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14 April 2023

Carclo plc

("Carclo" or the "Group")

Full Year Trading Update

Carclo, a preferred and trusted partner of global customers, providing high-precision critical components to the life sciences, aerospace, optics, and technology industries, today provides an update on trading for the financial year ended 31 March 2023 ("FY 2023").

During FY 2023, the Company encountered multiple significant challenges, including the dissolution of a major manufacturing contract, the adverse effects of rising input costs on margins, and increasing interest rates. In response to this altered landscape, the Board shifted the Group's strategy to focus on operational excellence and cash generation. Although the final quarter of FY 2023 has shown early signs of the new strategy's benefits, the overall full-year profit performance is anticipated to be below the previous year. As a result of the new focus on cash generation, the Group expects to deliver an improvement in net debt compared to the position at the half year, whilst having continued to make significant pension deficit repair contributions. The suppressed Manufacturing Solutions margins and reduced Design & Engineering activity within our Carclo Technical Plastics (CTP) business have only been partially counterbalanced by increased manufacturing volumes in CTP and a robust performance from our Aerospace division.

Redefined Strategy

During the latter half of FY2023 it became clear that the cash-intensive top-line growth strategy was unsustainable in the current economic climate. As a result, the Board has refocused the Group's strategy on margin expansion through operational excellence and balance sheet strengthening via cash generation. Our investment priorities now lie in supporting existing projects and continuous improvement with a swift return on investment. While we have already begun implementing this new strategy and there is still much to accomplish, we are witnessing early positive indications of enhanced margins and cash generation as FY2023 concludes.

Banking Arrangements

The Board continues to work with its lending bank, HSBC, to ensure that there is appropriate ongoing financial support for the business as it implements the new strategy. HSBC remain supportive and the Group successfully reached an agreement with them to reset the interest cover covenant for 31 March 2023. Discussions are continuing with HSBC regarding the setting of appropriate covenants for the forthcoming financial year.

Carclo Technical Plastics (CTP)

The CTP division achieved a robust revenue performance, despite facing significant headwinds during the year. Activity in the Design & Engineering segment reduced from the very high level of the prior year, but remained above historical norms. The Manufacturing Solutions segment delivered significant revenue growth, primarily from our existing customers in the life sciences sector, demonstrating our ability to grow organically in our chosen markets.

However, significant margin challenges offset this revenue growth, particularly the unprecedented increase in input costs, including soaring energy prices. While we have been able to pass on some of the higher costs to customers, the time delay in doing so has caused a significant drop in operating margins during the year. The effect of the lower margins was only partially mitigated by increased manufacturing volumes and we therefore expect the divisional underlying operating profit to be materially lower than the prior year.

We previously announced the dissolution of a significant manufacturing contract and are engaged in ongoing discussions with the customer to reach a commercial agreement for this contract.

Our current focus is on margin recovery through operational efficiency and optimisation. We have begun our factory specialisation journey in the EMEA region, with our UK facility concentrating on long production runs and our Czech facility focusing on short and medium-run products, prioritising flexibility and rapid changeovers. We are now implementing this factory specialisation strategy in the US. Our Chinese and Indian operations demonstrate strong growth potential and enhance our global presence. We expect a steady recovery in operating margins in the near term as our new strategy starts to yield results.

Aerospace

Our Aerospace division is witnessing a robust recovery as the aviation industry rebounds, with sales approaching pre-COVID levels. The division's unique market position ensures margin resilience amid inflation, and we expect solid profits and operating cash flow for FY2023. Our focus lies in expanding sales within existing markets and creating high-precision, safety-critical solutions for specialised sectors.

Governance

The Board is dedicated to maintaining high governance standards and regulatory compliance. We have restructured the Board, separating the roles of Non-Executive Chairman and Chief Executive, in line with the Corporate Governance Code. Rachel Amey's recent appointment as a Non-Executive Director strengthens the Board, as her financial expertise will help ensure adherence to best practice in financial controls and governance.

Outlook

We remain committed to our strategy of operational excellence and cash generation, and we expect a steady recovery in operating margins in the near term as our new strategy starts to yield results.

We remain dedicated to providing sustainable earnings growth and value creation for our stakeholders, despite the persistent challenges caused by inflationary pressures. Our new strategy emphasises cash generation, stability, operational excellence, and optimising our global footprint. We are implementing measures to enhance manufacturing and supply chain efficiency while minimising environmental impact. Our endeavours to optimise our global footprint will enable us to serve our customers better, support growth in key markets, and improve financial performance. We expect the business to deliver a substantially improved performance over the medium term as our focus shifts to enhancing margins and return on capital.

About Carclo plc

Carclo plc is a public company whose shares are quoted on the Main Market of the London Stock Exchange. The Group is a preferred and trusted partner of global customers, offering high-precision critical components that meet the needs of life sciences, aerospace, optics, and technology industries.

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