17 September 2019

Quixant plc

("Quixant" or the "Group")

Interim Results

Quixant (AIM: QXT), a leading provider of innovative, highly engineered technology products principally for the global gaming and broadcast industries, announces its Interim Results for the six months ended 30 June 2019.

Group revenue and profit for H1 2019 is in line with management expectations and with the expectations at the time of the Group's March 2019 results announcement and its trading update on 23 July 2019. Quixant's revenue has historically been second half-weighted and as previously announced, management expect this trend to be reflected in full year 2019 results. However, new information from some customers regarding order levels for the remainder of 2019 indicates that, while this second-half weighting will occur, due to lower than expected demand for our customers' gaming machines, Quixant's total revenues will be below previous expectations and consequently will result in a reduction in full year profits for the Group to between $12.0m and $13.0m.

Financial highlights:

- Group revenue $41.9m (H1 2018: $50.3m)
    - Quixant Gaming division revenue $23.6m (H1 2018: $31.4m)
        - Gaming platforms revenue $19.6m (H1 2018: $27.0m)
        - Gaming monitors revenue $4.0m (H1 2018: $4.4m)
    - Densitron division revenue $18.4m (H1 2018: $18.9m)

- Group pre-tax profit $3.0m (H1 2018: $6.1m)

- Group adjusted pre-tax profit[1] $3.4m (H1 2018: $7.1m)

- Fully diluted EPS of $0.0346/share (H1 2018: $0.0750/share)

- Net cash from operating activities of $6.7m (H1 2018: $1.9m)

- Net cash at 30 June 2019 of $12.4m (30 June 2018: $2.5m)

1. *Adjusted by adding back items included in the adjusted PBT reconciliation in note 1 totaling $0.4m (H1 2018: $1.0m).*

Operational highlights:

- Greater than expected slow-down in gaming customer orders, particularly in the Australian market as major customers face significant competitive pressure and have lost market share to competitors. Gross margins remain robust. Concentration of revenues from top 5 customers continues to decline.

- Customer retention remains strong, new business pipeline is robust and we have successfully converted $12m of the $30m pipeline indicated in the March 2019 results which will lead to growth in 2020 and beyond.

- Expect to commence shipments of sports betting terminals in 2020

- Won gaming platform business of a major Japanese customer which is expected to contribute around $10m per year in revenue starting in the second half of 2021

- Acquisition of the Intelligent Display Systems (IDS) solution by Densitron in the broadcast sector. IDS combines proprietary hardware and software allowing broadcasters to connect, control and automate devices and activities in and around the studio.

- Densitron continues to see good growth opportunities in the broadcast market, with a pipeline of new opportunities totaling $9.5m as at September 2019.

- Continued development of business infrastructure, including further high calibre, key hires in Gaming product and sales leadership and in the Densitron management team.

Jon Jayal, CEO of Quixant, commented:

"As announced in our trading update in July 2019, the first six months of 2019 have seen a deepening in the slow-down of ordering by some large customers. The second half began with better ordering from some of these customers, but we have now been informed that order levels will not return to those achieved in previous years both for the rest of this year and for at least the first half of 2020. New business from other customers has partially offset this shortfall and we see strong growth coming from sports betting terminals and new gaming platform customers in 2020 and 2021. We continue to gain new customers and the market opportunity remains very positive over the medium to longer term.

Densitron continue to make progress in the broadcast market under a top-quality new management team and the acquisition of the IDS product set will only strengthen their offering in that sector.

Despite this challenging trading period, we continue to make major enhancements to our management team, bringing high calibre expertise to the business. Combined with the technical expertise of our staff, continued profitable trading, positive cash generation and a strong balance sheet, Quixant is in a strong position to return to double-digit growth despite short term softness from some key customers.

Our belief in Quixant's long term growth potential is undiminished. We have a challenging trading period at present but through this we continue to win new business to generate long term growth, seek greater diversity of growth drivers and evolve the organisation to enable operation as a larger entity."

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About Quixant

Quixant, founded in 2005, designs and manufactures highly optimised computing solutions and monitors principally for the global gaming industry. The Company is headquartered in Cambridge in the UK where the global sales function is based. North America sales and sales support is run from their subsidiary in Las Vegas. Quixant has its own manufacturing and engineering operation based in Taiwan and software engineering and customer support team based in Italy. All the specialised products software and manufacturing are produced in-house and Quixant owns all its own IP some of which is protected by patents and design rights.

In November 2015 Quixant acquired Densitron Technologies plc. Densitron has a strong heritage in the sale of electronic display solutions to global industrial markets. Through Densitron's experienced sales team, Quixant has a robust platform to build its business into wider industrial markets. In-depth information on the Company's products, markets, activities and history can be found on the corporate website at www.quixant.com.

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

OPERATING REVIEW

In a challenging first half, revenues and profits in the Quixant Gaming division decreased on the prior year as some large customers saw reduced demand for their machines containing our gaming platforms due to heavy competition in their global markets. Densitron maintained its revenue base and moved further towards growing through its investment in the broadcast sector.

Gaming Division

The first half of 2019 has been marked by the slow-down in sales to some of our largest customers, particularly in the Australian market, as these customers experienced large falls in sales of their gaming machines containing Quixant's products. Our largest customer, Ainsworth, recently announced its results for the first half of 2019, showing significant declines in revenues and profits, particularly in their domestic Australian market (revenues down 43%), citing strong competitive challenges. This followed similar issues in the second half of 2018. Ainsworth has a pipeline of new products but does not expect its revenues to be impacted positively by these products until at least the second half of calendar year 2020. We therefore expect lower revenue from this customer until its new games succeed in taking market share from the dominant global supplier, Aristocrat. Our shipments to other domestic Australian customers have been similarly reduced by Aristocrat's high selling gaming titles and sales to these customers will similarly not recover until our customers produce more successful games.

While we have limited visibility on the timing of improved business performance from these customers, ongoing new business wins will increasingly mitigate our reliance on them. We announced a $30m new business pipeline in March 2019 and we have won $12m of that business since then which will contribute to growth in 2020 and beyond. Significantly we recently won the gaming platform business of a major Japanese customer which is expected to contribute around $10m per year in revenue starting in the second half of 2021. We already supply button deck solutions to this customer. With the broadening of our customer base, we anticipate revenues from our largest customer to continue to fall from 2018 levels (17% of Group revenue) to approach 10% of revenues in 2020.

Our sports betting strategy, which we believe has potential to be a multi-million-dollar business, is progressing well. Sports betting terminals represent an exciting area of business expansion beyond the traditional land-based gaming sector. We are at an advanced stage in discussions with several major sports betting customers who have asked us to deliver a complete terminal solution which leverages our computer boards, monitors and a new cabinet offering. We expect to demonstrate sample product at the G2E exhibition in Las Vegas in October 2019, potentially leading to full commercial production in 2020.

We appointed a new Product Director to the Gaming business in early September, Abhinay Bhagavatula. Abhinay joined us from Aristocrat Technologies, where he was Director of Commercial and Product Strategy. This is a critical hire and we are confident he will make a major contribution to our future product development capability and our credibility in communicating a compelling message to the senior management of the major gaming manufacturers. His many years' experience working in Tier 1 businesses in the gaming industry brings a wealth of new knowledge to Quixant. We are also in the advanced stages of recruiting a senior new Business Development Director to the gaming team who will greatly enhance our capability in solution selling to the C-suite of major gaming manufacturers. Abhinay's industry knowledge and the strategic sales capability of the Business Development Director are a powerful combination which we believe will unlock opportunities in the largest gaming manufacturers.

Enhancing our revenue visibility and providing metrics which enable monitoring of the health of our sales pipeline has been a focus through 2019. We have adopted Salesforce, an industry leading CRM tool already used in the Densitron division and we are in the process of rolling it out in the Gaming division. It is intended for the first phase of this to complete in October 2019. The SAP project is now coming to a close and the new system is operating effectively and has delivered process efficiency enhancements already while still being in the early stages of operation. The next phase of the project will provide greater integration with other systems (such as Salesforce) and streamline sales, operational and management reporting.

Densitron Division

Densitron continued to perform in line with our expectations. Densitron revenue in the first half of 2019 was slightly down on 2018, mainly due to the sale of the loss-making Densitron Nordic business. Growth in other areas of the business have substantially offset the sale of this revenue. The Densitron business has undergone extensive restructuring and re-energising over the last 12 months and the new management team has made a major positive impact.

In March 2019 we signalled a $4.5m new business pipeline in broadcast in Densitron. That figure now stands at $9.5m driven by the enhanced product range, sales discipline and professionalised marketing messaging generating new business.

The acquisition of the IDS product line in July 2019 will accelerate product development in the broadcast sector and should lead Densitron to growth in 2020. IDS is a successful broadcast product which is used to distribute content and control equipment in a number of high-profile broadcasting corporations. Densitron will provide a sales network for the product to a global audience.

Financial review

Revenue for the six months ended 30 June 2019 was $41.9m (1H 2018: $50.3m). Gaming Division revenue was $23.6m (H1 2018: $31.4m), comprising Gaming Platform revenue of $19.6m (H1 2018: $27.0m) and Gaming Monitors revenue of $4.0m (H1 2018: $4.4m). Densitron division revenue was $18.4m (H1 2018: $18.9m). The Group gross margin of 36.4% was marginally better than H1 2018 (35.8%) as sales of lower-margin monitors became a smaller proportion of revenue. Gaming monitors revenue comprised $2.5m of higher-margin button decks (H1 2018: $2.2m) and $1.5m of lower-margin monitors (H1 2018: $2.2m).

Adjusted profit before tax (PBT) for the six months was $3.4m (H1 2018: $7.1m). Overheads rose by 4% in the period as we recorded full periods for costs added in 2018 part-way through the year. Unadjusted PBT was $3.0m (H1 2018: $6.1m). We sold our 80% share in the loss-making subsidiary Densitron Nordic in May 2019 to its management, the costs of the disposal have been shown separately in note 1 below.

The Group continues to maintain a strong balance sheet. Net assets at 30 June 2019 were $59.0m compared with $59.4m at 31 December 2018 and $50.4m at 30 June 2018, with minimal debt. Net assets are down slightly on 31 December 2018 as the dividend paid in May 2019 is higher than the profits made in the six months to 30 June 2019. The introduction of IFRS 16 has resulted in an asset of $1.2m being capitalised, representing a right to use asset of leases, mainly rented offices, with a corresponding lease liability. The global shortage of electronic components has persisted during 2019 and the Group have continued to make strategic purchases to ensure we can satisfy customer lead times and maintain our margins. As a result, the Group stock levels continue to be elevated, at $22.9m. Cash generation in the period was strong as the build up of customer receivables in the period to 31 December 2018 unwound in H1 2019.

The Group continued with its progressive dividend policy, making a payment of 3.1p per share, totalling $2.8m in May 2019. This was in respect of the full year 2018 and represented the sixth dividend payment made by the Group.

Outlook

Clearly the first half of 2019 and expected persistence in reduced order volumes from some customers for the rest of 2019 are disappointing. As a result, we do not expect to meet previous market expectations for both revenues and profits in 2019. Australian customers, in particular, are unlikely to recover in 2020 to revenue levels seen in prior years. We have continually strived to diversify our customer base to minimise the impact of our historically-high customer concentration. While this has resulted in a much smaller reliance on our larger customers, our growth in 2019 is being adversely affected by the reduction in revenue from some of these customers. However, the market opportunity in Gaming has not diminished and we have not lost any customers. In 2020 we expect to commence shipments of sports betting terminals which should deliver significant revenue. This will be followed in 2021 by the recent new gaming platform business win in Japan entering mass production. Alongside these we have several other smaller customers entering mass production in 2020 after completing their design cycles this year.

Densitron is expected to benefit from its focus on the broadcast market in 2020 while maintaining revenue and profits from its existing business in 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019, 30 JUNE 2018 AND YEAR ENDED 31 DECEMBER 2018

	Note	**30 June 2019**	30 June 2018	31 December 2018
		$000	$000	$000
Revenue		**41,943**	50,281	115,150
Cost of sales		**(26,672)**	(32,283)	(75,392)
Gross profit		**15,271**	17,998	39,757
Operating expenses		**(12,268)**	(11,744)	(25,173)
Operating profit		**3,002**	6,254	14,584
Financial expenses		**(42)**	(139)	(251)
Profit before tax	1	**2,961**	6,115	14,333
Taxation		**(653)**	(1,111)	(177)
Profit for the period		**2,307**	5,004	14,156
Other comprehensive expense				
Foreign currency translation differences		**(143)**	(55)	(176)
Total comprehensive income for the period		**2,164**	4,949	13,980
Basic earnings per share	2	**$0.0348**	$0.0757	$0.2137
Fully diluted earnings per share	2	**$0.0346**	$0.0750	$0.2125

The above condensed consolidated statement of profit and loss and comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2019, 30 JUNE 2018 AND AT 31 DECEMBER 2018

	Note	**30 June 2019 $000**	30 June 2018 $000	31 December 2018 $000
Non-current assets				
Property, plant and equipment		**5,947**	6,070	6,104
Right-of use asset	4	**1,223**	-	-
Intangible assets		**15,473**	15,039	15,538
Investment property		**633**	665	631
Deferred tax assets		**157**	232	236
Total non-current assets		**23,433**	22,006	22,510
Current assets				
Inventories		**22,852**	21,080	19,439
Trade and other receivables		**27,092**	23,772	31,087
Cash and cash equivalents		**13,245**	9,504	11,082
Total current assets		**63,189**	54,356	61,607
Total assets		**86,622**	76,362	84,117
Current liabilities				
Other interest-bearing loans and borrowings		**(85)**	(6,092)	(530)
Trade and other payables		**(24,028)**	(16,152)	(21,052)
Provisions		**-**	(750)	-
Tax payable		**-**	(766)	(759)
IFRS 16 lease liability	4	**(466)**	-	-
Total current liabilities		**(24,580)**	(23,760)	(22,342)
Non-current liabilities				
Other interest-bearing loans and borrowings		**(775)**	(868)	(823)
Provisions		**(338)**	-	(306)
Deferred tax liabilities		**(1,081)**	(1,369)	(1,214)
IFRS 16 lease liability	4	**(810)**	-	-
Total non-current liabilities		**(3,004)**	(2,237)	(2,342)
Total liabilities		**(27,584)**	(25,997)	(24,684)
Net assets		**59,038**	50,365	59,433
Equity attributable to equity holders of the parent				
Share capital		**106**	106	106
Share premium		**6,658**	6,482	6,499
Share based payments reserve		**1,191**	1,082	1,102
Retained earnings		**50,988**	42,336	51,488
Translation reserve		**95**	359	238
Total equity		**59,038**	50,365	59,433

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2019, 31 DECEMBER 2018 AND 30 JUNE 2018

	Share capital	Share premium	Translation reserve	Share based payments	Retained earnings	Total equity
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Balance at 1 January 2018	106	6,102	414	991	39,647	47,260
Total comprehensive income for the period						
Profit	-	-	-	-	5,004	5,004
Other comprehensive expense	-	-	(55)	-	-	(55)
Total comprehensive income for the period	-	-	(55)	-	5,004	4,949
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	91	-	91
Dividend paid	-	-	-	-	(2,315)	(2,315)
Exercise of options	-	380	-	-	-	380
Total contributions by and distributions to owners	-	380	-	91	(2,315)	(1,844)
Balance at 30 June 2018	106	6,482	359	1,082	42,336	50,365
Balance at 1 July 2018	106	6,482	359	1,082	42,336	50,365
Total comprehensive income for the period						
Profit	-	-	-	-	9,152	9,152
Other comprehensive expense	-	-	(121)	-	-	(121)
Total comprehensive income for the period	-	-	(121)	-	9,152	9,030
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	20	-	20
Dividend paid	-	-	-	-	-	-
Exercise of options	-	17	-	-	-	17
Total contributions by and distributions to owners	-	17	-	20	-	37
Balance at 31 December 2018	106	6,499	238	1,102	51,488	59,433
Balance at 1 January 2019	106	6,499	238	1,102	51,488	59,433
Total comprehensive income for the period						
IFRS 16 restatement of opening retained earnings	-	-	-	-	(50)	(50)
Profit	-	-	-	-	2,307	2,307
Other comprehensive expense	-	-	(143)	-	-	(143)
Total comprehensive income for the period	-	-	(143)	-	2,258	2,115
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	89	-	89
Dividend paid	-	-	-	-	(2,760)	(2,760)
Exercise of options	-	159	-	-	-	159
Total contributions by and distributions to owners	-	159	-	89	(2,760)	(2,511)
Balance at 30 June 2019	106	6,658	95	1,191	50,988	59,038

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019, 30 JUNE 2018 AND YEAR ENDED 31 DECEMBER 2018

	30 June 2019 $000	30 June 2018 $000	31 December 2018 $000
Cash flows from operating activities			
Profit for the period	**2,307**	5,004	14,156
Adjustments for:			
Depreciation, amortisation and impairment	**1,617**	1,160	2,745
Taxation expense	**653**	1,111	177
Financial expense	**42**	139	251
Equity settled share-based payment expenses	**89**	91	111
	4,708	7,505	17,440
Decrease/(increase) in trade and other receivables	**3,995**	(3,677)	(10,992)
(Increase)/decrease in inventories	**(3,414)**	166	1,807
Increase/(decrease) in trade and other payables	**2,893**	(715)	3,753
	8,182	3,279	12,008
Interest paid	**(42)**	(139)	(251)
Tax paid	**(1,467)**	(1,249)	(481)
Net cash from operating activities	**6,673**	1,891	11,276
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(145)**	(202)	(632)
Acquisition of intangible assets	**(1,012)**	(1,669)	(3,457)
Net cash used in investing activities	**(1,157)**	(1,871)	(4,089)
Cash flows from financing activities			
Proceeds from new loan	**-**	225	-
Repayment of borrowings	**(492)**	-	(5,382)
Lease liability paid	**(260)**	-	-
Dividends paid	**(2,760)**	(2,315)	(2,315)
Exercise of options	**159**	380	397
Net cash used in financing activities	**(3,353)**	(1,710)	(7,300)
Net increase in cash and cash equivalents	**2,163**	(1,690)	(112)
Cash and cash equivalents at 1 January	**11,082**	11,194	11,194
Cash and cash equivalents at period end	**13,245**	9,504	11,082

The above condensed consolidated cashflow statement should be read in conjunction with the accompanying notes.

1. Basis of preparation and accounting policies

This condensed consolidated interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. The reporting currency adopted by the Quixant Group is the US dollar as this is the trading currency of the Group. The financial information shown for the year ended 31 December 2018 in the interim financial information does not constitute full statutory financial statements as defined in Section 434 of the Companies Act 2006 and has been extracted from the Company's annual report and accounts. The Auditor's Report on the annual report and accounts was unqualified. The condensed consolidated interim financial information is neither audited nor reviewed and the results of operations for the six months ended 30 June 2019 are not necessarily indicative of the operating results for future operating periods. The condensed consolidated interim financial information has not been reviewed under IRSE 2410. This condensed consolidated interim financial report was approved by the Board of Directors on 16 September 2019.

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018 except for the adoption of IFRS 16 – Leases. The impact of the adoption of IFRS 16 is set out in note 4 below.

Reconciliation of profit before tax (PBT)
PBT and adjusted PBT for the current and prior periods has been derived as follows:

	PBT		
	6 months ended 30 June 2019	6 months ended 30 June 2018	12 months ended 31 December 2018
	$000	$000	$000
Profit for the period	**2,307**	5,004	14,156
Adding back:			
Taxation expense	**653**	1,111	177
PBT	**2,961**	6,115	14,333
Amortisation of customer relationships and order backlog[1]	**203**	379	757
Share based payments expense[2]	**89**	91	111
Loss on disposal of subsidiary[3]	**124**	-	-
Restructuring costs[3]	**-**	506	3,036
Adjusted PBT	**3,377**	7,091	18,237

1. The amortisation of customer relationships and order backlog has been excluded as it is not a cash expense of the Group.
2. Share based payments expense has been excluded as they are not a cash expense.
3. Other items of income and expense – where other items of income and expense occur in a particular period and their inclusion in PBT meant that a period on period comparison of operational results is not a consistent basis the directors will exclude them from the adjusted numbers. During the periods under review the directors have excluded restructuring costs and the costs arising from the disposal of Densitron Nordic due to their exceptional size and incomparability with comparative periods.

2. Earnings per share

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year ended 31 December 2018
	$000	$000	$000
Earnings			
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity shareholders	**2,307**	5,004	14,156
Number of shares			
Weighted average number of ordinary shares for the purposes of basic EPS	**66,379,052**	66,123,336	66,239,967
Effect of dilutive potential ordinary shares:			
Share options	**385,798**	569,314	380,383
Weighted number of ordinary shares for the purposes of diluted EPS	**66,764,850**	66,692,650	66,620,350

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

3. Related party transactions

During the period the Group paid €15,600 (2018: €15,600) for administrative services to Francesca Marzilli, the wife of Nicholas Jarmany. There were no other related party transactions, other than transactions with key management personnel, who are the Directors of the Company.

4. IFRS 16

The group has adopted IFRS 16 using the modified retrospective approach from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in retained earnings at 1 January 2019. In adopting IFRS 16, the Group has taken advantage of practical expedients permitted by the standard, namely the use of a single discount rate to a portfolio of leases with reasonably similar characteristics and the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%. The impact of adopting IFRS 16 at 1 January 2019 was to recognize a right of use asset of $1.2m and a lease liability of $1.3m.

5. Subsequent events

On 1 July 2019, the Group acquired the entire share capital of IDS Control Solutions Limited for £1.875m in cash, using funds from internal resources. IDS Control Solutions Limited is a provider of products to the broadcast industry and the products will be used to further Densitron's growth in the broadcast sector. The business is growing and profitable so will be accretive to earnings immediately. The provisional identification of the acquired assets and liabilities is not presented due to the proximity of the transaction to the reporting date.