2 March 2021

SYNECTICS

Synectics plc
(‘Synectics or the ‘Group’ or the ‘Company’)

Final Results for the year ended 30 November 2020

Synectics plc (AIM: SNX), a leader in the design, integration and support of advanced security and surveillance systems, reports its audited final results for the year ended 30 November 2020.

Headlines

- Revenue £44.6 million (2019: £68.5 million)
- Underlying loss[1] £(4.1) million (2019: profit £2.5 million)
- Loss before tax £(6.3) million (2019: profit £1.6 million)
- Underlying diluted EPS[1] (17.2)p (2019: 13.9p)
- Diluted EPS (27.7)p (2019: 9.6p)
- Net cash at 30 November 2020 £6.9 million (2019: £3.6 million; 26 Feb 2021: £4.5 million) with no debt[2]
- Year-end order book £25.4 million (2019: £32.7 million, 26 Feb 2021: £32.9 million)
- Simplified organisation resulting in the closure of a number of operating sites and reduced operational cost base by annualised £2.4 million
- Dividend recommencement to be reviewed during this financial year once the timing of recovery is clearer

[1] Underlying (loss)/profit represents (loss/)profit before tax and non-underlying items (which comprise restructuring costs and amortisation of acquired intangibles). See note 4 for further detail. Underlying earnings per share are based on (loss)/profit after tax but before non-underlying items.

[2] Excluding IFRS 16 lease liabilities

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

“Results have clearly been significantly affected by the pandemic, particularly in our global Gaming markets. However, the business is well placed to capitalise on recent landmark project wins, which utilise its latest technology developments.”

For further information, please contact:

Synectics plc	Tel: +44 (0) 114 280 2828
David Coghlan, Chairman Paul Webb, Chief Executive David Bedford, Finance Director email: info@synecticsplc.com	www.synecticsplc.com
Shore Capital Tom Griffiths / Henry Willcocks / David Coaten	Tel: +44 (0) 20 7408 4050
Media enquiries: Intelligent Conversation Claire Evans email: claire@weareic.com	Tel: +44 (0) 161 212 1613

Chairman's Statement

Overview

For almost all of the financial year to 30 November 2020, and the period since, Synectics has operated in a global environment the likes of which few of us could have imagined twelve months ago. While the spread of the Group's commercial and government customers provided some cushion, a number of our end markets have suffered significant pandemic-related impacts, particularly global casinos and gaming resorts. As a result, our consolidated revenues in the year ended 30 November 2020 declined by 35% compared to 2019 and the Group incurred both underlying losses and additional costs to realign our expense base. These impacts, and the actions taken to address them, also placed heavy personal and professional burdens on Synectics' management team and staff.

Against that background, the Board is reassured and proud that our people have both tackled the difficulties with energy and commitment and demonstrated a real determination to maintain the pace of delivering Synectics' core strategy in readiness to take full advantage of the recovery when it comes.

As soon as the seriousness of the coronavirus situation became apparent, the Board and senior management team took necessary actions to secure the future of the Company, including:

- protecting, as a first priority, the health and well-being of the Company's staff and customers;
- cutting discretionary operating and capital expenditure, while preserving the recently increased levels of investment in core product development and customer support;
- maintaining employee posts through taking advantage of UK and US government job support schemes;
- agreeing voluntary salary and fee reductions with the senior management team and the Board respectively;
- suspending and subsequently cancelling dividend payments to shareholders;
- accelerating actions already underway to reorganise the Company's Systems division into a global single business structure, and to amalgamate the Group's UK security and on-vehicle integration activities as Synectics Security; and
- reducing headcount across the Group by 10%.

The Board believes that these actions struck the right balance between protecting Synectics' short term financial position and preserving investment in its intellectual property, people, skills, and market positions.

In relation to that latter objective, I am pleased to report that Synectics delivered excellent progress in its largest strategic investment focus, the new Synergy surveillance command and control platform for major urban transportation and infrastructure hubs. Development of the innovative Berlin S-Bahn project for Deutsche Bahn continued on time and on budget, despite the virus constraints. The system successfully went live on the S-Bahn network as planned on 1 January 2021, and we were delighted to receive public accolades from the customer for that achievement.

The importance of this initial implementation of the new version of Synergy in Berlin was borne out by the recent award to Synectics for a similarly innovative, cloud-based surveillance control system in London.

These new Synergy systems are almost wholly software-based, so will underpin the Group's objective of increasing earnings quality through a higher gross margin business mix and an increasing proportion of recurring revenue.

Following an obviously difficult year, the Board remains convinced that Synectics is well placed to weather the remainder of the current disruptions and to deliver on its core long term growth objectives.

Results

For the year to 30 November 2020, Synectics' consolidated revenue was £44.6 million (2019: £68.5 million). The underlying loss before tax[1] was £(4.1) million (2019: profit £2.5 million).

During the year the Group provided £2.2 million for non-underlying charges related principally to consolidating its security integration and on-vehicle activities into a new single business, Synectics Security, and restructuring the Systems division. These charges are more fully described in note 4 below. As a result, the loss before tax was £(6.3) million (2019: profit £1.6 million). The underlying diluted loss per share was (17.2)p (2019: 13.9p), and the diluted loss per share was (27.7)p (2019: 9.6p).

The tax credit in the year was £1.6 million (2019: £0.1 million) consisting largely of the recognition of tax losses incurred in the year.

The impact on these results of foreign exchange movements during the year was not material. Net cash at 30 November 2020 was £6.9 million[2] (2019: £3.6 million); net cash at 26 February 2021 was £4.5 million. The Company has no bank debt and available undrawn facilities of £3.0 million. This cash inflow across the year was largely the result of reduced working capital requirements as revenues declined, and is expected to reverse, at least in part, once revenues start to recover.

The consolidated firm order book at 30 November 2020 was £25.4 million (2019: £32.7 million) around two thirds of which is expected to be traded in FY 2021 with the balance largely long-term service and support contracts. The order book at 26 February 2021 was £32.9 million.

Dividend

The Board is not recommending the payment of a final dividend. Declaration and payment of the recommended final dividend of 3.5p per share in respect of the financial year to 30 November 2019 were suspended and subsequently cancelled in April 2020 when the potential impact of the pandemic began to emerge. The Board intends to reassess the restoration of dividends during this financial year once the timing of recovery is clearer.

Business review

Synectics' business is to provide integrated electronic surveillance systems and services to specialist high-end markets. Our solutions are based on core proprietary technology, in particular systems integration and command and control software. This technology is adapted for the specific needs of our target customer sectors and provides fundamental differentiation from mainstream suppliers in the wider electronic security market.

During 2020, the Board accelerated actions already underway to simplify the Group's organisation and management structure into Synectic Systems and Synectics Security, and reduced its operating cost base by an annual run rate of approximately £2.4 million whilst preserving its capabilities and opportunities.

[1] Underlying (loss)/profit represents (loss/)profit before tax and non-underlying items (which comprise restructuring costs and amortisation of acquired intangibles). See note 4 for further detail.

[2] Excluding IFRS 16 lease liabilities

Systems division

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

Revenue	£23.6 million (2019: £40.5 million)
Gross margin	40.8% (2019: 42.0%)
Operating (loss)/profit[3]	£(1.8) million (2019: £4.7 million)
Operating margin	(7.5)% (2019: 11.6%)

The Systems division has been reorganised to operate as a single, global business. This represents the culmination of a transition over several years towards a more efficient, and more scalable, single Systems business unit, rather than the historical sector-based, multi-business structure.

After four years of uninterrupted organic revenue growth, and a like-for-like compound growth rate of operating profits over that period of 25% per year, the Systems division was substantially affected by the pandemic. This was particularly the case in its largest sector, global casinos and gaming resorts, which was effectively shut down for most of the year. High security and public space sectors proved more resilient.

Gross margins held up well, partially due to government support of direct labour costs in the UK and the US as well as the Company's actions in controlling costs, but also as the result of a higher proportion of software and services in the revenue mix in a period which brought fewer deployments of new hardware.

Europe, Middle East and Africa (Revenue £13.6 million (2019: £15.7 million))

Revenues held up comparatively well in EMEA, helped by the large Deutsche Bahn S-Bahn project, but also the Company's greater footprint within the region in transport, critical infrastructure, and public space markets, which, as stated above, were generally more resilient. The Deutsche Bahn system went live, on time and on budget, on 1 January 2021 and deployment roll-out continues throughout 2021.

The EMEA business also benefitted from:

- additional software orders from a major UK national power utility as it continues to roll out Synergy across its estate;
- the development of a Synergy replacement system for an iconic London department store;
- new systems and expansions of existing solutions for a number of London boroughs and local authorities across the UK;
- further work for Irish prisons and an extension of their support agreement;
- a new oil & gas contract in Saudi Arabia announced on 16 June 2020; and
- upgrades to the latest version of Synergy and new software support contracts for a number of customers across markets, as they recognise the value of keeping their systems updated and taking advantage of the new features that are continuously being added to the software platform.

North America (Revenue £2.4 million (2019: £7.2 million))

Synectics delivered significantly lower revenues in 2020 in North America where its activities are almost exclusively in casino / gaming operations that were effectively shut down for most of the year.

[3] After research and development expenditure, but before non-underlying costs (see note 4) and Group central costs.

Two new projects were secured early in 2020, for new casino properties in Pittsburgh and Philadelphia. Much of the remaining business came from recurring revenue under software support contracts, with most properties opting to renew their support contracts even when remaining closed.

Plans announced this time last year to increase business development resources in North America to cover a wider range of the Group's products and capabilities beyond the casino / gaming sector were put on hold when the pandemic started, as previously announced in the Company's interim results on 14 July 2020. We will re-activate this plan later in 2021, with new resources particularly focused on the launch in North America of Synectics' enhanced command and control capabilities for the transport and critical infrastructure sectors.

Asia Pacific (Revenue £7.7 million (2019: £17.7 million))

Synectics' performance in the Asia Pacific region in 2020 was heavily impacted by the closure of most of the gaming market during the year and low levels of activity elsewhere.

In gaming, we were pleased to be able to sign a new five-year support contract with a major integrated resort operator in Singapore, as announced on 22 May 2020. We were encouraged to see some small system expansion orders at the end of the year, but we have yet to see a return to anything like normal levels of activity.

In the oil & gas sector, we secured a new project for a refinery in Vietnam early in the year. This was followed by activity largely limited to systems maintenance, although a number of operators did take the opportunity to upgrade their software to the latest version of Synergy.

Technology development

Continued investment in our intellectual property and technology base within the Systems division remains an important priority for the Group. During the 2020 financial year, Synectics spent a total of £4.0 million on technology development (2019: £3.8 million). Of this total, £0.8 million was capitalised (2019: £0.8 million), and the remainder expensed to the Income Statement. £0.4 million of previously capitalised development costs were amortised in the year.

During the year, Synectics made significant strides in developing the next generation of the Synergy software platform. The Company released major new functionality, including a Work force Management module and new mobile device applications, enabling customers to connect centralised control rooms seamlessly to field operations.

Further development of the Synergy cloud-based evidence management solution has enabled customers to reduce the time and cost of managing incidents across agencies and jurisdictions. Importantly, Synergy's enhanced built-in cybersecurity capabilities are deployable across the latest hybrid and multi-cloud environments, offering secure, deep integrations with rapidly evolving artificial intelligence-based innovations such as facial recognition.

We have developed Synergy as a hybrid cloud platform. As a result, customers can evolve to cloud solutions at a time and speed that are right for them, without having to abandon the numerous existing systems and devices across large areas that are essential to their ongoing operations. Synergy has the flexibility to combine cloud services with traditional IT infrastructure in a single unified environment. The Board believes this is a winning formula for the Company's markets and we are delighted that it played a significant part in the securing of our recent major project award in London. These expanded capabilities will increase Synectics' capacity to address what we believe is a large and growing market for similarly intelligent command and control systems.

Security division *(formerly 'Integration & Managed Services')*

Synectics' Security division is a leading UK provider in the design, integration, monitoring, and management of large-scale electronic security systems for critical and regulated environments. Its main markets are in critical infrastructure, transport, and public space. Its capabilities include UK government security-cleared personnel and facilities, nationwide project delivery and service support, and an in-house 24-hour monitoring centre and helpdesk. Synectics Security supplies proprietary products and technology from Synectics' Systems division as well as selected outside partners, and also provides highly-regarded security monitoring and facilities management services.

Revenue	£21.8 million (2019: £28.6 million)
Gross margin	24.6% (2019: 21.9%)
Operating loss[4]	£(0.4) million (2019: £0.0 million)
Operating margin	(1.8)% (2019: (0.1)%)

The planned consolidation of the operations of Synectics' Integration and Managed Services division as reported in the Company's interim results released on 14 July 2020 was completed in the year. This consolidation included the closure or downsizing of several operating sites, with a consequent reduction in costs and sharpened focus on specialised and long-term customers for whom Synectics can provide a valuable differentiated service. The new combined business, Synectics Security, was launched to the market in September 2020 and has been well received.

The new entity is well positioned to capitalise on the opportunities we expect to shape the future of this market. Like our Systems business, Synectics Security is focused on opportunities where it can add significant value through tailored solutions using its specialist knowledge and commitment to build customer partnerships.

Pleasingly, gross margins were higher than in the prior year, due principally to tighter cost control and an increased mix of higher margin on-vehicle activity in the second half of the year, including a number of large on-vehicle projects in the Republic of Ireland.

The Company announced a new project with Irish Rail on 17 November 2020. This will see Synectics develop and install during 2021 an innovative, safety-critical IP video surveillance system that enables full connectivity from trains to the engineering depot and other operational locations. Once the initial implementation is complete, it will be followed by a five-year in-territory maintenance programme.

Other highlights during the year included:

- a major systems upgrade for a government defence establishment, to be delivered in 2021;
- a new control room for West Midlands Police; and
- several new wins and upgrades for public space customers.

The newly formed Synectics Security business has excellent partnerships across the solutions portfolio. These will enable the team to develop beyond its traditional heartlands in public space and transport to embrace new opportunities that utilise its experience in complex, critical and highly regulated environments. Increasingly, we see opportunities in more inter-connected urban infrastructures where there is growing alignment between transportation and large-scale security and surveillance operations.

[4] before non-underlying costs (see note 4) and Group central costs.

Approaching these converged opportunities with the right partners will enable us to reshape the business over the next two to three years.

The changes we have made have been welcomed by customers and partners and rebranding as Synectics Security has provided an opportunity to reinvigorate market visibility of our integration operations and build awareness of their enhanced business proposition.

The Security division also includes our managed services business, SSS. This business is due significant credit for its sterling efforts to successfully provide uninterrupted security monitoring and facilities management services throughout the year to its customer base of UK companies with large multi-site estates. SSS also secured new contracts, including a multi-site retailer and a logistics company, as customers recognised the value of its services in helping them to protect their estates in these difficult times.

Strategy

Synectics' primary strategy remains to develop and capitalise on market-leading positions within relevant sectors of the global surveillance and security market where customers value high-performance, sector-specific capability. We achieve cost competitiveness and scalability in these markets by maintaining a standard modular core technology engine which supports solutions tailored as required for specific sectors and customers.

Significant technology development investment is focused on expanding the range of capabilities of the core Synergy platform to enable end-to-end control of the overall surveillance function and resources in complex operating environments. To customers whose other options would largely be based on bespoke development, the Synectics alternative offers the flexibility and power they need, but at lower cost and with substantially reduced risk.

People

It has been customary for me to use this opportunity to thank Synectics' employees publicly, on behalf of the Board and shareholders, for their efforts in the year under review. In the wake of an extraordinarily taxing and disruptive year for everyone, such customary thanks seem wholly inadequate to the quite exceptional levels of commitment, flexibility, creativity, and support for others demonstrated by our Synectics colleagues in 2020.

Against a background of high uncertainty, and where some hard decisions on staffing levels were necessary, it was inspiring to witness or hear told so many fine examples of the Company's culture in action. To those heroes and heroines, sung and unsung, I offer the Board's most sincere gratitude.

As another measure of the direct impact of our people on the business, for the fifth year running the Company's independently assessed metric of overall customer satisfaction has risen. The Board attaches significant importance to the results of this annual survey as a leading indicator of the Group's performance, and the long-term success and sustainability of the business.

Outlook

At the time of writing, it appears that the success of available vaccines against Covid-19 will lead the world back towards normality during 2021. The timing, profile, and end point of that process, however, remain highly uncertain.

The largest direct negative impact affecting Synectics currently is the closure of, or lack of business in major casinos and gaming resorts in the United States and the Far East, in turn driven by travel and other restrictions on the public. We would expect Synectics' business from its customers in that sector to recover in a relatively straightforward manner once leisure travel in those two core markets returns.

In each of the transport, infrastructure and oil & gas sectors, the dynamics of recovery will be more complex, depending on the available resources and priorities of the different government, quasi-government, and commercial customers the Company deals with. Some of these will continue to benefit from government policy decisions to fund infrastructure spending to boost economic recovery, while others may suffer from tightened budgets for some time to come.

Trading in the first quarter of the current financial year generally continued at the low levels experienced across 2020, with lockdowns and travel restrictions still affecting both the volume and sales cycle timing of new business. Recent contract wins, most notably in the UK and Europe, have increased the Group's firm order book by nearly 30% since the year end and there are some small early signs of renewed activity in the gaming surveillance sector in the United States and Asia. However, there remains obvious substantial uncertainty as to the timing of macroeconomic recovery.

The Board regularly reviews the balance between maintaining the right level of investment in product development and customer support, and vigilantly preserving the Group's financial resources. Given Synectics' balance sheet strength, we regard the current position as prudent, leaving the Company significantly geared to the return towards normal business and well placed to capitalise fully on its recent strategic contract successes once the recovery is underway.

David Coghlan
Chairman

1 March 2021

Consolidated income statement
For the year ended 30 November 2020

		2020			2019		
	Note	**Before non-underlying items £000**	**Non-underlying items[1] (note 4) £000**	**Total £000**	Before non-underlying items £000	Non-underlying items[1] (note 4) £000	Total £000
Revenue	3	**44,648**	–	**44,648**	68,511	–	68,511
Cost of sales excluding other income		**(30,054)**	–	**(30,054)**	(45,215)	–	(45,215)
Other income[2]		**416**	–	**416**	–	–	–
Cost of sales		**(29,638)**	–	**(29,638)**	(45,215)	–	(45,215)
Gross profit		**15,010**	–	**15,010**	23,296	–	23,296
Operating expenses		**(19,857)**	**(2,181)**	**(22,038)**	(20,714)	(931)	(21,645)
Other income[2]		**880**	–	**880**	–	–	–
(Loss)/profit from operations		**(3,967)**	**(2,181)**	**(6,148)**	2,582	(931)	1,651
Finance income		**124**	–	**124**	165	–	165
Finance costs		**(263)**	–	**(263)**	(263)	–	(263)
(Loss)/profit before tax		**(4,106)**	**(2,181)**	**(6,287)**	2,484	(931)	1,553
Income tax credit/(expense)	5	**1,199**	**417**	**1,616**	(122)	199	77
(Loss)/profit for the year attributable to equity holders of the Parent		**(2,907)**	**(1,764)**	**(4,671)**	2,362	(732)	1,630
Basic (loss)/earnings per share	7	**(17.2)p**	–	**(27.7)p**	14.0p	–	9.7p
Diluted (loss)/earnings per share	7	**(17.2)p**	–	**(27.7)p**	13.9p	–	9.6p

[1]Non-underlying items represent the amortisation of acquired intangible assets and restructuring costs incurred in the year (2019: amortisation of acquired intangible assets and provision for costs of legal settlement). See note 4 for further detail.

[2]Other income represents government grant income received in relation to Covid-19.

Consolidated statement of comprehensive income
For the year ended 30 November 2020

	2020 £000	2019 £000
(Loss)/profit for the year	**(4,671)**	1,630
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement gain on defined benefit pension scheme, net of tax	**492**	414
	492	414
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**39**	(211)
Gains/(losses) on a hedge of a net investment taken to equity	**160**	(134)
	199	(345)
Total comprehensive (loss)/income for the year attributable to equity holders of the Parent	**(3,980)**	1,699

Consolidated statement of financial position

As at 30 November 2020

	Note	2020 £000	2019 £000
Non-current assets			
Property, plant and equipment[1]		**5,243**	2,904
Intangible assets		**22,155**	21,712
Retirement benefit asset		**1,325**	687
Deferred tax assets		**1,864**	1,259
		30,587	26,562
Current assets			
Inventories		**4,661**	7,076
Trade and other receivables		**9,013**	17,536
Contract assets	3	**8,185**	7,933
Tax assets		**505**	35
Cash and cash equivalents	8	**6,864**	3,580
		29,228	36,160
Total assets		**59,815**	62,722
Current liabilities			
Trade and other payables		**(12,839)**	(14,821)
Contract liabilities	3	**(4,295)**	(4,062)
Lease liabilities[1]	10	**(870)**	-
Tax liabilities		**(63)**	(384)
Current provisions	9	**(1,621)**	(1,366)
		(19,688)	(20,633)
Non-current liabilities			
Non-current provisions	9	**(575)**	(321)
Lease liabilities[1]	10	**(1,920)**	-
Deferred tax liabilities		**(601)**	(807)
		(3,096)	(1,128)
Total liabilities		**(22,784)**	(21,761)
Net assets		**37,031**	40,961
Equity attributable to equity holders of the Parent Company			
Called up share capital		**3,559**	3,559
Share premium account		**16,043**	16,043
Merger reserve		**9,971**	9,971
Other reserves		**(1,448)**	(1,499)
Currency translation reserve		**919**	720
Retained earnings		**7,987**	12,167
Total equity		**37,031**	40,961

1. Right of use assets (included in property, plant and equipment) and lease liabilities arose on transition to IFRS 16 on 1 December 2019. See note 10.

Consolidated statement of changes in equity

For the year ended 30 November 2020

	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 2018	3,559	16,043	9,971	(1,748)	1,065	11,137	40,027
Profit for the year	–	–	–	–	–	1,630	1,630
Other comprehensive income							
Currency translation adjustment	–	–	–	–	(345)	–	(345)
Remeasurement gain on defined benefit pension scheme, net of tax	–	–	–	–	–	414	414
Total other comprehensive income	–	–	–	–	(345)	414	69
Total comprehensive income for the year	–	–	–	–	(345)	2,044	1,699
Dividends paid (note 6)	–	–	–	–	–	(810)	(810)
Credit in relation to share-based payments	–	–	–	–	–	45	45
Share scheme interests realised in the year	–	–	–	249	–	(249)	–
At 30 November 2019	3,559	16,043	9,971	(1,499)	720	12,167	40,961
Loss for the year	–	–	–	–	–	(4,671)	(4,671)
Other comprehensive income							
Currency translation adjustment	–	–	–	–	199	–	199
Remeasurement gain on defined benefit pension scheme, net of tax	–	–	–	–	–	492	492
Total other comprehensive income	–	–	–	–	199	492	691
Total comprehensive income for the year	–	–	–	–	199	(4,179)	(3,980)
Credit in relation to share-based payments	–	–	–	–	–	50	50
Share scheme interests realised in the year	–	–	–	51	–	(51)	–
At 30 November 2020	**3,559**	**16,043**	**9,971**	**(1,448)**	**919**	**7,987**	**37,031**

Consolidated cash flow statement

For the year ended 30 November 2020

	Note	2020 £000	2019 £000
Cash flows from operating activities			
(Loss)/profit for the year		**(4,671)**	1,630
Income tax credit	5	**(1,616)**	(77)
Finance income		**(124)**	(165)
Finance costs		**263**	263
Depreciation and amortisation charge		**2,348**	941
Loss on disposal of non-current assets		**1**	16
Net foreign exchange differences		**80**	60
Net movement in provisions		**141**	(198)
Non-underlying items		**2,158**	908
Other inventory write down		**448**	37
Cash flow relating to non-underlying items		**(1,652)**	–
Other non-cash movements		**359**	(204)
Share-based payment charge		**50**	45
Operating cash (outflow)/inflow before movement in working capital		**(2,215)**	3,256
Decrease in inventories		**1,969**	886
Decrease/(increase) in receivables		**7,923**	(8,315)
(Decrease)/increase in payables		**(1,778)**	2,529
Cash generated from/(used in) operations		**5,899**	(1,644)
Tax paid		**(148)**	(356)
Net cash generated from/(used in) operating activities		**5,751**	(2,000)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(329)**	(706)
Capitalised development costs		**(828)**	(762)
Purchased software		**(61)**	(29)
Net cash used in investing activities		**(1,218)**	(1,497)
Cash flows from financing activities			
Lease payments		**(1,117)**	--
Bank interest paid		**(33)**	(103)
Dividends paid		–	(810)
Net cash used in financing activities		**(1,150)**	(913)
Effect of exchange rate changes on cash and cash equivalents		**(99)**	(124)
Net increase/(decrease) in cash and cash equivalents		**3,284**	(4,534)
Cash and cash equivalents at the beginning of the year		**3,580**	8,114
Cash and cash equivalents at the end of the year	8	**6,864**	3,580

Notes

1 Basis of preparation

The information contained within this announcement has been extracted from the audited financial statements which have been prepared in accordance with international accounting standards in conformity with the Companies Act 2006 (‘adopted IFRS’), and with those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. They have been prepared using the historical cost convention except where the measurement of balances at fair value is required.

The financial statements have been prepared on a going concern basis. The Directors have reviewed the Group’s funding position and financial forecasts for the foreseeable future. Based on all of the work performed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future without material uncertainty.

New and amended standards adopted by the Group

The following new standards became applicable for the current reporting period and the Group changed its accounting policies and, where applicable, made retrospective adjustments as a result of adopting:

- IFRS 16 ‘Leases’

The impact of adoption of this standard is set out in note 10.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2 Segmental analysis

Revenue	**2020 £000**	2019 £000
Systems	**23,645**	40,529
Security	**21,802**	28,603
Total segmental revenue	**45,447**	69,132
Reconciliation to consolidated revenue:		
Intra-Group sales	**(799)**	(621)
	44,648	68,511

Underlying operating (loss)/profit	**2020 £000**	2019 £000
Systems	**(1,774)**	4,691
Security	**(388)**	(27)
Total segmental underlying operating (loss)/profit	**(2,162)**	4,664
Reconciliation to consolidated underlying operating (loss)/profit:		
Central costs	**(1,805)**	(2,082)
	(3,967)	2,582

Underlying operating loss 2020	Underlying operating loss[1] £000	Legal provision £000	Pension buy-out costs £000	Restructuring costs £000	Amortisation of acquired intangibles £000	Total operating loss £000
Systems	**(1,774)**	**42**	**–**	**(1,249)**	**–**	**(2,981)**
Security	**(388)**	**–**	**–**	**(528)**	**–**	**(916)**
Total segmental underlying operating loss[2]	**(2,162)**	**42**	**–**	**(1,777)**	**–**	**(3,897)**
Reconciliation to consolidated underlying operating loss:						
Central costs	**(1,805)**	**–**	**(150)**	**(273)**	**(23)**	**(2,251)**
	(3,967)	**42**	**(150)**	**(2,050)**	**(23)**	**(6,148)**

2 Segmental analysis (continued)

Underlying operating profit 2019	Underlying operating profit[1] £000	Legal provision £000	Amortisation of acquired intangibles £000	Total operating profit £000
Systems	4,691	(908)	–	3,783
Security	(27)	–	–	(27)
Total segmental underlying operating profit[2]	4,664	(908)	–	3,756
Reconciliation to consolidated underlying operating profit:				
Central costs	(2,082)	–	(23)	(2,105)
	2,582	(908)	(23)	1,651

1. Underlying operating profit represents operating profit before non-underlying items (2020: release of overprovision for costs on settlement of a legal claim, costs associated with the defined benefit pension scheme buy-out, restructuring costs and amortisation of acquired intangibles; 2019: provision for costs on settlement of a legal claim and amortisation of acquired intangibles).
2. Net finance expenses and income and income tax credit/(charge) are not allocated to segments

3 Revenue from contracts with customers

Disaggregated revenue information

Set out below, is the disaggregation of the Group's revenue from contracts with customers:

Revenue by contract location 2020	**Systems £000**	**Security £000**	**2020 £000**
UK and Europe	**8,881**	**21,667**	**30,548**
North America	**3,166**	**–**	**3,166**
Middle East & Africa	**2,600**	**–**	**2,600**
Asia Pacific	**8,208**	**126**	**8,334**
	22,855	**21,793**	**44,648**

Revenue by contract location 2019	Systems £000	Security £000	2019 £000
UK and Europe	10,720	28,415	39,135
North America	7,662	17	7,679
Middle East	3,063	–	3,063
Africa	521	–	521
Asia Pacific	17,955	158	18,113
	39,921	28,590	68,511

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Reconciliation to segment revenue 2020	**Systems £000**	**Security £000**	**2020 £000**
External	**22,855**	**21,793**	**44,648**
Intra-Group	**790**	**9**	**799**
	23,645	**21,802**	**45,447**

3 Revenue from contracts with customers (continued)

Reconciliation to segment revenue 2019	Systems £000	Security £000	2019 £000
External	39,921	28,590	68,511
Intra-Group	608	13	621
	40,529	28,603	69,132

Contract balances	**2020 £000**	2019 £000
Contract assets	**8,185**	7,933
Contract liabilities	**(4,295)**	(4,062)

Contract assets relate to revenue earned from ongoing projects. As such, the balance of this account varies and depends on the number of ongoing projects at the end of the year. The timing of payment in respect of both contract assets and liabilities varies depending on the nature and terms of each individual contract, with payment sometimes being before and sometimes after satisfaction of the corresponding performance obligations. No expected credit loss has been recognised in relation to the contract asset as the Group's historical experience shows that no credit losses have been incurred.

Contract liabilities relate to short-term advances received to deliver ongoing projects.

£4.1 million of the contract liabilities balance at 1 December 2019 was recognised as revenue during the year. No revenue was recognised in the current year in relation to performance obligations satisfied, or partially satisfied in previous years.

Performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 November 2020 that are expected to be recognised over more than one year is £18.0 million (2019: £21.7 million). These performance obligations relate predominantly to the provision of service and maintenance contracts.

The Group has taken advantage of the practical expedient within IFRS 15 not to disclose the amount of the remaining performance obligations for contracts with original expected duration of less than one year.

4 Non-underlying items

	2020 £000	2019 £000
(Release)/accrual of costs associated with settlement of a legal claim	**(42)**	908
Costs associated with the restructuring of the Systems division	**1,249**	–
Costs associated with the restructuring of the Security division	**528**	–
Costs associated with restructuring Central operations	**273**	–
Costs associated with the buy-out of the defined benefit pension scheme	**150**	–
Amortisation of acquired intangible assets	**23**	23
	2,181	931

The Systems restructuring costs incurred during 2020 related to the consolidation of the Munich office into Berlin, along with a review of the cost base across the Systems division.

The Security restructuring costs incurred during 2020 relate to the merger of Synectics Mobile Systems into Quadrant Security Group (i.e. the formation of "Synectics Security"), along with a review of the cost base across the whole Security division.

The Central restructuring costs incurred during 2020 relate to the closure of the Group's Studley office and consolidation of Head Office functions into Sheffield.

The accrual of costs associated with an ongoing buy-out of the defined benefit pension scheme represent the estimated costs to be incurred by the Group in order to wind up the scheme.

The provision for costs on settlement of a legal claim related to an employment-related dispute in the US which was settled in 2020.

5 Taxation

Tax (credit)/charge	2020 £000	2019 £000
Current taxation		
UK tax	**4**	8
Overseas tax	**(473)**	310
Adjustments in respect of prior periods	**(173)**	22
Total current tax (credit)/charge	**(642)**	340
Deferred taxation		
Origination and reversal of temporary differences	**(913)**	(287)
Adjustments in respect of prior periods	**(61)**	(130)
Total deferred tax credit	**(974)**	(417)
Total tax credit for the year	**(1,616)**	(77)

Further analysed as tax relating to:		
Underlying profit	**(1,199)**	122
Non-underlying items	**(417)**	(199)

Reconciliation of tax (credit)/charge for the year

The corporation tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
(Loss)/profit on ordinary activities before tax	**(6,287)**	1,553
Tax on (loss)/profit on ordinary activities before tax at standard rate of 19% (2019: 19%)	**(1,195)**	295
Effects of:		
Net effect of different rates of tax in overseas businesses	**11**	(43)
Tax losses not recognised	**180**	–
Utilisation of previously unrecognised tax losses	**-**	(67)
Net permanent differences	**(377)**	(136)
Effect of changes in tax rates and tax laws	**(80)**	(4)
Other differences and (income)/expenses not deductible for tax purposes	**79**	(14)
Adjustment in respect of prior periods	**(234)**	(108)
Total tax credit for the year	**(1,616)**	(77)

The Group's tax rate is sensitive to a geographic mix of profits and reflects a combination of higher rates in the US and lower rates in Singapore and Macau. The Group's effective tax rate in 2020 has been impacted by R&D tax relief and current year losses, as well as an increase in the recognition of US net operating losses as a result of the CARES Act.

Deferred tax assets of £2.3 million (2019: £1.2 million) have been recognised in relation to legal entities which suffered a tax loss in the current or preceding periods. The assets are recognised based upon future taxable profit forecasts for the entities concerned.

The Group has further losses which may be available to be carried forward for offset against the future taxable profits of certain Group companies amounting to approximately £6.2 million (2019: £4.8 million). No deferred tax asset (2019: £nil) in respect of these losses has been recognised at the year end as the Group does not currently anticipate being able to offset these against future profits.

6 Dividends

The Directors do not recommend the payment of a final dividend (2019: £nil). No interim dividend was paid during 2020 (2019: 1.3p per share).

7 Earnings per share

	2020 Pence per share	2019 Pence per share
Basic (loss)/earnings per share	**(27.7)**	9.7
Diluted (loss)/earnings per share	**(27.7)**	9.6
Underlying (loss)/basic earnings per share	**(17.2)**	14.0
Underlying (loss)/diluted earnings per share	**(17.2)**	13.9

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

	2020 £000	2019 £000
(Loss)/earnings for basic and diluted earnings per share	**(4,671)**	1,630
Non-underlying items	**2,181**	931
Impact of non-underlying items on tax credit for the year	**(417)**	(199)
(Loss)/earnings for underlying basic and underlying diluted earnings per share	**(2,907)**	2,362

	2020 000	2019 000
Weighted average number of ordinary shares – basic calculation	**16,880**	16,814
Dilutive potential ordinary shares arising from share options	**-**	139
Weighted average number of ordinary shares – diluted calculation	**16,880**	16,953

8 Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	**6,864**	3,580

The fair value of cash and cash equivalents approximates to their book value. Cash at bank earns interest at the daily bank base rate.

At 30 November 2020 the Group had undrawn overdraft facilities of up to £5.0 million, on which interest would be payable at the rate of bank base rate plus 2.0%.

9 Provisions

	Legal £000	Warranty £000	Restructuring £000	Property £000	Total £000
At 1 December 2018	–	849	–	128	977
Utilised in the year	–	(482)	–	–	(482)
Released in the year	–	–	–	(64)	(64)
Charged to the Income Statement	908	346	–	2	1,256
At 30 November 2019	908	713	–	66	1,687
Utilised in the year	(866)	(359)	(775)	–	(2,000)
Released in the year	(42)	–	–	–	(42)
Charged to the Income Statement	–	270	2,050	231	2,551
At 30 November 2020	**–**	**624**	**1,275**	**297**	**2,196**

In 2019, a provision was made for the cost of settlement of a legal claim relating to an employment-related dispute in the US. This was settled during 2020.

9 Provisions (continued)

Costs of warranty include the cost of labour, material and related overhead necessary to repair a product during the warranty period. The standard warranty periods are usually one to three years. The Group accrues for the estimated cost of the warranty on its products shipped in the provision for warranty, upon recognition of the sale of the product. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty.

The Group has certain properties where the Directors believe that dilapidation costs may be incurred; therefore, appropriate cost provisions have been made. It is anticipated that substantially all of the property cost provision carried forward at 30 November 2020 will be utilised within a year.

The restructuring provision relates to the costs recognised in relation to the Group's restructuring activities in the year (see note 4) where the associated cash outflow has not yet occurred.

Provisions have been analysed between current and non-current as follows:

	2020 **£000**	2019 £000
Current	**1,621**	1,366
Non-current	**575**	321
	2,196	1,687

10 Changes in accounting policies

IFRS 16 'Leases' – impact of adoption

The Group has adopted IFRS 16 'Leases' from 1 December 2019, replacing IAS 17, using the modified retrospective approach.

IFRS 16 has introduced a single accounting model for lessees, bringing all leases onto the balance sheet. As a result the Group, as a lessee, has recognised right of use assets representing its right to use leased assets, and lease liabilities representing its obligation to make future payments under the terms of lease contracts. The Group is not a lessor. The carrying amounts of right of use assets and lease liabilities, included within property, plant and equipment, are set out below.

The impact of adoption on the Group's retained earnings at 1 December 2019 is as follows:

Right of use assets	Land and buildings £000	Motor vehicles £000	Total £000
Balance at 1 December 2019	3,042	403	**3,445**
Balance at 30 November 2020	2,352	263	**2,615**

Lease liabilities	Land and buildings £000	Motor vehicles £000	Total £000
Balance at 1 December 2019	2,996	398	**3,394**
Balance at 30 November 2020	2,527	263	**2,790**

As a result of using the modified retrospective approach on transition to IFRS 16, the Group realised no difference between the carrying value of the right of use assets and lease liabilities in retained earnings. The difference between the opening right of use asset and lease liability relates to prepaid rent which is excluded from the carrying value of the lease liability but included in the value of the right of use asset. The impact on transition is shown below:

	1 December 2019 £000
Right of use assets presented in property, plant and equipment	**3,445**
Lease liabilities	**(3,394)**
Prepaid rent reclassified from prepayments to right of use assets on transition	**51**

10 Changes in accounting policies (continued)

On transition, lease liabilities which were classified as operating leases under IAS 17 were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate which reflects the characteristics of the underlying lease, at the transition date of 1 December 2019. The weighted average rate applied is 3.1% for land and buildings and 3.0% for vehicles. Right of use assets are measured at an amount equal to the lease liability, adjusted for prepaid rent at the date of transition. IFRS 16 has been applied to all leases with an asset or liability value greater than £5,000. For leases of low-value assets and for certain short-life assets, the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The table below reconciles the Group's operating lease commitment at 30 November 2019, under IAS 17, to the lease liability initially recognised under IFRS 16:

	£000
Operating lease commitment at 30 November 2019 as disclosed in the Group's consolidated financial statements	**4,659**
Impact of discounting using the incremental borrowing rate at 1 December 2019	**(780)**
Recognition exemption for leases of low-value/short-life assets	**(485)**
Lease liabilities recognised at 1 December 2019	**3,394**

In relation to those leases under IFRS 16, the Group now recognises depreciation and interest costs, instead of an operating lease expense. During the year ended 30 November 2020, this amounted to £1,084,000 of depreciation charges and £119,000 of interest costs from these leases.

Had IAS 17 continued to be applied, the overall impact on the Group Statement of Comprehensive Income would not have been materially different. Prior to adoption of IFRS 16, the Group had total outstanding commitments for future minimum lease payments under non-cancellable operating leases (IAS 17), which fell due as follows:

	2019
	£000
Within one year	**1,251**
Within two to five years	**2,132**
Greater than five years	**1,276**
	4,659

11 Post balance sheet events

The decision was taken before the year end by the Board of Trustees and approved by the plc Board of Directors to secure a "buy-out" for all remaining defined benefit pension scheme liabilities by an insurance company and to wind the scheme up. After the year end, an insurance company has bought out the liabilities which existed at the year end. The pension scheme was valued at the year end on the basis of IFRIC 14 (13) as the Group has the right to receive the full actuarial surplus as a refund. On 8 December 2020, when the agreement with the insurance company to buy out the liabilities was signed, the actuarial valuation was altered in line with IFRIC 14 (13) and the economic benefit available as a refund was measured including the costs to the plan of settling the plan liabilities in this way. This resulted in a remeasurement loss of £1,325,000, net of £252,000 deferred tax, which will be recognised in other comprehensive income in the financial statements for the period ending 30 November 2021. The Group agreed prior to the year end to meet the additional costs of the wind-up, and therefore £150,000 was included in accruals at the year end. This amount was charged to non-underlying costs.

12 Company information

Full Financial Statements

The financial information set out herein does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the year ended 30 November 2020 has been extracted from the Group's audited financial statements which were approved by the Board of Directors on 1 March 2021 and which, if adopted by the members at the Annual General Meeting, will be delivered to the Registrar of Companies for England and Wales.

12 Company information (continued)

The financial information for the year ended 30 November 2019 has been extracted from the Group's audited financial statements which were approved by the Board of Directors on 25 February 2020 and which have been delivered to the Registrar of Companies for England and Wales.

The reports of the auditors on both these financial statements were unqualified, did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

Further copies of these results, and the full financial statements when published, will be available on the Company website at www.synecticsplc.com and at the Company's registered office: Synectics plc, Synectics House, 3-4 Broadfield Close, Sheffield, S8 0XN.

Forward-looking statements

This report may contain certain statements about the future outlook for Synectics plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.