



29 January 2019

FILTRONIC PLC
("Filtronic", the "Company" or the "Group")

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2018

Filtronic plc (AIM: FTC), the designer and manufacturer of antennas, filters and mmWave products for the wireless telecoms infrastructure and adjacent markets, announces its half year results for the six months ended 30 November 2018 ("H1 2019").

Financial Summary

- Revenue of £10.4m (H1 2018: £12.8m)
- Impairment of capitalised development costs of £0.5m (H1 2018: £nil)
- Operating loss of £0.9m (H1 2018: profit of £0.9m)
- LBITDA* of £0.1m (H1 2018: EBITDA of £1.2m)
- Net cash of £2.2m (31 May 2018: £3.8m)
- Net cash outflow from operating activities £0.9m (H1 2018: £0.5m inflow)

* LBITDA/EBITDA is (loss)/earnings before interest, taxation, depreciation and amortisation

Highlights

- A third major multi-year defence contract valued between £3.0m and £5.7m, was received to provide state-of-the-art microwave modules for use in defence radar systems.
- Continued growth of mmWave Orpheus transceiver sales to a major Original Equipment Manufacturer ("OEM").
- Distributor with key relationships into Tier 1 Mobile Network Operators appointed for the North American operator market to sell a range of Filtronic developed antennas.
- Massive MIMO ("mMIMO") antennas sales launch into a major global OEM customer.

Commenting on the outlook, Reg Gott, Chairman, said:

"Our focus on high margin products and the strategic decision to target critical communications markets has been a key component of our strategy to mitigate the revenue volatility of network roll-outs in the telecoms market. This focus has provided us with a significant level of baseline business and improved visibility of future revenues, along with further opportunities to grow our product offering and customer base.

The news received in December from our mMIMO launch client that the end-customer was putting its roll-out programme on hold and thus significantly reducing its forecast demand until further notice, was a significant set-back to our growth plans. However, our client has confirmed that the programme is not cancelled and they will continue to sell and market our mMIMO products into the market. Notwithstanding this setback, we believe the outlook for the antenna market remains positive, with continued industry investment in network developments for 4G densification and 5G roll-outs.

Subsequent to the December notice we have received a follow-on order for the balancing requirement of mMIMO for H2 which underpins our confidence in the sales outlook for the remainder of the year and this, combined with our solid platform of long-term business within critical communications, means we expect trading in H2 to be broadly similar to H1.

We require a little time to fully evaluate the ongoing status of the mMIMO programme, bring the new distribution arrangement up to speed and complete a review of our options for the antenna business but, in the meantime, we are comfortable with our current cash position and cash flow outlook.

Enquiries

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Notes:

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Chairman's Statement

Group performance for the first half of FY2019 was broadly in line with management's expectations, with sales revenue of £10.4m (2018 H1: £12.8m). The lower revenues resulted from the anticipated conclusion of certain legacy filter product programmes, partially offset by stronger defence sales. The lower filter volumes, combined with the reduced margins during the launch of the new Massive MIMO ("mMIMO") antenna product, resulted in an operating loss of £0.9m (2018 H1: £0.9m operating profit) and LBITDA of £0.1m (2018 H1: £1.2m EBITDA), again broadly in-line with management's expectations. Net cash at 30 November 2018 was £2.2m (31 May 2018: £3.6m).

Unfortunately, as recently announced, having achieved the required mMIMO production ramp in H1, our OEM client advised us in December that H2 demand is now expected to be significantly lower than had originally been forecast, by their own end-customer. Our client has informed us they are still marketing this antenna, and we understand there will be an ongoing level of business, but demand volumes for this mMIMO variant beyond the current financial year are now uncertain. Whilst the lower demand now expected from the mMIMO launch programme is disappointing in the short term, the overall market outlook for antennas remains encouraging.

As a consequence of the mMIMO forecast revision we have impaired the capitalised development cost of this product by £0.5m. This impairment is included in the operating loss for the period.

In line with our strategy to reduce reliance on our OEM customers, we have been developing a portfolio of operator products and we were pleased to recently announce the appointment of Quintel as a distributor to the North American ("NA") operator market. Quintel is an established supplier to this market and is qualified to supply to most of the major NA mobile network operators.

Demand from critical communications customers remains strong as we continue our efforts to develop opportunities in these markets. Production of our major multi-year defence contracts is progressing well with further opportunities being developed and, having invested in additional production equipment, we hope to increase output volumes further in the final quarter of this financial year. Our public safety product offering also continues to perform well with healthy revenues in the period from the leading OEM in the market. Sales of transceivers to the telecommunications backhaul market were encouraging in the first half and we are actively developing this product line further in order to retain our market position. Increasing backhaul capacity to meet higher data rates will be a critical step in upgrading networks for 5G and Filtronic is well placed to benefit from this demand. Other development markets for high-capacity transceivers include 'track side to train' and 'air-borne' communications systems. We are actively engaging with these markets, which we see as important niche growth areas for the coming years.

We continue to assess the potential impact of Brexit as best we can in the current political confusion. We do not currently foresee any significant exposure to likely adverse consequences, but we have contingency plans available to mitigate potential disruptions in supply from certain European suppliers.

In summary, the lower demand forecast for mMIMO is a major disappointment, however, we have made good progress in recent years in increasing our resilience by broadening both our product portfolio and our customer base, which will help us cope with this unforeseen impact to the second half. Strong trading in the critical communications markets has enabled the Group to trade at a very small LBITDA despite the reduction in telecoms revenues, and the base level of business that we continue to enjoy means our cash reserves are sufficient to operate at a lower level of revenue whilst we return the business to growth and profitability.

I would like to thank our employees for all their continued hard work over the past year and to also thank our shareholders and other stakeholders for their continuing support as we work hard to grow our business.

Reg Gott
Chairman
January 2019

Condensed Consolidated Interim Income Statement
For the period ended 30 November 2018

		6 months Ended 30 November 2018 (Unaudited) £000	6 months Ended 30 November 2017 (Unaudited) £000	Year Ended 31 May 2018 (Audited) £000
Revenue		10,444 =====	12,801 =====	23,995 =====
(Loss)/earnings before interest, taxation, depreciation and amortisation		(53)	1,211	2,456
Depreciation		(253)	(284)	(542)
Amortisation of other intangible assets		(19)	(23)	(46)
Amortisation of development costs		(120)	(47)	(95)
Impairment of capitalised development costs		(500)	-	-
		-----	-----	-----
Operating (loss)/profit		(945)	857	1,773
Finance costs		(54)	(28)	(61)
Exceptional finance items	5	-	(247)	(486)
		-----	-----	-----
Finance costs		(54)	(275)	(547)
Finance income		58	-	-
		-----	-----	-----
(Loss)/profit before taxation		(941)	582	1,226
Taxation	6	(49)	221	5
		-----	-----	-----
(Loss)/profit for the period		(990) =====	803 =====	1,231 =====
Basic and diluted (loss)/earnings per share (stated in pence)		-----	-----	-----
Basic (loss)/earnings per share	7	(0.48p)	0.39p	0.59p
Diluted (loss)/earnings per share	7	(0.48p)	0.38p	0.59p
		=====	=====	=====

The (loss)/profit for the period is attributable to the equity shareholders of the parent company Filtronic plc.

The above results are all as a result of continuing operations.

Condensed Consolidated Interim Statement of Comprehensive Income
For the period ended 30 November 2018

	6 months Ended 30 November 2018 (Unaudited) £000	6 months Ended 30 November 2017 (Unaudited) £000	Year Ended 31 May 2018 (Audited) £000
Profit for the period	(990)	803	1,231
	-----	-----	-----
<i>Items that are or may be subsequently reclassified to profit and loss</i>			
Currency translation movement arising on consolidation	(81)	52	178
	-----	-----	-----
Other comprehensive(expense)/ income	(81)	52	178
	-----	-----	-----
	-----	-----	-----
Total comprehensive (expense)/income for the period	(1,071)	855	1,409
	=====	=====	=====

The total comprehensive (expense)/income for the period is attributable to the equity shareholders of the parent company Filtronic plc.

Condensed Consolidated Interim Balance Sheet
At 30 November 2018

	30 November 2018 (Unaudited) £000	30 November 2017 (Unaudited) £000	31 May 2018 (Audited) £000
Non-current assets			
Goodwill and other intangibles	3,581	3,526	3,904
Property, plant and equipment	1,378	1,207	1,411
Deferred tax	976	1,308	965
	-----	-----	-----
	5,935	6,041	6,280
	-----	-----	-----
Current assets			
Inventories	2,909	1,995	2,138
Trade and other receivables	7,836	5,985	6,388
Cash and cash equivalents	2,314	3,114	3,794
	-----	-----	-----
	13,059	11,094	12,320
	-----	-----	-----
Total assets	18,994	17,135	18,600
	-----	-----	-----
Current liabilities			
Trade and other payables	6,681	4,728	5,076
Provisions	509	499	485
Deferred Income	203	46	360
Financial liabilities	103	107	206
	-----	-----	-----
	7,496	5,380	6,127
	-----	-----	-----
Long term liabilities			
Financial liabilities	315	160	312
	-----	-----	-----
	315	160	312
	-----	-----	-----
Total liabilities	7,811	5,540	6,439
	-----	-----	-----
Net assets	11,183	11,595	12,161
	=====	=====	=====
Equity			
Share capital	10,789	10,788	10,788
Share premium	10,715	10,640	10,640
Translation reserve	(699)	(744)	(618)
Retained earnings	(9,622)	(9,089)	(8,649)
	-----	-----	-----
Total equity	11,183	11,595	12,161
	=====	=====	=====

The total equity is attributable to the equity shareholders of the parent company Filtronic plc.
Company number 2891064

Condensed Consolidated Interim Statement of Changes in Equity
For the period ended 30 November 2018

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Balance at 1 June 2018	10,788	10,640	(618)	(8,649)	12,161
(Loss)/profit for the period	-	-	-	(990)	(990)
New shares issued (net of issue costs)	1	75	-	-	76
Share based payments	-	-	-	17	17
Currency translation movement arising on consolidation	-	-	(81)	-	(81)
	-----	-----	-----	-----	-----
Balance at 30 November 2018	10,789	10,715	(699)	(9,622)	11,183
	=====	=====	=====	=====	=====

**Condensed Consolidated Interim Cash Flow Statement
For the period ended 30 November 2018**

	6 months Ended 30 November 2018 (Unaudited) £000	6 months Ended 30 November 2017 (Unaudited) £000	Year Ended 31 May 2018 (Audited) £000
Cash flows within operating activities			
(Loss)/profit for the period	(990)	803	1,231
Taxation	49	(221)	(5)
Finance income	(58)	-	-
Finance costs	54	275	547
	-----	-----	-----
Operating (loss)/profit	(945)	857	1,773
Share based payments	17	13	25
Profit on disposal of plant and equipment	-	(43)	(48)
Tax (paid)/received	(49)	(84)	56
Depreciation	253	270	542
Amortisation of intangible assets	139	69	141
Impairment of intangible assets	500	-	-
Movement in inventories	(781)	219	111
Movement in trade and other receivables	(1,493)	2,458	2,259
Movement in trade and other payables	1,625	(3,219)	(3,292)
Movement in provisions	24	(46)	(60)
Change in deferred income	(159)	(48)	244
	-----	-----	-----
Net cash (used in)/generated from operating activities	(869)	446	1,751
	-----	-----	-----
Cash flows within investing activities			
Interest paid	(54)	(7)	(61)
Acquisition of plant and equipment	(217)	(125)	(604)
Acquisition of intangible assets	(316)	(6)	(19)
Capitalisation of development costs	-	-	(436)
Proceeds on sale of assets	-	46	49
	-----	-----	-----
Net cash used in investing activities	(587)	(92)	(1,071)
	-----	-----	-----
Cash flows within financing activities			
Proceeds from bank loans and finance agreements	-	267	601
Payment of bank loans and finance agreements	(100)	-	(75)
Proceeds from new shares (net of issue costs)	76	-	-
	-----	-----	-----
Net cash (used in)/generated from financing activities	(24)	267	526
	-----	-----	-----
Movement in cash and cash equivalents	(1,480)	621	1,206
Currency exchange movements	-	(105)	(10)
Opening cash and cash equivalents	3,794	2,598	2,598
	-----	-----	-----
Closing cash and cash equivalents	2,314	3,114	3,794
	=====	=====	=====

Notes to the Condensed Financial Statements

1 Company information

Filtronic plc is a company registered and domiciled in the United Kingdom and is listed on the AIM market of the London Stock Exchange. The Company's registered number is 2891064. The address of the Company's registered office is Filtronic plc, Filtronic House, Unit 3, Airport West, Lancaster Way, Yeadon, West Yorkshire, LS19 7ZA.

Copies of the Company's annual report and interim financial report are available from the Company's registered office or the Company's website at www.filtronic.co.uk.

2 Basis of preparation

Whilst the financial information included in this preliminary statement has been prepared on the basis of the requirements of IFRSs in issue, as adopted by the European Union and effective at 30 November 2018, this statement does not itself contain sufficient information to comply with IFRS.

These financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The interim report should be read in conjunction with the annual report 2018, which includes annual financial statements for the year ended 31 May 2018.

The interim financial report for the six months ended 30 November 2018 was approved by the Board on 28 January 2019.

The directors have reviewed the projected cash flow and other relevant information and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the interim financial report.

The condensed consolidated financial statements for the six months ended 30 November 2018 consolidate the financial statements of the Company and all of its subsidiaries (together referred to as the 'Group'). Transactions between Group companies, which are related parties, have been eliminated upon consolidation and therefore do not require disclosure.

The condensed consolidated financial statements for the six months ended 30 November 2018 and comparative period have not been audited.

The comparative figures for the financial year ended 31 May 2018 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The adoption of IFRS 15 has not had a material impact on the interim financial statements.

3 Accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates and judgements that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The accounting estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of the future that are believed to be reasonable under the circumstances. Actual results may differ from the expected results. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The accounting estimates and judgements that have a significant effect on the financial statements are considered in the Filtronic plc Annual Report for the year ended 31 May 2018 which can be found on the Filtronic website. Unless stated below there is no material change from the Annual Report in the basis of calculation.

4 Segmental Analysis

Operating Segments

IFRS 8 requires consideration of the identity of the chief operating decision maker ('CODM') within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the CEO, who reviews internal monthly management reports, budget and forecast information as part of this. Accordingly, the CEO is deemed to be the CODM.

Following the reorganisation of the business in the last financial year, merging the Filtronic Broadband and Filtronic Wireless businesses, the CODM has identified one operating segment within the Group as defined under IFRS 8. In turn, this is the only reportable segment of the Group as the entities in the Group have similar products and services, production processes and economic characteristics. Therefore, there is no allocation of operating expenses, profit measures or assets and liabilities to specific commercial markets.

Accordingly, the CODM assesses the performance of the operating segment on financial information which is measured and presented in a manner consistent with those in the financial statements by reference to Group results against budget.

The Group profit measures are operating profit and EBITDA, both disclosed on the face of the consolidated income statement. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial statements.

The Group has four customers representing individually over 10% each and in aggregate 86% of revenue.

Revenue by Destination

The revenue presented is based on the geographic location of customers receiving the product/service.

	6 months Ended 30 November 2018 £000	6 months Ended 30 November 2017 £000	Year Ended 31 May 2018 £000
Revenue			
United Kingdom	1,744	574	2,529
Europe	3,065	2,675	4,898
Americas	3,909	8,082	13,780
Rest of the world	1,726	1,470	2,788
	10,444	12,801	23,995
	=====	=====	=====

5 Exceptional items

Finance costs is stated after charging exceptional items as follows:

	6 months Ended 30 November 2018 £000	6 months Ended 30 November 2017 £000	Year Ended 31 May 2018 £000
Revaluation of US dollar denominated intercompany balance	-	247	486
	-----	-----	-----
	-	247	486
	=====	=====	=====

6 Taxation

A tax charge of £49,000 was incurred in the period for taxes relating to the Filtronic Wireless entity in China (H1 2018: £72,000).

7 Basic and diluted (loss)/earnings per share

	6 months Ended 30 November 2018 £000	6 months Ended 30 November 2017 £000	Year Ended 31 May 2018 £000
(Loss)/profit for the period	(990)	803	1,231
	-----	-----	-----
	=====	=====	=====
	'000	'000	'000
Basic weighted average number of shares	206,996	206,910	206,910
Dilution effect of share options	-	2,933	3,219
	-----	-----	-----
Diluted weighted average number of shares	206,996	209,843	210,129
	=====	=====	=====
Basic (loss)/earnings per share	(0.48p)	0.39p	0.59p
Diluted (loss)/earnings per share	(0.48p)	0.38p	0.59p
	=====	=====	=====

8 Analysis of net funds/(debt)

	1 June 2018	Cash Flow	30 Nov 2018
	£000	£000	£000
Cash and cash equivalents	3,794	(1,480)	2,314
Bank loans	(217)	60	(157)
	-----	-----	-----
	3,577	(1,420)	2,157
	=====	=====	=====

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 30 November 2018, the Company had a £3.0m invoice discounting facility in place with Barclays Bank plc against the UK debtor book and a \$4.0m factoring facility with Wells Fargo against the US debtor book. There were no drawings on either of these facilities at 30 November 2018.

The bank loan of £157k at 30 November 2018 was used to procure a piece of machinery at Sedgefield on a three year term with 20 months still left to run.

9 Forward looking statements

Certain statements in this half-yearly financial report are forward-looking. Where the half-yearly financial report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements are based on current expectations and are subject to a number of risks and uncertainties, including both economic and business risk factors that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.