

FILTRONIC PLC
 (“Filtronic”, the “Company” or the “Group”)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2021

Positive Trading Momentum Maintained

Filtronic plc (AIM: FTC), the designer and manufacturer of products for the aerospace, defence, telecoms infrastructure and critical communications markets, announces its half year results for the six months ended 30 November 2021 (“H1 2022”).

Financial Highlights

	H1 2022	H1 2021
Revenue	£8.0m	£7.1m
Adjusted EBITDA ¹	£1.1m	£0.6m
Adjusted operating profit ²	£0.6m	£0.1m
Operating profit	£0.7m	£0.1m
Profit/(loss) for the period	£0.7m	(£0.1m)
Basic profit/(loss) per share	0.32p	(0.03p)
Diluted profit/(loss) per share	0.31p	(0.03p)
Cash generated from operating activities	£0.6m	£0.5m
	At 30 Nov	At 31 May
	2021	2021
Net cash when including right of use property leases	£1.1m	£0.7m
Net cash when excluding right of use property leases	£2.2m	£1.9m

¹ Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation and exceptional items.

² Adjusted operating profit is operating profit before exceptional items.

Operational Highlights

- Appointment of Jonathan Neale as Non-Executive Chairman who was previously Chief Operating Officer of McLaren Group. Prior to that he was the CEO of McLaren Racing F1 and Managing Director of Hawk Military Aircraft at BAE Systems, UK.
- Contract win from a leading RF test equipment company in the USA valued at \$0.8m (£0.6m) for the pilot phase of the development supplying RF front-end modules for next generation over-the-air 5G test equipment.
- Market adoption of our “best-in-class” Tower Top Amplifier (“TTA”) with good sales traction to our lead Original Equipment Manufacturer (“OEM”); the largest OEM in the critical communications market.
- Continued expansion of our indirect sales channels in the USA with Alpha Sales Group signed up in the Southeast territory to expand the coverage of our sales reach in North America.
- Healthy cash position enables continued investment in revenue growth initiatives to deliver growth.
- Margin improvement from a stronger sales mix leading to stronger adjusted EBITDA.

Commenting on the outlook, Jonathan Neale, Chairman, said: “We are confident we will achieve a third consecutive year of EBITDA growth despite the headwinds of supply chain disruption from global semiconductor shortages. Coupled with a healthy cash position, this provides a robust platform to further develop the business and continue investing in revenue growth initiatives and the technology roadmap. The Board and management team are highly motivated to build on this and execute the strategic plan with a desire and focus to drive and deliver shareholder value.

Recent investments in product development and operational capability align with the UK government's ambition for sovereign capability within the core markets we serve, as well as emerging markets such as Low Earth Orbit Space. This positions us well to capitalise on these opportunities and we are now starting to see the flow down into the supply chain and our opportunity pipeline. To this end, we are confident we can achieve our key strategic objective of broadening the customer base to add to our recent contract win with a leading 5G over-the-air equipment provider.

Whilst the previous two years impeded customer engagement, the measures taken to augment our channels to market, along with investment into more sophisticated selling tools, has enabled the business to keep moving forward. Combined with travel restrictions easing and key marketing activities such as trade exhibitions reopening, we feel positive about the prospects of the business and our ability to continue to deliver growth."

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Notes:

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

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.

Chairman's Statement

I am pleased to present my first statement as Chairman of Filtronic. I have been aware of the Company throughout my career in aerospace, defence and motor sport, and have always had great respect for the integrity and the depth of expertise of Filtronic employees in the field of RF electronic and sub-system design. My experience since being appointed, has only served to affirm the confidence I have in the Company and its potential to shape the future of RF communications.

I started my role as Non-Executive Chairman in November 2021 following the retirement of Reg Gott after 15 years of service. I have enjoyed getting to know the executive team as they develop and execute the strategic plan of the business and am delighted with the support that I have received from my fellow directors and the high standards of corporate governance. I also appreciate the way in which the Board cooperates as a team to keep the focus on the long-term potential of the business.

The Group has continued to build momentum and traded positively in H1, delivering revenue and EBITDA growth against the same period last year, despite a challenging business environment that has included a global shortage of semiconductor components and multiple waves of Covid restrictions.

Group revenue for the first half of FY2022 was 12% up on the prior year, with sales of £8.0m (H1 2021: £7.1m), broadly in line with internal forecasts. The recovery of the critical communications market in North America, and the culmination of some long-term development programmes, with margin improvement from a stronger sales mix, contributed to an operating profit of £0.6m (H1 2021: £0.1m) and an 83% increase in adjusted EBITDA to £1.1m (H1 2021: £0.6m).

At 30 November 2021, the Group recorded cash in the bank of £3.0m (31 May 2021: £2.9m), net cash of £2.2m when excluding right of use property leases (31 May 2021: £1.9m) and net cash including right of use property leases of £1.1m (31 May 2021: £0.7m).

We remained fully operational throughout the continued Covid challenges and adapted to meet all our customer product and engineering programme delivery obligations. Our management team has done a great job in keeping business disruption to a minimum and enabled our employees to work safely on-site. On behalf of the Board, I would like to thank all our employees and partners for their commitment and hard work throughout these challenging times.

The way we approach market communications and new customer acquisition continues to adapt and we have developed some sophisticated direct marketing communication tools and a focus on lead generation via online content to adjust for domestic and international travel restrictions which have made face-to-face customer engagement more challenging. To complement this, we further expanded our channel representatives' network with the goal of engaging customers on a more local basis. We now have most of the USA covered with a professional reseller network who market our products to the regional critical communications installer base, and we have added a number of representatives to cover major European countries. The Group welcomes the return of industry specific trade shows which have always been a key marketing tool for our business such as European Microwave Week and IMS Microwave Week 2022.

The North American critical communication market recovered well in H1 with clear evidence that funds are being redirected back into public infrastructure projects. Demand from a core customer continued to build and we have increased our inventory holding to capitalise on future requirements and mitigate the risk of component shortages. Supported by on-shore USA manufacturing, the order flow for our Tower Top Amplifier products, launched in FY2021, is finally matching our original expectations with the product designed into major infrastructure projects ahead of more established brands.

Increasing backhaul performance is a prerequisite for servicing the growing demand for telecom network capacity and realising the full benefit of 5G infrastructure investment. Industry forecasts indicate demand for E-band spectrum technology will steadily increase to support the global rollout of the 5G network, and Filtronic is well placed to benefit from this trend. Sales of our 5G Xhaul transceivers into our prime telecommunications infrastructure customer are back at pre-pandemic levels, and we continue to explore adjacent E-band market opportunities including “trackside to train”, High Altitude Pseudo-Satellites (“HAPS”), and low latency private network applications where we are seeing pockets of spend. In H1 we completed the design phase of an over-the-air 5G test equipment development, and work has now started on the pilot production phase following the \$0.8m contract award announced in October 2021.

Our aerospace & defence contracts remain important revenue streams which ensures a high-level of utilisation of our state-of-the-art hybrid microelectronics manufacturing operations in Sedgefield, with good yield and productivity improvements. Fulfilment of the battlefield communication contract is nearing completion with delivery of the first production units in H1 and the remainder of the order will complete in H2. The increase in UK defence spending in the field of radar and communications technologies has resulted in several small development contracts for our specialist filter technology. Whilst initially modest, these projects have the potential to develop into more substantial RF sub-system projects in the future.

Outlook

A robust orderbook, strong balance sheet, and the recent contract win for a new test equipment customer, positions us favourably for H2 revenue growth in line with expectations and delivery of EBITDA growth. Our cash position remains healthy, enabling us to invest in our technology roadmap, expand engineering capacity and build capability to support future revenue growth initiatives in the delivery of shareholder value. There are still some headwinds in the supply chain for many technology businesses as a result of the global shortage of semiconductor components and it is not yet known as to when this situation will abate but we continue to work hard with customers and suppliers as we to invest to secure long lead-time components and anticipate future customer demand.

Looking further ahead, the Group’s key addressable markets continue to benefit from long-term growth drivers. Our E-band backhaul transceivers play a critical role in the rollout of 5G networks in the telecommunications infrastructure market, and we can anticipate some step changes in demand as countries license E-band frequencies in response to ever increasing demand for network capacity. The UK Government is delivering on budget commitments to increase defence spending and we have secured several filter development opportunities linked to new strategic defence platforms. The Low Earth Orbit (“LEO”) Space Market continues to develop at pace both in the UK and in North America, and we are finding opportunities to adapt intellectual property originally developed for the terrestrial telecoms and HAPS market, into solutions for the emerging LEO space constellations.

Consequently, the Board continues to look to the future with a degree of confidence and optimism.

Jonathan Neale
Chairman, 8 February 2022

Condensed Consolidated Interim Income Statement
For the period ended 30 November 2021

		6 months Ended 30 November 2021 (Unaudited) £000	6 months Ended 30 November 2020 (Unaudited) £000	Year Ended 31 May 2021 (Audited) £000
Continuing operations	Note			
Revenue	5	8,004 =====	7,148 =====	15,556 =====
Adjusted EBITDA¹		1,124	614	1,773
Depreciation		(364)	(438)	(941)
Amortisation		(152)	(38)	(209)
Impairment of development costs		-	(45)	(45)
Adjusted operating profit²		608 -----	93 -----	578 -----
Exceptional items	6	113 -----	-	64 -----
Operating profit		721	93	642
Finance costs	7	(104)	(236)	(431)
Finance income	8	68 -----	-	-
Profit/(loss) before taxation		685	(143)	211
Taxation		(8) -----	85 -----	(151) -----
Profit/(loss) for the period		677 =====	(58) =====	60 =====
Basic and diluted earnings/(loss) per share (pence)				
Basic earnings/(loss) per share	9	0.32p	(0.03p)	0.03p
Diluted earnings/(loss) per share	9	0.31p =====	(0.03p) =====	0.03p =====

1 Adjusted EBITDA is defined as profit before interest, taxation, depreciation, amortisation and exceptional items which is a non-GAAP metric used by management and is not an IFRS disclosure.

2 Adjusted operating profit is defined as operating profit before exceptional items which is a non-GAAP metric used by management and is not an IFRS disclosure.

Condensed Consolidated Interim Statement of Comprehensive Income
For the period ended 30 November 2021

	6 months Ended 30 November 2021 (Unaudited) £000	6 months Ended 30 November 2020 (Unaudited) £000	Year Ended 31 May 2021 (Audited) £000
Profit/(loss) for the period	677	(58)	60
	-----	-----	-----
<i>Items that are or may be subsequently reclassified to profit and loss</i>			
Currency translation arising on consolidation	101	(41)	(98)
	-----	-----	-----
Total comprehensive income/(expense) for the period	778	(99)	(38)
	=====	=====	=====

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

**Condensed Consolidated Interim Balance Sheet
At 30 November 2021**

	Note	30 November 2021 (Unaudited) £000	30 November 2020 (Unaudited) £000	31 May 2021 (Audited) £000
Non-current assets				
Goodwill and other intangible assets		1,597	1,839	1,716
Right of use assets		2,057	2,394	2,268
Property, plant and equipment		978	1,028	1,014
Deferred tax		1,272	1,803	1,218
		-----	-----	-----
		5,904	7,064	6,216
		-----	-----	-----
Current assets				
Inventories		2,371	3,348	2,190
Trade and other receivables		4,118	4,203	3,294
Cash and cash equivalents		3,044	1,621	2,906
		-----	-----	-----
		9,533	9,172	8,390
		-----	-----	-----
Total assets		15,437	16,236	14,606
		-----	-----	-----
Current liabilities				
Trade and other payables		2,790	3,209	2,380
Provisions		275	932	397
Deferred Income		265	566	184
Financial liabilities		71	50	63
Lease liabilities		538	849	542
		-----	-----	-----
		3,939	5,606	3,566
		-----	-----	-----
Long term liabilities				
Deferred income		44	-	128
Financial liabilities		71	-	76
Lease liabilities		1,229	1,363	1,478
		-----	-----	-----
		1,344	1,363	1,682
		-----	-----	-----
Total liabilities		5,283	6,969	5,248
		-----	-----	-----
Net assets		10,154	9,267	9,358
		=====	=====	=====
Equity				
Share capital	10	10,795	10,795	10,795
Share premium	11	11,050	11,011	11,039
Translation reserve		(549)	(593)	(650)
Retained earnings		(11,142)	(11,946)	(11,826)
		-----	-----	-----
Total equity		10,154	9,267	9,358
		=====	=====	=====

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 2021

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 30 November 2020	10,795	11,011	(593)	(11,946)	9,267
Profit for the period	-	-	-	118	118
New shares issued (net of issue costs)	-	28	-	-	28
Currency translation movement arising on consolidation	-	-	(57)	-	(57)
Share-based payments	-	-	-	2	2
	-----	-----	-----	-----	-----
Balance at 31 May 2021	10,795	11,039	(650)	(11,826)	9,358
Profit for the period	-	-	-	677	677
New shares issued (net of issue costs)	-	11	-	-	11
Currency translation movement arising on consolidation	-	-	101	-	101
Share-based payments	-	-	-	7	7
	-----	-----	-----	-----	-----
Balance at 30 November 2021	10,795	11,050	(549)	(11,142)	10,154
	=====	=====	=====	=====	=====

Condensed Consolidated Interim Cash Flow Statement
For the period ended 30 November 2021

	6 months Ended 30 November 2021 (Unaudited) £000	6 months Ended 30 November 2020 (Unaudited) £000	Year Ended 31 May 2021 (Audited) £000
Cash flows from operating activities			
Profit/(loss) for the period	677	(58)	60
Taxation	8	(85)	151
Finance income	(68)	-	-
Finance costs	104	236	431
	-----	-----	-----
Operating profit	721	93	642
Tax (paid)/received	(8)	108	495
Share-based payments	7	-	2
Depreciation	364	438	941
Amortisation of intangible assets	152	38	209
Impairment of intangible assets	-	45	45
Movement in inventories	(118)	(403)	626
Movement in trade and other receivables	(755)	645	1,489
Movement in trade and other payables	368	(276)	(1,026)
Movement in provisions	(122)	(178)	(712)
Change in deferred income	(5)	(2)	(255)
	-----	-----	-----
Net cash generated from operating activities	604	508	2,456
	-----	-----	-----
Cash flows from investing activities			
Acquisition of plant and equipment	(80)	(49)	(177)
Acquisition of intangible assets	(33)	(21)	(69)
Acquisition of right of use assets	(18)	(12)	(106)
Capitalisation of development costs	-	(52)	(52)
Proceeds on sale of assets	-	4	12
	-----	-----	-----
Net cash used in investing activities	(131)	(130)	(392)
	-----	-----	-----
Cash flows from financing activities			
Interest paid	(105)	(117)	(225)
Proceeds from bank loans	-	-	131
Repayment of bank loans	(8)	(272)	(209)
Repayment of lease liabilities	(259)	(331)	(666)
Repayment of interest-bearing borrowings	-	-	(104)
Proceeds from new shares (net of issue costs)	11	11	40
	-----	-----	-----
Net cash used in financing activities	(361)	(709)	(1,033)
	-----	-----	-----
Movement in cash and cash equivalents	112	(331)	1,031
Currency exchange movements	26	(76)	(153)
Opening cash and cash equivalents	2,906	2,028	2,028
	-----	-----	-----
Closing cash and cash equivalents	3,044	1,621	2,906
	=====	=====	=====

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.com.

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, this statement does not itself contain sufficient information to comply with IFRS.

These financial results for the six months ended 30 November 2021 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 2021, which includes annual financial statements for the year ended 31 May 2021. 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 condensed consolidated financial statements for the six months ended 30 November 2021 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 2021 and comparative period have not been audited. The interim financial report for the six months ended 30 November 2021 was approved by the Board on 7 February 2021.

3 Going Concern

In accordance with corporate governance requirements the directors have undertaken a review of forecasts and the Group's cash requirements to consider whether it is appropriate that the Group continues to adopt the going concern assumption.

The directors have reviewed the projected cash flow and other relevant information, including a 'severe but plausible' scenario and have a reasonable expectation that the Group has adequate resources to continue in operational existence and therefore it remains appropriate to adopt the going concern basis in preparing the interim financial report for the six months ended 30 November 2021.

4 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 and 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 2021 which can be found on the Filtronic website. Unless stated below there is no material change to those judgements from the Annual Report in the basis of calculation.

5 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 Chief Executive Officer, who reviews internal monthly management reports, budget and forecast information as part of this. Accordingly, the Chief Executive Officer is deemed to be the CODM.

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 adjusted operating profit and adjusted 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 three customers representing individually over 10% each and in aggregate 88% of revenue.

Revenue by Destination

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

	6 months Ended 30 November 2021 £000	6 months Ended 30 November 2020 £000	Year Ended 31 May 2021 £000
Revenue			
United Kingdom	3,662	1,687	4,693
Europe	1,294	2,642	4,178
Americas	2,573	1,494	4,197
Rest of the world	475	1,325	2,488
	-----	-----	-----
	8,004	7,148	15,556
	=====	=====	=====

5 Segmental Analysis (continued)

Revenue from sales

The revenue presented is based on the Group deriving revenue from product sales and those received from Non-Recurring Engineering (“NRE”) at a point in time when the performance obligation is satisfied.

	6 months Ended 30 November 2021 £000	6 months Ended 30 November 2020 £000	Year Ended 31 May 2021 £000
Revenue			
Sales of product	7,428	6,710	14,375
NRE - point in time	576	438	1,181
	-----	-----	-----
	8,004	7,148	15,556
	=====	=====	=====

6 Exceptional items

Exceptional items are costs or credits that are separately disclosed due to their material and non-recurring nature in order to reflect management’s view of the underlying business.

Operating profit is stated after crediting exceptional items as follows:

	6 months Ended 30 November 2021 £000	6 months Ended 30 November 2020 £000	Year Ended 31 May 2021 £000
Warranty	(113)	-	-
Historic claim	-	-	(64)
	-----	-----	-----
	(113)	-	(64)
	=====	=====	=====

The warranty item is a provision reversal relating to the Group’s legacy telecoms antenna business previously costed through discontinued operations. The warranty period has now lapsed, and the provision is no longer required.

7 Finance costs

	6 months Ended 30 November 2021 £000	6 months Ended 30 November 2020 £000	Year Ended 31 May 2021 £000
Interest expense on loans for plant and equipment	-	6	6
Interest expense for lease arrangements	65	86	136
Minimum service costs and interest charges on invoice discounting facilities	39	22	82
Revaluation of foreign currency denominated intercompany balance	-	122	207
	-----	-----	-----
	104	236	431
	=====	=====	=====

8 Finance income

	6 months Ended 30 November 2021 £000	6 months Ended 30 November 2020 £000	Year Ended 31 May 2021 £000
Revaluation of foreign currency denominated intercompany balance	68	-	-
	-----	-----	-----
	68	-	-
	=====	=====	=====

9 Basic and diluted loss per share

	6 months Ended 30 November 2021 £000	6 months Ended 30 November 2020 £000	Year Ended 31 May 2021 £000
Profit/(loss) for the period	677	(58)	60
	=====	=====	=====
	'000	'000	'000
Basic weighted average number of shares	214,493	213,898	213,397
Dilution effect of share options	812	-	897
	-----	-----	-----
Diluted weighted average number of shares	215,305	213,898	214,294
	=====	=====	=====
Basic earnings/(loss) per share (pence)	0.32p	(0.03p)	0.03p
Diluted earnings/(loss) per share (pence)	0.31p	(0.03p)	0.03p
	=====	=====	=====

10 Share Capital

	Ordinary shares of 0.1p each issued and fully paid	
	Number '000	£000
At 30 November 2020	213,898	10,795
Exercise of employee share options	517	-
	-----	-----
At 31 May 2021	214,415	10,795
Exercise of employee share options	200	-
	-----	-----
At 30 November 2021	214,615	10,795
	=====	=====

Holders of the ordinary shares are entitled to receive dividends when declared and are entitled to one vote per share at meetings of the Company.

11 Share Premium

	£000
At 30 November 2020	11,011
Exercise of employee share options	28

At 31 May 2021	11,039
Exercise of employee share options	11

At 30 November 2021	11,050
	=====

12 Analysis of net cash/(debt)

	1 June 2021 £000	Cash Flow £000	Other movements £000	30 Nov 2021 £000
Cash and cash equivalents	2,906	112	26	3,044
Bank loans	(131)	-	(11)	(142)
Lease liability – plant and equipment	(835)	147	-	(688)
	-----	-----	-----	-----
Net cash when including all debt except property leases	1,940	259	15	2,214
Lease liability – property lease	(1,185)	112	(6)	(1,079)
	-----	-----	-----	-----
Net cash	755	371	9	1,135
	=====	=====	=====	=====

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

At 30 November 2021, 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 the facilities at 30 November 2021 (31 May 2021: undrawn).

IFRS 16 requires the recognition of property leases on the balance sheet which is classified as a debt item.