



The world at your fingertips...

Zytronic plc

Interim Report for the six months to 31 March 2017

WIDENING TOUCHSCREEN OPPORTUNITIES

The Zytronic range of interactive touch-sensing overlay products are based upon our internationally award-winning projected capacitive technologies. We develop and manufacture highly durable and adaptable sensors in a near limitless range of shapes and sizes, ideally suited for the most demanding self-service, industrial and public-facing interactive systems.

Unlike the majority of other touch technologies, the active component of Zytronic's technology is embedded behind the glass front for protection, providing a true safety laminated, pure glass-fronted construction. Cutting edge, durable and reliable, Zytronic, its technologies and its products put the world at your fingertips.

Overview

- Group revenue of £11.3m (H1 2016: £9.9m)
- Touch revenues increased to £10.0m (H1 2016: £8.3m)
- Gross profit margin improved to 43.1% (H1 2016: 42.3%)
- Profit before tax increased to £2.5m (H1 2016: £1.8m)
- Basic earnings per share (“EPS”) increased by 44% to 13.8p (H1 2016: 9.6p)
- Interim dividend increased by 10% to 3.80p per share (2016: 3.45p)
- Net cash increased by £0.9m to £12.5m (30 September 2016: £11.6m)

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Chairman's statement

Touch product revenues continuing to increase.

Introduction

The Board is pleased to announce that the period for the half year ended 31 March 2017 has continued to show an increase in demand, especially for our large format proprietary touch products, resulting in an improvement in the Group's overall margins and profits.

Results

Revenues have increased by 14% to £11.3m (H1 2016: £9.9m). Administration overheads of £2.1m benefited from a reduction in the foreign exchange hedging charge of £0.1m compared with the previous half year of £0.4m. Overall after adjusting for the benefit of the reduction in foreign exchange charges the profit before tax increased by 19% to £2.6m (H1 2016: £2.2m).

Reported profit before tax was £2.5m (H1 2016: £1.8m) and after tax of 14.5% (H1 2016: 15.5%) this resulted in a profit after tax for the period of £2.2m (H1 2016: £1.5m) with basic earnings per share increasing by 44% to 13.8p (H1 2016: 9.6p).

Touch revenues increased to £10.0m (H1 2016: £8.3m) and together with the focus on our proprietary technology for larger format and multi-user sensors, combined to improve gross margin to 43.1% (H1 2016: 42.3%). The principal drivers of growth continues to be the large format sizes in particular in the gaming sector for upright cabinet designs through both APAC and UK-based customers.

Cash generation

The Group continued to generate cash with £2.5m (H1 2016: £2.3m) being earned before the payment of £1.7m in respect of the final dividend for last year (final dividend 2016: £1.4m).

The Group's net cash position at 31 March 2017 was £12.5m (30 September 2016: £11.6m) after the £1.0m liability in relation to the property mortgage.

Capital reduction scheme

The capital reduction scheme resolution to increase distributable reserves, which was proposed and passed at the AGM on 16 February 2017, was approved by the Court on 15 March 2017 and was effected through the registration at Companies House on 22 March 2017.

Dividend

The Directors have declared a 10% increase to the interim dividend to 3.80p per share (2016: 3.45p) payable on 21 July 2017 to shareholders on the Register on 7 July 2017.

Outlook

The second half of the year has started well and is in line with expectations and on this basis we expect to make further progress in creating value for shareholders.

Tudor Davies

Chairman
16 May 2017

Consolidated statement of comprehensive income

Unaudited results for the six months to 31 March 2017

	Notes	Six months to 31 March 2017 Unaudited £'000	Six months to 31 March 2016 Unaudited £'000	Year to 30 September 2016 Audited £'000
Group revenue		11,281	9,868	21,087
Cost of sales		(6,414)	(5,692)	(12,071)
Gross profit		4,867	4,176	9,016
Distribution costs		(229)	(198)	(378)
Administration expenses		(2,117)	(2,220)	(4,365)
Group trading profit		2,521	1,758	4,273
Finance costs		(9)	(12)	(23)
Finance revenue		5	8	20
Profit before tax		2,517	1,754	4,270
Tax expenses	3	(366)	(271)	(183)
Profit for the period		2,151	1,483	4,087
Earnings per share				
Basic	4	13.8p	9.6p	26.6p
Diluted	4	13.6p	9.5p	26.1p

All profits are from continuing operations.

Consolidated statement of changes in equity

Unaudited results for the six months to 31 March 2017

	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 period	—	—	2,151	2,151
Exercise of share options	5	1,039	—	1,044
Issue of capital reduction shares*	8,919	—	(8,919)	—
Cancellation of capital reduction shares*	(8,919)	—	8,919	—
Dividends	—	—	(1,744)	(1,744)
At 31 March 2017 (unaudited)	159	8,805	15,723	24,687

* Refer to note 8.

Consolidated balance sheet

Unaudited results at 31 March 2017

	Notes	At 31 March 2017 Unaudited £'000	At 31 March 2016 Unaudited £'000	At 30 September 2016 Audited £'000
Assets				
Non-current assets				
Intangible assets		1,585	1,507	1,457
Property, plant and equipment		7,228	7,547	7,389
		8,813	9,054	8,846
Current assets				
Inventories		3,479	3,140	2,760
Trade and other receivables		3,563	3,362	3,745
Cash and short term deposits		13,520	10,757	12,763
		20,562	17,259	19,268
Total assets		29,375	26,313	28,114
Liabilities				
Current liabilities				
Trade and other payables		1,494	1,378	1,302
Financial liabilities		1,049	200	1,148
Derivative financial liabilities		442	470	959
Provisions		—	—	205
Accruals		1,021	1,013	834
Tax liabilities		405	286	122
		4,411	3,347	4,570
Non-current liabilities				
Financial liabilities		—	1,096	—
Provisions	5	—	170	—
Government grants		17	54	48
Deferred tax liabilities (net)		260	590	260
		277	1,910	308
Total liabilities		4,688	5,257	4,878
Net assets		24,687	21,056	23,236
Equity				
Equity share capital		159	154	154
Share premium		8,805	7,766	7,766
Revenue reserve	8	15,723	13,136	15,316
Total equity		24,687	21,056	23,236

Consolidated cashflow statement

Unaudited results for the six months to 31 March 2017

	Notes	Six months to 31 March 2017 Unaudited £'000	Six months to 31 March 2016 Unaudited £'000	Year to 30 September 2016 Audited £'000
Operating activities				
Profit before tax		2,517	1,754	4,270
Net finance costs		4	4	3
Depreciation and impairment of property, plant and equipment		387	405	766
Amortisation and impairment of intangible assets		178	152	355
Loss on disposal of intangible assets		28	—	—
Amortisation of government grant		(31)	(5)	(11)
Share-based payments		—	35	71
Fair value movement on foreign exchange forward contracts		(517)	381	870
Working capital adjustments				
(Increase)/decrease in inventories		(719)	74	454
Decrease/(increase) in trade and other receivables		316	(313)	(690)
Increase in trade and other payables and provisions		27	286	76
Cash generated from operations		2,190	2,773	6,164
Tax paid		(83)	(234)	(576)
Net cashflow from operating activities		2,107	2,539	5,588
Investing activities				
Interest received		5	8	20
Payments to acquire property, plant and equipment		(214)	(176)	(387)
Payments to acquire intangible assets		(333)	(232)	(385)
Net cashflow from investing activities		(542)	(400)	(752)
Financing activities				
Interest paid		(8)	(12)	(21)
Dividends paid to equity shareholders of the Parent		(1,744)	(1,368)	(1,900)
Proceeds from share issues relating to options		1,044	215	215
Repayment of borrowings		(100)	(50)	(200)
Net cashflow from financing activities		(808)	(1,215)	(1,906)
Increase in cash and cash equivalents		757	924	2,930
Cash and cash equivalents at the beginning of the period		12,763	9,833	9,833
Cash and cash equivalents at the end of the period	7	13,520	10,757	12,763

Notes to the interim report

Unaudited results for the six months to 31 March 2017

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 profit 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 2017 are not reviewed by Ernst & Young 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 2016 annual report and financial statements.

The financial information for the six months to 31 March 2017 and the comparative financial information for the six months to 31 March 2016 have not been audited. The comparative financial information for the year ended 30 September 2016 has been extracted from the 2016 annual report and financial statements.

The annual report and financial statements for the year ended 30 September 2016, which were approved by the Board of Directors on 12 December 2016, received an unqualified audit report, did not contain a statement under Section 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 2017.

3. Tax charge on profit on ordinary activities

The estimated tax rate for the year of 14.5% has been applied to the half year's profit before tax, in accordance with the Auditing Standards Board's statement on interim reports.

4. 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 period. All activities are continuing operations and therefore there is no difference between EPS arising from total operations and EPS arising from continuing operations.

For the six months to 31 March 2017 and 2016

	Earnings 31 March 2017 £'000	Weighted average number of shares 31 March 2017 Thousands	EPS 31 March 2017 Pence	Earnings 31 March 2016 £'000	Weighted average number of shares 31 March 2016 Thousands	EPS 31 March 2016 Pence
Profit on ordinary activities after tax	2,151	15,626	13.8	1,483	15,369	9.6
Basic EPS	2,151	15,626	13.8	1,483	15,369	9.6

4. Earnings per share *continued*

For the six months to 31 March 2017 and 2016 *continued*

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

	Earnings 31 March 2017 £'000	Weighted average number of shares 31 March 2017 Thousands	EPS 31 March 2017 Pence	Earnings 31 March 2016 £'000	Weighted average number of shares 31 March 2016 Thousands	EPS 31 March 2016 Pence
Profit on ordinary activities after tax	2,151	15,626	13.8	1,483	15,369	9.6
Weighted average number of shares under option	—	168	(0.2)	—	197	(0.1)
Diluted EPS	2,151	15,794	13.6	1,483	15,566	9.5

For the year to 30 September 2016

	Earnings 30 September 2016 £'000	Weighted average number of shares 30 September 2016 Thousands	EPS 30 September 2016 Pence
Profit on ordinary activities after tax	4,087	15,346	26.6
Basic EPS	4,087	15,346	26.6

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

	Earnings 30 September 2016 £'000	Weighted average number of shares 30 September 2016 Thousands	EPS 30 September 2016 Pence
Profit on ordinary activities after tax	4,087	15,346	26.6
Weighted average number of shares under option	—	299	(0.5)
Diluted EPS	4,087	15,645	26.1

5. Provisions

	Total £'000
At 1 October 2016	205
Utilised during the year	(205)
At 31 March 2017	—

Long term incentive scheme

The provision for the long term incentive scheme relating to the Chief Executive, the Group Finance Director and other management personnel was calculated based on future expectations that the bonus would be payable.

Notes to the interim report *continued*

Unaudited results for the six months to 31 March 2017

6. Dividends

The Directors propose the payment of an interim dividend of 3.80p per share (2016: 3.45p), payable on 21 July 2017 to shareholders on the Register on 7 July 2017. This dividend has not been accrued in these interim accounts. The dividend payment will be approximately £606,000.

	Six months to 31 March 2017 Unaudited £'000	Six months to 31 March 2016 Unaudited £'000	Year to 30 September 2016 Audited £'000
Ordinary dividends on equity shares			
Final dividend of 8.87p per ordinary share paid on 11 March 2016	—	1,368	1,368
Interim dividend of 3.45p per ordinary share paid on 22 July 2016	—	—	532
Final dividend of 10.96p per ordinary share paid on 3 March 2017	1,744	—	—
	1,744	1,368	1,900

7. Cash and cash equivalents

	Six months to 31 March 2017 Unaudited £'000	Six months to 31 March 2016 Unaudited £'000	Year to 30 September 2016 Audited £'000
Cash at bank and in hand	13,520	10,757	12,763

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

	Six months to 31 March 2017 Unaudited £'000	Six months to 31 March 2016 Unaudited £'000	Year to 30 September 2016 Audited £'000
Cash at bank and in hand	10,709	9,088	9,097
Short term deposits	3,671	2,586	3,666
Bank overdraft	(860)	(917)	—
	13,520	10,757	12,763

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for variable lengths, being overnight, three months or one year (with break conditions), depending on the immediate cash requirements of the Group, and earn interest at variable rates.

At 31 March 2017 the Group had available a net £1.0m (cash less overdrawn accounts) overdraft facility from Barclays Bank plc which will fall for review in November 2017.

The fair value of cash and cash equivalents is £13.5m (31 March 2016: £10.8m).

8. 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.

9. Availability of the interim report

A copy of the interim report is available on the Company's website, www.zytronicplc.com, and can be obtained from the Company's registered office: Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ. Copies will be sent to shareholders shortly.

Corporate information

Websites

www.zytronicplc.com
www.zytronic.co.uk
www.zytronic-inc.com
www.zytronic.cn
www.zytronic.jp

Secretary

Claire Smith
Email: claire.smith@zytronic.co.uk

Registered office

Whiteley Road
Blaydon-on-Tyne
Tyne and Wear
NE21 5NJ

Tel: 0191 414 5511
Fax: 0191 414 0545

Registration number

3881244

Nominated Advisor and Broker

N+1 Singer

One Bartholomew Lane
London
EC2N 2AX

Registrars

Computershare Investor Services PLC

The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Auditors

Ernst & Young LLP

Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

Bankers

Barclays Bank plc

71 Grey Street
Newcastle-upon-Tyne
NE99 1JP

Santander Corporate Banking

Baltic Place
South Shore Road
Gateshead
NE8 3AE

Yorkshire Bank

131-135 Northumberland Street
Newcastle-upon-Tyne
NE1 7AG

Regions Bank

2653 Marietta Hwy
Canton, GA
30114
USA

Solicitors

Ward Hadaway

Sandgate House
102 Quayside
Newcastle-upon-Tyne
NE1 3DX

Muckle LLP

Time Central
32 Gallowgate
Newcastle-upon-Tyne
NE1 4BF



Zytronic plc

Whiteley Road
Blaydon-on-Tyne
Tyne and Wear
NE21 5NJ

Tel: 0191 414 5511

Fax: 0191 414 0545

Web: www.zytronicplc.com