30 September 2020

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 Unaudited Interim Results for the six months ended 30 June 2020.

While the Group's revenue and profits in the first half of 2020 were impacted by the COVID-19 pandemic, resilient trading from Densitron, careful management of our gaming customers and prompt management of overheads have enabled the business to end the half with a healthy net cash position. As previously communicated, trading over the period was better than the severe downside modelling case outlined in the March 2020 trading update.

Financial highlights:

- Group revenue of $27.9m (H1 2019: $41.9m)
  - Quixant Gaming division revenue of $11.9m (H1 2019: $23.6m)
    - Gaming platforms revenue of $10.6m (H1 2019: $19.6m)
    - Gaming monitors revenue of $1.3m (H1 2019: $4.0m)
  - Densitron division revenue of $16.0m (H1 2019: $18.4m)

- Gross margins remain robust at 36% (H1 2019: 36%)

- Group adjusted pre-tax loss[1] of $1.2m (H1 2019: $3.4m profit)

- Group reported pre-tax loss of $3.0m (H1 2019: $3.0m profit) after a $1.3m write off of capitalised R&D

- Adjusted fully diluted EPS of ($0.0184)/share (H1 2019: $0.0506/share)

- Fully diluted EPS of ($0.0453)/share (H1 2019: $0.0346/share)

- Net cash from operating activities of ($0.3m) (H1 2019: $6.7m)

- Net cash at 30 June 2020 of $14.2m (30 June 2019: $12.4m), improving to $17.4m at 28 September 2020

1. *Adjusted by adding back items included in the adjusted PBT reconciliation in note 1 totaling $1.8m (H1 2019: $0.4m).*

Operational highlights:

- Initiatives deployed rapidly to mitigate the COVID-19 impact, protecting the wellbeing of staff, supporting customers through challenges in supply chain and working capital, safeguarding our balance sheet and positioning Quixant well for recovery.

- Organisational enhancements include the formation of an Executive Committee, the streamlining of our cost base and improvements in forecasting and reporting facilitated by new SAP system.

- Continued strong customer retention through the crisis

- Post-period appointment of Andrew Jarvis as interim Chief Financial Officer

Current trading and outlook:

- Gradual improvement in Gaming division revenues since venues began to re-open in May, with early signs of recommencement in orders and deliveries and new business wins early in the second half
- Leveraging our strong customer relationships to seek new opportunities which will drive the recovery of Gaming division revenues
- Densitron remains resilient despite COVID-19 and we expect to post growth in the broadcast and medical markets in 2020
- Expect a return to profitable trading in the second half, offsetting some of the reported loss experienced in the first half, with this recovery continuing into 2021, excepting the impact of any further widespread global lockdowns as a result of COVID-19
- Well positioned to return to growth in the medium to long term

Jon Jayal, CEO of Quixant, commented:

"I am delighted with the way our team has risen to the unprecedented challenges of the last six months and delivered results significantly better than in the pessimistic scenarios considered as part of our 2019 year end audit and presented in March 2020. We moved quickly to adjust to different working conditions alongside the rapid and significant changes in demand from customers. Thanks to strict financial discipline and close collaboration with our customers we have maintained a healthy net cash balance and have strengthened many of our customer relationships further. This puts Quixant in a strong position to benefit from the recovery in our global end markets.

Alongside this we see a clear opportunity to draw on our history of innovation, stepping up to deliver what customers are looking for from us now. We are working on introducing new business models with the aim of unlocking more repeatable revenue streams and grant us access to new market opportunities.

Quixant is a strong business with excellent customer relationships and innovation at our core which, combined with our strong financial position, we believe will drive excellent stakeholder value over the long term."

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About Quixant

Quixant, founded in 2005, designs and manufactures highly optimised computing solutions and monitors principally for the global gaming and broadcast industries. 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.

CHAIRMAN'S STATEMENT

While the outbreak of the COVID-19 pandemic in the period presented us with unexpected and significant challenges, the business has navigated them well, retaining a healthy balance sheet and laying the foundations that will enable it to grow strongly as our global end markets normalise. With a strong platform and having identified several new commercial opportunities while working through this unusual period, we believe we are well-positioned to capture market share in gaming, broadcast and medical markets.

We have taken the opportunity during the quieter trading period to introduce and accelerate enhancements to the operational side of the business. We recently formed an Executive Committee comprising leaders from the Gaming and Densitron divisions and led by the Chief Executive. This drives collaboration between the two business units, promoting better sharing of information and resources and enabling them to contribute more impactfully to the success of the group. We are pleased with the performance of the new gaming and Densitron senior executives introduced to the business over the last two years.

Post-period we welcomed Andrew Jarvis as interim Chief Financial Officer following the departure of Guy Milward. Andrew brings with him experience in leading high-performing finance teams and an understanding of international business. He has quickly been able to pick up the reins, helped by a short handover period with Guy. On behalf of the Board, I would like to thank Guy for his contribution to the business since he joined in October 2018 and wish him well in his future endeavours.

We continue the process of appointing a senior independent non-executive director to the Board and will update the market on the matter in due course.

OPERATING REVIEW

In response to the particularly challenging trading conditions of the first half of the year, we outlined a plan with five key objectives: to prioritise the safety of our colleagues, to preserve the strength of the Group's balance sheet, to support our customers and suppliers, to optimise our operations and to identify new opportunities to capitalise on as global economies reopen. While it has been a difficult period, we have made good progress against all these objectives, and trading has been better than the severe downside modelling case outlined as part of the audit process for the 2019 financial year and announced in March 2020.

Gaming Division

The gaming and slot machine industry, a core end market for the Group's computer and monitor products, underwent an unprecedented global shutdown as governments sought to curb the spread of the COVID-19 pandemic. Initially in Asia and then later in Europe, the Americas and Australasia; casinos, bingo halls, bars, clubs and pubs were closed for several months with Q2 commercial casino revenues down 79% year on year, improving to 46% down year to date. Consequentially we saw a rapid decline in demand for our gaming computer platform and monitor products from March onwards, and weak trading for a large proportion of the second quarter. However, in May we started to see the gradual reopening of venues across North America, with 85% of US casinos now open. This has driven a slow improvement in gaming revenues which, in the absence of a further widespread lockdown, we expect to continue to improve. In the period since opening, player attendance and spend in most venues (outside of the tourist resorts such as Las Vegas) has been healthy.

During this period, many of the gaming machine manufacturers have been forced to take extraordinary actions to survive the period which have included deep staff furloughing/redundancies, working capital control schemes and refinancing of debt. As venues reopened and players returned, our customers faced difficult decisions around the pace with which to reinstate staff. The majority of our Gaming customers are currently operating at significantly reduced staff levels compared to pre-outbreak. Allied with significant working capital pressures, these resource constraints represent an opportunity for Quixant, as an outsource provider of gaming market-focused technology solutions, to support customers' recovery with new technology and novel business models. As we emerge from the impact of COVID 19, we believe there is an opportunity for customers to outsource more of their hardware and software to Quixant as they face difficult decisions over utilisation of resources in their business. We are therefore investigating hardware full-service offerings and deepening our "middleware" software stack to enable customers to divert resources solely on content creation. We believe these augmentations of our value proposition can also unlock repeatable revenue business models.

Given the cancellation or postponement of many sporting events in 2020, the global sports betting market has been severely impacted by the pandemic. We have therefore decided to pause further work on developing and marketing products specifically for this market for the time being.

Densitron Division

The Densitron business has proven relatively resilient amid the challenging circumstances. While we have seen delays in orders and new business in certain segments including broadcast, we are expecting to see full year growth in these sectors against prior.

Broadcast sector revenues have been somewhat delayed by the slowdown in the installation of new hardware into broadcast studios through the lockdown. We expect to see some of this recovered during the second half of the year, alongside growing revenues and an increased focus on the Healthcare sector. Overall Broadcast and Healthcare revenues are expected to grow year on year, and currently represent approximately 15% and 20% of Densitron's revenues.

Our Densitron business strategy is to move further up the value chain from display-only technology towards complete control solutions with focus on specific verticals. We were therefore delighted to be selected in May 2020 as a Panasonic KAIROS Alliance Partner, a next generation live production platform that enables incredible productivity, recognising the innovation we are bringing in Human-Machine Interaction to the broadcast sector. Panasonic will be using products from Densitron's UReady® tactile touch screen product range which also integrate our embedded computing solutions. This provides Panasonic with cutting-edge control surfaces for their new KAIROS IT/IP live video production solutions.

Financial review

First half revenues were $27.9m (2019 H1: $41.9m), with the Gaming Division contributing $11.9m (2019 H1: $41.9m) and Densitron $16.0m (2019 H1: $18.4m). Despite the COVID-19 pandemic's stark impact on revenue, prompt action to contain costs resulted in an adjusted pre-tax loss of $1.2m (2019 H1: Profit of $3.4m).prior to a $1.3m write off of capitalised R&D brought about by the need to end-of-life certain product lines early due to changing market demands and supply chain issues brought about by the pandemic, a$0.4m amortisation charge relating to customer relationships and order backlog, and a $0.1m share based payments expense – resulting in a reported pre tax loss of $3.0m (2019 H1: Profit of $3.0m).
Continued healthy Densitron trading in most sectors and stronger than anticipated cash collection from Gaming division customers meant we have retained a strong net cash position of $14.2m at 30 June 2020 (31 December 2019: $16.1m) and unutilised credit lines of $12.4m available. Since June we have seen an increase in net cash to $17.4m at 28 September 2020.

The Group continues to maintain a strong balance sheet. Net assets at 30 June 2020 were $62.3m compared with $65.3m at 31 December 2019 and $59.0m at 30 June 2019, with long term debt of $0.7m.

The global COVID-19 pandemic in H1 2020 resulted in a slowdown of product movement in the Group, which has seen inventory levels increase from $20.2m at 31st December 2019, to $22.9m at 30th June 2020. We expect this to unwind over the coming months as deliveries resume. The global pandemic has caused significant disruption in electronic component production such that we are experiencing volatile pricing, unpredictable lead times and unexpected end-of-life notices served on us by our suppliers. The Group has been carefully monitoring the situation and where necessary taking action to make strategic purchasing decisions to protect customers and reviewing the viability of its future product roadmap. Cash generation in the period was slow due to the effects of the global pandemic, and mitigation measures were put in place to protect the business.

In 2019, a dividend payment of 3.1p per share, totalling $2.8m was made in May 2019. This was in respect of the full year 2018 and represented the sixth dividend payment made by the Group. Due to the ongoing effects of the pandemic and to maintain a robust balance sheet, the Board has decided not to pay a dividend in 2020. We currently expect to return to paying dividends in 2021.

Business Optimisation

We took prompt action to manage cost in the early part of the second quarter and as a result, overall, we expect 2020 overheads to be over 15% lower than in our original budget. These cost savings have been possible through bringing Gaming and Densitron teams closer together in several areas such as operations, finance and product development, and through a process of streamlining our Gaming product range. The Gaming market requirement to buy products with a long supply lifetime has led to a long tail of older products which are expensive to support. We have seen several of our suppliers issuing an "end-of-life notice" on components citing reduced market demand from their end customers' products. As a result we have had to follow suit and manage customers onto newer products. We have therefore written off $1.3m of capitalised R&D expenses.

Outlook

Since the end of the second quarter, we have seen a gradual improvement in Gaming revenues, including a number of new business wins and the continuation of resilient Densitron revenues. Excepting any further widespread global lockdowns, we expect a return to profitable trading in the second half, offsetting some of the reported loss experienced in the first half, with this recovery continuing into 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020, 30 JUNE 2019 AND YEAR ENDED 31 DECEMBER 2019

	Note	**Unaudited 30 June 2020**	Unaudited 30 June 2019	31 December 2019
		$000	$000	$000
Revenue		**27,901**	41,943	92,320
Cost of sales		**(17,938)**	(26,672)	(58,033)
Gross profit		**9,963**	15,271	34,287
Operating expenses		**(12,971)**	(12,268)	(24,733)
Operating (loss) / profit		**(3,008)**	3,002	9,554
Financial expenses		**(40)**	(42)	(136)
(Loss) / Profit before tax	1	**(3,048)**	2,961	9,418
Taxation		**20**	(653)	(1,102)
(Loss) / Profit for the period		**(3,028)**	2,307	8,316
Other comprehensive expense				
Foreign currency translation differences		**(59)**	(143)	(144)
Total comprehensive income for the period		**(3,087)**	2,164	8,172
Basic earnings per share	2	**($0.0456)**	$0.0348	$0.1252
Fully diluted earnings per share	2	**($0.0453)**	$0.0346	$0.1243

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

BALANCE SHEET

AS AT 30 JUNE 2020, 30 JUNE 2019 AND AT 31 DECEMBER 2019

	Note	Unaudited 30 June 2020	Unaudited 30 June 2019	31 December 2019
		$000	$000	$000
Non-current assets				
Property, plant and equipment		**5,757**	5,947	5,926
Right-of-use asset		**251**	1,223	894
Intangible assets		**17,078**	15,473	18,449
Investment property		**-**	633	-
Deferred tax assets		**426**	157	340
Total non-current assets		**23,512**	23,433	25,609
Current assets				
Inventories		**22,857**	22,852	20,180
Trade and other receivables		**17,571**	27,092	23,902
Cash and cash equivalents		**15,842**	13,245	16,954
Total current assets		**56,270**	63,189	61,036
Total assets		**79,782**	86,622	86,645
Current liabilities				
Other interest-bearing loans and borrowings		**(953)**	(85)	(82)
Trade and other payables		**(13,783)**	(24,028)	(17,756)
IFRS 16 lease liability		**(279)**	(466)	(406)
Total current liabilities		**(15,015)**	(24,580)	(18,244)
Non-current liabilities				
Other interest-bearing loans and borrowings		**(724)**	(775)	(738)
Provisions		**(314)**	(338)	(343)
Deferred tax liabilities		**(1,469)**	(1,081)	(1,469)
IFRS 16 lease liability		**-**	(810)	(564)
Total non-current liabilities		**(2,507)**	(3,004)	(3,114)
Total liabilities		**(17,522)**	(27,584)	(21,358)
Net assets		**62,260**	59,038	65,287
Equity attributable to equity holders of the parent				
Share capital		**106**	106	106
Share premium		**6,698**	6,658	6,698
Share based payments reserve		**1,405**	1,191	1,345
Retained earnings		**54,016**	50,988	57,044
Translation reserve		**35**	95	94
Total equity		**62,260**	59,038	65,287

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 2020, 31 DECEMBER 2019 AND 30 JUNE 2019

	Share capital	Share premium	Translation reserve	Share based payments	Retained earnings	Total equity
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
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)
Unaudited balance at 30 June 2019	106	6,658	95	1,191	50,988	59,038
Unaudited balance at 1 July 2019	106	6,658	95	1,191	50,988	59,038
Total comprehensive income for the period						
Profit	-	-	-	-	6,059	6,059
Other comprehensive expense	-	-	(1)	-	-	(1)
Total comprehensive income for the period	-	-	(1)	-	6,059	6,058
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	154	-	154
Dividend paid	-	-	-	-	-	-
Exercise of options	-	40	-	-	-	40
Total contributions by and distributions to owners	-	40	-	154	-	194
Balance at 31 December 2019	106	6,698	94	1,345	57,044	65,287
Balance at 1 January 2020	106	6,698	94	1,345	57,044	65,287
Total comprehensive income for the period						
Loss	-	-	-	-	(3,028)	(3,028)
Other comprehensive expense	-	-	(59)	-	-	(59)
Total comprehensive income for the period	-	-	(59)	-	(3,028)	(3,087)
Transactions with owners, recorded directly in equity						
Share based payments	-	-	-	60	-	60
Dividend paid	-	-	-	-	-	-
Exercise of options	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	60	-	60
Unaudited balance at 30 June 2020	106	6,698	35	1,405	54,016	62,260

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020, 30 JUNE 2019 AND YEAR ENDED 31 DECEMBER 2019

	Unaudited 30 June 2020	Unaudited 30 June 2019	31 December 2019
	$000	$000	$000
Cash flows from operating activities			
(Loss) / profit for the period	(3,028)	2,307	8,316
Adjustments for:			
Depreciation, amortisation and impairment	2,869	1,617	2,853
Depreciation of leased assets	229	-	680
Change in fair value of investment property	-	-	631
Movement in provisions	(25)	-	36
Taxation (income) / expense	(20)	653	1,102
Lease liability interest expense	32	-	120
Financial expense	8	42	16
Equity settled share based payments	60	89	243
	125	4,708	13,997
Decrease in trade and other receivables	6,294	3,995	7,491
(Increase) in inventories	(2,489)	(3,414)	(488)
Increase / (decrease) in trade and other payables	(4,180)	2,893	(3,636)
	(250)	8,182	17,364
Interest paid	(8)	(42)	(16)
Lease liability interest expense	(32)	-	(120)
Tax received / (paid)	37	(1,467)	(2,282)
Net cash from operating activities	(253)	6,673	14,946
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	-	-	(2,392)
Acquisition of property, plant and equipment	(41)	(145)	(316)
Acquisition of intangible assets	(1,359)	(1,012)	(2,598)
Net cash used in investing activities	(1,400)	(1,157)	(5,306)
Cash flows from financing activities			
Proceeds from new loan	862	-	-
Repayment of borrowings	(44)	(492)	(534)
Lease liability paid	(277)	(260)	(674)
Dividends paid	-	(2,760)	(2,760)
Exercise of options	-	159	200
Net cash used in financing activities	541	(3,353)	(3,768)
Net (decrease) / increase in cash and cash equivalents	(1,112)	2,163	5,872
Cash and cash equivalents at 1 January	16,954	11,082	11,082
Cash and cash equivalents at period end	15,842	13,245	16,954

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

1. Basis of preparation and accounting policies

As is permitted by the AIM rules, the directors have not adopted the requirements of IAS34 'Interim Financial Reporting' in preparing the interim financial statements. Accordingly, the interim financial statements are not in full compliance with IFRS. The reporting currency adopted by the Quixant Group is US dollar as this is the trading currency of the Group. The financial information shown for the year ended 31 December 2019 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 2020 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 29 September 2020.

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 2019.

Reconciliation of profit before tax (PBT)

PBT and adjusted PBT for the current and prior periods has been derived as follows:

	PBT		
	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
	$000	$000	$000
(Loss) / profit for the period	**(3,028)**	2,307	8,316
Adding back:			
Taxation (income) / expense	**(20)**	653	1,102
PBT	**(3,048)**	2,961	9,418
Research & development write-off[1]	**1,307**	-	-
Amortisation of customer relationships and order backlog[2]	**449**	203	663
Share based payments[3]	**60**	89	243
Loss on disposal of subsidiary[4]	**-**	124	124
Restructuring costs[4]	**-**	-	169
IDS acquisition costs[4]	**-**	-	63
Adjusted PBT	**(1,232)**	3,377	10,680

1. To write-off capitalised research & development due to extraordinary notifications by key suppliers to end-of-life key components utilised in our gaming products; citing changing market demands and supply chain issues brought about by the Coronavirus pandemic.
2. The amortisation of customer relationships and order backlog has been excluded as it is not a cash expense of the Group.
3. Share based payments expense has been excluded as they are not a cash expense of the Group.
4. 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 the costs arising from the disposal of Densitron Nordic, restructuring costs and the costs arising from the acquisition of IDS due to their exceptional size and incomparability with comparative periods.

2. Earnings per share

	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
	$000	$000	$000
Earnings			
Earnings for the purposes of basic and diluted EPS being net profit attributable to equity shareholders	**(3,028)**	2,307	8,316
Number of shares			
Weighted average number of ordinary shares for the purposes of basic EPS	**66,435,060**	66,379,052	66,404,468
Effect of dilutive potential ordinary shares:			
Share options	**460,290**	385,798	499,053
Weighted number of ordinary shares for the purposes of diluted EPS	**66,895,350**	66,764,850	66,903,521
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 (2019: €15,600) for administrative services to Francesca Marzilli, the wife of Nicholas Jarmany, and NTD 294,000 (2019: NTD 326,510) for HR services to Jenny Lin, the daughter of C-T Lin. There were no other related party transactions, other than transactions with key management personnel, who are the Directors of the Company.