RNS Number : 2844Y
Filtronic PLC
30 July 2024

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**FILTRONIC PLC**

**AUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 31 MAY 2024**

Filtronic plc (AIM: FTC), the designer and manufacturer of products for the aerospace, defence, space and telecommunications infrastructure markets, announces its full year results for the 12 months ended 31 May 2024.

**Financial Highlights**

| | **2024** | 2023 |
|---|---|---|
| Revenue | **£25.4m** | £16.3m |
| Adjusted EBITDA* | **£4.9m** | £1.3m |
| Operating profit | **£3.6m** | £0.2m |
| Profit before taxation | **£3.4m** | £0.1m |
| Profit for the year | **£3.1m** | £0.5m |
| Basic earnings per share | **1.45p** | 0.22p |
| Diluted earnings per share | **1.41p** | 0.21p |
| Cash at bank | **£7.2m** | £2.6m |
| Net cash when excluding right of use property leases | **£5.2m** | £1.6m |
| Net cash balance as at 31 May | **£4.2m** | £0.3m |
| Cash generated from operating activities | **£6.3m** | £1.0m |

*Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation and share-based payments.

**Operational Highlights**

- Signed a 5-year Strategic Partnership with SpaceX, a market leader in low earth orbit ("LEO") space communications, for the supply of Cerus solid state power amplifier ("SSPA") products at multiple frequency bands. Given the customer's preference for vertical integration, this is a significant testament to our ability to design and deliver best in class technology.
- Contract award of £3.2m from the European Space Agency to develop a series of mmWave products with strategic importance for next generation LEO constellations including payload applications.
- Contract wins from strategic target clients, BAE Maritime Services and QinetiQ, for £4.5m and £2.0m respectively for radar systems.
- Launched and secured production orders for E-band derivative products from telecommunication infrastructure OEMs and several specialist private telecom network providers.
- Secured a fourth programme from DSTL to design and develop a tuneable filter solution for future defence radar applications.
- Won the King's award for Enterprise in Innovation recognising our outstanding product development.
- Flexed the operation to meet growing market demand for our products demonstrating our ability to respond and scale the business rapidly and efficiently.

**Post-period Highlights**

- Follow-on contract award from SpaceX for E-band SSPAs valued at $9.0m (£7.1m).

**Commenting on the outlook, Jonathan Neale, Chairman, said:** "The success in FY2024 has given us a very strong basis for our business as we look ahead into FY2025. We continue to prove that we have the technology, products and skills to compete internationally with the best.

"Contract wins in FY2024 require us to expand the Group's engineering and manufacturing operations into our growing sales orderbook. At the same time as we develop our electronic communications products and technology in the low earth orbit space sector, we have ambitions to do more in the defence, aerospace and security sectors. These markets have very similar needs and problems of integrating high volumes of sensors and data whilst making that data available securely, quickly and at large scale to end users. When we review what our core business is and what is adjacent market opportunity this is shifting gradually over time, and we have shown the ability to pivot when the opportunities have arisen.

"Behind the scenes, our technology roadmaps remain robust. The underpinning engineering and manufacturing capability, that are future facing, remain the focus of our investment plans enabling us to bid confidently into high value opportunities.

"The UK is still short of skilled engineers and technicians, but this is a feature of the economic environment and neither new, nor a surprise. We will have to work hard to compete to attract talent, but we are excited to be able to offer exciting career opportunities to both experienced engineers and leaders as well as younger people in the early stage of their career.

"Whilst we wait to see what the new government's UK industrial strategy will look like, we remain confident that in the critical technology areas, including sovereign semiconductor packaging capability, we have a meaningful role to play."

**Annual General Meeting**

The Annual General Meeting will take place at 11am on 31 October 2024 at Plexus building, Thomas Wright Way, Netpark, Sedgefield, County Durham, TS21 3FD.


| | |
|---|---|
| **Filtronic plc** | Tel. 01740 618800 |
| Nat Edington (Chief Executive Officer) | |
| Michael Tyerman (Chief Financial Officer) | |
| | |
| **Cavendish Capital Markets Ltd** | Tel. 020 7220 0500 |
| Jonny Franklin-Adams / George Dollemore (Corporate Finance) | |
| Sunila de Silva (ECM) | |
| | |
| **Walbrook PR Ltd** | Tel. 020 7933 8780 |
| Nick Rome / Joe Walker | or filtronic@walbrookpr.com |


**Note: This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation.**

**Forward-looking statements**

The Chairman's statement and Chief Executive's review include statements that are forward looking in nature. 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 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**

Dear fellow shareholder
I am pleased to report that the year ended 31 May 2024 has been one of significant progress. We have successfully capitalised on the momentum built in prior years in bringing to market our core technology projects and enhanced market focus. This culminated in the business securing a strategic partnership with SpaceX in addition to numerous contract wins with key target clients including BAE, QinetiQ and the European Space Agency, and our opportunity pipeline continues to grow across our core markets.

These achievements have given us an excellent platform to deliver long-term sustainable growth and is a major step forward in the execution, and de-risking, of our wider strategy. To that end, we will not lose sight of the need to focus developing business opportunities in our core and adjacent markets. Expanding and diversifying our customer base remains key to growth and resilience planning.

Strong trading and workforce commitment in H2 enabled us to deliver good growth in revenue and profit with material improvements seen over the prior year. We have kept the market and investors up to date with this dynamic situation by upgrading market expectations via a series of trading updates during the course of FY2024.

These pleasing efforts and results have enabled us to deliver adjusted earnings before interest, taxation, depreciation, amortisation and share-based payments ("adjusted EBITDA") of £4.9m (2023: £1.3m), and significantly strengthened the balance sheet and cash position. This underpins our ability to invest in growing the operational capability to match the improved orderbook and extend the innovation and technology road map to support our collective revenue growth ambitions.

**The Markets**

This year we experienced our highest levels of customer engagement, which reflects the growing demand for our core capabilities and innovative products across the markets we serve.

The low earth orbit ("LEO") space communications market, whilst an emerging market, continues to produce sizeable opportunities from a range of prospective clients. The success we have had in the LEO market offers not only the potential for transformational growth, but also for us to accelerate the technology we believe this sector will need. Initially, this is through our innovative Cerus32 E-band product that is being actively deployed into ground stations of the Starlink constellation which is the first and only operational commercial E-band link in the world today. Whilst the market is currently led by a small number of household names, there are many well capitalised companies looking to participate in this market with the aim of providing low-cost internet to remote locations and direct to cell phone capability which will bolster the market opportunity for us to exploit.

The aerospace and defence industry outlook remains strong. There is increasing global need for high bandwidth, fast and secure data telemetry and infrastructure and we continue to explore opportunities on land, sea and air. As well as security and defence market opportunities, the private network and high-speed trading opportunities are a meaningful part of our current and future portfolio.

The telecommunications infrastructure market has become a less dominant part of our growth plan as the rollout of 5G stalls in some markets, but it remains an important market given the leading players tend to be first adopters of new technology. This 'first to market' drive helps accelerate our own technology roadmap and positions us well in adjacent markets where the product offering is highly desirable with strong revenue and earnings potential.

Of critical interest and relevance to new and existing customers is our ability to design, develop, test and manufacture a turn-key solution to a high-quality standard, at volume.

Scaling up our business is a key focus for the year ahead as we keep pace with the increased rate of trading. Financially, the Group's cash position provides the means to make meaningful prudent investments in the business to facilitate further growth. We are currently exploring the possibility of moving to a larger facility which will offer more manufacturing space customised to our precise needs with room to expand our respective teams. We are also mindful that well run businesses are efficient and protecting profit leakage is equally important. Recruiting additional resource into our engineering team will be critical in the year ahead, to not only service the development needs of our current programmes, with their new technology requirements, but the new business opportunities we are pursuing.

**Financial Performance Summary**

Group sales increased in the year by 56% to £25.4m (FY2023: £16.3m).

The increase in sales and a stronger sales mix, with a lower concentration of revenue from telecommunications infrastructure, led to an operating profit of £3.6m (2023: £0.2m) and adjusted EBITDA of £4.9m (2023: £1.3m).

The Group closed the year with £7.2m of cash at bank (2023: £2.6m) in addition to the availability of undrawn working capital debt facilities in the UK (£3.0m with Barclays).

The Group's net cash position, including all debt except right of use property leases, was £5.2m at the end of the financial year (2023: £1.6m). Net cash including right of use property leases was £4.2m (2023: £0.3m).

**Dividend**

As with previous years, and after continued dialogue with investors the Board supports the view that the long-term interests of shareholders are better served by cash being retained in the business to fund future business development. Consequently, no dividend is proposed for the year (2023: £nil).

**Environmental, Social and Governance ("ESG")**

We are committed to building a sustainable business for the future, delivering consistent financial returns and long-term value for all our stakeholders. Having formalised our ESG strategy last year we have made appropriate and meaningful progress on sustainability, building on the three pillars of:

- Sustainable commercial enterprise;
- Sustainable culture and organisation; and
- Sustainable environmental impact.

Full details of the ESG strategy and objectives can be found on the Filtronic website at https://filtronic.com/investors/esg-strategy/ and more detail can be found in the Sustainability section of the Annual Report.

**Board Composition**
Following Richard Gibbs's decision to step down from his role as Chief Executive Officer, the Nomination Committee undertook a rigorous selection process to find a suitable candidate to drive the business through its next phase of growth. We were delighted to welcome Nathaniel ("Nat") Edington to the Board on 13 May 2024 as the Group's new Chief Executive Officer. Nat brings a wealth of experience and knowledge in the electronics industry and a pedigree of executing growth plans. I would like to take this opportunity, on behalf of all of us, to thank Richard for his hard work, leadership and dedication over the duration of his tenure. Through his vision and drive, Filtronic has established a solid platform with a much-improved market position.

**Outlook**
The demand drivers for our business, as I have outlined above, remain strong and the markets we serve are robust. We have increasing confidence in our ability to deliver further growth in the year ahead, but we recognise the need to work fast and not be complacent. We will be matching our resources with the enlarged business that we are now operating, investing in key areas including exceptional and experienced engineering and manufacturing talent, developing opportunities with those in the early stages of their career and leveraging strong commercial relationship builders to deliver greater customer focus and support. We have also identified the essential capital equipment needed to position ourselves to exploit the existing and new market opportunities.

I would like to finish by thanking, on behalf of the Board, everyone who has contributed to the Group's success this year including our talented and driven employees as well as our discerning and demanding customers, suppliers, partners and shareholders.

**Jonathan Neale**
Chairman
29 July 2024

**Chief Executive's review**

I am delighted to present my first Chief Executive's review covering the full year results for FY2024. Since joining the business, I have been hugely impressed with the energy and commitment of the organisation, the deep understanding of RF technology and the strength of customer relationships with the industry leaders in our chosen markets of LEO space, aerospace and defence and telecommunications infrastructure.

The Company has delivered an excellent set of results for the FY2024 trading period, and we end the year with revenue growing by 56% to £25.4m (FY2023: £16.3m), ahead of market expectations. Reported adjusted EBITDA also exceeded market expectations at £4.9m (FY2023: £1.3m), based on the strength of second half earnings and is a testament to the controlled scaling of the operating cost base throughout the trading period. We also close the year with a growing, healthy cash balance of £7.2m (2023: £2.6m).

We have invested in the long-term future of the business by building our IP portfolio and strengthening our business development and engineering teams. With a strengthened balance sheet and a record orderbook we are planning for future growth, which includes looking at new facilities to expand our manufacturing footprint in Sedgefield and the continued development of our world class RF engineering capability. I am excited to be leading the business through the next exciting phase of growth.

We are shaping the future of microwave and millimetre wave communications, and a growing number of companies are engaging our services for the design and manufacture of next generation communication products. The ability to undertake rapid cutting-edge RF design and scale the manufacturing of mmWave products enables customers to drive performance improvement and accelerate time to market for demanding applications. Our global reputation, ability to push the boundaries of what is possible in RF design and the service offering of a turnkey solution to design and manufacture remain the key competitive advantages that Filtronic provides to customers in our strategic markets.

RF design is a complex engineering discipline requiring a highly specialised set of design skills and deep understanding of analogue design principles. Critical to our success is the recruitment and retention of world class RF engineers. Filtronic has over 45 years' experience in the RF market and unrivalled history of innovation and IP development. The ability to offer exciting careers working at the leading edge of RF technology with the world's leading communication and aerospace companies has proved essential in our ability to attract the talent we need.

We have successfully coupled our engineering expertise with investment in state-of-the-art production equipment that enables the rapid transition from product development to full scale manufacturing at volume. The addition of dedicated engineering lines to create new processes without disrupting mainstream operations, has greatly improved delivery of engineering programmes and allowed us to move at the speed our customers demand. The move to a new purpose-built manufacturing facility would significantly improve the efficiency of our manufacturing operations and enhance our ability to meet future scale-up opportunities.

In the last twelve months Filtronic has released several new high-power products for use in the telecommunications and LEO space market based on specific customer requirements. We end the year with a healthy number of new product developments in the engineering pipeline, and a well-defined technology roadmap aligned with both customer and future market requirements.

During my first few months in post, I have seen first-hand the strength of relationships with Filtronic's strategic customers, who are amongst the leaders in their respective markets. The engagement with SpaceX, with whom we signed a five-year Strategic Partnership in April 2024, demonstrates the value we bring to all of our clients. Leveraging our engineering capabilities, and the responsiveness and speed of execution to develop product and ramp manufacturing output quickly, we were able to take the Cerus 32 SSPA product from concept to volume production in less than six months, in this rapidly evolving market.

**Customers and Markets**

Our mission at Filtronic is to enable the future of RF, microwave and mmWave communications, and our focus markets are those that operate at the leading edge and offer growth potential for our products. The strategic markets we are serving of LEO space and aerospace and defence remain the focus of our investments where we can add significant value, and where we can realise long term sustainable margins and deliver shareholder value.

The LEO space market is growing rapidly as the costs associated with the launch and deployment of satellite technology continues to dramatically reduce. Well-funded, private corporations like SpaceX, together with established global aerospace contractors and ambitious regional start-up companies, are racing to build constellations of satellites that will accelerate the delivery of internet and 'direct to cell' services across the globe. Gateway communications between the LEO satellite and the ground enable convergence with the established terrestrial telecommunication networks, that in turn provide the world with high speed, low latency and ubiquitous connectivity. Filtronic's leadership as a supplier of compact, highly integrated, and extremely reliable telecommunication backhaul solutions position us well to respond to the aggressive timelines demanded by the leading players in the LEO space market. The ability to design and build SSPAs, at multiple frequency bands, enabled Filtronic to win initial production orders with SpaceX for the deployment of the first LEO space E-band backhaul communication links in early 2023. Over the past year we have successfully built on this relationship to establish a Strategic Partnership to secure supply of E-band SSPAs and work in partnership to develop the technology roadmap associated with the Starlink constellation over the next five years. In July we announced our first follow-on order since announcing our partnership; a new contract worth $9.0m (£7.1m).

The accelerating convergence of ground-based telecommunications with LEO space enabled connectivity, will continue to drive demand for efficient use of high-performance terrestrial telecom solutions. Increasing demand for high power transceiver modules and custom power amplifier solutions for private telecommunication networks, demonstrates significant adjacent market opportunities for Filtronic.

The aerospace and defence market has been a consistent long term revenue contributor to Filtronic over the years, and our technology is well adapted for use in electronic warfare ("EW") applications associated with Active Electronically Scanned Array ("AESA") radar. We have retained a position in the aerospace radar market with the supply of hybrid transmit/receive modules and highly customised filter designs. Whilst supply to this market has seen a hiatus, we remain well positioned for strategic airborne radar programmes that will follow in the next few years once procurement decisions have been made by several governments. In FY2024, after a long selling cycle, we were successful in winning contracts in both land-based radar and maritime radar applications from QinetiQ and BAE respectively. In addition to radar applications, we have continued to make inroads into the UK defence market for the supply of next generation RF communication products. Following an initial engagement with Defence Science Technology Laboratories ("DSTL") for the delivery of our first battlefield communications product in FY2022, we were successful in winning an additional two DSTL programmes in FY2023 and a fourth programme in FY2024. Battlefield communication solutions are evolving quickly, with commercial space and telecommunication technology augmenting the legacy defence communication solutions. Our DSTL engagements will align us closer with UK MoD strategic requirements and ultimately provide consistent and long-term revenue streams for highly customised products.

**Outlook**

We operate in a world with an ever-increasing demand for broadband connectivity, and with it the search for opportunities to open additional RF spectrum. Filtronic is the leader in the field of millimetre wave solutions, and we benefit from the fact that the expertise we offer is in short supply.

Filtronic's strategic markets represent industry verticals that have a robust outlook and align well with the needs of the post-pandemic world. Public safety, mobile telecommunications, sovereign defence capability and the rapid development of LEO space networks, are well funded sectors that resonate with governments, investors, and the public at large. Alongside the growth opportunities for the business generated from the SpaceX partnership, our pipeline with other customers and in other focus markets is also healthy and increasing, providing good growth opportunities across our markets and customer base.

Business plans for FY2025 and beyond reflect our confidence. We have a dynamic and proactive culture that is highly motivated to drive the Company forward and deliver excellence in all aspects of our business. With momentum behind us we will focus our efforts in the following areas in FY2025:

- Continue to develop the close partnership with SpaceX for the supply and development of ground station applications and continue to try and penetrate into the payload.
- Ensure timely execution of new chip and module developments in alternative frequency bands, to maintain our technology leadership, and underpin our products for several years to come.
- Invest in our sales organisation to accelerate the opportunities in focus markets.

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- Position the business to move up the value chain and provide a higher level of integration for UK Defence programmes.
- Strengthen our Senior Leadership Team with key experience to manage growth and scale up the business.
- Move to a new world class manufacturing facility in Sedgefield to further scale manufacturing volumes and support turn-key customer development programmes.
- Develop new manufacturing capabilities to strengthen Filtronic's position as a trusted sovereign supplier of advanced RF packaging for aerospace and defence and high reliability applications.

There is an increasing demand for our high-performance products and unique RF design capabilities, and we are building the IP portfolio, resources, and expertise necessary to scale the business in response to a growing pipeline of opportunity.

Embarking on a new financial year, I am extremely excited by the potential that exists at Filtronic and believe we are well placed to continue to build sustainable shareholder value.

**Nat Edington**
Chief Executive Officer
29 July 2024

**Financial Review**

The business delivered a break-through set of results with significant improvement in revenue, profit and cash reflecting the successful execution of our strategy. The strong performance provides the platform to invest in the long-term growth of the Group with momentum building from customer demand and pipeline opportunities.

FY2024 saw major progress for the Group, with the signing of a Strategic Partnership with SpaceX offering potential for significant growth. Revenue growth in the year of 56% and adjusted EBITDA growth of 285% to £4.9m (2023: £1.3m) saw the Group upgrade market expectations a number of times in the year as trading was very strong in H2. Revenue growth initiatives continue to be the major benefactor of investment as we capitalise on market opportunities and deliver on key strategic objectives, particularly to broaden the customer base and increase revenue in the markets we serve. Whilst there have been economic headwinds in the wider economy, we have benefitted from operating in core markets such as space and aerospace and defence, that are seeing huge investment and are high on the priority of government spending plans.

**Revenue**
Group revenue increased to £25.4m (2023: £16.3m) with the emerging market of LEO space driving much of the growth, mainly due to SpaceX rapidly deploying and expanding their Starlink constellation. As more subscribers are added to the network, bandwidth and low-latency become critical to the end-user experience and therefore more E-band SSPAs are needed to keep pace with the network rollout and new user additions. Whilst we announced significant order wins in the year to strategically important customers such as the European Space Agency, BAE Maritime and QinetiQ, revenue in FY2024 has not benefitted from any meaningful recognition of these contracts, which are expected to positively impact FY2025 and beyond.

Our LEO space customer Space X, contributed 48% of revenue in FY2024. We are mindful of the short-term consequence on customer concentration and dependency arising from this. The three largest customers represent 84% of turnover (2023: 73%). However, we are confident that this will rebalance over time as the sector develops and we continue to win business in other markets.

As expected, the 5G telecommunications infrastructure market has seen a slowdown in demand coupled with the original equipment manufacturers ("OEM") holding excess inventory. This led to sales to this sector decreasing year-on-year by 12% but whilst the cyclical nature of the market meant we were down in the period, we still see this market as an important one for the Group, particularly as we continue to push the boundaries of innovation and technology with our customers, who are often early adopters of new technologies.

Sales of Xhaul products to other markets were up 77% on the prior year mainly due to three new customers that we won orders from covering a range of end markets including high-frequency trading platforms and private networks. These products are a blend of E-band derivative technology products that have been customised from our core offering and use of our highly automated process capability.

Aerospace and defence revenue was lower than the prior year by 49% due to a hiatus in supply of components to airborne radar systems from an established programme. This is a timing issue with demand expected to return as new aircraft orders are received. Despite this, the underlying fundamentals in this market remain strong and it is fully expected that significant growth will be delivered over FY2024 in the coming year based on order intake and opportunity pipeline. This is a key market to our growth plans, and we are investing to further penetrate within the defence primes and the Ministry of Defence ("MoD"). Our technology is highly relevant and the skills we offer are in short supply within our key target customers who are all expressing a need to engage with SMEs who can offer sovereign capability. This is supported by the MoD which has placed increasing importance on maximising small and medium sized enterprises ("SME") integration into defence procurement, not only to invigorate the sector and shorten the supply chain, but to ensure the defence industry has access to the innovation and technologies that SMEs develop.

The legacy products supplied into the critical communications market saw demand return to normalised levels after upstream component issues within the system-level product last year. This resulted in an increase of revenue to this market of 53%. This increase was seen throughout the product portfolio we offer to the P25 network in the USA including the TTA product.

**Operating costs and headcount**

Operating costs increased by 25% in the year to £12.5m (2023: £10.0m) as investment increased to realise the growing opportunity pipeline. The key area of spend was in our engineering organisation where we increased the headcount, particularly in Q4, and worked with partners to undertake product developments on a variable cost basis. In addition to this, the annual bonus target was met, having not been achieved in the prior year, whilst we also increased manufacturing overhead to facilitate the rapid ramp of production in H2.

As mentioned above, the annual bonus performance target was met in the year as the directors and key management were rewarded for achieving a stretch revenue target. This bonus will be paid in August 2024 payroll, after publication of the audited accounts, but has been accrued in the FY2024 financial statements. We also implemented a one-off bonus in FY2024 for all of our employees who were not already part of a variable bonus scheme, based on the achievement of the same stretch target given the effort needed to enable the production ramp.

The Group's largest overhead is salary-related costs, representing 67% of the operational cost base, which increased by 22% lifting overheads by £1.5m, accounting for much of the overall operating cost uplift. The mix of our manufacturing employees shifted from lower cost production operatives to higher cost specialist engineers in process engineering who are critical for implementing new products and processes.

Engineering resource is key for our growth, and it was pleasing to see that we not only increased the number of engineers, but also the quality and quantity of candidates we are attracting with valuable expertise and experience, which has helped to significantly upskill the team from the prior year. This has enabled us to service a larger opportunity pipeline, increase the number of product developments for customers and expand our technology roadmap, to position us well to execute our strategic plans.

Given some of the changing dynamics described above, the headcount increased to 133 (2023: 130) at 31 May 2024 with a mix change from manufacturing to research and development. An analysis of the Group's headcount is presented below:

| **Number** | **2024** | 2023 |
|---|---|---|
| Manufacturing | **73** | 78 |
| Research and development | **39** | 33 |
| Sales and marketing | **7** | 6 |
| Administration | **14** | 13 |
| **Total headcount** | **133** | 130 |

We are planning to add further business development resource in FY2025, to augment our direct access to market, whilst we also plan to bring in additional engineering resource to deliver scheduled programmes and accelerate new product delivery. Investment in the engineering team is critical to sustainable financial growth and we plan to maintain this spend at around 13% of revenue. Given the speed of revenue growth and relative difficulty in recruiting RF engineers quickly, this number was around 11% this year (2023: 13%) despite an increase in engineering costs of £0.8m. Continuing to focus on this metric will ensure we have the resource in place to capitalise on growth opportunities and keep ahead of our competitors with the latest technology.

Where product development is customer specific, we seek to receive a Non-Recurring Engineering ("NRE") charge to maintain a healthy flow of cash during the development phase of the engineering projects and ensure commitment from our customer. When developing our own technology roadmap and IP, we invested from our cash reserves. This was the case when we developed technology for the LEO space market, and we'll develop further technology from our own reserves at a range of other frequencies in both ground station applications and the payload. Consequently, we capitalised £0.7m of development costs in the year. Further commentary on these capitalised development costs can be seen in the Research and Development section of this review.

Other costs increased in line with scaling a business including recruitment fees, equipment hire and insurance costs whilst electricity costs reflected a new fixed term contract having concluded the contract that was locked in prior to inflationary pressures in the energy industry.

The Group continues to be active in securing grant funding to further support growth initiatives and investment. We benefitted from a further £0.15m of grant income in the year from the Defence Technology Exploitation Programme ("DTEP") and local support from Business Durham for the purchase of some key machinery. Looking forward, we are engaged in a number of open calls in both regional funding programmes and national technology grants that we hope to be awarded in the next year.

**Adjusted EBITDA**

The Group utilises an alternative performance measure ("APM") to track performance of the business. This APM is adjusted EBITDA as it measures the quality of earnings without the impact of non-cash expenses such as depreciation, amortisation and share-based payments. Share-based payments have been added to the APM this year, having been calculated as part of IFRS2 fair value accounting, to reflect the grant of options in FY2024 to Executive Directors and key management.

Adjusted EBITDA for the year was £4.9m (2023: £1.3m) representing a 285% increase whilst operating profit was £3.6m (2023: £0.2m) representing a 1,423% uplift. This was the result of stronger gross profit from higher revenue, whilst the sales mix was also stronger due to a reduction to the concentration of low margin 5G telecommunications equipment which is a highly price sensitive market.

The table below shows the reconciliation of operating profit delivered at £3.6m (2023: £0.2m) to adjusted EBITDA of £4.9m (2023: £1.3m):

| Reconciliation of operating profit to adjusted EBITDA | **2024**<br>**£000** | 2023<br>£000 |
|---|---|---|
| **Operating profit** | **3,610** | 237 |
| Depreciation | **945** | 780 |
| Amortisation | **287** | 253 |
| Share-based payments | **47** | - |
| **Adjusted EBITDA** | **4,889** | 1,270 |

**Taxation**

A tax charge of £0.2m (2023: tax credit of £0.4m) was recognised in the year, as deferred tax assets were amended to recognise a shorter period of asset usage. The Group also benefits from R&D tax credits, due to the advancement of science and technology in the new products we develop, which lowers the amount of taxable profit on qualifying R&D activities. We also make use of the Annual Investment Allowance ("AIA") which offers tax relief on capital expenditure purchases, and utilise first year allowances on capital purchases above the AIA threshold.

With substantial deferred tax assets, including those not recognised on the balance sheet, the Group will continue to benefit from not having a tax liability for the foreseeable future.

**Research and development costs ("R&D")**

Total R&D costs in the year before capitalisation and amortisation of development costs were £2.8m (2023: £2.0m). The Group incurred engineering costs on a mixture of customer funded developments and progression of the technology roadmap.

The Group remains committed to investing in R&D for future growth and consequently measures R&D spend as a KPI. Key areas of spend in the year included product development for LEO space applications in both the ground station and the payload, private networks and aerospace and defence. The year ahead will see us continue to invest in the development of our own strategic technology roadmap and proprietary IP, enabling us to build long-term shareholder value in the years ahead.

Recruitment of RF engineers has been an industry-wide issue for some time, but we are pleased with recent successes in attracting new talent to the business at each of our three UK engineering development sites. We will augment this by building an organisation fit for the future, increasing the intake of graduate recruits and augmenting our apprenticeship programme.

The Group capitalises its development costs in line with IAS 38 as set out in note 1 to the financial statements. A reconciliation of R&D costs before capitalisation and amortisation can be seen in the table below:

| Reconciliation of R&D costs | **2024**<br>**£000** | 2023<br>£000 |
|---|---|---|
| R&D costs in income statement | **2,408** | 1,776 |
| Capitalisation of development costs | **677** | 481 |
| Amortisation of development costs | **(245)** | (222) |
| **R&D cash spend** | **2,840** | 2,035 |

When capitalising development costs, an impairment review is undertaken of each development programme to test the carrying value does not require impairment in line with IAS 36.

**Capital expenditure and right of use assets**

Capital expenditure in the year remained in line with the prior year, with investments focussed on automated test capability which enables the R&D team to engineer at higher frequency bands, critical for execution of the strategic plans. The total amount of capital purchased was £1.5m (2023: £1.5m).

**Warranty provision**

In line with industry practice, the Group provides warranties to customers over the quality and performance of the products it sells. Reflecting a full risk analysis of current commercial contracts at 31 May 2024, the warranty provision was £0.4m (2023: £0.3m).

**Funding and cash flow**

The Group recorded an increase in cash and cash equivalents to £7.2m (2023: £2.6m) at the year-end. Cash generated from operating activities in the year was £6.3m (2023: £1.0m) as adjusted EBITDA performance drove cash generation and customers prepaid an element of the contract value for product development of bespoke solutions.

Net cash, when including all debt except property leases at the end of the period, was £5.2m (2023: £1.6m), whilst overall net cash including property leases was £4.2m (2023: £0.3m).

We also have additional cash headroom available through a £3.0m invoice discounting facility with Barclays Bank plc in the UK. We had a $4.0m invoice factoring facility with Wells Fargo Bank in the USA but terminated this agreement on 12 July 2024. Both facilities were undrawn at 31 May 2024 (2023: undrawn).

**Going concern**
In assessing going concern, the Board have considered:

- The principal risks faced by the Group which are discussed within the 'Risk management' section of the Annual Report;
- The financial position of the Group including forecasts and financial plans;
- The healthy cash position at 31 May 2024 of £7.2m (2023: £2.6m) and the additional headroom available through the undrawn invoice discounting facilities and overdraft (2023: undrawn); and
- Economic headwinds with the potential for customers to reassess their priorities, with opportunities postponed or curtailed.

Following the above considerations, the directors are satisfied that the Group has adequate financial resources to continue in operational existence for a period of at least 12 months from the date of this report. Accordingly, the going concern basis has been adopted in the preparation of the Annual Report for the year ended 31 May 2024.

**Michael Tyerman**
Chief Financial Officer
29 July 2024

**The Board**

The directors that served during the year ended 31 May 2024, and to the date of this announcement, and their respective roles are set out below:

| | | |
|---|---|---|
| Jonathan Neale | (Non-Executive Chairman) | |
| Nat Edington | (Chief Executive Officer) | (Appointed 13 May 2024) |
| Michael Tyerman | (Chief Financial Officer) | |
| Pete Magowan | (Non-Executive Director) | |
| John Behrendt | (Non-Executive Director) | |
| Richard Gibbs | | (Resigned 13 May 2024) |

**Consolidated Income Statement**
for the year ended 31 May 2024

| | Note | **2024 £000** | 2023 £000 |
|---|---|---|---|
| **Revenue** | 2 | **25,432** | 16,268 |
| | | ====== | ====== |
| **Adjusted Earnings before interest, taxation, depreciation, amortisation and share-based payments** | | **4,889** | 1,270 |
| Amortisation of intangible assets | | **(287)** | (253) |
| Depreciation of property, plant and equipment and right of use assets | | **(945)** | (780) |
| Share-based payments | | **(47)** | - |
| | | ---------- | ---------- |
| **Operating profit** | | **3,610** | 237 |
| Finance costs | 3 | **(332)** | (231) |
| Finance income | | **83** | 58 |
| | | ---------- | ---------- |
| Profit before taxation | | **3,361** | 64 |
| Taxation | 5 | **(220)** | 400 |
| | | ---------- | ---------- |
| **Profit for the year** | | **3,141** | 464 |

| | | | |
|---|---|---|---|
| | | ====== | ====== |
| | | ---------- | ---------- |
| **Basic earnings per share** | 4 | **1.45p** | 0.22p |
| **Diluted earnings per share** | 4 | **1.41p** | 0.21p |
| | | ====== | ====== |

The profit for the year is attributable to the equity shareholders of the parent company, Filtronic plc.

**Consolidated Statement of Comprehensive Income**
for the year ended 31 May 2024

| | **2024** | 2023 |
|---|---|---|
| | **£000** | £000 |
| **Profit for the year** | **3,141** | 464 |
| | ---------- | ---------- |
| **Other comprehensive income** | | |
| **Items that are or may be subsequently reclassified to profit and loss:** | | |
| Currency translation movement arising on consolidation | **(52)** | (1) |
| | ---------- | ---------- |
| **Total comprehensive income for the year** | **3,089** | 463 |
| | ====== | ====== |

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

All income recognised in the year was generated from continuing operations.

**Consolidated Balance Sheet**
at 31 May 2024

| | | **2024** | 2023 |
|---|---|---|---|
| | Note | **£000** | £000 |
| **Non-current assets** | | | |
| Goodwill and other intangible assets | | **2,271** | 1,774 |
| Right of use assets | | **3,756** | **2,889** |
| Property, plant and equipment | | **1,153** | 1,446 |
| Deferred tax | | **1,047** | 1,254 |
| | | ---------- | ---------- |
| | | **8,227** | 7,363 |
| | | ---------- | ---------- |
| **Current assets** | | | |
| Inventories | | **3,273** | 2778 |
| Trade and other receivables | | **6,550** | 5,335 |
| Cash and cash equivalents | | **7,215** | 2,610 |
| | | ---------- | ---------- |
| | | **17,038** | 10,723 |
| | | ---------- | ---------- |
| | | ---------- | ---------- |
| **Total assets** | | **25,265** | 18,086 |
| | | ---------- | ---------- |
| **Current liabilities** | | | |
| Trade and other payables | | **5,406** | 3,673 |
| Provisions | | **493** | 364 |
| Deferred income | | **1,403** | 164 |
| Lease liabilities | | **895** | 617 |
| | | ---------- | ---------- |
| | | **8,197** | 4,818 |
| | | ---------- | ---------- |
| **Non-current liabilities** | | | |
| Deferred income | | **132** | 29 |
| Lease liabilities | | **2,121** | 1,698 |

| | | | |
|---|---|---|---|
| | | ---------- | ---------- |
| | | **2,253** | 1,727 |
| | | ---------- | ---------- |
| | | ---------- | ---------- |
| **Total liabilities** | | **10,450** | 6,545 |
| | | ---------- | ---------- |
| | | ---------- | ---------- |
| **Net assets** | | **14,815** | 11,541 |
| | | ---------- | ---------- |
| **Equity** | | | |
| Share capital | 6 | **10,798** | 10,796 |
| Share premium | 7 | **11,213** | 11,077 |
| Translation reserve | | **(522)** | (470) |
| Retained earnings | | **(6,674)** | (9,862) |
| | | ---------- | ---------- |
| | | **12,16** | 12,16 |
| **Total equity** | | **14,815** | 11,541 |
| | | ====== | ====== |

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

Nat Edington
Chief Executive Officer

**Consolidated Statement of Changes in Equity**
**for the year ended 31 May 2024**

| | **Share capital** | **Share premium** | **Translation reserve** | **Retained earnings** | **Total equity** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Balance at 31 May 2022 | 10,796 | 11,060 | (471) | (10,342) | 11,043 |
| Profit for the year | - | - | - | 464 | 464 |
| Currency translation movement arising on consolidation | - | - | 1 | - | 1 |
| Share-based payments | - | - | - | 16 | 16 |
| New shares issued | - | 17 | - | - | 17 |
| | ---------- | ---------- | ---------- | ---------- | ---------- |
| Balance at 31 May 2023 | 10,796 | 11,077 | (470) | (9,862) | 11,541 |
| Profit for the year | - | - | - | 3,141 | 3,141 |
| Currency translation movement arising on consolidation | - | - | (52) | - | (52) |
| Share-based payments | - | - | - | 47 | 47 |
| New shares issued | 2 | 136 | - | - | 138 |
| | ---------- | ---------- | ---------- | ---------- | ---------- |
| **Balance at 31 May 2024** | **10,798** | **11,213** | **(522)** | **(6,674)** | **14,815** |
| | ====== | ====== | ====== | ====== | ====== |

**Consolidated Cash Flow Statement**
for the year ended 31 May 2024

| | **2024** | 2023 |
|---|---|---|
| | **£000** | £000 |
| **Cash flows from operating activities** | | |
| Profit for the year | **3,141** | 464 |
| Taxation | **220** | (400) |
| Finance income | **(83)** | (58) |
| Finance costs | **332** | 231 |
| | ---------- | ---------- |
| **Operating profit** | **3,610** | 237 |
| Share-based payments | **47** | 16 |

| | | |
|---|---|---|
| Depreciation of property, plant and equipment and right of use assets | **945** | 780 |
| Amortisation of intangible assets | **287** | 253 |
| Movement in inventories | **(531)** | (157) |
| Movement in trade and other receivables | **(1,235)** | (833) |
| Movement in trade and other payables | **1,749** | 665 |
| Movement in provisions | **129** | 82 |
| Change in deferred income | **1,342** | (109) |
| Tax received | **(16)** | 16 |
| | ---------- | ---------- |
| **Net cash generated from operating activities** | **6,327** | 950 |
| | ---------- | ---------- |
| **Cash flows from investing activities** | | |
| Capitalisation of development costs | **(677)** | (481) |
| Acquisition of other intangible assets | **(107)** | (51) |
| Acquisition of plant and equipment | **(666)** | (946) |
| Acquisition of right of use assets | **(120)** | (53) |
| Interest received | **83** | 9 |
| | ---------- | ---------- |
| **Net cash used in investing activities** | **(1,487)** | (1,522) |
| | ---------- | ---------- |
| **Cash flows from financing activities** | | |
| Interest paid | **(332)** | (231) |
| Proceeds from financing agreements | **750** | - |
| Exercise of employee share options | **138** | 17 |
| Repayment of principle element of lease liabilities | **(784)** | (626) |
| | ---------- | ---------- |
| **Net cash used in financing activities** | **(228)** | (840) |
| | ---------- | ---------- |
| **Movement in cash and cash equivalents** | **4,612** | (1,412) |
| Currency exchange movement | **(7)** | 16 |
| Opening cash and cash equivalents | **2,610** | 4,006 |
| | ---------- | ---------- |
| **Closing cash and cash equivalents** | **7,215** | 2,610 |
| | ====== | ====== |

**Notes to the Preliminary Financial Information**
for the year ended 31 May 2024

## 1 Basis of Preparation

These preliminary results have been prepared on the basis of the accounting policies which are to be set out in Filtronic plc's Annual Report and financial statements for the year ended 31 May 2024.

Whilst the information included in this preliminary announcement has been prepared on the basis of International Accounting Standards in conformity of the requirements of the Companies Act 2006 as applicable to companies reporting under those standards, this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements within two months of this announcement.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 May 2024 or 31 May 2023. The financial information for 2023 is derived from the statutory accounts for 2023 which have been delivered to the registrar of companies. The auditor has reported on the 2024 accounts; their report 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 statutory accounts for FY2024 were finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

**Going Concern**
In accordance with corporate governance requirements and the statement of directors' responsibilities, and as disclosed in the Directors' Report, 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.

At 31 May 2024, the Group had cash at bank of £7.2m and access to undrawn invoice discounting facilities of £3.0m and $4.0m in the UK and US respectively although the US facility of $4.0m was terminated on 12 July 2024.

The Board recognises the uncertain economic and political environment that the world faces and has reviewed the business outlook to reflect this uncertainty. Cash flow forecasts have been prepared to model various scenarios over a three-year period based on the Group's financial and trading position, principal risks and uncertainties and strategic plans.

A downside scenario was modelled, to stress-test the business, where programme curtailment and/or delays may adversely affect forward-looking demand to levels lower than those initially modelled in the base case scenario including reduced demand from a major customer.

A severe but plausible scenario was also modelled that took the downside scenario and removed a significant contract win that the Group expected to convert from the outlook period.

The scenarios modelled including the severe but plausible model, demonstrate the Group has adequate cash for the next twelve months from the date of the approval accounts.

**New Accounting Standards**
There are a number of new standards, including, amendments to standards and interpretations that are effective for financial statements after this reporting period, but the Group has not adopted them early. None of these are expected to have a material impact on the results or financial position of the Group.

## 2 Segmental analysis

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 Board who reviews internal monthly management reports, budget and forecast information as part of this. Accordingly, the Board 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% of revenue each and in aggregate 84% of revenue. This is split as follows:

- Customer A - **48%** (2023: 12%)
- Customer B - **19%** (2023: 34%)
- Customer C - **17%** (2023: 17%)

**Revenue by destination**

| | Total | |
|---|---|---|
| | **2024** | 2023 |
| | **£000** | £000 |
| United Kingdom | **2,239** | 4,762 |
| Europe | **2,154** | 2,600 |
| Americas | **17,121** | 5,711 |
| Rest of the World | **3,918** | 3,195 |
| | ---------- | ---------- |
| | **25,432** | 16,268 |
| | ====== | ====== |

**Split of non-current assets by location**

| | Total | |
|---|---|---|
| | **2024** | 2023 |
| | **£000** | £000 |
| United Kingdom | **7,972** | 6,925 |
| Americas | **255** | 438 |

| | | |
|---|---|---|
| Americas | [illegible] | [illegible] |
| | --------- | --------- |
| | - | - |
| | **8,227** | 7,363 |
| | ====== | ====== |

Non-current assets relate to property, plant and equipment, right of use assets, goodwill and other intangible assets and deferred tax.

## 3 Finance costs

| | **Year Ended 31 May 2024 £000** | Year Ended 31 May 2023 £000 |
|---|---|---|
| Interest expense for lease agreements | **236** | 139 |
| Minimum service costs and interest charges on invoice discounting facilities | **96** | 92 |
| | ---------- | ---------- |
| | **332** | 231 |
| | ====== | ====== |

## 4 Earnings per share

| | **Total Group** | |
|---|---|---|
| | **2024** | 2023 |
| | **£000** | £000 |
| **Profit for the year** | **3,141** | 464 |
| | ====== | ====== |
| | **'000** | '000 |
| Basic weighted average number of shares | **216,340** | 215,121 |
| Dilution effect of share options | **6,555** | 1,358 |
| | ---------- | ---------- |
| Diluted weighted average number of shares | **222,895** | 216,479 |
| | ---------- | ---------- |
| **Basic earnings per share** | **1.45p** | 0.22p |
| **Diluted earnings per share** | **1.41p** | 0.21p |
| | ====== | ====== |

## 5 Taxation

The reconciliation of the effective tax rate is as follows:

| | **2024** | 2023 |
|---|---|---|
| | **£000** | £000 |
| **Profit before taxation** | **3,361** | 64 |
| | ====== | ====== |

| | **2024** | 2023 |
|---|---|---|
| | **£000** | £000 |
| **Profit before taxation multiplied by the average standard rate of corporation tax in the UK - 25% (2023: 20%)** | **840** | 13 |
| Disallowable items | **209** | 46 |
| Deferred tax asset not recognised | **237** | 30 |
| Enhanced R&D tax credit | **(589)** | (89) |
| Adjustment in respect of prior year - R&D tax credit | **-** | (32) |
| Foreign tax not at UK rate | **27** | 18 |
| Recognition of deferred tax asset | **(504)** | (386) |
| | ---------- | ---------- |
| **Taxation** | **220** | (400) |
| | ====== | ====== |

The main rate of UK corporation tax was 25% for companies with profit above £250,000. The US federal corporate rate is 21%.

The deferred tax assets recognised in the year have been calculated at the rates expected to be in existence in the period of reversal.

**6 Share Capital**

| | Deferred shares of 10p each | Ordinary shares of 0.1p each issued and fully paid | |
|---|---|---|---|
| | **Number '000** | **Number '000** | **£000** |
| At 31 May 2022 | 106,877 | 214,798 | 10,796 |
| Exercise of share options | - | 323 | - |
| At 31 May 2023 | 106,877 | 215,121 | 10,796 |
| Exercise of share options | - | 2,000 | 2 |
| **At 31 May 2024** | **106,877** | **217,121** | **10,798** |

All shares are allotted, called up and fully paid. 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.

The deferred shares have no rights to vote or receive dividends.

**7 Share Premium**

| | **£000** |
|---|---|
| At 31 May 2022 | 11,060 |
| Exercise of share options | 17 |
| At 31 May 2023 | 11,077 |
| Exercise of share options | 136 |
| **At 31 May 2024** | **11,213** |

**8 Dividends**

The directors are not proposing to pay a dividend for the year ended 31 May 2024 (2023: £nil).

**9 Analysis of net cash**

| | 31 May 2023 £000 | Cash Flow £000 | Other movements £000 | **31 May 2024 £000** |
|---|---|---|---|---|
| Cash and cash equivalents | 2,610 | 4,612 | (7) | **7,215** |
| Lease liabilities - plant and equipment | (1,020) | 518 | (1,488) | **(1,990)** |
| **Net cash when including all debt except property leases** | 1,590 | 5,130 | (1,495) | **5,225** |
| Lease liabilities - property leases | (1,295) | 264 | 4 | **(1,027)** |
| **Net cash** | 295 | 5,394 | (1,491) | **4,198** |

**Reconciliation of cash flow to movement in net cash**

| | **2024 £000** | 2023 £000 |
|---|---|---|
| Movement in cash and cash equivalents | **4,612** | (1,412) |
| Movement in lease liabilities - plant and machinery | **(971)** | (157) |
| Movement in lease liabilities - property lease | **269** | (338) |

| | | |
|---|---|---|
| Movement in lease liabilities - property lease | [illegible] | [illegible] |
| Effect of exchange rate fluctuations | **(7)** | 16 |
| | **----------** | ---------- |
| Movement in net cash | **3,903** | (1,891) |
| Net opening cash | **295** | 2,186 |
| | **----------** | ---------- |
| **Net closing cash** | **4,198** | 295 |
| | **======** | ====== |

Cash at bank earns interest at floating rates based on daily bank deposit rates. There are no restrictions on the availability of the cash and cash equivalents at 31 May 2024 (2023: £nil).

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



END

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