

Spectra Systems Corporation
Interim Results for the Six Months Ended 30 June 2025

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 2025.

Financial highlights:

Revenue of 34,965k (2024: 22,739k) up 54%

Adjusted EBITDA¹ up 101% at 15,764k (2024: 7,847k)

Adjusted PBTA¹ up 130% to 14,346k (2024: 6,225k)

Adjusted earnings² per share up 85% to US 20.8 cents (2024: US 11.2 cents)

Cash usage during operations (670k) (2024: 262k)

Cash³ of 2,556k (2024: 4,444k) and debt⁴ of 3,718k (2024 4,803k) at 30 June 2025

1 Before stock compensation expense and excludes non-controlling interest

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

3 Does not include 5,000,000 (2024: 2,025,000) of restricted cash (Central bank customer) and investments

4 Cartor Holding Limited debt acquired on 21 December 2023

Operational highlights:

- Completed balance of fiscal year 2024-2025 order
- Our Fusion substrate was selected by a major banknote printer as part of their response to a central bank tender which is expected to be awarded in H2
- Provided major Middle Eastern central bank with another 10,000-sheet sample of our Fusion substrate for additional testing
- Produced a cutting-edge polymer house note with Casa de Moeda (Brazilian government printing facility) with both our sustainable polymer and machine-readable covert authentication capability
- 28% increase in sales of optical materials for document and brand authentication
- Successful offset print trial for second generation smartphone technology with a major tax stamp printer with a second test planned for H-2 using flexographic printing
- Validated one of our new covert features with the two largest suppliers of forensic equipment for passport control

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

"The Company's first half revenues and earnings are up from the six months ending 30 June 2024, with increases of 54% and 130% for revenue and PBTA, respectively. The increased revenue in the first half is derived from cost accounting-based revenue recognition on the 39,600K manufacturing contract with a central bank customer, sales of covert materials, exceptional performance from the gaming software security group, and sales of optical materials."

"Our efforts to exploit our credibility in high-security solutions for banknotes have resulted in a request to submit pricing to a European passport authority as well as undertake a sample trial with a major supplier of security paper in H2. Further leveraging our expertise, we have commenced trials and pricing discussions with the same paper supplier to protect documents printed on conventional office paper."

"Our Fusion polymer substrate efforts have yielded tangible commercial prospects in the near term. The selection of our substrate by a major banknote printer for their response to a tender by a central bank is a major milestone. In addition, we have submitted another 10,000-sheet sample to our Middle Eastern central bank partner and downstream customer for qualification. With the next tender now expected in Q2-Q3 of 2026, we have been asked to

provide another 10,000-sheet sample in October for further testing. As stated previously, the expectation is that once we formally qualify, we will receive a small order which will be followed by an invitation to tender."

"In H1, the security printing segment of our business has supported our polymer substrate efforts with a major banknote printer as well as with our ongoing qualifications with a Middle Eastern central bank. In addition, the Cartor security printing group has developed the relationship and provided the substrate for production of a house note by the government printing arm of Brazil."

"With recently announced advances in our smartphone technology, which allow for a larger number of smartphone models and a faster response. These developments have fueled traction with a significant tax stamp customer opportunity. This opportunity has been delayed by the customer, but their interest remains high, and we expect a second trial in H2 following the very successful trial in H1."

"The combination of the sensor contract award, the continued strong covert material sales, a boost in optical materials sales, an exceptional performance by the gaming software operation, and the significant advancements in the commercialization of our polymer substrate have positioned us for growing our profitability in the coming years."

"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

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Chief Executive Officer's statement

Introduction

In H1 2025, we have already achieved a PBTA level which is 57% of the market expectations for the year and are confident we will achieve market expectations for the full year.

Revenue was up 54% at 34,965k (2024: 22,739k) for the first half of the year. The increased revenue in the first half is primarily driven by the continued cost accounting-based revenue recognition on the 39.6M manufacturing contract, milestone payments from the pre-production development contract with a central bank customer, sales of covert materials, increased optical materials sales relative to H1 2024, and exceptional revenue from the gaming software group. As a result of the revenue recognition from the sensor contract and high margins, adjusted EBITDA (before stock compensation expense) for the half year increased 101% to 15,764k compared to the prior year of 7,847k.

Having spent cash from operations of 670k (2024: 262k), cash at the period end amounted to 2,556k (2024: 4,444k), excluding 5 million of restricted cash (2024: 2,025k), reflecting (i) the 5,601k paid to shareholders during June (2024: 5,593k) in the form of the Company's annual dividend of 0.116, and (ii) significant pre-purchasing of sensor manufacturing components and equipment, aggressive polymer substrate marketing efforts, and federal and state tax prepayments. Unrestricted cash is expected to rapidly increase beginning in H2 2025 with the first payment for sensors and release of 1,000k of restricted cash. In 2026, with the completion of the balance of sensors being built, cash from the sensor contract is expected to further increase by an additional 26,600k since the first prepayment of 9,400k in 2024. The remaining cash will be received over a period of a few years as sensors are deployed in the field.

Operating expenses decreased in H1 with reductions of 6% in general and administrative expenses, 33% in selling and marketing expenses, and 10% in research and development. Spectra Systems is reporting 3.7 million debt on 30 June. This is a 22.6% reduction from the debt carried in H1 2024 with the remaining debt at an average interest rate of 3.06%. This increase relative to the average rate at the time of the acquisition is due to the repayment of significant interest-free customer debt and purchases of critical equipment for the advancement of polymer production.

Review of Operations

Authentication and Security Printing Business

The Authentication Systems business generated revenue of 23,582k (2024: 13,773k) and Adjusted EBITDA of 14,277k (2024: 7,005k).

Revenue growth in the first half was primarily driven by the continued cost accounting-based revenue recognition on the 39,600K manufacturing contract, milestone payments from the pre-production development contract with a central bank customer, sales of covert materials, increased sales of optical materials relative to H1. In 2024 we recognized 8,167k of the production contract value, and in H1 of 2025 we recognized 11,278k. By the end of H1 we have recognized 49.2% of the contract. We expect to produce our first batch of sensors in H2 of 2025 and complete the sensor manufacturing in H2 of 2026. The first batch of sensor production this year and the manufacturing of the entire sensor order will bring cash in H2 of this year and begin significantly re-building our cash position through 2026. During H2 of 2025, the customer will also release 950k of restricted cash and a further 3,000K by the end of 2026. As a result of the increased revenue, and product weighted high margins, adjusted EBITDA (before stock compensation expense) for the half year increased 101% to 15,764k compared to the prior year of 7,847k.

The security printing group generated an EBITDA of 426k on a turnover of 9,293k in H1 which when combined with 1,173k of depreciation resulted in a net loss of 847k. The losses in H1 are due primarily to changes to the invoicing and delivery policy by a major customer following their acquisition and continued customer-specific polymer substrate development. Based on H2 planning, the full year is expected to result in significantly improved performance. In H1 we have submitted several responses to tenders for passports as well as hybrid stamps which include optical materials from the USA-based operation.

Repeatable and growing profits from the Cartor security printing group will require the elimination of unpredictable earnings from small jobs that do not financially support their staffing requirements. As previously referenced, there is an executable plan for restructuring the business, which will refocus management on the goal of producing polymer banknote substrate while defraying labour and infrastructure costs through multi-year postal and tax stamp contracts with technologically leveraged margins. We plan to restructure the security printing operations by Q2 of 2026. Modeling predicts that this will generate repeatable and significant profitability even in the absence of Fusion sales while having the capability to produce substrate for over 2.5 billion notes per annum.

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. At the start of H1, we partnered with a major track and trace provider for a significant multi-billion stamps per annum opportunity. Despite a highly successful trial, the partnership agreement was breached by our partner, and we have since shifted our efforts directly to the customer. With the securing of a local agent and the successful first trial, we are expecting a second trial using a different printing method to accommodate the customer's equipment utilization preferences. Through our security printing group, we have also made business development inroads with several national postal organizations to use smartphone technology to prevent reuse and counterfeit stamp sheets sold at very low prices on the internet.

The gaming security software side of the Company's business, the Secure Transactions Group, generated an Adjusted EBITDA of 1,062k (H1 FY24: 143k) on revenue of 2,089k (H1 FY24: 1,087k). The H1 results are significantly higher than expected and were driven by new requirements for increased player options for USA state lotteries. We have been systematically changing our profit margins as contracts come up for renewal and are optimistic that 2025 will usher in a new and more consistently profitable gaming software business.

Strategy and Prospects

The Company's strategy for increasing revenue and earnings continues to be focused on selling more products to existing customers, penetrating other security markets including tax stamps, passports and labels in parallel to selling cutting edge polymer substrates into the fastest growing segments of the banknote industry.

With the expected cash build-up commencing in H2 2025 and continuing through 2026, we continue to evaluate acquisitions of synergistic, strategic and profitable businesses.

Nabil M. Lawandy
Chief Executive Officer
September 29, 2025

Consolidated statements of income for the half year ended 30 June 2025

	Half Year to 30 Jun 2025 Unaudited USD '000	Half Year to 30 Jun 2024 Unaudited USD '000	Full Year to 31 Dec 2024 Audited USD '000
Revenues			
Product	32,295	19,252	43,052
Service	2,670	3,487	6,139
Total revenues	34,965	22,739	49,191
Cost of sales	15,043	10,036	25,702
Gross profit	19,922	12,703	23,489
Operating expenses			
Research and development	1,210	1,348	2,161
General and administrative	4,124	4,385	8,392
Sales and marketing	511	767	1,457
Total operating expenses	5,845	6,500	12,010
Operating profit	14,077	6,203	11,479
Interest income (expense)	15	(308)	(48)

Interest income (expense)	15	(300)	(70)
Foreign currency gain(loss)	(32)	(3)	(127)
Profit before taxes	14,060	5,892	11,304
Income tax expense	4,000	650	2,802
Net income	10,060	5,242	8,502
Net income (loss) attributable to noncontrolling interest	(4)	(8)	(18)
Net income attributable to Spectra Systems Corporation	10,064	5,250	8,520

Earnings per share

Basic	0.21	0.11	0.18
Diluted	0.21	0.11	0.17

Consolidated statements of comprehensive income for the half year ended 30 June 2025

	Half Year to 30 Jun 2025 Unaudited USD '000	Half Year to 30 Jun 2024 Unaudited USD '000	Full Year to 31 Dec 2024 Audited USD '000
Net income	10,060	5,242	8,502
Unrealized gain (loss) on currency exchange	(638)	(52)	(294)
Reclassification for realized (gain) loss in net income	32	3	127
Total other comprehensive Loss	670	(49)	(167)
Comprehensive income	10,730	5,193	8,335
Net gain (loss) attributable to noncontrolling interest	(4)	(7)	(18)
Comprehensive income attributable to Spectra Systems Corporation	10,734	5,200	8,353

Consolidated balance sheets as of 30 June 2025

	As of 30 Jun 2025 Unaudited USD '000	As of 30 Jun 2024 Unaudited USD '000	As of 31 Dec 2024 Audited USD '000
Current assets			
Cash and cash equivalents	2,556	4,444	13,354
Trade receivables, net of allowance	2,558	8,653	3,000
Unbilled and other receivables	14,431	1,461	4,597
Inventory	9,153	11,168	6,206
Prepaid expenses	827	1,401	1,152
Total current assets	29,525	27,128	28,309
Non-current assets			

Property, plant and equipment, net	9,195	10,311	9,048
Operating lease right of use assets, net	5,535	6,063	5,684
Intangible assets, net	13,797	13,331	13,511
Restricted cash and investments	5,000	2,026	2,063
Investments	102	95	95
Deferred tax assets	1,020	1,844	2,093
Other assets	<u>65</u>	<u>577</u>	<u>171</u>
Total non-current assets	34,714	34,247	32,665
Total assets	<u>64,239</u>	<u>61,375</u>	<u>60,974</u>
Current liabilities			
Accounts payable	4,993	3,150	3,631
Accrued expenses & other liabilities	976	2,488	1,034
Line of credit	1,246		453
Operating lease liabilities, short term	330	569	798
Taxes payable	1,592	78	1,422
Short-Term Loans	1,866		1,712
Deferred revenue	<u>2,025</u>	<u>7,789</u>	<u>4,967</u>
Total current liabilities	13,028	14,071	14,018
Non-current liabilities			
Operating lease liabilities, long term	5,341	5,568	4,969
Third party loans	1,852	4,803	2,647
Contingent consideration	2,513	2,528	2,513
Deferred revenue	<u>-</u>	<u>1,329</u>	<u>499</u>
Total non-current liabilities	9,706	14,228	10,628
Total liabilities	<u>22,734</u>	<u>28,299</u>	<u>24,646</u>
Stockholders' equity			
Common stock	482	482	482
Additional paid in capital - common stock	57,654	57,495	57,605
Accumulated other comprehensive loss	292	(260)	(378)
Accumulated deficit	<u>(17,473)</u>	<u>(25,206)</u>	<u>(21,935)</u>
Total Spectra Systems Corporation stockholders' equity	40,955	32,511	35,774
Noncontrolling interest	<u>550</u>	<u>565</u>	<u>555</u>
Total stockholders' equity	<u>41,505</u>	<u>33,076</u>	<u>36,328</u>
Total liabilities and stockholders' Equity	<u>64,239</u>	<u>61,375</u>	<u>60,974</u>

	Half Year to 30 Jun 2025 Unaudited USD '000	Half Year to 30 Jun 2024 Unaudited USD '000	Full Year to 31 Dec 2024 Audited USD '000
Cash flows from operating activities			
Net income	10,060	5,242	8,502
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,696	1,562	3,194
Stock-based compensation expense	49	75	192
Lease amortization expense	53	-	10
Deferred taxes	1,000	10	(228)
Provision for excess and Obsolete Inventory			
Changes in operating assets and liabilities			
Accounts receivables	659	(4,889)	752
Unbilled and other receivables	(9,805)	(68)	(3,200)
Inventory	(2,631)	(4,689)	258
Prepaid expenses	465	(199)	445
Accounts payable	1,173	413	912
Accrued expenses and other liabilities	65	1,242	1,140
Deferred revenue	(3,454)	1,563	(2,079)
Net cash provided by operating activities	(670)	262	9,899
Cash flows from investing activities			
Restricted cash and investments	(2,937)	(1,513)	(1,550)
Payment of patent and trademark costs	(358)	(150)	(689)
Acquisition of Cartor Holdings Limited, net of Acquired Cash	-	(508)	-
Purchases of property, plant and equipment	(993)	-	(745)
Net cash provided by (used in) investing activities	(4,288)	(2,171)	(2,984)
Cash flows from financing activities			
Dividends paid	(5,602)	(5,594) (1,303)	(5,595)
Finance payments	(1,035) 794	-	(1,128)
Line of credit			(140)
Proceeds from exercise of stock options	-	11	-
Net cash used in financing activities	(5,843)	(6,886)	(6,863)
Effect of exchange rate on cash and cash equivalents	44	(14)	49
Net increase(decrease) in cash and cash equivalents	(10,757)	(8,809)	101
Cash and cash equivalents, beginning of period	13,313	13,253	13,253
Cash and cash equivalents, end of period	2,556	4,444	13,354

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on the 27 September 2025.

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 financial statements for the year ending 31 December 2025 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2024.

The results for the half year are unaudited. The financial information for the year ended 31 December 2024 does not constitute the full statutory accounts for that period. The Annual Report and financial statements for the year ended 31 December 2024 have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements for the year ended 31 December 2024 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, 2025, and the year ended December 31, 2024, were 132,000 and 0 shares related to stock options, respectively, because their exercise prices would render them anti-dilutive. For the six months ended June 30, 2024, 132,000 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 2025	Half Year to 30 Jun 2024	Full Year to 31 Dec 2024
Numerator:			
Net income	10,059,597	5,249,439	8,520,046
Denominator:			
Weighted average common shares	48,270,831	48,228,972	48,023,360
Effect of dilutive securities:			
Stock Options	<u>755,756</u>	<u>1,430,604</u>	<u>935,229</u>
Diluted weighted average common shares	<u>49,026,587</u>	<u>49,659,576</u>	<u>48,958,589</u>
Earnings per common share:			
Basic:	<u>0.21</u>	<u>0.11</u>	<u>0.18</u>
Diluted:	<u>0.21</u>	<u>0.11</u>	<u>0.17</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 2025 Unaudited USD '000	Half Year to 30 Jun 2024 Unaudited USD '000	Full Year to 31 Dec 2024 Unaudited USD '000
Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA)			
Operating profit	14.077	6.203	11.479

Operating profit	1,400	1,311	2,690
Depreciation	240	251	560
Amortization	43	75	182
Stock compensation	4	8	18
Operating loss - noncontrolling interest	-	(1)	(10)
Stock compensation - noncontrolling interest	15,764	7,847	14,919
Adjusted EBITDA			
Adjusted profit before taxes and amortization (PBTA)			
Profit before taxes	14,060	5,892	11,304
Amortization	240	251	560
Stock compensation	43	75	182
Operating loss - noncontrolling interest	4	8	18
Stock compensation - noncontrolling interest	-	(1)	(10)
Adjusted PBTA	14,347	6,225	12,054
Adjusted earnings per share			
Adjusted PBTA	14,347	6,225	12,054
Income tax expense	(4,000)	(650)	(2,802)
Adjusted earnings	10,347	5,575	9,252
Diluted weighted average common shares	49,026,587	49,659,576	48,958,589
Adjusted earnings per share	0.211	0.112	0.189

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