

NEXTEQ

# Nexteq plc FY 2023 results

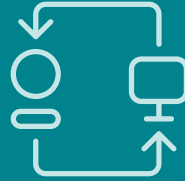
Jon Jayal (CEO) & Johan Olivier (CFO)

March 2024

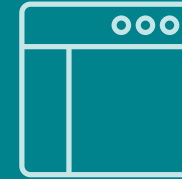
# Industrial technology landscape



Everything is a  
**computer**



Metamorphosis in  
**Human Machine  
Interaction**



Increasing emphasis on  
**software**



Labour shortages  
drive reliance on  
**automation**



Increasing  
**technology debt**



Misalignment of  
**R&D spend**  
and commercial benefit

# NEXTEQ

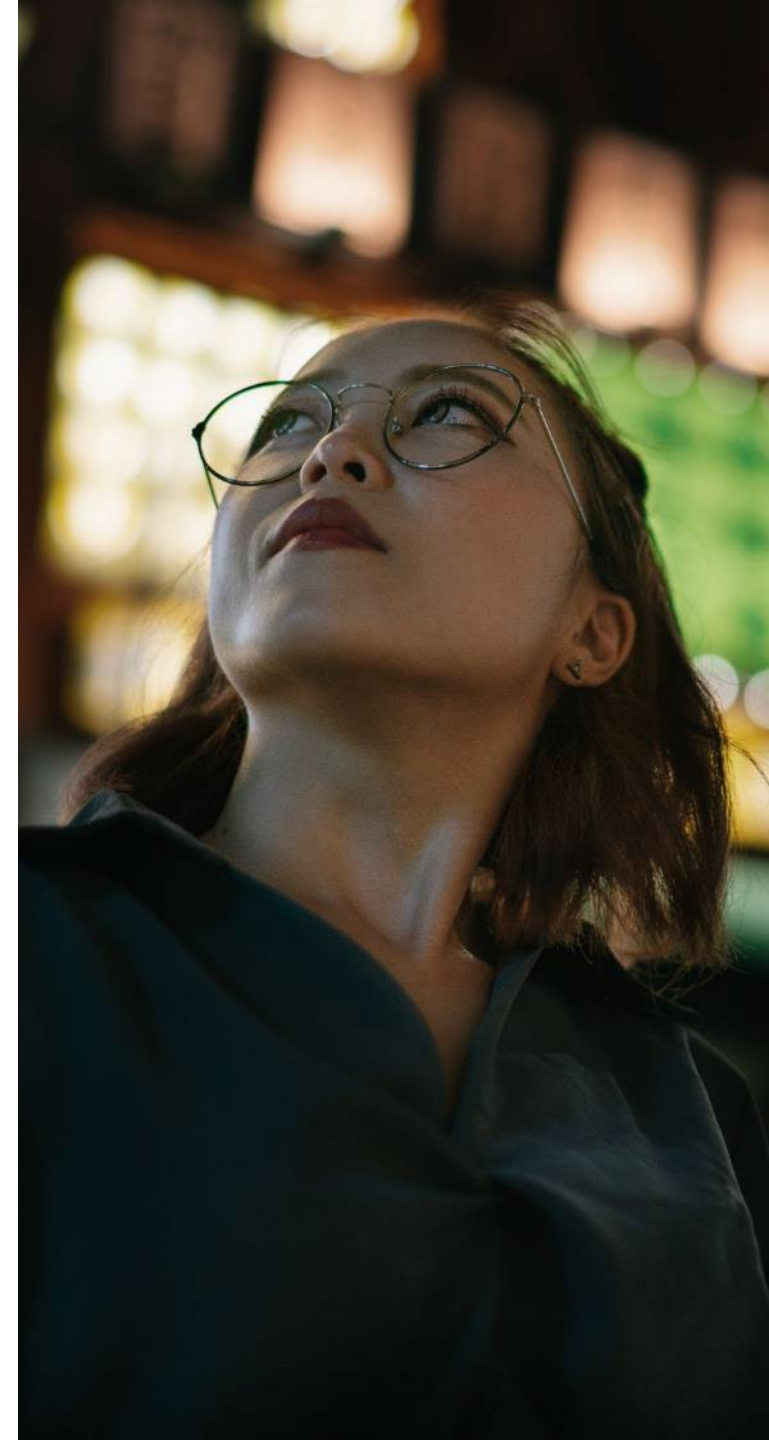
Empowering technology

## Vision

To be recognised as the leading experts in delivering pioneering technology that empowers our partners' creative vision.

## Mission

We identify, analyse and understand market sectors and, through engineering excellence, develop partnerships and create technology solutions that empower success.



# Nexteq overview

## Who we are

Nexteq is an AIM listed technology business which empowers global industrial customers in selected vertical markets to outsource non-core aspects of their products to us, empowering them to focus on their core differentiators.

## What we do

We combine computer hardware, software, display and mechanical engineering expertise with detailed industry knowledge on a global basis making us the go-to technology partner for successful businesses in the vertical markets in which we operate.

## Who do we work with



**21**  
patents



**28**  
trademarks



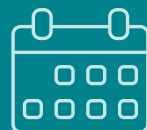
**220**  
Employees



Operations in  
**6** countries

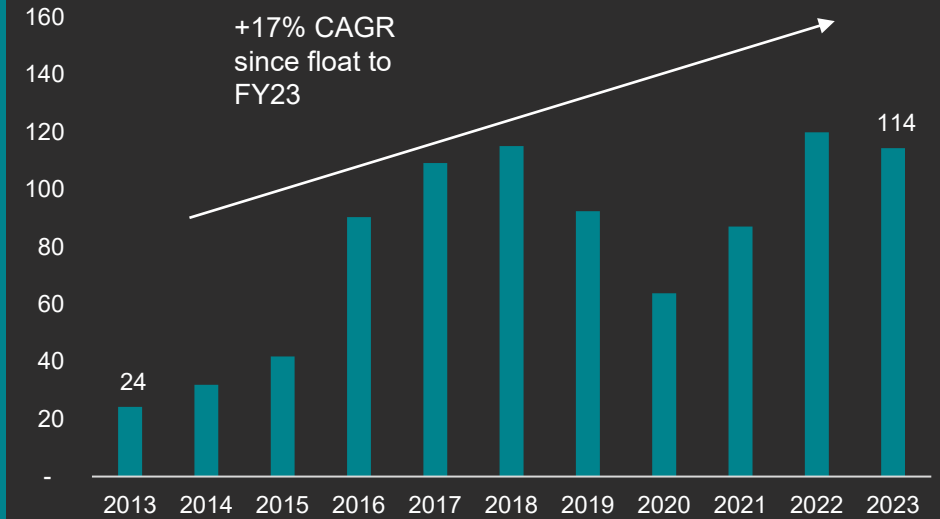


Customers in  
**47** countries

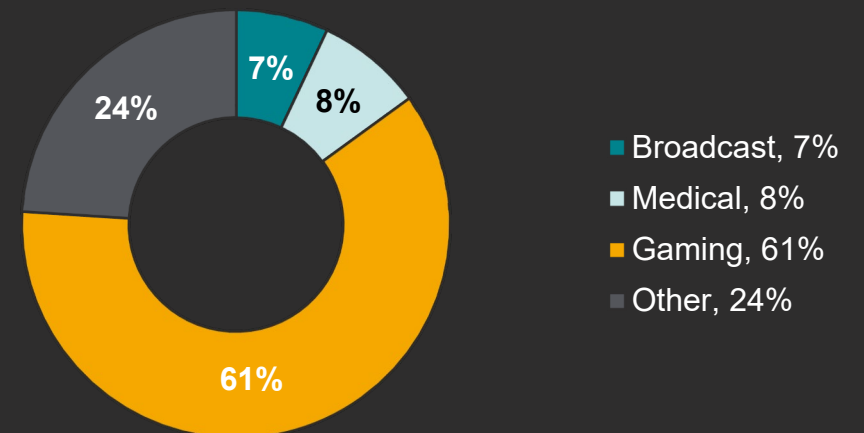


**6**  
years average  
employee tenure

## Track record of growth



## 2023 revenue by sector



# Growth strategy



## Identify

target vertical markets which would benefit from a specialist outsource provider



## Acquire

customers in chosen target market segments



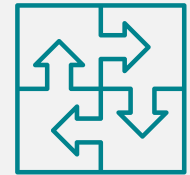
## R&D

of bespoke technology solutions which address customer technology challenges



## Penetrate

further up the value chain allowing customers to focus on their key differentiators



## M&A

where appropriate to accelerate progress in chosen market sectors

# Attractive characteristics of our focus markets



## Compliance critical

Regulated or conservative markets which have stringent regulations and or certification requirements which customers must meet



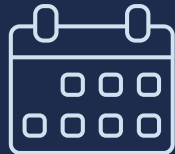
## Quality > Price

Product reliability and quality is prioritised in the buying decision over sales price



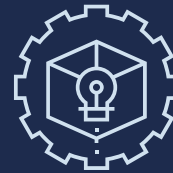
## Complex software

Complex, multi-tiered software stacks which we can integrate our own solutions into



## Multi-year contracts

Customers require supply of a consistent product at a bill-of-materials level for 3+ years after design-in



## Unique technology

Markets where the regulations or end-products require unique features not usually available on standard industrial PCs and enable innovation and IP generation



## Growing

Technology evolution driving structural changes in the sector leading to growth in the addressable market which is typically not too large

# QUIXANT

## What we do

Our gaming computer and cabinet solutions provide a purpose-built, regulatory compliant hardware and software platform upon which global slot machine manufacturers can unleash their creativity to develop exceptional games which enhance the customer experience.

## Why customers select us

Although the gaming computer platform is invisible to the player, manufacturers focus significant R&D efforts to design powerful, feature rich and regulatory compliant solutions in-house. We allow them to outsource this effort by using our purpose-built, off the shelf solutions, along with a turnkey cabinet solution powered by our computers that allows them to outsource everything except the game content.

## Who do we work with

Global gaming machine manufacturers such as:



Public - NASDAQ:  
EVR1 \$960m market cap



Public - ASX:  
AGI \$460m market cap



Private:  
\$bns EV



## Key Metrics

**>\$3bn**

Total Annual Addressable Market.

**\$310m**

Annual Addressable Market with current products.

**3-10 year**

Product lifecycle.

**\$1,200**

Typical ASP.

**22%**

Share of Addressable Market with current products.

Source: Management estimates, Market report data from G3 Newswire.



# DENSITRON

## Display components

### What we do

We supply electronic display modules to a wide range of industrial customers who integrate them into their equipment. We source these displays from carefully selected manufacturers located in the Asia.

### Why customers select us

We have a global presence with decades of experience in helping industrial customers to identify the right types of display technology for their application, in designing and sourcing electronic display modules which meet these specifications and in managing long product lifecycles.

## Who do we work with

Industrial equipment manufacturers:



Public - NYSE:  
CMI \$36bn market cap



Private:  
\$1.3bn revenue



## Key Metrics

**\$6bn**

Total Annual Addressable Market.

**5-15 year**

Product lifecycle.

**\$15**

Typical ASP.

**<1%**

Share of Addressable Market with current products.

Source: Management estimates.





# DENSITRON

## Broadcast

### What we do

Our human machine interface (HMI) solutions allow broadcast customers to revolutionise the way they control their equipment by replacing the widely used but antiquated mechanical controls with touch screens and patented tactile objects powered by purpose-built computers.

### Why customers select us

Customers have typically focused on the quality of the audio and video signal processing and less on the user interaction and experience to control the equipment. We allow them to outsource their control solutions to us to focus on the software and processing hardware.

## Who do we work with

Broadcast equipment manufacturers and Broadcast corporations



Private:  
\$350m revenue



Public - TSE:  
ET \$810m market cap



Private:  
\$250m revenue



## Key Metrics

### \$880m

Total Annual Addressable Market.

### \$220m

Annual Addressable Market with current products.

### 5-7 year

Product lifecycle.

### \$1,000+

Typical ASP.

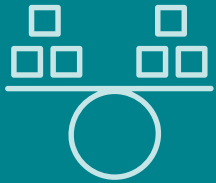
### 4%

Share of Addressable Market with current products.

Source: Management estimates.



# A year of significantly improved profitability and cash flow



## Healthy demand tempered by customer de-stocking

Volume growth in strategic Gaming and Broadcast sectors



## Supply chains normalising

Some extended lead times remain but down from 2021/2022 levels



## Materially improved profitability

Profit margins return to double-digits due to enhanced gross margins fuelled by an improved product mix



## Normalised order book remains strong

Five months visibility of 2024 revenues



## Financial strength

Strong net cash positions us well to take advantage of organic growth and acquisitions

# Financial highlights



## FY 2023 Key Performance Indicators

Revenue

**\$114.3m**

-5%

Gross  
Margin

**36.3%**

+410bps

Adjusted Profit  
Before Tax

**\$14.7m**

+45%

Adjusted  
Diluted EPS

**18.09c**

+2%

Operating Cashflow  
Conversion

**142%**

2022: 25%

Net Cash

**\$27.9m**

+\$15.0m

Comparators are against 31 December 2022

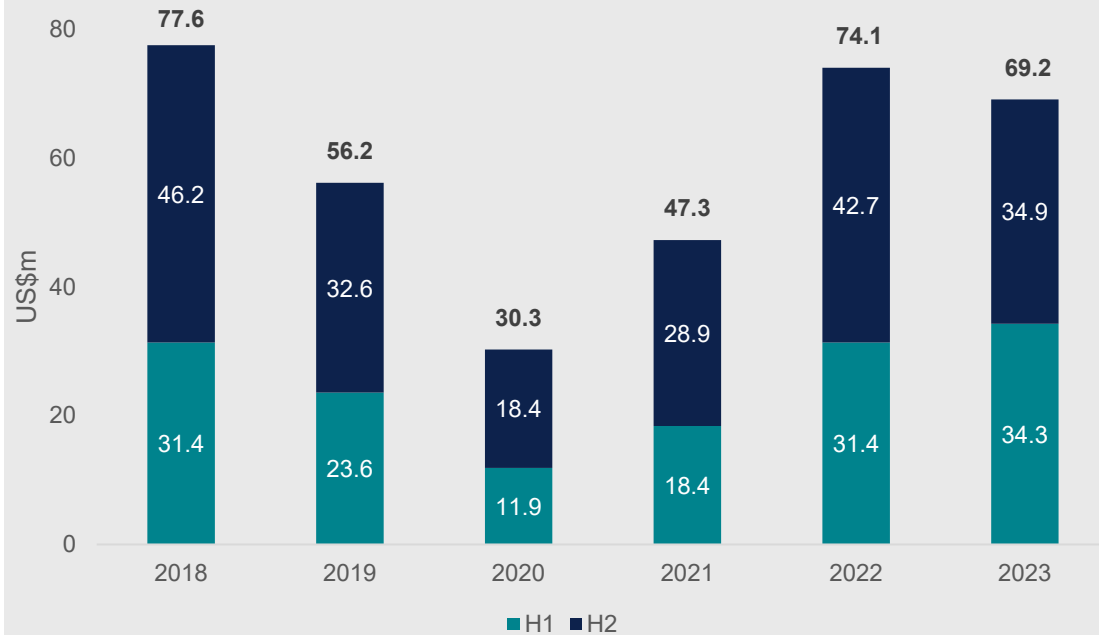
# Income statement

	31-Dec-23 \$m	31-Dec-22 \$m	Change %
<b>Revenue</b>	<b>114.3</b>	119.9	-5%
Cost of sales	(72.8)	(81.3)	-10%
<b>Gross profit</b>	<b>41.5</b>	38.6	8%
<i>Gross margin (%)</i>	<b>36.3%</b>	32.2%	420 bp
Adjusted Operating expenses	(27.3)	(28.3)	-4%
<b>Adjusted Operating profit</b>	<b>14.2</b>	10.3	39%
Net finance income	0.5	(0.1)	Nm
<b>Adjusted Profit before tax</b>	<b>14.7</b>	10.2	45%
<i>Adjusted Profit before tax (%)</i>	<b>12.9%</b>	8.5%	440 bp
Adjustments to PBT	1.8	1.4	34%
<b>Profit before tax</b>	<b>12.9</b>	8.8	47%
<i>Profit before tax (%)</i>	<b>11.3%</b>	7.3%	400 bp
Taxation	(2.0)	2.2	Nm
<b>Profit for the year</b>	<b>10.9</b>	11.0	-1%
Basic earnings per share (cents)	<b>16.39</b>	16.53	-1%
Diluted earnings per share (cents)	<b>16.02</b>	16.16	-1%
Adjusted basic earnings per share (cents)	<b>18.50</b>	18.20	2%
Adjusted diluted earnings per share (cents)	<b>18.09</b>	17.79	2%

- Year-over-year revenue decline of 5%, with revenues from top 10 customers at 51%, down from 56% in 2022.
- Gross margin returns to historical highs, up 410 bps to 36.3%, benefitting from normalised supply chains.
- Adjusted operating expenses benefitting from smaller FX movements coupled with good cost control.
- Adjusted profit before tax of \$14.7m, a 45% increase, reflecting significantly improved performance.
- Finance income benefitting from effective use of excess cash balances.
- Tax charge of \$2m, compared to a credit of \$2.2m in the prior year driven by recognition of deferred tax asset.
- Earnings per share growth tempered by change in effective tax rate (normalised EPS growth without the deferred tax asset being recognised would have in line with PBT growth).

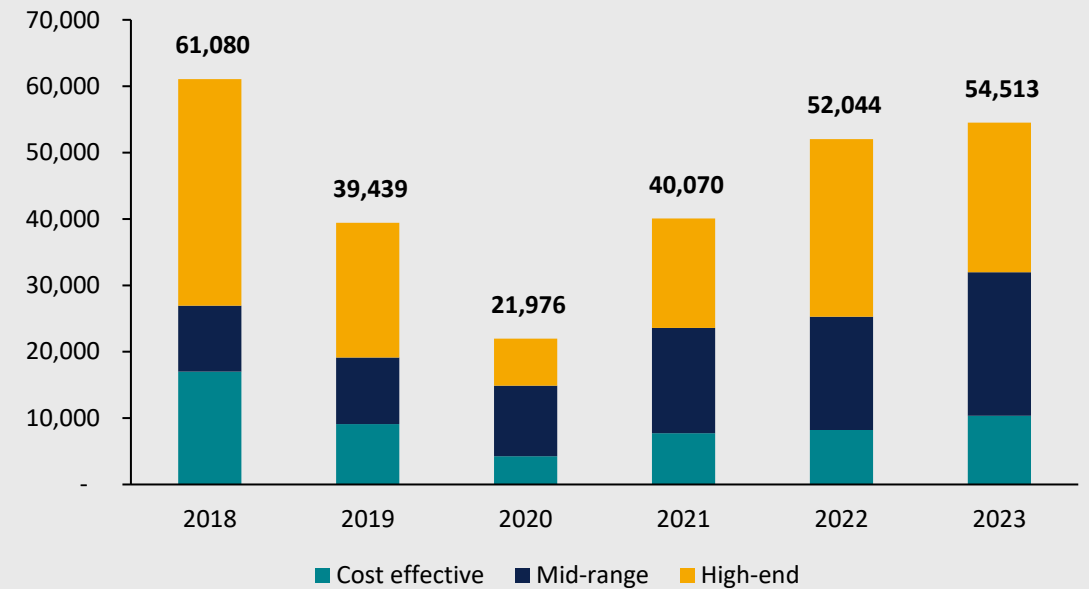
# Quixant revenues

## Revenues



- H2 2023 in line with H1 2023, with customer push outs and product mix change impacting revenue performance

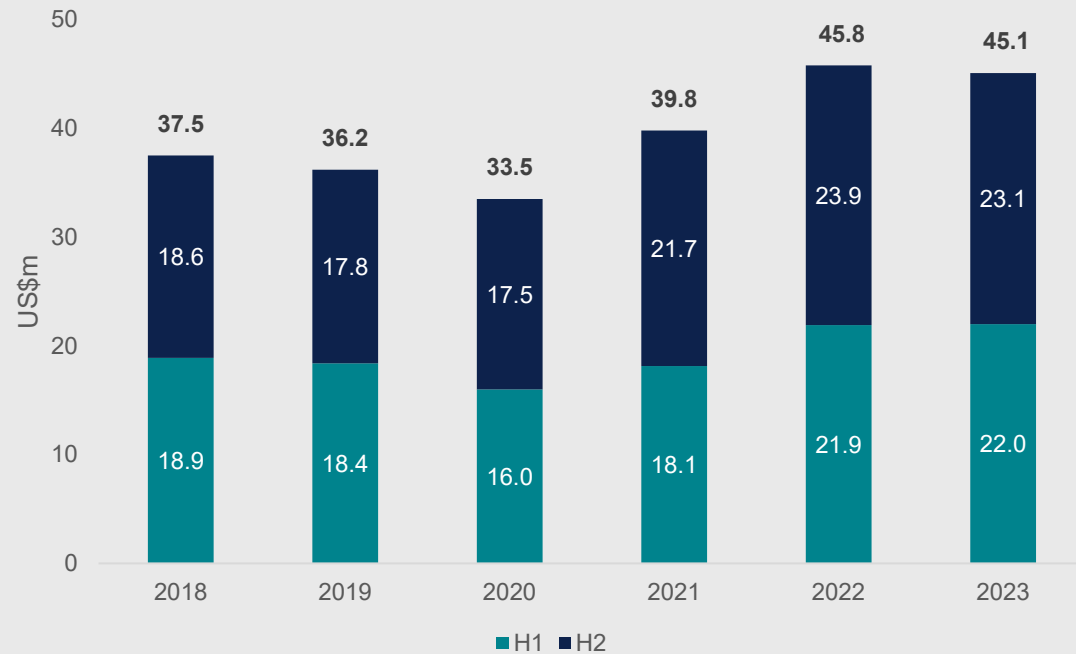
## Gaming Platform sales (quantity) by product family



- 54.5k platforms shipped in 2023, up 5% on 2022
- Average selling price in line YoY for each of the product ranges, but higher volumes of cost-effective and mid-range products leads to average selling price down 4%

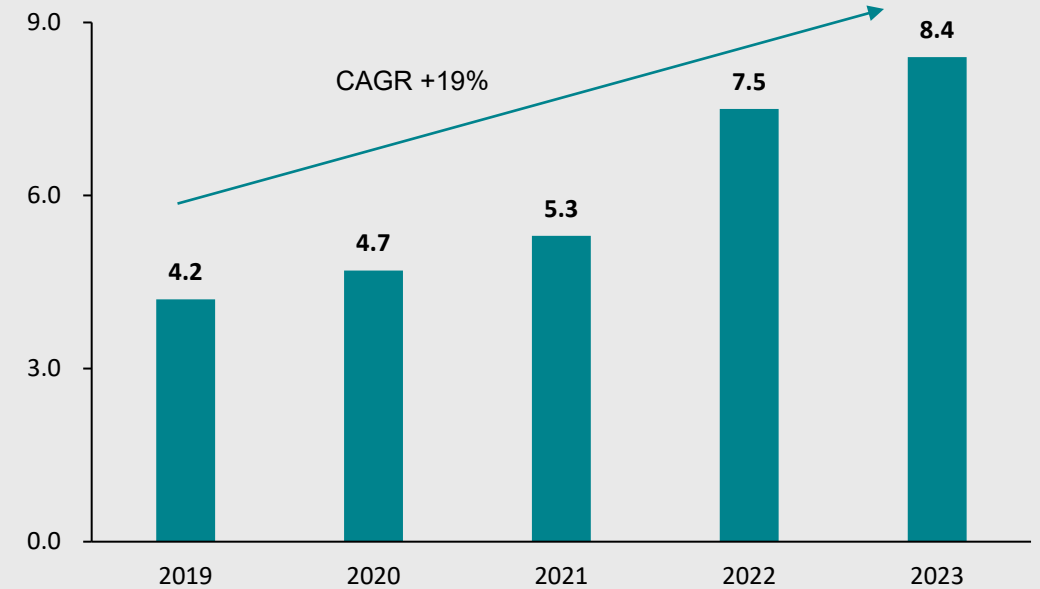
# Densitron revenues

## Revenues



- H2 2023 revenues in line with H2 2022 and 5% ahead of H1 2023 as Densitron delivers a resilient performance despite broad industrial markets slow down
- Improved profitability driven by higher gross margins

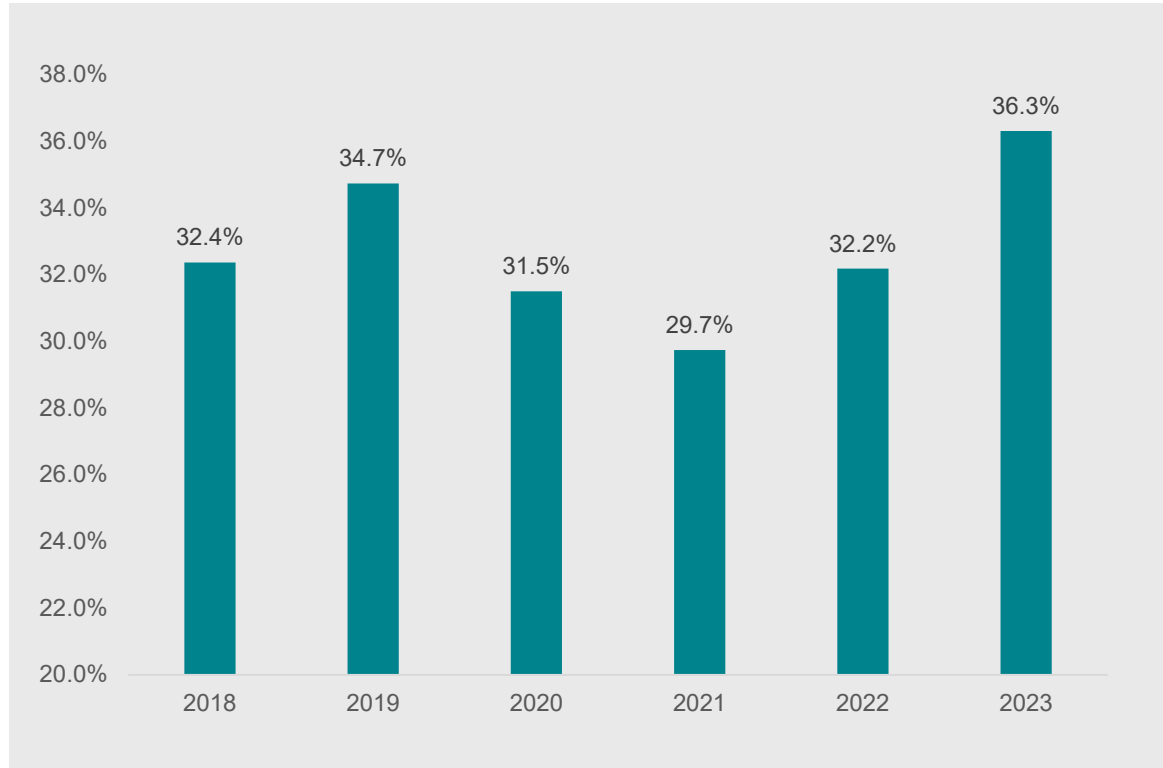
## Broadcast sector revenues



- Broadcast sector delivers another strong performance with revenues up 12% YoY
- Higher profitability broadcast sector products supporting improved Densitron gross margins

# Gross margin

Gross Margin is at historic high levels, with further room for growth

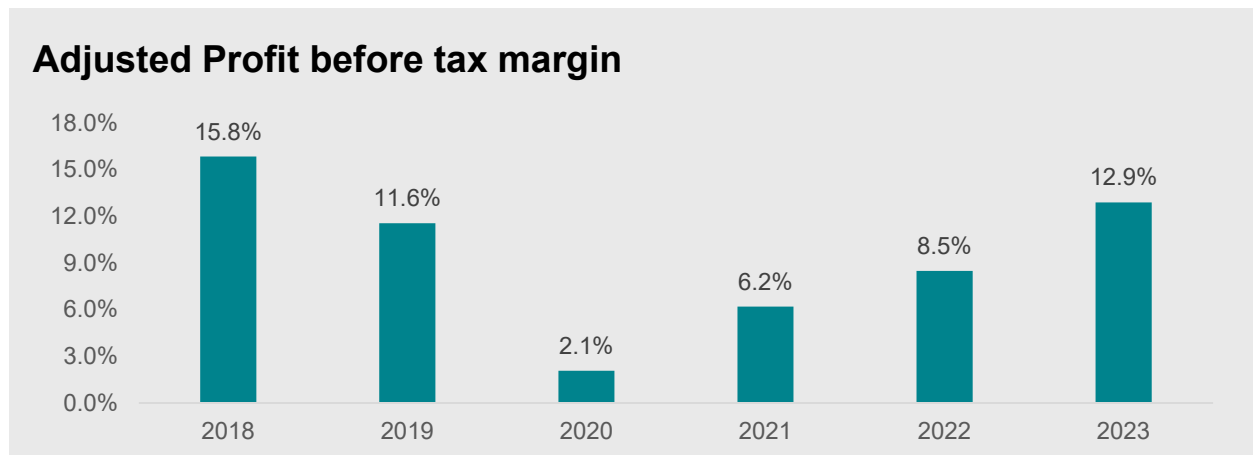
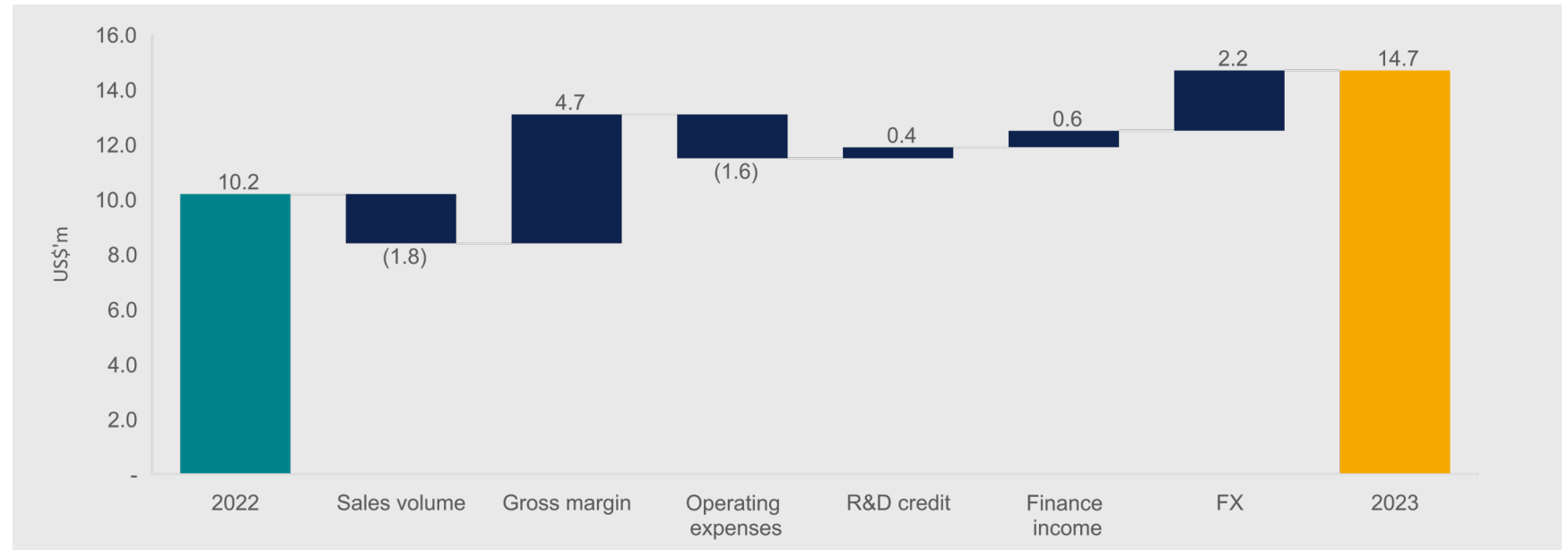


- Gross margins at historic highs with 36.3% in 2023, up 410bps YoY.
- The gross margin recovery reflects:
  - Focus on higher margin business in Densitron Display Components.
  - Shift of Densitron business to higher margin Broadcast products.
  - Levelling off in component pricing across both divisions, allowing the effect of customer price rises to positively impact margin.
- Customer retention remains high despite our focus on higher margins.



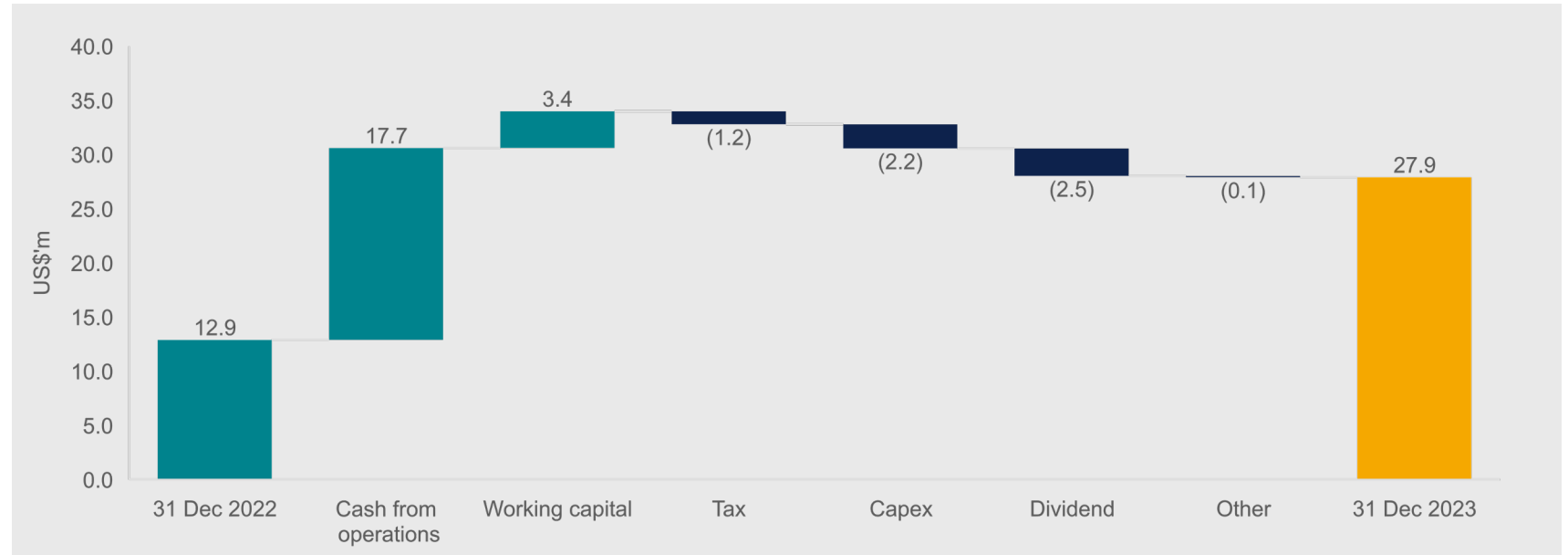
# Profit growth and margin expansion

- Improved gross margin reflects easing of supply chain environment and focus on higher margin opportunities.
- Operating expenses include people cost inflation and investment in key commercial and engineering roles, along with increases in marketing.
- R&D tax credit now included in PBT as group meets large company threshold.
- Effective use of cash delivers finance income upside.
- 2023 profit margin of 12.9%, up 440bps YoY consistent with mid-teen medium term target.

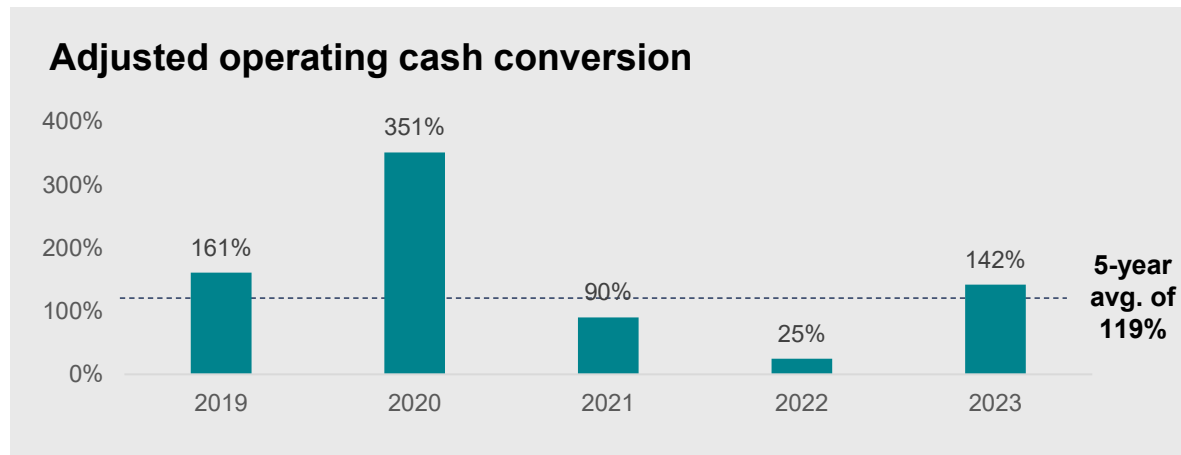


# Positive operating cashflow leading to improved net cash

- Net cash of \$27.9m at 31 December 2023, up \$15m on 31 December 2022.
- Improved cash from operations and working capital inflows as we consume strategic stock.
- Capital light model with R&D being only significant capex.
- Dividend of 3p (\$2.5m) paid in August 2023, a 25% increase on prior year.
- Adjusted operating cashflow conversion of 142% (2022: 25%).

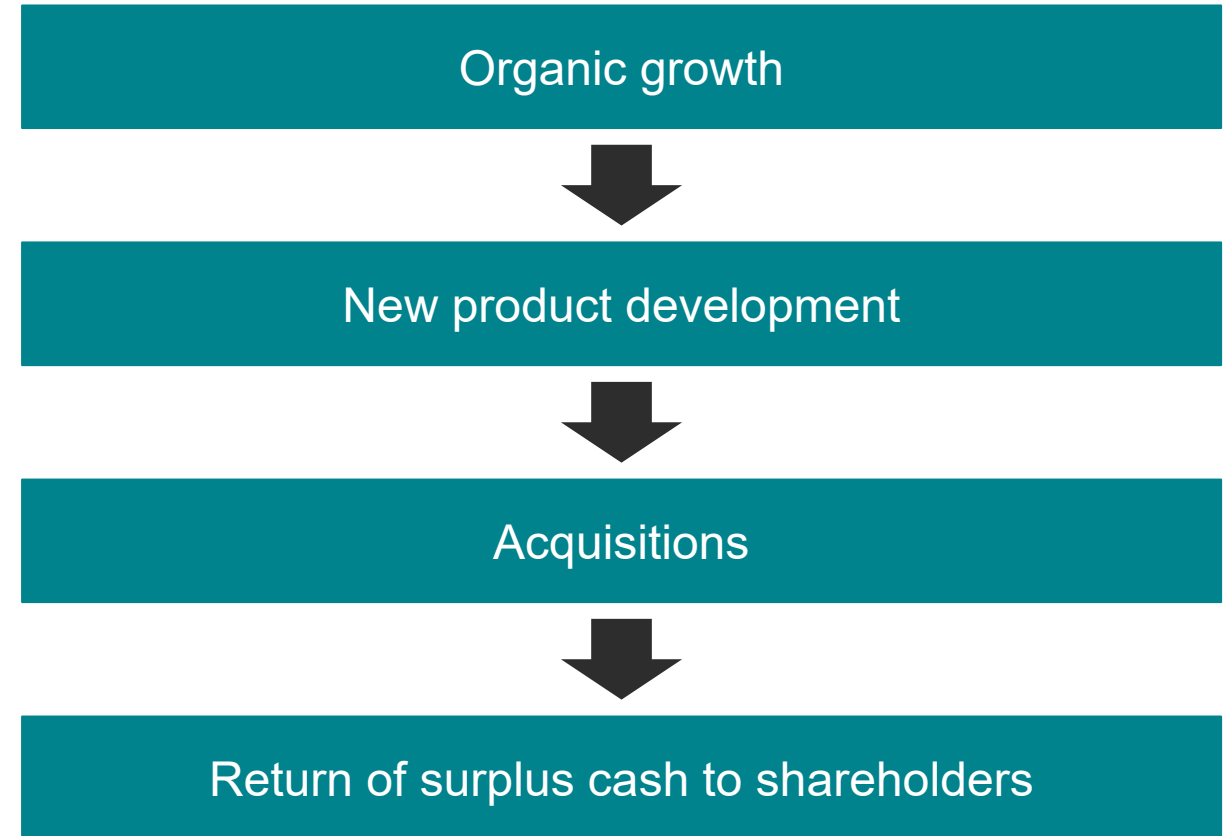


- Despite the impact of COVID and supply chain constraints the Group has achieved cashflow conversion of 119% over the last five years.



# Capital allocation

- Ongoing investment into the business to deliver organic growth in our established markets.
- Continued investment in new product development to drive long term organic growth.
- Complement organic growth with acquisitions to diversify into new markets.
- Continue to pay a dividend which increases with earnings growth.
- When all organic and acquisition opportunities have been satisfied, return any surplus capital to shareholders.



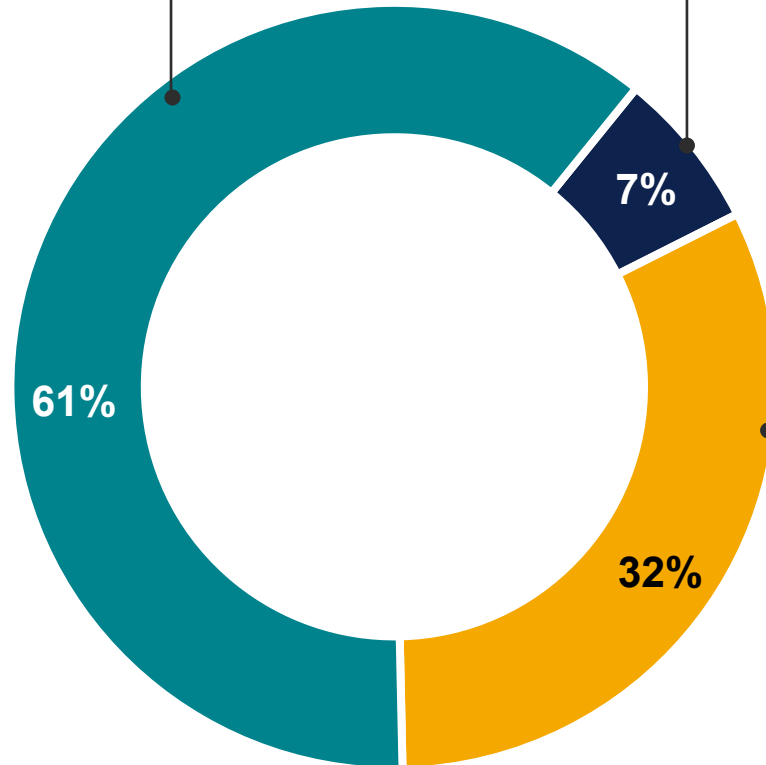
# Operational Highlights



# Sector trading analysis

## Gaming

- Casino gross gaming revenues continuing at record levels in the US, Europe remaining steady and LATAM market growing
- Omnichannel gaming driving influx of new land-based market entrants from online which benefit from our outsource solutions
- Outsource offering supports customers facing increased challenges from competition and need to focus on game design
- Gaming computer unit volume growth of 5%, driven by low-cost IQ and mid-range IQON computer platforms, reducing ASP slightly
- Reduced volumes in gaming monitors with expectation of continued reduction to focus on higher quality revenue



## Broadcast

- Acceleration of order intake for new broadcast finished products in H2 with orders from Ross Video and Telos
- Margins at higher levels than rest of Densitron business
- We are uniquely positioned with turnkey control solutions targeted at the Broadcast equipment market

## Other sectors

- Demand softer for industrial display components supplied to other sectors amid de-stocking and weaker business confidence
- Margin performance at record levels more than compensating for revenue weakness
- Some evidence of corporate failures from Asian competitors

# New products enabling new business opportunities

iQ<sup>2</sup>™



- New entry-level gaming hardware platform.
- Intel processor based
- Redesigned around more cost-effective components compared to IQ-1
- Well positioned to target LATAM, route and other cost sensitive markets
- Launched at ICE 2024, generating 48 sample leads

iQON<sup>2</sup>™



- New mid-range gaming hardware platform
- Intel processor based
- Redesigned around more cost-effective components compared to IQON-1
- Launched at G2E 2023 and entering MP in Q1 2024

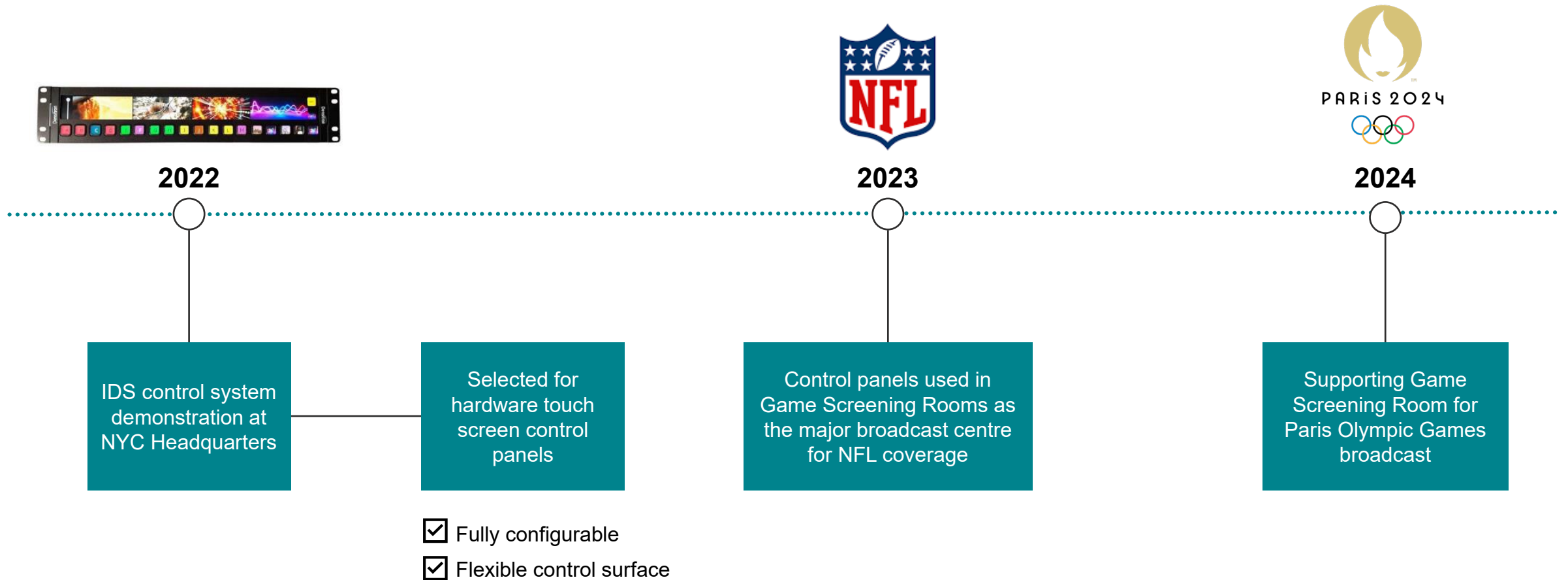
Tactila™



- New Tactila™ rotary controls with smaller diameter, expanding market applications
- EVK5 demonstrator allowing customers to evaluate

# Strategy in action

Supporting major broadcaster with coverage of Olympic Games in Paris.



# Manufacturing resilience

## Manufacturing and Supply Chain Locations



Mass production commenced in Q4 2023 of IQON at Malaysian sub-contract manufacturer.

## Core Processor Suppliers

Past



Current





## Summary and outlook



# Summary



**Resilient revenue performance**



**Volume growth in core products**



**Normalised, robust order book**



**Record gross margin**



**Excellent cash generation**

# Outlook



Confident of meeting  
FY24 expectations.



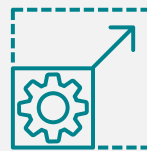
Improved gross  
margins continuing.



Focus on high quality  
revenue business.



Strong **operating**  
cash generation.



**Organic and acquisitive**  
growth opportunities  
supported by cash balance.



Medium term opportunities for  
**transformational earnings**  
enhancement.

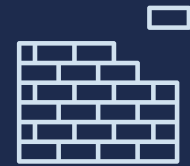
# Investment case



Significant **organic growth opportunities** in gaming and broadcast sectors.



**Profitable, cash generative** core business with increasing margins.



Net cash balance sheet with capacity to make **acquisitions**.



Fully resourced, **experienced team** with proven track record.



**Global business**  
Already in North America, Europe and Asia.

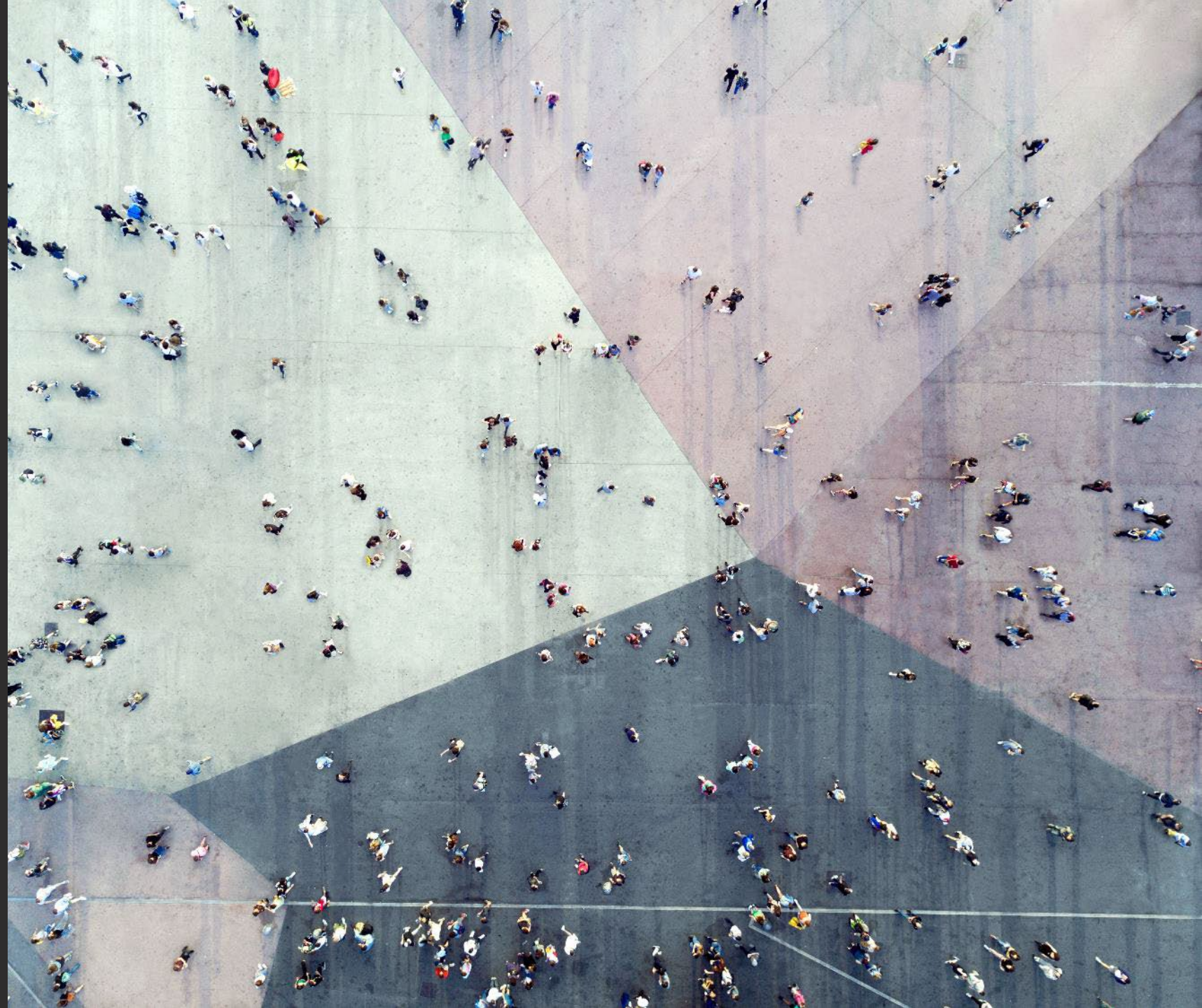


**Growth strategy** which leverages core industrial computing experience across new sectors.

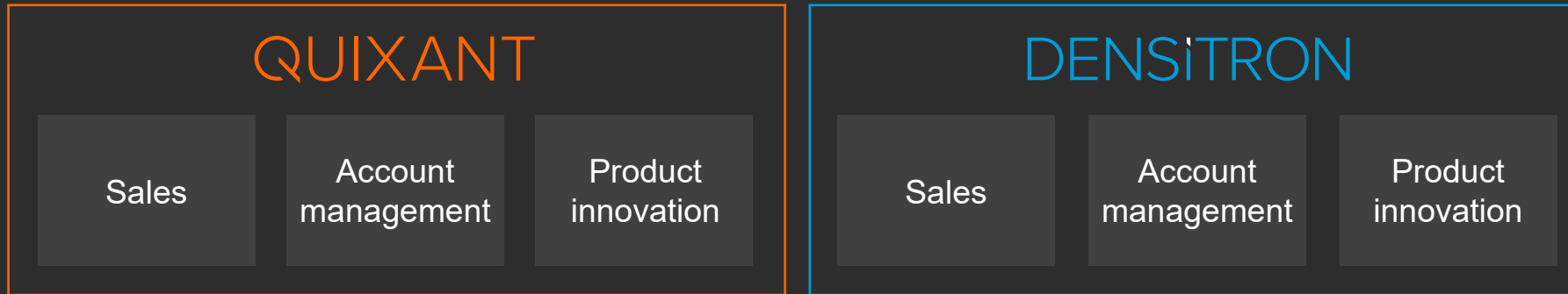
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- These have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. The Directors can give no assurance that these expectations will prove to be correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements.
- The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

# Appendix



# Scalable platform



**37%** In product development roles

**23%** in commercial roles

**6** years average tenure

# 2023 Cashflow Statement

\$m	2023	2022
Operating cashflow before working capital	17.7	13.7
(Increase)/ Decrease in trade and other receivables	(1.3)	(2.0)
Increase in inventories	8.6	(4.6)
(Decrease)/ Increase in trade and other payables	(3.9)	(4.4)
<b>Cash generated by operations</b>	<b>21.1</b>	<b>2.7</b>
Interest paid	(0.1)	(0.1)
Tax paid	(1.2)	(1.8)
<b>Net cash from operating activities</b>	<b>19.8</b>	<b>0.8</b>
Addition of development costs	(1.8)	(1.8)
Purchase of property, plant and equipment	(0.3)	(0.6)
Addition of externally purchased intangible assets	(0.2)	(0.4)
Interest received	0.5	-
<b>Net cash used in investing activities</b>	<b>(1.8)</b>	<b>(2.8)</b>
Borrowings	(0.1)	(0.1)
Payment of lease liabilities	(0.6)	(0.5)
Dividend paid	(2.5)	(1.9)
<b>Net cash used in financing activities</b>	<b>(3.2)</b>	<b>(2.5)</b>
Net cash decrease in cash and cash equivalents	14.8	(4.5)
Foreign exchange rate movements	0.1	(0.3)
Opening cash position	13.5	18.3
<b>Closing cash position</b>	<b>28.4</b>	<b>13.5</b>
Debt	(0.5)	(0.6)
<b>Net cash</b>	<b>27.9</b>	<b>12.9</b>



# Balance Sheet at 31 December 2023

\$m	31-Dec-23	31-Dec-22
Property, plant and equipment	5.5	5.7
Intangible assets	14.2	15.5
Right-of-use assets	1.6	1.7
Investment property	-	-
Deferred tax asset	3.0	2.6
Trade and other receivables	0.1	0.7
<b>Non-current assets</b>	<b>24.3</b>	<b>26.2</b>
Inventories	24.4	32.2
Trade and other receivables	25.8	24.0
Cash and cash equivalents	28.4	13.5
<b>Current assets</b>	<b>78.6</b>	<b>67.9</b>
<b>Total assets</b>	<b>102.9</b>	<b>95.9</b>
Borrowings	-0.1	-0.1
Trade and other payables	-16.8	-20.4
Tax payable	-1.2	-0.5
IFRS 16 lease liability	-0.6	-0.6
<b>Current liabilities</b>	<b>-18.7</b>	<b>-21.6</b>
Borrowings	-0.4	-0.5
Provisions	-0.4	-0.3
Deferred tax liabilities	0.0	0.0
IFRS 16 lease liability	-1.1	-1.3
<b>Non-current liabilities</b>	<b>-1.9</b>	<b>-2.1</b>
<b>Total liabilities</b>	<b>-20.5</b>	<b>-23.7</b>
<b>Net assets/ Total equity</b>	<b>82.4</b>	<b>72.2</b>

# Board of directors



**Francis Small**  
Independent  
Non-Executive Chair  
  
Chair of Remuneration  
Committee



**Nick Jarmany**  
Non-Executive Vice  
Chairman  
  
Founder



**Jon Jayal**  
Chief Executive Officer



**Carol Thompson**  
Independent Non-  
Executive Director  
  
Chair of Audit & Risk  
Committee



**Gary Mullins**  
Non-Executive  
Director  
  
Founder



**Johan Olivier**  
Chief Financial Officer



**Duncan Penny**  
Independent Non-  
Executive Director  
  
Audit & Risk  
Committee,  
Remuneration  
Committee Member