within our major markets. In addition, we have built a global network of sales channel partners. These partners are a combination of commissioned manufacturers' representatives or agents, aiding our direct sales team, and distributors or value-added resellers ("VARs"), which buy and resell our products (indirect sales). The choice of the type of sales channel partner for any specific territory is determined after significant territory and market evaluation.

The current composition of our global channel partners is presented on the ZDL website and can be found at zytronic.co.uk/where-to-buy/. ZDL continually reviews the suitability of its direct and indirect partners depending upon their performance, as well as local market preferences and requirements. This is continually refined and over the course of the year, we made several changes.

- We concluded the year with twelve regional agreements covering the Americas as we terminated the agreement with one underperforming agent. Looking forward we are likely to terminate a further three agencies but have already agreed terms with two replacements. Although previously stating our intention to increase the USA-based Zytronic Inc. direct sales team from two persons to three, a conscious decision was made to delay the recruitment. We continue to evaluate this with a view to restarting the search and selection process during 2019.
- At the end of the fiscal period we had twelve agreements covering the APAC region. During the year we appointed a further indirect employee in Japan, through our service partner Business Link Japan, to increase the regional technical sales support. Additionally, we have

been working closely with a new VAR for Thailand, which we shortly expect to sign an agreement with.

- In EMEA and the UK we concluded the financial year with 13 active agreements, unchanged from 2017.
- Additionally, we continued to work with two global distribution/VAR partners, Future Electronics and Quixant Group.

Our 2018 marketing strategy in support of sales activities continued to focus on increasing our regional profile in European, North American and Chinese trade publications in key vertical markets, both in traditional press and digital online publications. Much of the activity during the first half of the year was geared to the launch and promotion of our new MPCT™ application specific integrated circuit ("ASIC") chip and the resultant associated products and benefits. Several new international case studies were also issued during the year, highlighting the various applications of our technology. These included Cryptera (Denmark), Ebebek (Turkey), Santander (Chile) and Smartlink (USA), in addition to several whitepapers, "thought leadership" articles and product releases.

Towards the latter part of the year, having reviewed the respective outputs of each, we moved our Asian focus from China and have repositioned it to Japan, appointing a Japan-based search engine optimisation ("SEO") specialist to better manage the microsite and a local PR agency. In addition, we completed a review of our digital and social media requirements and changed our UK service provider to improve our SEO success. The new agency has helped us enhance our main website to further highlight our product attributes and improve site navigation, with many of these changes cascaded down to the regional microsites. During the year we have also initiated trial pay-per-click advertising campaigns on appropriate social media platforms, targeting relevant keywords and job functions. We continue to review the results of these programmes and will adapt and continue or stop as appropriate.

We continue to see the benefits of directly participating in relevant market tradeshows, primarily as regional networking opportunities with customers, suppliers and sales channel partners. Consequently, during 2018 we exhibited at several events: the Global Gaming Exhibition ("G2E" October 2017, Las Vegas), the International Casino Exhibition (February 2018, London), Integrated Systems Europe (February 2018, Amsterdam) and the Digital Signage Exhibition (March 2018, Las Vegas).

Indirectly, our products were also well represented at tradeshows around the world by distributors and customers. These included Embedded World (February 2018, Nuremberg), Infocomm (June 2018, Las Vegas) and Transport Publics (June 2018, Paris). Notably, the encrypted touch solution sold by Cryptera was shown by it at several USA retail and financial shows, such as the National Retail Federation (January 2018, New York) and additionally Money 20/20 (June 2018, Amsterdam).

Opportunities Analysis

Incoming leads from all sources (website, tradeshows, channel partners, sales management, etc.) are fed into our tailored Microsoft Dynamics customer relationship management ("CRM") software system. Once validated those leads are then categorised as opportunities according to vertical market (application), annual quantity, touch sensor type, project duration, estimated unit price and production start date. Opportunities have an average maturation period of two years from lead to production.

As an opportunity progresses, an estimated probability of success is dynamically assigned. Only those opportunities at the point in time when they are assigned with a high probability, are then classified as a "Project"; otherwise they remain a "Prospect" and only those designated as a Project at the time of our quarterly sales reviews are added into our dynamic forecast model. As this is a dynamic system, probability levels can change, so a Prospect one day can be upgraded to a Project on another, or vice versa.

The CRM information is constantly being updated by the sales team to account for changes to opportunities, which may be because they become dead or lost to a competitor, moved into production or, as mentioned above, reassessed for probability of success. Accordingly, the number of active opportunities and the volume and value of active Projects varies significantly day to day. At 30 September 2018, there were a total of 414 active opportunities in the system, with 41 of those opportunities classified on that day as Projects, with an unsensitised and theoretical lifetime contribution of £8.0m. This compares with 30 September 2017 values of 551, 60 and £8.2m respectively.

The net movement in 19 Projects over the year was represented by six Projects being re-classified back to Prospects as they did not maintain their high probability status; 15 Projects were lost, due to projects either being terminated by the customer, or lost to a competitor; 129 new Projects were added during the year and 127 Projects moved through into production.

Strategic research and development

As is customary, the emphasis of the research and development team evolved throughout 2018 as the year progressed. At the start of the fiscal year, the emphasis was on the completion of the development of our MPCT™ ASIC chip and its introduction into production and to customers. An initial supply of 24,000 production ASICs were received around January 2018. This spawned further complimentary work on the release of a new family of controllers incorporating the new ASIC with a designation of ZXY500 and the availability of an MPCT™ chipset, to allow equipment designers the freedom of building Zytronic touch control features directly on to mother or daughterboards.

In conjunction with the release of the ZXY500 series, new flexible printed circuit ("FPC") tail designs and sensor configurations were introduced, that provided industry leading narrow border considerations, which had been configured using years of customer feedback and wider market input. To bring these components together, a new fibre laser bonding system was introduced, which had been designed and developed by the R&D team over the prior 18-month period.

As these elements were handed off to production, the R&D team returned to other future development programmes and those related to alternative material considerations based on the functional performance headroom created by the new ASIC development. The collaboration work undertaken on the Hi-Response European funded H2020 project for ink-jet printed electronics continues to progress, but extremely slowly and it now looks likely as that project moves to conclusion that an immediately usable output will not be the result. However, a resurgence in indium tin oxide ("ITO"), due in the main to the instability issues of emerging tech such as metal mesh and silver nano-wire, has had ZDL look much closer to the marrying of ITO with its new ASIC and the results presently look promising. However, competitiveness and pricing need further consideration.

Over the course of the year, ZDL has had three further patents granted, associated with USA and China regional divisions of selected GB MPCT™ 2012 filed patents. The team continued to progress innovative work on the incorporation of mechanical push buttons within the active and visible area of touchscreens. In doing so, it worked on using our unique micro-wire and pattern design capabilities to develop an interlacing method to provide invisible power and data lines to and from the button. A further patent application has been filed for this, with the solution successfully demonstrated on a four button player 55" multi-touch table game at the G2E tradeshow.

Operations

Over the course of 2018, the productive headcount has varied significantly with a weekly average of 118 persons compared with 115 persons over 2017. The higher average in 2018, being more a result of production inefficiencies from the significant reduction in the manufacture of Financial products, and unprecedented yield issues associated with related new product and process introductions whilst maintaining on-time customer deliveries in Q4, resulted in an average 128-person headcount in Q4.

As a result of the short order book and batch project nature of the business, productionising of new processes or product configurations on active orders is our common practice and when issues arise, they are normally readily managed. However, the yield issues observed in Q4 were extreme and unfortunately related to the productionising of new Gaming projects. These comprised large format and new shaped touch sensors, which incorporated the new FPC tail designs and narrow inactive border features of the new ZXY500 MPCT™ solutions, and required the exclusive use of the new fibre laser jointing process. Adopting these new technologies and manufacturing processes in combination proved problematic.

Significant work continues to be undertaken to understand, and where possible, eradicate the issues observed and bring the yields of the new product offerings and newly introduced processes back in line with our expectations.

Mark Cambridge

Chief Executive Officer

10 December 2018

2018 Financial review

Group revenue

Total Group revenue for the year decreased by £0.6m to £22.3m (2017: £22.9m), as a result of the underperformance of both the touch and non-touch elements of the Financial market compared to the previous year. The Chief Executive Officer's review explains in detail the reasons for this.

Gross margin

Gross margin for the year was 37.0% (2017: 41.1%), and has been impacted by several factors:

· the reduction in units supplied into the Financial market eroded operational efficiencies as the manufacture of these relatively vanilla products provides a volume baseline albeit with month-on-month variability;

· increased costs of raw materials, exacerbated by new product introductions in Q4, due to operational yield issues where product had to be reworked or rebuilt to achieve the desired customer requirements; and

· year-on-year increased labour costs and increased numbers of personnel and overtime in production as a consequence of the above.

Profit before tax

Because of the reduced levels of revenues and the gross margin reduction noted above, Group profit before tax decreased to £4.2m (2017: £5.4m). Distribution costs show a slight year-on-year increase as we have sold more products where the responsibility for distribution sits with the Group. On a year-on-year basis, administration costs are in line with those of 2017 at £3.6m despite this year's figure including the £0.3m costs of the claim litigation described below. All other costs were well controlled, with salary costs showing a saving over the year due to fewer bonus provisions being required given the performance of the Group.

Claim litigation

Over the course of the financial year, ZDL has been in dispute with a former licensor, over the process used to write micro-fine wire to a substrate. The licensor alleged that ZDL owed it duties of confidentiality in relation to information alleged to have been imparted to ZDL in 1999 and asserted that ZDL had breached that duty in the content of its MPCT™ patent applications filed in 2012 and ZDL's processes infringed a patent filed by the licensor in 2014 in response to the alleged breach of duty. These allegations were strongly refuted by ZDL.

A claim was made against ZDL in the Intellectual Properties Enterprise Court, reference IP-2017-000218, towards the end of Q1 2018. On ZDL's instigation, the claim was transferred to the Patents Court in Q2 2018, reference HP-2018-000016. Whilst ZDL did not accept it was liable, it took a commercial approach to dealing with the claim, mindful of the time and cost associated with High Court litigation and in May 2018 made an offer pursuant to Part 36 of the Civil Procedure Rules by which ZDL agreed to pay £72k in settlement of the claim, which was accepted in September 2018, plus costs which were to be subsequently assessed, if not agreed, which have been settled by the parties with ZDL agreeing to pay £25k. The total costs incurred in the year including ZDL's own legal expenses were £0.3m.

Tax

The Group's tax charge of £0.5m represents an effective tax rate of 13.0%, compared to the £0.8m and 15.0% recorded in the prior year. In the year, the Group continued to claim relief under the Patent Box regime and the utilisation of R&D tax credits. A slight overprovision recorded for 2017 has also benefited the tax charge in the year, the impact of this being a 0.8% reduction in tax on profit.

Earnings per share

There has been no change to the issued share capital of 16,044,041 ordinary shares of 1.0p each over the year and the EPS recorded is 22.7p (fully diluted:22.7p), which is lower than that reported for last year (2017: 29.0p; fully diluted: 28.8p) by 22% due to lower profits arising.

Dividend

The Directors recommend the payment of a final dividend of 15.2p per share for the year ended 30 September 2018 giving a total dividend for the year of 22.8p per share (2017: 19.0p) and an increase of 20% over last year. Subject to approval by shareholders, the dividend will be paid on Friday 22 February 2019 to shareholders on the register as at the close of business on Friday 8 February 2019.

Capital expenditure

The Group additions to capital expenditure totalled some £0.7m and was weighted more to intangible assets with £0.4m of spend occurring on the conclusion of the MPCT™ ASIC project and subsequent controller releases as well as new product development. Tangible additions have been for a number of small items of equipment to assist in production capabilities, as well as health and safety improvements. Depreciation and amortisation for the year was the same as last year at £1.1m.

Cash and debt

The Group continues to generate cash and has recorded an increase in cash and cash equivalents of £0.5m (2017: £1.3m) at 30 September 2018. Cash generated from operations (pre-tax) of £5.4m (2017: £5.2m) offset the net cashflow used in financing activities of £3.7m (2017: £2.3m), being the payment of the final and interim dividends, and the net cashflow used in investing activities of £0.6m (2017: £1.0m). Working capital is neutral in the year (2017: £0.4m increase) but the Group is coming under more pressure from its customers to increase payment terms. The Group is mindful of its cash holdings and will continue its policy to invest in internal R&D and capital refurbishments to drive growth, and also maintain its progressive dividend policy as it has sufficient cash and reserves to do so.

The Group maintains an overdraft facility, which is available for use in any of its currencies. The Group also has an FX policy in place whereby it is hedged in both US Dollars and Euros for a period of four months ahead in line with its working capital policies to try to better manage its net GBP inflows from its surplus currency requirements.

The Group continues to be debt free and reported cash and cash equivalents of £14.6m at 30 September 2018 (2017: £14.1m).

Claire Smith

Group Finance Director

10 December 2018

Consolidated statement of comprehensive income

For the year ended 30 September 2018

	Notes	**2018** £'000	2017 £'000
Group revenue		**22,288**	22,892
Cost of sales		**(14,047)**	(13,481)
Gross profit		**8,241**	9,411
Distribution costs		**(461)**	(393)
Administration expenses		**(3,639)**	(3,591)
Group trading profit		**4,141**	5,427
Finance costs		**(21)**	(24)
Finance revenue		**68**	10
Profit before tax		**4,188**	5,413
Tax expense	3	**(541)**	(825)
Profit for the year		**3,647**	4,588
Earnings per share			
Basic	5	**22.7p**	29.0p
Diluted	5	**22.7p**	28.8p

All activities are from continuing operations.

Consolidated statement of changes in equity

For the year ended 30 September 2018

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2016	154	7,766	15,316	23,236
Profit for the year	-	-	4,588	4,588
Tax recognised directly in equity	-	-	72	72
Exercise of share options	6	1,228	-	1,234
Issue of capital reduction shares*	8,919	-	(8,919)	-
Cancellation of capital reduction shares*	(8,919)	-	8,919	-
Dividends	-	-	(2,354)	(2,354)
At 1 October 2017	160	8,994	17,622	26,776
Profit for the year	-	-	3,647	3,647
Dividends	-	-	(3,658)	(3,658)
At 30 September 2018	**160**	**8,994**	**17,611**	**26,765**

*Refer to note 6

Consolidated statement of financial position

At 30 September 2018

	Notes	**2018** **£'000**	2017 £'000
Assets			
Non-current assets			
Intangible assets		**1,585**	1,633
Property, plant and equipment		**6,605**	7,030

ZYTRONIC

	8,190	8,663
Current assets		
Inventories	**3,021**	2,996
Trade and other receivables	**3,738**	3,506
Derivative financial assets	-	54
Cash and short term deposits	**14,626**	14,099
	21,385	20,655
Total assets	**29,575**	29,318
Equity and liabilities		
Current liabilities		
Trade and other payables	**1,446**	1,042
Derivative financial liabilities	**7**	-
Accruals	**767**	862
Tax liabilities	**13**	3
	2,233	1,907
Non-current liabilities		
Government grants	**15**	25
Deferred tax liabilities (net)	**562**	610
	577	635
Total liabilities	**2,810**	2,542
Net assets	**26,765**	26,776
Capital and reserves		
Equity share capital	**160**	160
Share premium	**8,994**	8,994
Revenue reserve	**17,611**	17,622
Total equity	**26,765**	26,776

Consolidated cashflow statement

For the year ended 30 September 2018

	2018	2017
	£'000	£'000
Operating activities		
Profit before tax	**4,188**	5,413
Net finance (income)/costs	**(47)**	14
Depreciation and impairment of property, plant and equipment	**709**	749
Amortisation, impairment and write-off of intangible assets	**438**	424
Amortisation of government grant	**(10)**	(42)
Fair value movement on foreign exchange forward contracts	**61**	(1,013)
Working capital adjustments		
Increase in inventories	**(25)**	(236)
(Increase)/decrease in trade and other receivables	**(232)**	239
Increase/(decrease) in trade and other payables and provisions	**295**	(356)
Cash generated from operations	**5,377**	5,192
Tax paid	**(573)**	(521)
Net cashflow from operating activities	**4,804**	4,671
Investing activities		
Interest received	**65**	10
Receipt of government grant	-	19
Payments to acquire property, plant and equipment	**(273)**	(472)
Payments to acquire intangible assets	**(390)**	(600)
Net cashflow used in investing activities	**(598)**	(1,043)
Financing activities		
Interest paid	**(21)**	(24)
Dividends paid to equity shareholders of the Parent	**(3,658)**	(2,354)
Proceeds from share issues relating to options	-	1,234
Repayment of borrowings	-	(1,148)
Net cashflow used in financing activities	**(3,679)**	(2,292)
Increase in cash and cash equivalents	**527**	1,336
Cash and cash equivalents at the beginning of the year	**14,099**	12,763

Cash and cash equivalents at the year end	**14,626**	14,099

Notes to the consolidated financial statement

1. Basis of preparation

The preliminary results for the year ended 30 September 2018 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as endorsed by the European Union regulations as they apply to the financial statements of the Group for the year ended 30 September 2018. Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies adopted are consistent with those of the previous year.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 30 September 2017 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 September 2018 will be filed in due course. The auditors' report on these accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

Each of the Directors confirms that, to the best of their knowledge, the financial statements, prepared in accordance with IFRS as adopted by EU standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and the Group results, Operational review and Financial review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

2. Basis of consolidation and goodwill

The Group results comprise the financial statements of Zytronic plc and its subsidiaries as at 30 September each year. They are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

3. Tax

	30 September 2018 £'000	30 September 2017 £'000
Current tax		

UK corporation tax	**621**	576
Corporation tax over-provided in prior years	**(35)**	-
Total current tax charge	**586**	576
Deferred tax		
Origination and reversal of temporary differences	**(45)**	249
Total deferred tax (credit)/charge	**(45)**	249
Tax charge in the statement of comprehensive income	**541**	825

Tax relating to items debited to equity

	30 September 2018 £'000	30 September 2017 £'000
Deferred tax		
Tax on share-based payments	-	(72)
Total deferred tax debit	-	(72)
Tax charge in the statement of changes in equity	-	(72)

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the statement of comprehensive income for the year is 13.0% (2017: 15%) compared with the average rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are reconciled below:

	30 September 2018 £'000	30 September 2017 £'000
Accounting profit before tax	**4,188**	5,413

Accounting profit multiplied by the average UK rate of corporation tax of 19% (2017: 19.5%)	**796**	1,056
Effects of:		
Expenses not deductible for tax purposes	**8**	32
Depreciation in respect of non-qualifying items	**24**	33
Enhanced tax reliefs - R&D	**(169)**	(229)
Enhanced tax reliefs - Patent Box	**(79)**	(31)
Effect of deferred tax rate reduction and difference in tax rates	**(4)**	(36)
Tax over-provided in prior years	**(35)**	-
Total tax expense reported in the statement of comprehensive income	**541**	825

Factors that may affect future tax charges

Under current tax legislation, some of the amortisation of licences will continue to be non-deductible for tax purposes.

There are no tax losses to carry forward at 30 September 2018 (2017: £Nil).

The main rate of corporation tax in the UK reduced to 19% with effect from 1 April 2017. The rate will be reduced to 17% from 1 April 2020. Both of these lower rates have been substantively enacted by the statement of financial position date. As the majority of the temporary differences will reverse when the rate is 17%, this rate has been applied to the deferred tax assets and liabilities arising at the statement of financial position date.

The Patent Box regime allows companies to apply a rate of corporation tax of 10% to profits earned from patented inventions and similar intellectual property. Zytronic generates such profits from the sale of products incorporating patented components. The Group has determined that all relevant criteria has been satisfied for bringing income within the regime. Consequently, Patent Box claims have been made for 2014 to 2017 accounting periods, and the 2018 benefit has been estimated.

4. Dividends

The Directors propose the payment of a final dividend of 15.2p per share (2017: 15.20p), payable on 22 February 2019 to shareholders on the Register of Members on 8 February 2019. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £2.4m.

	30 September	30 September
	2018	2017
	£'000	£'000

Ordinary dividends on equity shares

Final dividend of 10.96p per ordinary share paid on 3 March 2017	**-**	1,744
Interim dividend of 3.80p per ordinary share paid on 21 July 2017	**-**	610
Final dividend of 15.20p per ordinary share paid on 9 March 2018	**2,439**	-
Interim dividend of 7.60p per ordinary share paid on 20 July 2018	**1,219**	-
	3,658	2,354

5. Earnings per share

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

	Earnings	**Weighted average number of shares**	**EPS**	Earnings	Weighted average number of shares	EPS
	30 September 2018	**30 September 2018**	**30 September 2018**	30 September 2017	30 September 2017	30 September 2017
	£'000	**Thousands**	**Pence**	£'000	Thousands	Pence
Profit on ordinary activities after tax	**3,647**	**16,044**	**22.7**	4,588	15,819	29.0
Basic EPS	**3,647**	**16,044**	**22.7**	4,588	15,819	29.0

The weighted average number of shares for diluted EPS is calculated by including the weighted average number of potentially dilutive shares under option.

	Earnings	**Weighted average number of shares**	**EPS**	Earnings	Weighted average number of shares	EPS

ZYTRONIC

	30 September 2018	**30 September 2018**	**30 September 2018**	30 September 2017	30 September 2017	30 September 2017
	£'000	**Thousands**	**Pence**	£'000	Thousands	Pence
Profit on ordinary activities after tax	**3,647**	**16,044**	**22.7**	4,588	15,819	29.0
Weighted average number of shares under option	-	-	-	-	131	(0.2)
Diluted EPS	**3,647**	**16,044**	**22.7**	4,588	15,819	28.8

6. Revenue reserve

On 22 March 2017, the Group carried out a capital reduction exercise whereby £8.9m of the Group's undistributable profits (within the retained earnings reserve) were capitalised by way of a bonus issue of newly created capital reduction shares. These shares were subsequently cancelled and the £8.9m credited to the retained earnings reserve as distributable profits.

END

Preliminary Results - RNS