



Synectics plc

('Synectics' or 'the Group')

Interim results for the six months ended 31 May 2016

Synectics plc (AIM: SNX), a leader in the design, integration, control and management of advanced surveillance technology and networked security systems, reports its unaudited interim results for the six months ended 31 May 2016.

Highlights

- Revenue £32.1 million (2015: £32.6 million)
- Underlying profit¹ £0.3 million (2015: £0.5 million)
- Profit before tax £0.2 million (2015: loss before tax £0.1 million)
- Order book £35.7 million, up over 34% since the year end (30 November 2015: £26.6 million; 31 May 2015: £32.1 million)
- Underlying diluted EPS¹ 1.6p (2015: 2.5p) and diluted EPS 1.0p (2015: (0.6)p)
- Net debt at 31 May 2016 £1.7 million (30 November 2015: net cash £0.5 million; 31 May 2015: net debt £2.8 million)
- Multi-million pound project wins to provide integrated surveillance solutions for a new casino resort in Macau and a mega-resort in the Philippines
- Secured a major contract from one of the premier Las Vegas casinos with over 5,000 video channels
- Contract wins continue with contract extension for Go-Ahead and new UK mainline rail infrastructure project

¹ Underlying profit represents profit before tax and non-underlying items (which comprise restructuring costs, share-based payment charge and amortisation of acquired intangibles). Underlying earnings per ordinary share are based on profit after tax but before non-underlying items.

Commenting on the results, Paul Webb, Chief Executive, said:

"We have delivered a substantial increase in our order books across the business, laying the foundations for a strong second half, and have built a highly capable team with the clear sense of purpose to lead and deliver both solid performance and future growth."

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Chairman's Statement

Overview

Synectics had a good first half, delivering a profitable result and securing significant new business that underpins confident expectations of strong financial results in the second half.

The oil & gas industry is, in normal times, Synectics' largest end user customer sector. The Group therefore continues to be affected by reductions in the level of capital spending across that industry, though we are starting to see some early signs of positive movement in the market. The other markets we serve have held up comparatively well, particularly for high-end specialised surveillance applications such as casinos, airports and critical infrastructure.

The Board has been particularly pleased with progress this year in achieving a more consistent and effective alignment of management and employees behind the Group's core objectives. We believe this bodes well for Synectics' ability to meet its financial and other goals for the current financial year, as well as for the longer term success of the business.

Results

Synectics' revenue for the first half was down slightly to £32.1 million, compared with £32.6 million in the same period last year. The Group recorded a consolidated underlying profit¹ of £0.3 million (2015: £0.5 million). After deducting £0.1 million for amortisation of acquired intangibles and share-based payment charges, the profit before tax was £0.2 million (2015: loss before tax £0.1 million). The underlying diluted earnings per share¹ were 1.6p (2015: 2.5p).

Consolidated gross margin increased to 32.6% (2015: 30.4%), reflecting an increased proportion of software sales in the period. These gains offset planned additional investment in sales and management capability in the reorganised Transport & Infrastructure sector and a larger amortisation charge for our growing base of internally-developed products.

Significantly, the Group's order book at 31 May 2016 was £35.7 million, an increase of over 34% from the position at the start of this financial year.

Net debt at 31 May 2016 was £1.7 million (2015: £2.8 million).

Dividend

The Board does not propose to pay an interim dividend, but fully expects to recommend the payment of a final dividend for the full year.

Business Review

In our last Annual Report, we set out details of a reorganisation to bring together, under a single management team within the Systems division, the Group's various activities supplying our proprietary surveillance and command & control systems to customers in the transport & infrastructure market sector. As a result, the divisional results shown below for the first half of the prior year have been restated to provide comparability.

This structural change follows the approach of rigorous sector specialisation to drive growth in high-end electronic surveillance applications that Synectics has successfully applied to build market-leading positions in Oil & Gas and Gaming.

Systems

Synectics' Systems division provides specialist electronic surveillance systems, based on its own proprietary technology, globally to end customers with large-scale highly complex security requirements, particularly for oil & gas operations, gaming, transport, infrastructure protection, high security and public spaces.

	Six months ended 31 May 2016	Six months ended 31 May 2015	Year ended 30 Nov 2015
£000			
Revenue	20,750	21,590	46,361
Gross margin	37.6%	34.0%	34.9%
Operating profit ²	930	1,145	2,952
Operating margin ²	4.5%	5.3%	6.4%

² Before non-underlying items and Group central costs.

The reported financial performance of the Systems division in the first half conceals encouraging progress in a number of key areas that will yield tangible results in the second half and beyond. The scale of new business wins achieved in the period is evident in the division's order book, which increased across the half year by 55% to £21.9 million. Much of this momentum of sales success came from Synectics' traditional areas of market strength in the Gaming and Oil & Gas sectors, primarily in Asia and the Middle East.

Synectics' Synergy 3 software platform continues to gain market penetration in all of the global regions the Group serves. Synergy 3 is designed to present and manage alarms, video, and transactional data from independent sub-systems – such as access control, fire, process control, point of sale – in a secure, unified and visually intuitive command & control environment. Its range of features supports small entry level systems to large enterprise-class deployments implemented across a single or multi-site operation.

The well documented dislocation in markets serving the oil & gas industry continued to have a major impact on activity levels for Synectics in that sector. Our Oil & Gas sector revenues in the first half were actually the lowest for many years, though this appears to be related to the timing of specific contracts rather than to any further decline in the market. After considerable successful effort from the sales team, orders won towards the end of the first half, and those now imminently expected, suggest that sector revenues for the full year will be ahead of last year.

Oil & gas contracts won in the first half include two major North African projects, a significant expansion programme for a Middle Eastern gas field and an LNG terminal in North America.

Synectics' performance in the Gaming sector was solid in the first half and is set to be very strong for the remainder of the year. Our reputation in this sector continues to grow, following the successful 2014 implementation for a Far East casino of what we believe is one of the largest single-site surveillance systems in the world. During the first half of this year, Synectics won the surveillance contract for another large new build casino in the same region, as well as a number of other significant orders. Most encouragingly, the Group has just recently won, after extensive trials, a major contract from one of the premier Las Vegas casinos, based on our Synergy 3 command & control platform, with over 5,000 video channels.

Within the Transport & Infrastructure sector, revenues and profit in the first half were roughly flat compared with the corresponding period last year. Historically, a substantial majority of Synectics' revenues in this sector have come from customers in the UK. One of the aims of creating a unified management structure is to address this sector more effectively in areas outside our traditional base, most particularly targeting Germany and the Far East. Early success was achieved last year with important contract wins for Jakarta airport, and for a major Far East airline. The size and long term growth potential of Synectics' addressable market in this sector are substantially greater than in our more developed sectors. Under a new sector head recruited during the period, our objective now is to focus investment in research & development and sales on replicating in Transport & Infrastructure the successful growth path the Group has achieved in Oil & Gas and Gaming.

Contract wins in the first half include a large and complex multi-site 'threat management' solution for one of the UK's largest financial institutions and the provision of on-board surveillance for a new tram fleet in Germany, commencing in 2017.

Integration & Managed Services

Synectics' Integration & Managed Services ('IMS') division is one of the leading UK providers of design, integration, turnkey supply, monitoring and management of large-scale electronic security systems. Its main markets are in critical infrastructure, transport, public space and multi-site systems. Its capabilities include a nationwide network of service engineers, UK government security-cleared personnel and facilities, and an in-house 24-hour monitoring centre and helpdesk. The IMS division supplies proprietary products and technology from Synectics' Systems division as well as from third parties.

	Six months ended 31 May 2016	Six months ended 31 May 2015	Year ended 30 Nov 2015
£000			
Revenue	11,739	11,528	23,105
Gross margin	22.8%	22.2%	22.4%
Operating profit ²	432	244	609
Operating margin ²	3.7%	2.1%	2.6%

² Before non-underlying items and Group central costs.

The IMS division has continued to make steady progress towards more acceptable results. Though more clearly remains to be done, the business is now demonstrating the clarity of purpose and effectiveness of execution that were the objectives of the major re-organisation and management changes implemented in 2015. Notable recent contract wins have included a new power station, currently under construction in the UK, security systems for the new breed of waste to energy plants, new integrated systems for a major shopping centre operator, based on the Group's proprietary Synergy 3 software, as well as further work on various heritage sites in the UK.

More significant from the Group's point of view, we are now beginning to see real benefits for revenues and margins from closer co-operation between the IMS and Systems divisions, in the form of more sophisticated and differentiated customer propositions.

Synectics' IMS division remains one of the UK's largest and most capable providers of security systems and services, and we are confident of further progress in the second half and beyond. Within the last week, we have been awarded a contract to replace the CCTV infrastructure for a major UK mainline rail operator, a programme that will be completed in 2017.

Research & Development

Group expenditure on technology development during the six-month period totalled £1.1 million (2015: £1.0 million) of which £0.1 million (2015: £0.3 million) was capitalised and the remainder expensed to profit and loss. £0.6 million of previously capitalised development was amortised in the period. These figures are included within the results of the Systems division.

During the first half we released the latest version of Synergy 3, considerably expanding the work-flow and data analytics capabilities of the platform to meet the emerging market needs for more sophisticated situational awareness and threat management capabilities. Work on our EX300 Advanced System Control Suite is also nearing completion, with the product on schedule to be released to the market in the second half.

Farewell

It is with deep regret that we mark in this report the death in May of Nigel Poultney, our Company Secretary and, until his recent retirement, Synectics' long-term Finance Director. Nigel was a crucial contributor to the foundation and evolution of Synectics over the last 20 years, and I know that many of our shareholders and business partners share our sadness at his untimely passing.

Outlook

Over the past 18 months, the focus of the Group has been on simplifying our processes, organisation and objectives, and on strengthening our ability to deliver acceptable results and growth against a market background that we expect will remain more than usually uncertain.

The disruption to the normal levels and patterns of spending by major oil companies is still clearly evident, and we believe will continue to affect our business for at least the next year or so. Opportunities are beginning to emerge in some areas of petroleum industry infrastructure, and Synectics is positioned to take advantage of these as they arise. In other sectors that need high-end security and surveillance, demand is expected to remain solid.

We do not currently see any direct risks to the Group from a potential change in the UK's relationship with the EU. If the current lower level of sterling persists we will see some limited benefit in the translation of the Group's foreign currency earnings, and in the competitiveness of our sterling-based exports. Obviously, though, the Board is keeping a close eye on any risks or opportunities that may emerge.

At the time of Synectics' Annual General Meeting in April 2016, we reported that the Board expected results for this year to be significantly biased towards the second half, and that remains the case. Based both on the recent growth of the Group's firm order book, and on a strengthening pipeline of probable new business, the Board continues to anticipate substantially increased profitability in the second half, with results for the full year in line with market expectations.

David Coghlan

Chairman

19 July 2016

Consolidated Income Statement
For the six months ended 31 May 2016

	Notes	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Revenue	3	32,141	32,554	68,504
Cost of sales		(21,657)	(22,669)	(47,163)
Gross profit		10,484	9,885	21,341
Operating expenses		(10,213)	(9,899)	(20,666)
Profit/(loss) from operations				
Excluding non-underlying items	3	402	625	1,713
Non-underlying items	4	(131)	(639)	(1,038)
Total profit/(loss) from operations		271	(14)	675
Finance income		113	121	225
Finance costs		(184)	(241)	(388)
Profit/(loss) before tax				
Excluding non-underlying items		331	505	1,550
Non-underlying items	4	(131)	(639)	(1,038)
Total profit/(loss) before tax		200	(134)	512
Income tax (expense)/credit	5	(42)	36	(106)
Profit/(loss) for the period attributable to equity holders of the Parent		158	(98)	406
Basic earnings per ordinary share	7	1.0p	(0.6)p	2.5p
Diluted earnings per ordinary share	7	1.0p	(0.6)p	2.5p
Underlying basic earnings per ordinary share	7	1.6p	2.5p	8.0p
Underlying diluted earnings per ordinary share	7	1.6p	2.5p	8.0p

**Consolidated Statement of Comprehensive Income
For the six months ended 31 May 2016**

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Profit/(loss) for the period	158	(98)	406
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement loss on defined benefit pension scheme, net of tax	-	-	(36)
	-	-	(36)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	17	242	234
Gains/(losses) on a hedge of a net investment taken to equity	237	(283)	(345)
	254	(41)	(111)
Total comprehensive income/(loss) for the period attributable to equity holders of the Parent	412	(139)	259

Consolidated Statement of Financial Position
As at 31 May 2016

	Notes	Unaudited 31 May 2016 £000	Unaudited 31 May 2015 £000	30 Nov 2015 £000
Non-current assets				
Property, plant and equipment		3,122	3,393	3,264
Intangible assets		22,150	22,772	22,372
Retirement benefit asset		515	540	515
		25,787	26,705	26,151
Current assets				
Inventories		10,541	11,698	10,391
Trade and other receivables		22,757	21,138	21,265
Tax assets		223	488	542
Cash and cash equivalents	9	3,052	2,830	3,338
		36,573	36,154	35,536
Non-current asset held for sale	10	-	222	-
Total assets		62,360	63,081	61,687
Current liabilities				
Loans and borrowings	8	(3,390)	(3,550)	(857)
Trade and other payables		(20,103)	(20,381)	(21,389)
Tax liabilities		(192)	(105)	(379)
Current provisions		-	(463)	(104)
		(23,685)	(24,499)	(22,729)
Non-current liabilities				
Loans and borrowings	8	(1,331)	(2,056)	(1,932)
Non-current provisions		(25)	(25)	(25)
Deferred tax liabilities		(163)	(145)	(159)
		(1,519)	(2,226)	(2,116)
Total liabilities		(25,204)	(26,725)	(24,845)
Net assets		37,156	36,356	36,842
Equity attributable to equity holders of the Parent Company				
Called up share capital		3,559	3,559	3,559
Share premium account		16,043	16,043	16,043
Merger reserve		9,971	9,971	9,971
Other reserves		(2,639)	(2,656)	(2,639)
Currency translation reserve		494	310	240
Retained earnings		9,728	9,129	9,668
Total equity		37,156	36,356	36,842

**Consolidated Statement of Changes in Equity
For the six months ended 31 May 2016**

	Called up share capital £000	Share premium account £000	Merger reserve £000	Other reserves £000	Currency translation reserve £000	Retained earnings £000	Total £000
At 1 December 2014	3,559	16,043	9,971	(2,656)	351	9,177	36,445
Loss for the period	-	-	-	-	-	(98)	(98)
Other comprehensive loss							
Currency translation adjustment	-	-	-	-	(41)	-	(41)
Total other comprehensive loss	-	-	-	-	(41)	-	(41)
Total comprehensive income for the period							
Credit in relation to share-based payments	-	-	-	-	-	50	50
At 31 May 2015	3,559	16,043	9,971	(2,656)	310	9,129	36,356
Profit for the period	-	-	-	-	-	504	504
Other comprehensive loss							
Currency translation adjustment	-	-	-	-	(70)	-	(70)
Re-measurement loss on defined benefit pension scheme, net of tax	-	-	-	-	-	(36)	(36)
Total other comprehensive loss	-	-	-	-	(70)	(36)	(106)
Total comprehensive income for the period							
Credit in relation to share-based payments	-	-	-	-	-	75	75
Share scheme interests realised in the year	-	-	-	17	-	(4)	13
At 30 November 2015	3,559	16,043	9,971	(2,639)	240	9,668	36,842
Profit for the period	-	-	-	-	-	158	158
Other comprehensive income							
Currency translation adjustment	-	-	-	-	254	-	254
Total other comprehensive income	-	-	-	-	254	-	254
Total comprehensive income for the period							
Dividends paid	-	-	-	-	-	(173)	(173)
Credit in relation to share-based payments	-	-	-	-	-	75	75
At 31 May 2016	3,559	16,043	9,971	(2,639)	494	9,728	37,156

**Consolidated Cash Flow Statement
For the six months ended 31 May 2016**

	Note	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Cash flows from operating activities				
Profit/(loss) for the period		158	(98)	406
Income tax expense/(credit)		42	(36)	106
Finance income		(113)	(121)	(225)
Finance costs		184	241	388
Depreciation and amortisation charge		1,006	896	1,885
Profit on disposal of non-current assets		-	-	(43)
Government grant released to Income Statement		-	(146)	(146)
Share-based payment charge		75	50	125
Operating cash flows before movement in working capital		1,352	786	2,496
(Increase)/decrease in inventories		(150)	926	2,233
(Increase)/decrease in receivables		(1,506)	4,517	4,408
Decrease in payables		(1,407)	(2,869)	(2,220)
Cash (used in)/generated from operations		(1,711)	3,360	6,917
Interest received		1	1	-
Tax received/(paid)		83	(30)	78
Net cash (used in)/from operating activities		(1,627)	3,331	6,995
Cash flows from investing activities				
Purchase of property, plant and equipment		(129)	(161)	(346)
Sale of property, plant and equipment		-	-	280
Capitalised development costs		(118)	(288)	(553)
Purchased software		(48)	(15)	(102)
Net cash used in investing activities		(295)	(464)	(721)
Cash flows from financing activities				
Repayment of borrowings		(711)	(652)	(727)
Share scheme interests realised in the year		-	-	13
Cash received from government grant		-	311	311
Interest paid		(72)	(121)	(181)
Dividends paid		(173)	-	-
Net cash used in financing activities		(956)	(462)	(584)
Effect of exchange rate changes on cash and cash equivalents		106	21	(49)
Net (decrease)/increase in cash and cash equivalents		(2,772)	2,426	5,641
Cash and cash equivalents at the beginning of the period		3,224	(2,417)	(2,417)
Cash and cash equivalents at the end of the period	9	452	9	3,224

Notes

1. General information

These consolidated interim financial statements were approved by the Board of Directors on 19 July 2016.

2. Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 31 May 2016.

The comparative figures for the financial year ended 30 November 2015 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and (iii) did not contain a statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 November 2015.

The condensed consolidated interim financial statements for the six months to 31 May 2016 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

The condensed consolidated interim financial statements for the six months to 31 May 2016 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 30 November 2016. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 30 November 2015. These accounting policies are drawn up in accordance with adopted International Accounting Standards ('IAS') and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and adopted by the EU.

Significant accounting policies

AIM-listed companies are not required to comply with IAS 34 Interim Financial Reporting and accordingly the Company has taken advantage of this exemption.

3. Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Chief Executive as he is primarily responsible for the allocation of resources to the segments and the assessment of the performance of each of the segments. Segment information is presented in respect of the Group's strategic operating segments.

The CODM uses underlying operating profit, as reviewed at monthly business review meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Underlying operating profit is a consistent measure within the Group.

As highlighted in the 2015 Annual Report, the Group's transport and critical infrastructure activities, previously split across the two different segments, have been more closely integrated under a single management team within the Systems division. Therefore, Transport Systems has been reallocated from Integration & Managed Services to the Systems segment. Prior period comparatives have been restated accordingly.

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Revenue			
Systems	20,750	21,590	46,361
Integration & Managed Services	11,739	11,528	23,105
Total segmental revenue	32,489	33,118	69,466
Reconciliation to consolidated revenue:			
Intra-Group sales	(348)	(564)	(962)
	32,141	32,554	68,504

3. Segmental analysis (continued)

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Underlying operating profit			
Systems	930	1,145	2,952
Integration & Managed Services	432	244	609
Total segmental underlying operating profit	1,362	1,389	3,561
Reconciliation to consolidated underlying operating profit:			
Central costs	(960)	(764)	(1,848)
	402	625	1,713

Underlying operating profit from operations is reconciled to total profit/(loss) from operations as follows:

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Underlying operating profit	402	625	1,713
Non-underlying items (note 4)	(131)	(639)	(1,038)
	271	(14)	675

4. Non-underlying items

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Restructuring costs	-	535	806
Share-based payment charge	75	50	125
Amortisation of acquired intangible assets	56	54	107
	131	639	1,038

The restructuring costs incurred during 2015 related predominantly to severance costs arising from a review of the Group's cost base.

5. Income tax (expense)/credit

The income tax (expense)/credit for the period is based on the estimated rate of corporation tax that is likely to be effective for the year to 30 November 2016.

6. Dividends

The Board does not propose to pay an interim dividend.

7. Earnings per share

Earnings per ordinary share are as follows:

	Unaudited six months ended 31 May 2016 Pence per share	Unaudited six months ended 31 May 2015 Pence per share	Year ended 30 Nov 2015 Pence per share
Basic earnings per ordinary share	1.0	(0.6)	2.5
Diluted earnings per ordinary share	1.0	(0.6)	2.5
Underlying basic earnings per ordinary share	1.6	2.5	8.0
Underlying diluted earnings per ordinary share	1.6	2.5	8.0

The calculations of basic and underlying earnings per share are based upon:

	£000	£000	£000
Earnings for basic and diluted earnings per share	158	(98)	406
Non-underlying items	131	639	1,038
Impact of non-underlying items on tax (expense)/credit for the period	(20)	(128)	(128)
Earnings for underlying basic and underlying diluted earnings per share	269	413	1,316
	000	000	000
Weighted average number of ordinary shares – basic calculation	16,375	16,367	16,370
Dilutive potential ordinary shares arising from share options	205	68	193
Weighted average number of ordinary shares – diluted calculation	16,580	16,435	16,563

8. Loans and borrowings

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Bank term loans	2,121	2,785	2,675
Bank overdraft	2,600	2,821	114
Total	4,721	5,606	2,789

9. Cash and cash equivalents

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following:

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Cash at bank and in hand	3,052	2,830	3,338
Bank overdraft	(2,600)	(2,821)	(114)
	452	9	3,224

10. Non-current asset held for sale

	Unaudited six months ended 31 May 2016 £000	Unaudited six months ended 31 May 2015 £000	Year ended 30 Nov 2015 £000
Property, plant and equipment	-	222	-

The non-current asset held for sale at 31 May 2015 related to the Group's freehold property at Brigg, the sale of which completed after the period end.

11. Copies of this statement will be sent to shareholders and will be available on the Group's website (www.synecticsplc.com) and from Synectics plc, Studley Point, 88 Birmingham Road, Studley, Warwickshire B80 7AS.

- Ends -