

Spectra Systems Corporation
Interim Results for the Six Months Ended 30 June 2024

Spectra Systems Corporation ("Spectra Systems" or the "Company"), a leader in machine-readable high speed banknote authentication, security printing, brand protection technologies and gaming security software, is pleased to announce its interim results for the six months ended 30 June 2024.

Financial highlights (including the consolidation of a foreign subsidiary acquired in December 2023):

- Revenue of 22,739k (2023: 11,621k) up 96%
- Adjusted EBITDA¹ up 33% at 7,847k (2023: 5,903k)
- Adjusted PBTA¹ up 6% to 6,225k (2023: 5,873k)
- Adjusted earnings² per share up 4% to US 11.2 cents (2023: US 10.8 cents)
- Cash provided from operations of 262k (2023: 4,418k)
- Cash³ of 4,444k (2023: 16,582k) and debt⁴ of 4,803k (2023 0k) at 30 June 2024

¹ Before stock compensation expense and excludes non-controlling interest

² Before amortization and stock compensation expense, excludes noncontrolling interest and fewer remaining tax credits

³ Does not include 2,025,000 (2023: 500,000) of restricted cash (Central bank customer) and investments

⁴ Cartor Holding Limited debt acquired on 21 December 2023

Operational highlights:

- Executed sensor (July 26,2024) manufacturing contract with central bank worth 39.6M, enabling initial revenue recognition for purchases and work performed ahead of contract execution
- Completed balance of fiscal year order with in-house manufacturing for supply chain mitigation with central bank customer
- Successfully completed all printing and durability tests of our polymer substrate with Middle Eastern central bank
- Received approval from large polymer banknote printer to incorporate their proprietary polymer banknote window security feature on our polymer substrate

- Sales with new K-cup customer ongoing since December 2023
- Developed new faster and easier to use smartphone technology and filed patents
- A highly successful presence at the Banknote 2024 conference which has led to several new opportunities for our polymer substrate and a significant increase in our visibility worldwide

Commenting on the results, Nabil Lawandy, Chief Executive Officer, said:

"The Company's first half revenues and earnings are up from the six months ended June 30, 2023, with increases of 96% and 6% for revenue and PBTA, respectively. The increased revenues in the first half are derived from the additional Security Printing turnover, pre-production sensor development contracts, sales of covert materials, and cost accounting-based initial revenue recognition on the 39.6M manufacturing contract with a central bank customer.

"On the optical materials front, steady revenue from the new Canadian K-cup printers has come through as expected in the first half of this year, further increasing the high margin revenues from this product. In addition, we have integrated our advanced phosphours into multiple tenders launched by our security printing arm as well as directly for several applications including passports and banknotes.

"We have taken our smartphone technology to a significantly higher level which allows for a larger palette of brands and models with faster response and a much easier user experience. Our target markets are tax stamps and postage stamps which have been successfully counterfeited even in more advanced countries.

"Our polymer substrate efforts have yielded important and tangible results with both state printers as well as corporate printers of banknotes. We have successfully passed all of the print and durability testing with our middle eastern central bank partner and potential customer. We currently expect to have three house notes produced by major polymer banknote printers in the 2024-2025 time frame using both our sustainable and our machine-readable polymer substrate. In addition, we have been asked to advise a second middle eastern central bank on the development of their future polymer notes.

"The combination of the sensor contract award, the continued strong covert material sales, the boost in optical materials, and the significant advancements in our polymer substrate initiative including being asked to advise on a new series of polymer notes is all pointing towards an even more sustainable and growing profitability in the future. While all of this business growth is underway, we continue to be the most innovative company in the authentication sector with machine readable sustainable polymer substrate using circular certified polymer and new breakthroughs in smartphone technology which we are confident has the potential to reenergize this part of our product offering

"The Board therefore believes that the Company is on track to achieve record earnings and meet market expectations for the full year."

Spectra Systems Corporation
Dr. Nabil Lawandy, Chief Executive Officer

Tel: +1 (0)401 274 4700

Zeus Capital Limited (Nominated Adviser and Joint Broker)
Chris Fielding (Director, Investment Banking)
Fraser Marshall (Sales and Corporate Broking)

Tel: +44 (0)20 3829 5000

Allenby Capital Limited (Joint Broker)
Nick Naylor/James Reeve (Corporate Finance)
Amrit Nahal (Sales and Corporate Broking)

Tel: +44 (0)20 3328 5665

Chief Executive Officer's statement

Introduction

In H1 2024, we have already achieved a PBTA level which is 50% of the market expectations for the year. We are therefore highly confident we will achieve market expectations for the full year.

Revenue was up 96% at 22,739k (2023: 11,621k) for the first half of the year. The increased

revenues in the first half are derived from the additional Security Printing turnover, pre-production sensor development contracts, sales of covert materials, and cost accounting-based initial revenue recognition on the 39.6M manufacturing contract with a central bank customer. As a result of the increased revenue, adjusted EBITDA (before stock compensation expense) for the half year increased 32% to 7,847k compared to the prior year of 5,903k.

Having generated cash from operations of 262k (2022: 4,418k), cash at the period end amounted to 4,444k (2022: 16,582k), excluding 2 million of restricted cash and investments (2023: 500k), reflecting (i) the 5,593k paid to shareholders during June (2023: 5,182k) in the form of the Company's annual dividend of 0.116, and (ii) significant pre-purchasing of sensor manufacturing components and equipment, as well as aggressive polymer substrate marketing efforts, including the Banknote conference.

The financial statements for the half-year ended 30 June reflect the results of operations for the combined entity resulting from the acquisition of Cartor Security Printers (CSP). As a result, the financial results for H1 2024 are not directly comparable to those of the prior mid-year, which represent the standalone operations of Spectra as a single entity.

This acquisition has resulted in changes to the financial structure, operations and administrative cost metrics. Shareholders are advised to consider this context when analyzing the financial results. The combined financial statements incorporate the assets, liabilities, revenues, and expenses of both entities, which affect comparisons of financial performance and position period-over-period.

Operating expenses have increased since the acquisition was integrated which includes increases of general and administrative expenses by 178%, selling and marketing expenses up 84% and research and development up 92%.

In addition, prior to the acquisition, Spectra carried no debt but now is reporting 4.8 million on 30 June at an average interest rate of 0.3%.

Review of Operations

Authentication and Security Printing Business

The Authentication Systems business generated revenue of 13,773k (2023: 10,589k) and Adjusted EBITDA of 7,005k (2023: 4,698k).

Authentication Systems revenues in H1 were largely fueled by a strong covert materials order, an ongoing sensor development contract, and initial revenue recognition of the 39.6 million sensor manufacturing contract executed in June of 2024. Strong sales of optical materials, including a new K-cup revenue stream further bolstered the performance of this business segment. Based on current customer project plans, we expect to begin booking revenue and cash from sensor sales in June of 2025.

Through our acquisition of Cartor Security Printers in Wolverhampton we have significantly advanced our position and prospects for a polymer substrate contract. We have passed all print-based and durability tests with our middle eastern central bank partner and prospective customer. We are still in contention for a slice of the business from the next tender from this central bank expected in January 2025. Additional traction with private printers opening the path to a commemorative banknote produced on our substrate continues.

We have already changed the landscape of the polymer banknote world by introducing the first machine-readable substrate, Fusion™, and the first sustainably responsible polymer substrate made of circular certified biaxially oriented polypropylene. Early discussions with a central bank as well as follow up from our highly successful Banknote conference presence have reinforced the importance of our breakthrough in polymer substrate sustainability efforts.

Our smartphone technology has been greatly enhanced to allow virtually all phones with a camera to be used and to provide a faster and easier user experience. We have several initiatives underway with a major tax stamp supplier and with postal services where counterfeit stamps have been a major problem. Through our CSP acquisition, we have direct inroads to major world postal organizations including the Royal Mail.

The security printing segment generated an EBITDA of 699k on a turnover of 7,879k in H1. Late 2023 was very active with the production of the new Royal Mail postage stamps with HM King Charles ongoing during the acquisition and integration process. CSP has been heavily focused on growing the more profitable new segment of postage, namely, hybrid stamps which carry serialized information to combat reuse and counterfeiting as well as integrating our optical materials into their product offering and tender bids.

On the software security side of the Company's business, the Secure Transactions Group, formed around two gaming technology acquisitions made in 2012, generated an Adjusted EBITDA of 143k (2023:(40k)) on revenue of 1,087k (2023: 840k). The H1 results are in line with expectations, and we expect an increase in H2 with several lottery wins from last year going live. This is a significant improvement over last year results, and we believe is the beginning of continued increased profitability from this segment.

Strategy and Prospects

The Company's strategy for increasing revenue and earnings continues to be focused on selling more products to existing customers as well leveraging CSP's long relationships with tax stamp, passport and postage stamp customers and partners.

Through the CSP pipeline and their longtime corporate partnerships, we have developed several new opportunities. These include highly covert continuous inkjet inks and smartphone-based authentication of postage stamps and tax and revenue stamps. The recent issues with Royal Mail counterfeit stamps have become one of a focused set of targets for our new smartphone technology.

With the expected cash build-up when sensor sales are underway, we continue to evaluate synergistic and strategic profitable businesses for possible acquisition.

Nabil M. Lawandy
Chief Executive Officer
September 30, 2024

Consolidated statements of income for the half year ended 30 June 2024

	Half Year to 30 Jun 2024 Unaudited USD '000	Half Year to 30 Jun 2023 Unaudited USD '000	Full Year to 31 Dec 2023 Audited USD '000
Revenues			
Product	19,252	7,242	13,401
Service	3,487	3,945	6,453
License and royalty	-	434	434
Total revenues	22,739	11,621	20,288
Cost of sales	10,036	3,581	6,664
Gross profit	12,703	8,040	13,624
Operating expenses			
Research and development	1,348	702	1,450
General and administrative	4,385	1,577	4,198
Sales and marketing	767	415	824
Total operating expenses	6,500	2,694	6,472
Operating profit	6,203	5,346	7,152
Interest income (expense)	(308)	172	376
Foreign currency gain/(loss)	(3)	(35)	(73)
Profit before taxes	5,892	5,483	7,455
Income tax expense	650	784	1,430
Net income	5,242	4,699	6,025
Net income (loss) attributable to noncontrolling interest	(8)	(14)	(23)
Net income attributable to Spectra Systems Corporation	5,250	4,713	6,048
Earnings per share	0.11	0.10	0.10

Basic	0.11	0.10	0.13
Diluted	0.11	0.10	0.12

Consolidated statements of comprehensive income for the half year ended 30 June 2024

	Half Year to 30 Jun 2024 Unaudited USD '000	Half Year to 30 Jun 2023 Unaudited USD '000	Full Year to 31 Dec 2023 Audited USD '000
Net income	5,242	4,713	6,025
Other comprehensive income (loss)			
Unrealized gain (loss) on currency exchange	(52)	(45)	(110)
Reclassification for realized (gain) loss in net income	3	35	
			73
Total other comprehensive loss	(49)	(10)	(37)
Comprehensive income	5,193	4,703	5,988
Net gain (loss) attributable to noncontrolling interest	(7)	14	(23)
Comprehensive income attributable to Spectra Systems Corporation	5,200	4,717	6,011

Consolidated balance sheets as of 30 June 2024

	As of 30 Jun 2024 Unaudited USD '000	As of 30 Jun 2023 Unaudited USD '000	As of 31 Dec 2023 Audited USD '000
Current assets			
Cash and cash equivalents	4,444	16,582	13,253
Trade receivables, net of allowance	8,653	3,095	3,777
Unbilled and other receivables	1,461	1,002	1,394
Inventory	11,168	2,368	6,507
Prepaid expenses	1,401	795	1,207
Total current assets	27,128	23,842	26,138
Non-current assets			
Property, plant and equipment, net	10,311	1,910	11,098
Operating lease right of use assets, net	6,063	1,659	6,308
Intangible assets, net	13,331	6,970	13,514
Restricted cash and investments	2,026	500	95
Investments	95	-	513
Deferred tax assets	1,844	1,848	1,844
Other assets	577	595	586
Total non-current assets	34,247	13,482	33,958
Total assets	61,375	37,324	60,096

	2024	2023	2022
Current liabilities			
Accounts payable	3,150	796	2,753
Accrued expenses and other liabilities	2,488	476	813
Line of credit		-	561
Operating lease liabilities, short term	569	392	1,107
Taxes payable	78	194	514
Deferred revenue	7,786	4,601	6,058
Total current liabilities	14,071	6,459	11,806
Non-current liabilities			
Operating lease liabilities, long term	5,568	1,319	5,275
Third party loans	4,803	-	5,583
Contingent consideration	2,528	-	3,819
Deferred revenue	1,329	1,590	1,500
Total non-current liabilities	14,228	2,909	16,177
Total liabilities	28,299	8,928	27,983
Stockholders' equity			
Common stock	482	450	460
Additional paid in capital - common stock	57,495	53,270	56,152
Accumulated other comprehensive loss	(260)	(186)	(211)
Accumulated deficit	(25,206)	(26,319)	(24,861)
Total Spectra Systems Corporation stockholders' equity	32,511	27,215	31,540
Noncontrolling interest	565	741	573
Total stockholders' equity	33,076	27,956	32,113
Total liabilities and stockholders' equity	61,375	37,324	60,096

Consolidated statements of cash flows for the half year ended 30 June 2024

	Half Year to 30 Jun 2024	Half Year to 30 Jun 2023	Full Year to 31 Dec 2023
	Unaudited USD '000	Unaudited USD '000	Audited USD '000
Cash flows from operating activities			
Net income	5,242	4,699	6,025
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,562	459	1,055
Stock based compensation expense	75	92	180
Lease amortization expense	215	89	195
Deferred taxes	10	32	(886)

assets and liabilities			
Accounts receivables	(4,889)	581	2,092
Unbilled and other receivables	(68)	131	245
Inventory	(4,689)	(770)	(1,470)
Prepaid expenses	(199)	(34)	(437)
Other assets	-	-	(13)
Accounts payable	413	(133)	(345)
Operating leases	(215)	(92)	(177)
Accrued expenses and other liabilities	1,242	(518)	(190)
Deferred revenue	1,563	(118)	1,250
Net cash provided by operating activities	262	4,418	7,524
Cash flows from investing activities			
Restricted cash and investments	(1,513)	(3)	-
Payment of patent and trademark costs	(150)	(129)	(476)
Proceeds from sale of equipment	-	-	-
Acquisition of Cartor Holdings Limited, net of Acquired Cash	(508)		(6,201)
Purchases of property, plant and equipment		(8)	(151)
Net cash provided by (used in) investing activities	(2,171)	(140)	(6,675)
Cash flows from financing activities			
Dividends paid	(5,594)	(5,182)	(5,182)
Finance payments	(1,303)		(31)
Line of credit			113
Proceeds from exercise of stock options	11	-	-
Net cash used in financing activities	(6,886)	(5,182)	(5,100)
Effect of exchange rate on cash and cash equivalents	(14)	(10)	8
Net increase(decrease) in cash and cash equivalents	(8,809)	(914)	(4,243)
Cash and cash equivalents, beginning of period	13,253	17,496	17,496
Cash and cash equivalents, end of period	4,444	16,582	13,253

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on the 27 September 2024.

This financial information has been prepared using the recognition and measurement principles of US Generally Accepted Accounting Principles (GAAP). The Group has not elected to apply IAS 34 Interim Financial Reporting.

The principal accounting policies used in preparing the interim results are those the Company expects to apply in its

The principal accounting policies used in preparing the interim results are those the Company expects to apply in its financial statements for the year ending 31 December 2024 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2023.

The results for the half year are unaudited. The financial information for the year ended 31 December 2023 does not constitute the full statutory accounts for that period. The Annual Report and financial statements for the year ended 31 December 2023 have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements for the year ended 31 December 2023 was unmodified and did not draw attention to any matters by way of emphasis.

2. Earnings per share

The calculation of basic earnings per share is based on the net income divided by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by considering the dilutive impact of common stock equivalents under the treasury stock method as if they were converted into common stock as of the beginning of the period or as of the date of grant, if later. Excluded from the calculation of diluted earnings per common share for the six months ended June 30, 2024, and the year ended December 31, 2023, were 60,000 and 132,000 shares related to stock options, respectively, because their exercise prices would render them anti-dilutive. For the six months ended June 30, 2023, 180,000 were excluded from the calculation of diluted earnings per common share. The following table shows the calculation of basic and diluted earnings per common share.

	Half Year to 30 Jun 2024	Half Year to 30 Jun 2023	Full Year to 31 Dec 2023
Numerator:			
Net income	5,249,439	4,712,975	6,047,921
Denominator:			
Weighted average common shares	48,228,972	45,143,754	45,074,264
Effect of dilutive securities:			
Stock Options	1,430,604	1,957,249	3,687,690
Diluted weighted average common shares	<u>49,659,576</u>	<u>47,101,003</u>	<u>48,761,954</u>
Earnings per common share:			
Basic:	0.11	0.10	0.13
Diluted:	<u>0.11</u>	<u>0.10</u>	<u>0.12</u>

3. Copies of this statement are available to the public on the Company's website at <http://www.spsy.com>.

Appendix - Reconciliation of Non-GAAP measures

The Company publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. Reconciliations to the GAAP measures are shown in the following tables:

	Half Year to 30 Jun 2024 Unaudited USD '000	Half Year to 30 Jun 2023 Unaudited USD '000	Full Year to 31 Dec 2023 Unaudited USD '000
Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA)			
Operating profit	6,203	5,346	7,152
Depreciation	1,311	203	466
Amortization	251	254	584
Stock compensation	75	92	180
Operating loss - noncontrolling interest	8	13	23
Stock compensation - noncontrolling interest	(1)	(5)	(11)
Adjusted EBITDA	<u>7,847</u>	<u>5,903</u>	<u>8,394</u>
Adjusted profit before taxes and amortization (PBTA)			
Profit before taxes	5,892	5,483	7,455
Amortization	251	254	584
Stock compensation	75	92	180
Operating loss - noncontrolling interest	8	13	23
Stock compensation - noncontrolling interest	(1)	(5)	(11)
Adjusted PBTA	<u>6,225</u>	<u>5,927</u>	<u>8,224</u>

Adjusted PBITA	0,220	0,051	0,251
Adjusted earnings per share			
Adjusted PBITA	6,225	5,837	8,231
Income tax expense	(650)	(784)	
Adjusted earnings	<u>5,575</u>	<u>5,053</u>	<u>(1,430)</u>
			<u>6,801</u>
Diluted weighted average common shares	49,659,576	47,101,003	48,761,954
Adjusted earnings per share	0.112	0.108	0.139

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact ms@lse.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

IR UWRWRSUUKUAR