

SYNECTICS

Synectics plc

("Synectics" or the "Company" or the "Group")

Interim results for the six months ended 31 May 2022

Synectics plc (AIM: SNX), a leader in the design, integration and support of advanced security and surveillance systems, reports its unaudited interim results for the six months ended 31 May 2022 ("H1 2022").

Headlines

- Substantial profit turn-around against same period last year – profit before tax £0.5 million (H1 2021: £(0.8) million loss)
- H1 2022 revenue £22.8 million (H1 2021: £22.0 million)
- Diluted earnings per share 2.4p (H1 2021: (2.9)p loss)
- Order book as at 31 May 2022 solid at £29.6 million (31 May 2021: £30.3 million) with a strong pipeline of expected orders
- Net cash as at 31 May 2022 higher than expected at £4.2 million (31 May 2021: £3.5 million) with no bank debt and £3.0 million undrawn facility
- Strong gross margin performance in both operating divisions
- Activity levels in the Company's major end-user markets generally continue to gather momentum
- The Board expects further improved results in the seasonally stronger second half of this financial year

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

"A strong team performance has delivered a substantial turnaround in profits despite challenges in the supply chain, and with some end markets still subdued. We expect this trajectory of revenue and profit growth to continue in the second half of this year and beyond."

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Chairman's Statement

Overview

Trading in the first half of 2022 was in line with the Board's expectations and produced considerable progress. Pleasingly, profits were ahead of the seasonally stronger second half of last year and represented a significant turnaround from the same period last year.

The improved results were largely driven by revenue growth of over 20 percent. in the Company's core Systems division, and were supported by improved margins in the Security division.

Activity levels in the major end-user markets that Synectics serves generally continued to gather momentum as markets severely affected by the pandemic began their recovery, particularly in oil & gas and US gaming. That recovery is, as yet, less evident in casinos and gaming resorts in Asia-Pacific where leisure travel has remained subdued.

Overall, the Board is pleased with Synectics' performance in H1 2022 and expects a continuation of the trajectory of improvement in the second half of this financial year.

Results

Synectics' revenue for the period was 4 percent ahead of H1 2021 at £22.8 million (2021: £22.0 million).

The Group recorded an underlying profit before tax for H1 2022 of £0.5 million (H1 2021: £(0.8) million loss). There were no non-underlying items and therefore, the profit before tax was also £0.5 million (H1 2021: £(0.8) million loss). Diluted earnings per share were 2.4p (H1 2021: (2.9)p loss).

There was no material impact of foreign exchange movements on results for the half year. Net cash as at 31 May 2022 was higher than expected at £4.2 million (31 May 2021: £3.5 million). The Company has no bank debt and available undrawn facilities of £3.0 million.

Order book as at 31 May 2022 was solid at £29.6 million (31 May 2021: £30.3 million) with approximately £16 million (31 May 2021: £15 million) of this expected to trade in this financial year. Together with a strong pipeline of expected orders, this supports the Board's expectations for improved trading in the second half of the year.

More details on these results are set out below in the divisional reports.

Dividend

In the Company's Annual Report for FY 2021, the Board set out its intention to pay only a final dividend in respect of the year ending 30 November 2022. Accordingly, no interim dividend is being declared.

Business Review

Systems Division

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

£000	Six months ended 31 May 2022	Six months ended 31 May 2021	Year ended 30 Nov 2021
Revenue	11,816	9,801	20,661
Gross margin ¹	50.4%	47.8%	46.4%
Operating profit/(loss) ¹	722	(482)	58
Operating margin ¹	6.1%	(4.9)%	0.3%

¹ Before Group central costs.

These improved results were largely driven by revenue growth of approximately 20 percent, as markets severely affected by the pandemic began their recovery, coupled with strong gross margins.

The Systems division's strong gross margins reflect both its ability to pass on cost increases and further progress in the Group's strategy of increased software content in its deliveries.

Although the division experienced some disruption to its supply chains from the prevalent global issues, proactive management meant that there was no material impact on either delivery schedules or margins.

Notable during the period were the award of a substantial long-term contract to provide security management software support for the UK energy company National Grid, across its estate, which was announced in March 2022, and a number of oil & gas projects that meant revenues in that sector increased by over 40 percent from the prior year, albeit from a low level.

As mentioned above, activity levels in the major end-user markets that Synectics serves generally continue to gather momentum, particularly in the oil & gas and gaming sectors where revenues were well ahead against the same period last year.

Europe, Middle East & Africa (Revenue £7.3 million (H1 2021: £6.5 million))

Revenues were ahead of the prior year, primarily due to improvements in the oil & gas market - a trend which is expected to continue.

Solid performance in public space, transport and infrastructure markets, at a similar level to the prior year, was built on continuing work for major customers in the City of London, West Midlands and Berlin.

Asia Pacific (Revenue £2.3 million (H1 2021: £1.7 million))

The period saw improvements in both oil & gas and gaming revenues in the region from the low levels of the prior year.

Travel and business in the region remained very difficult in the period, but with travel possible in recent months, and increased activity, the Board expects further improvements in H2, with more meaningful progress in 2023.

North America (Revenue £2.2 million (H1 2021: £1.6 million))

Synectics' current activities in North America, almost exclusively in casino operations, recorded an increase in revenue as casino operations resumed.

The Board expects further progress here in H2, whilst noting that casino operators are signalling that current economic conditions are hindering their expected recovery.

Technology Development

Continued investment in our intellectual property and technology base within the Systems division remains an important priority for the Group, and during H1 2022 this investment continued at planned levels.

Expenditure on technology development during H1 2022 was maintained at £1.6 million (H1 2021: £1.7 million) of which £0.2 million (H1 2021: £0.3 million) was capitalised and the remainder expensed to the income statement. In addition, £0.5 million (H1 2021: £0.4 million) of previously capitalised development was amortised in the period. These figures are all included within the results of the Systems division set out above.

The latest generation of Synectics' Synergy software has been developed as a hybrid Cloud platform – allowing customers to combine Cloud services with traditional IT infrastructure, and evolve to Cloud solutions at a time and speed that are right for them.

Following successful initial deployments of Cloud-native and hybrid solutions, Synectics' development efforts have been focused on extending Synergy's functionality "beyond the control room" towards an anywhere, anytime concept, with web-native video technology ensuring low-barrier access to users wherever they may be, on any device.

The Group's large projects for advanced infrastructure surveillance, including Deutsche Bahn in Berlin and the Cloud-based deployment of Synergy for the City of London Corporation and City of London Police, along with further successful adoption of primary Cloud products such as Synectics' Cloud Evidence Locker, continue to act as important references for Synectics' core advanced technology.

These capabilities and concepts have been presented to many existing and potential customers, and marketing activity has been increased - with excellent feedback.

The next-generation Synergy Web platform enables users, via strict access permissions and encrypted communications, to access vital Synergy features, including management reports and dashboards, and live and historic incidents.

The Synergy Ecosystem continues to be extended with numerous new integrations to third-party systems. While these new integration drivers have historically been developed in-house by the Synectics Technology Centre team, recent developments now allow third parties to undertake such integrations.

We continue to work closely with our customers to understand their future needs and to support their transition into hybrid and Cloud solutions at a time that is right for them. Our technology choices will support customers on their journey to the Cloud, and Synectics' feature development continues to focus on solutions which align with their evolving IT and operational requirements.

Security Division

Synectics' Security division is a leading UK provider of 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.

£000	Six months ended 31 May 2022	Six months ended 31 May 2021	Year ended 30 Nov 2021
Revenue	11,804	13,106	24,965
Gross margin ¹	25.8%	23.6%	24.1%
Operating profit ¹	575	497	924
Operating margin ¹	4.9%	3.8%	3.7%

¹ Before Group central costs.

Synectics Security, the Group's UK-focused integration division, experienced a decline in revenues compared to the same period last year largely due to customer-led delays on several major projects that had been expected to be largely completed in the half.

However, the division's long-term strategy to raise operating margins is continuing to bear fruit. An improved mix of business, principally from a higher proportion of targeted high-security work, drove higher gross margins, and the continued focus on control of costs and tighter project management delivered an operating profit in H1 2022 that was better than the satisfactory result achieved in the same period last year.

In the UK public sector, whilst local authority funding continues to be constrained, initiatives such as the Government's *Safer Streets* programme provide opportunities with a number of local councils that have significant central funding available.

Orders from the UK bus market continued at broadly similar levels to last year, with bus registrations largely in line with those seen in the second half of last year.

Notable contract wins in the period included new and extended security systems for two UK police forces, a significant new Government-funded research and development facility, and a large contract for new zero-emission electric buses in Ireland.

Ongoing contracts with the City of London Police, Irish Rail and others, along with a strong pipeline of expected orders, underpin an expectation of increased revenues in the second half with operating margins broadly in line with those achieved in H1 2022.

Strategy

Synectics' strategy remains to develop and capitalise on its market-leading positions within relevant sectors of the global surveillance and security market where customers value high-performance, sector-specific capability. Its core market sectors continue to be transport & infrastructure (including "safe city"

projects), casinos and gaming resorts, high security facilities and oil & gas. It achieves product differentiation, 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. The solution can now be delivered in traditional, cloud or hybrid cloud versions, providing full flexibility for a customer's desired technical deployment.

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 and security operations function. To customers whose other options would largely be based on bespoke development, the Synectics' alternative offers the flexibility and power they need, but at a lower cost and with substantially reduced risk.

Once installed, these software-based systems tend to engender long-term customer relationships and recurring revenue, with contracts for ongoing licensing, support and upgrades.

In the UK and Ireland, Synectics' technology is increasingly delivered via its in-house integration division, as well as through third-party integration partners. Globally, delivery is either direct or via local specialist partners.

Board Changes

Shortly after the end of the half year, the Company has announced several actual and planned changes to the composition of the Board. In early June 2022, we welcomed Andrew Lockwood, who has joined as an independent Non-executive Director. Andrew has particularly relevant experience in the successful scaling of enterprise software systems.

We have also recently announced the departure of David Bedford as Group Finance Director, and I would like to thank him for his contributions over his two and a half years in the role. David's replacement is Amanda Larnder, who is well known to us all at Synectics, having been Group Financial Controller and subsequently Acting Finance Director until 2019, prior to the relocation of the Group's head office from the Midlands to Sheffield. She will be a strong addition to the senior management team and the Board.

Finally, the Company also announced in June my intention to retire as Chairman and from the Board by the end of 2022, as soon as a suitable replacement has been found and a proper transition completed. As our main markets are emerging from the severe impacts of the pandemic, Synectics has restored profitability, strengthened its competitive positions and is on an expected trajectory for significant growth. Having had the honour of chairing Synectics for the last 16 years, it is now time for me to step back from my current commitments to a less direct role and support the future success of the Company as an actively engaged outside shareholder.

Outlook

The recovery of results in the second half of 2021 was largely driven by restructuring efficiencies and cost-saving measures implemented in the preceding financial year. By important contrast, the progress in 2022 so far has been led by a significant and continuing resumption of revenue growth in the core Systems division, coupled with strong gross margins. Margin growth in both divisions has been achieved despite the well-documented difficulties with global supply chains and input price inflation affecting the electronics industry generally, and is evidence of the Group's successful strategy of targeting software-intensive business from customers with critical surveillance needs.

Based on the current pipeline of anticipated business, the Board expects Synectics' trajectory of revenue and profit growth to continue in the second half and beyond.

David Coghlan

Chairman

12 July 2022

Consolidated income statement

For the six months ended 31 May 2022

	Notes	Unaudited six months ended 31 May 2022 £000	Unaudited six months ended 31 May 2021 £000
Revenue	3	22,765	21,958
Cost of sales		(13,767)	(14,173)
Gross profit		8,998	7,785
Operating expenses		(8,473)	(8,641)
Other income		-	97
Profit/(loss) from operations, before non-underlying items		525	(759)
Non-underlying items		-	(12)
Profit/(loss) from operations		525	(771)
Finance costs		(40)	(39)
Profit/(loss) before tax		485	(810)
Income tax (charge)/credit	4	(80)	313
Profit/(loss) for the period attributable to equity holders of the Parent Company		405	(497)
Basic earnings/(loss) per share	7	2.4p	(2.9)p
Diluted earnings/(loss) per share	7	2.4p	(2.9)p

Consolidated statement of comprehensive income

For the six months ended 31 May 2022

	Unaudited six months ended 31 May 2022 £000	Unaudited six months ended 31 May 2021 £000
Profit/(loss) for the period	405	(497)
Items that will not be reclassified subsequently to profit or loss		
Re-measurement loss on defined benefit pension scheme, net of tax	-	(1,073)
	405	(1,570)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	18	(267)
(Losses)/gains on a hedge of a net investment taken to equity	(7)	128
	11	(139)
Total comprehensive income/(loss) for the period attributable to equity holders of the Parent Company	416	(1,709)

Consolidated statement of financial position

As at 31 May 2022

	Notes	Unaudited 31 May 2022 £000	Unaudited 31 May 2021 £000	30 Nov 2021 £000
Non-current assets				
Property, plant and equipment		4,464	5,432	4,981
Intangible assets		21,389	21,912	21,728
Retirement benefit asset	6	-	-	-
Deferred tax assets		2,387	2,452	2,452
		28,240	29,796	29,161
Current assets				
Inventories		4,481	4,390	3,936
Trade and other receivables		10,586	11,316	11,156
Contract assets		6,701	6,738	5,244
Tax assets		-	39	-
Cash and cash equivalents		4,201	3,488	4,641
		25,969	25,971	24,977
Total assets		54,209	55,767	54,138
Current liabilities				
Trade and other payables		(10,966)	(13,376)	(10,902)
Contract liabilities		(3,169)	(2,448)	(3,096)
Lease liabilities		(494)	(915)	(816)
Tax liabilities		(15)	-	-
Current provisions		(517)	(400)	(487)
		(15,161)	(17,139)	(15,301)
Non-current liabilities				
Non-current provisions		(1,037)	(552)	(921)
Lease liabilities		(1,959)	(2,168)	(2,023)
Deferred tax liabilities		(549)	(548)	(549)
		(3,545)	(3,268)	(3,493)
Total liabilities		(18,706)	(20,407)	(18,794)
Net assets		35,503	35,360	35,344
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		(1,436)	(1,448)	(1,436)
Currency translation reserve		783	780	772
Retained earnings		6,583	6,455	6,435
Total equity		35,503	35,360	35,344

Consolidated statement of changes in equity

For the six months ended 31 May 2022

	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 2020	3,559	16,043	9,971	(1,448)	919	7,987	37,031
Loss for the period	-	-	-	-	-	(497)	(497)
Other comprehensive income							
Currency translation adjustment	-	-	-	-	(139)	-	(139)
Re-measurement loss on defined benefit pension scheme, net of tax (see note 6)	-	-	-	-	-	(1,073)	(1,073)
Total other comprehensive loss	-	-	-	-	(139)	(1,073)	(1,212)
Total comprehensive loss for the period					(139)	(1,570)	(1,709)
Dividends paid	-	-	-	-	-	-	-
Credit in relation to share-based payments	-	-	-	-	-	38	38
Share scheme interests realised in the period	-	-	-	-	-	-	-
At 31 May 2021	3,559	16,043	9,971	(1,448)	780	6,455	35,360
Profit for the period	-	-	-	-	-	18	18
Other comprehensive income							
Currency translation adjustment	-	-	-	-	(8)	-	(8)
Total other comprehensive income	-	-	-	-	(8)	-	(8)
Total comprehensive loss for the period	-	-	-	-	(8)	18	10
Credit in relation to share-based payments	-	-	-	-	-	(26)	(26)
Share scheme interests realised in the period	-	-	-	12	-	(12)	-
At 30 November 2021	3,559	16,043	9,971	(1,436)	772	6,435	35,344
Profit for the period	-	-	-	-	-	405	405
Other comprehensive income							
Currency translation adjustment	-	-	-	-	11	-	11
Total other comprehensive income	-	-	-	-	11	-	11
Total comprehensive profit for the period	-	-	-	-	11	405	416
Dividends paid	-	-	-	-	-	(258)	(258)
Credit in relation to share-based payments	-	-	-	-	-	1	1
At 31 May 2022	3,559	16,043	9,971	(1,436)	783	6,583	35,503

Consolidated cash flow statement

For the six months ended 31 May 2022

	Unaudited six months ended 31 May 2022 £000	Unaudited six months ended 31 May 2021 £000
Cash flows from operating activities		
Profit/(loss) for the period	405	(497)
Income tax expense/(credit)	80	(313)
Finance costs	40	39
Depreciation and amortisation charge	1,105	1,090
Loss/(profit) on disposal of non-current assets	22	(1)
Net foreign exchange differences	(121)	134
Net movement in provisions	48	(1,349)
Share-based payment charge	1	38
Operating cash flows before movement in working capital	1,580	490
(Increase)/decrease in inventories	(540)	350
Increase in trade, other and contract receivables	(689)	(1,107)
Increase/(decrease) in trade, other and contract payables	57	(1,010)
Cash generated from/(used in) operations	408	(2,626)
Tax received	28	224
Net cash from/(used in) operating activities	436	(2,402)
Cash flows from investing activities		
Purchase of property, plant and equipment	(51)	(99)
Capitalised development costs	(160)	(265)
Purchased software	(19)	(89)
Net cash used in investing activities	(230)	(453)
Cash flows from financing activities		
Lease payments	(426)	(551)
Dividends paid	(258)	–
Net cash used in financing activities	(684)	(551)
Effect of exchange rate changes on cash and cash equivalents	38	30
Net increase/(decrease) in cash and cash equivalents	(440)	(3,376)
Cash and cash equivalents at the beginning of the period	4,641	6,864
Cash and cash equivalents at the end of the period	4,201	3,488

Notes

For the six months ended 31 May 2022

1 General information

These condensed consolidated interim financial statements were approved by the Board of Directors on 11 July 2022.

2 Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 31 May 2022.

The comparative figures for the financial year ended 30 November 2021 are 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 for the six months to 31 May 2022 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 2021.

The condensed consolidated interim financial statements for the six months to 31 May 2022 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 2022 have been prepared on the basis of the accounting policies expected to be adopted by the Company for the year ending 30 November 2022. The Group's latest annual financial statements for the year ended 30 November 2021 were prepared under IFRS in conformity with requirements of the Companies Act 2006. These accounting policies are drawn up in accordance with UK adopted International Accounting Standards, in accordance with the presentation, recognition and measurement criteria of: International Accounting Standards in conformity with the requirements of the Companies Act 2006, and the AIM Rules for Companies.

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

Revenue by operating segment

	Unaudited six months ended 31 May 2022	Unaudited six months ended 31 May 2021
Revenue	£000	£000
Systems	11,816	9,801
Security	11,804	13,106
Total segmental revenue	23,620	22,907
Reconciliation to consolidated revenue: Intra-Group sales	(855)	(949)
	22,765	21,958

Underlying operating result by operating segment

	Unaudited six months ended 31 May 2022	Unaudited six months ended 31 May 2021
Underlying operating profit/(loss)	£000	£000
Systems	722	(482)
Security	575	497
Total segmental underlying operating profit	1,297	15
Reconciliation to consolidated underlying operating profit/(loss): Central costs	(772)	(774)
	525	(759)

Underlying operating profit from operations is reconciled to total profit from operations as follows:

	Unaudited six months ended 31 May 2022	Unaudited six months ended 31 May 2021
Underlying operating profit/(loss)	£000	£000
Underlying operating profit/(loss)	525	(759)
Non-underlying items	-	(12)
	525	(771)

4 Taxation

The tax charge of £80,000 (2021: £313,000 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 2022.

5 Dividends

The Board does not propose to pay an interim dividend (2021: £nil).

6 Retirement benefit asset

In 2020 the decision was taken by the Trustees of the scheme 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 up the pension scheme. On 8 December 2020, the agreement with the insurance company to buy out the liabilities was signed, and the actuarial valuation was altered in line with IFRIC 14 (13). 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 £1,073,000 recognised in other comprehensive income in the comparative period.

7 Earnings per share

Earnings per share are as follows:

	Unaudited six months ended 31 May 2022	Unaudited six months ended 31 May 2021
	Pence per share	Pence per share
Basic earnings per share	2.4	(2.9)
Diluted earnings per share	2.4	(2.9)

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

	Unaudited six months ended 31 May 2022	Unaudited six months ended 31 May 2021
	£000	£000
Earnings for basic and diluted earnings per share	405	(497)
Non-underlying items	-	12
Impact of non-underlying items on tax expense for the period	-	(4)
Earnings for underlying basic and underlying diluted earnings per share	405	(489)

	Unaudited six months ended 31 May 2022	Unaudited six months ended 31 May 2021
	000	000
Weighted average number of ordinary shares – basic calculation	16,886	16,889
Dilutive potential ordinary shares arising from share options	-	32
Weighted average number of ordinary shares – diluted calculation	16,886	16,921

8 Availability of results

Copies of this statement are available on the Group's website (www.synecticsplc.com) and will be available shortly from Synectics plc, Synectics House, 3-4 Broadfield Close, Sheffield, England S8 0XN.