

21 November 2023

Calnex Solutions plc

("Calnex", the "Company" or the "Group")

Interim Results

Calnex Solutions plc (AIM: CLX), a leading provider of test and measurement solutions for the global telecommunications and cloud computing markets, announces its unaudited results for the six months ended 30 September 2023 ("H1 FY24" or "the Period").

Financial Highlights

- Performance impacted by the wider economic environment and resulting deferral of investment in telecommunications market.
- Revenue decline of 38% to £7.8m (H1 FY23: £12.7m).
- Gross margin maintained at 74%, broadly in line with the prior period (H1 FY23: 76%).
- Cost controls implemented, while maintaining key product development and customer engagement to support future growth.
- Underlying EBITDA¹ loss of £0.4m (H1 FY23: profit of £3.5m).
- Loss before tax of £0.6m (H1 FY23: profit of £3.1m).
- Basic EPS loss (pence) of (0.42)p (H1 FY23: 2.78p).
- Closing cash position of £13.5m (H1 FY23: £14.4m, including fixed term deposits), enabling exploitation of growth opportunities across key sectors. Cash levels expected to be maintained for H2.
- Interim dividend of 0.31 pence per share to be paid in December.

Operational Highlights

- Sales pipeline remains strong with customers committed to delivery of pipeline projects once budgets are released.
- New products performing well, with first orders for SNE-X and SNE-Ignite and NE-ONE gaining traction in new sectors, such as defence.
- Ongoing product development programme to support growth and meet the evolving needs of customers.

Outlook

- The Board expects to close the year in line with the current market expectations.
- Confident in a return to growth in the 12 months to March 2025 ("FY25") through creation of new use cases for existing products, plus the development of new products and expansion into growing sectors.
- Underlying market drivers, including the increase in network complexity, the build-out of 5G and data centre investment, remain positive.

Tommy Cook, Chief Executive Officer, and founder of Calnex, said: *"While the results for the first half are disappointing, the strength of our offering, team, and balance sheet, resulting from our consistent delivery in recent years, means we are well positioned to weather the current conditions while continuing to invest in our product roadmap.*

"We have experienced markets such as these before and are adept at managing the business back to growth.

"We believe the fundamental drivers that underpin the build out of the mobile network and the expansion of data centres and cloud computing capacity have not changed, but rather investment put on pause due to the macro-economic climate. We will continue to focus on the deployment of our new product programme as a means to generate additional customer demand and are confident that Calnex will return to growth in FY25."

¹EBITDA after charging R&D amortisation.

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Overview of Calnex

Calnex Solutions designs, produces and markets test and measurement instrumentation and solutions for the telecommunications and cloud computing industries. Calnex's portfolio enables R&D, pre-deployment and in-service testing for network technologies and networked applications, enabling its customers to validate the performance of the critical infrastructure associated with telecommunications and cloud computing networks and the applications that run on it.

To date, Calnex has secured and delivered orders in 68 countries across the world. Customers include BT, China Mobile, NTT, Ericsson, Nokia, Intel, Qualcomm, IBM and Meta.

Founded in 2006, Calnex is headquartered in Linlithgow, Scotland, with additional locations in Belfast, Northern Ireland, Stevenage, England and California in the US, supported by sales teams in China and India. Calnex has a global network of partners, providing a worldwide distribution capability.

Operational Review

Overview of the Period

Throughout the first half of the financial year, Calnex continued to operate in a challenging economic environment, reflecting the ongoing caution in the wider telecommunications market. Our order inflow remained at the subdued levels we experienced at the outset of the year. The cautiously improving outlook reported widely across the sector earlier in H1 failed to gain the momentum we expected and the typically strong September trading period that we usually experience, following the seasonally quiet July and August, did not materialise. As a result of these factors, the Group achieved HY24 revenue of £7.8m (H1 FY23: £12.7m) and a loss before tax of £0.6m (H1 FY23: profit of £3.1m), below the Board's expectations set at the start of the year.

While the extent of the first half decline in revenues and profits is deeply disappointing for us all, there remain many reasons for optimism over the longer term. We have multiple customer orders that have passed through technical and commercial validation stages and are awaiting budget allocation. Our strong sales pipeline provides confidence, and customers have confirmed they remain committed to the delivery of projects once budgets are released.

Spending within the telecommunications sector is generally led by the large infrastructure projects of the major telecommunications operators, which filter down through the wider ecosystem. These infrastructure projects face macro slowdowns at times, and we are currently experiencing one that is particularly prolonged, reflecting both the high interest rate environment and the increased geopolitical tensions, which have caused network build-out projects to be slowed or delayed.

Due to our long history in the sector, we have experienced markets such as these before and are adept at managing the business back to growth, delivering historically, low-teens long-term revenue CAGR. We are confident that we can capitalise on the opportunities available to us once market dynamics normalise.

While we are confident that budgets will return in the telecommunications market as the economic backdrop improves, we are not simply waiting for the market to re-open. Our new product programme targeting both telecommunications and non-telecommunications markets, such as cloud computing, data centres and the defence sector, which are less affected by the macroeconomic environment, is more important than ever, as a new product that serves evolving customer needs provides a more compelling reason for customers to buy, even in a downturn.

While order levels were suppressed across all product lines and regions outside of the data centre and cloud and IT markets, we continued to secure sales for both existing and newly released products in the Period. Highlights include the first orders for our newly launched products, SNE-X, SNE-Ignite and NE-ONE, which is gaining traction in new sectors, such as defence.

The business continues to be supported by a healthy balance sheet, with cash at the end of September 2023 of £13.5 million. There was significant investment in inventory during the Period to develop more flexibility in the ability to respond to customer orders plus an element of inventory build-up from material received to support previous order expectations. This cash position enables us to continue to target growth opportunities across our key sectors and maintain relationships with customers as they plan future investment in their projects.

Market drivers

The underlying structural growth drivers in the telecommunications and data centre markets continue to offer long-term growth opportunities for Calnex. Within the telecommunications market, these include the increase in network complexity and the build-out of the mobile infrastructure utilising 5G technology. This will see a long-term transformation of the telecommunications network, creating the need for test and measurement equipment to prove that new systems operate effectively and conform to rigorous international standards. The telecommunications market is still very much only at the start of this build out. In a recent interview with Bloomberg, Pekka Lundmark, Chief Executive Officer, Nokia, is quoted as saying *"In Mobile Networks there is still substantial need for operators to invest in 5G globally with only approximately 25% of the potential mid-band 5G base stations so far deployed outside China."*

The ongoing investment into data centre capacity and efficiency to support the growth in cloud computing and adoption of AI is also providing Calnex with new opportunities in the areas of network time monitoring (with our recently introduced product 'SyncSense') and data centre efficiency and effectiveness.

Product development

Innovation is the lifeblood of our business. We have consistently brought highly engineered, high value and differentiated products to market, stimulating customer demand and supporting our growth. Each new platform we develop offers a large number of features and capabilities. Much of this core capability can be used in a multitude of testing scenarios in a wide range of markets, both within telecommunications and non-telecommunications markets. These core capabilities are then complemented by added features making the platform appropriate for a specific market in which we have identified a verified opportunity.

In this way, previous R&D investment is repurposed for new growth channels, such as the adaptation of our telecommunications network synchronisation offering, Sentinel, for the data centre market, re-named Sentry.

We have innovation programmes across all of our product families, adapting them for new customer needs or markets. These include SyncSense, a new product to target network time monitoring in data centres, and SNE-X and SNE-Ignite, targeting high-speed, and high accuracy Network Emulation opportunities across both telecommunications and non-telecommunications markets. We anticipate the launch of these new products will support our growth in FY25, as well as the demand we are seeing for the newly launched Sentry and the acquired NE-ONE offering in defence.

Outlook

The Board expects to see a seasonal increase in H2, closing the year in line with the current market expectations. During H2, we will remain focused on the deployment of our existing products as well as our new product programme that targets both the telecommunications and non-telecommunication markets, to address unmet customer needs. We are confident that these will enable Calnex to return to growth in FY25.

We believe the fundamental drivers that underpin the build out of the mobile network and the expansion of the data centres and cloud computing capacity have not changed, there is simply a pause caused by the macro-economic climate. Within the telecommunications market, the close relationships we hold with our customers and partners mean we are well positioned to convert the sales pipeline to orders once spending patterns normalise.

Our healthy balance sheet will enable us to weather these uncertainties, providing the Board with confidence in the medium- and long-term future of Calnex and in our ability to deliver for our shareholders.

Financial Review

While the results for the period are disappointing, importantly gross margins have remained robust and we continue to benefit from a healthy cash balance, strong customer relationships and a high quality and productive R&D team, providing us with confidence in a return to a stronger financial performance in future periods.

Broadly, the wider economic concerns and reticence in the market had an impact on revenue levels across all product lines and geographies.

Amongst our three territories, Rest of World (EMEA, India, South East Asia, Australasia) was the least affected by the slow-down, driven by a resilient performance in EMEA where business is derived from a wide range of sectors. Within North Asia, China remains challenging due to the impact of US restrictions and as a result, an increased focus is being applied to growing business in Taiwan and Japan. The Americas region was most impacted by the telecommunications slow down and therefore increased focus is being applied on Hyperscalers and government opportunities where we see the best chance to close business.

Looking at our product lines, Lab Sync (Paragon-Neo and Paragon-X) saw a softened performance in the Period which, given their dominance in the telecommunications market, is directly linked to the wider slowdown in the sector. This is also the case with Sentinel, our telecommunications focused Network Sync product. Sales of Sentry, our Network Sync product aimed at data centres, are continuing as planned.

Our Cloud & IT (infrastructure) product, SNE, endured a challenging H1 given its exposure to the US market, but performance is expected to pick up in H2 from the growing sales pipeline for the newly launched SNE-X & SNE-Ignite products. Across Cloud & IT (Applications), NE-ONE, we are on track to achieve our original FY revenue target, with the growth being driven by channel expansion and a strong performance in defence and satellite communications sectors.

Key performance indicators

£000	H1 FY24	H1 FY23	FY23
	Unaudited	Unaudited	Audited
Revenue	7,847	12,728	27,449
Gross Profit	5,836	9,617	20,472
Gross Margin	74%	76%	75%
Underlying EBITDA ¹	(411)	3,466	7,980
Underlying EBITDA %	-5%	27%	29%
Profit before tax	(599)	3,086	7,208
Profit before tax %	-8%	24%	26%
Closing cash including fixed term deposits ²	13,478	14,436	19,098
Capitalised R&D	2,554	2,247	4,523
Basic EPS (pence)	(0.42)	2.78	6.75
Diluted EPS (pence)	(0.42)	2.67	6.42

¹ EBITDA after charging R&D amortisation.

² The Group places surplus cash balances not required for working capital into notice and fixed term deposit accounts. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.

A reconciliation between the statutory reported income statement and the adjusted income statement is shown in note 22 to the financial statements.

Revenue

Revenue recognised in the first half of the year was £7.8m, a 38% decline on H1 FY23 revenue of £12.7m, driven by the subdued level of order volumes experienced through the Period.

Gross Margin

Gross margin in the Period was 74%, in line with the FY23 margin of 75%. (H1 FY23: 76%). This gross margin is net of commissions payable to our channel partners and can fluctuate by 1-2% through the year depending on the mix and timing of the hardware and software bundles shipped.

The Group increased pricing in the prior period to negate inflationary direct materials cost increases, which has contributed to the protection of the product margins throughout the Period.

Underlying EBITDA

Underlying EBITDA is stated after charging R&D amortisation.

Underlying EBITDA was a £0.4m loss in the Period (H1 FY23: £3.5m), driven by the reduction in revenue volumes. Underlying EBITDA margin was -5% (H1 FY23: 27%).

Administration costs excluding depreciation and amortisation were £4.5m in H1 FY23 (H1 FY22: £4.7m). The Group paused on any further recruitment at the start of the year as a consequence of the slowdown in trading and, as a result, excluding graduate hires, there were no new headcount increases in the Period.

The reduced order levels have resulted in lower commission costs compared to the prior period together with lower recruitment costs and legal fees (non-recurring deal fees for the iTrinegy acquisition were included in administration costs in the prior period). Staff and management profit share accruals have also been reduced compared to the prior year. These cost savings were offset partially by adverse foreign exchange impacts on overseas salary costs and increased share-based payment charges.

£0.1m has been charged to the income statement in the Period to account for the Earn-out Payment in relation to the iTrinegy acquisition, with a further £0.1m to be charged in H2. If revenue growth targets from the NE-ONE product line are met, the Earn-Out Payment will be paid as a combination of cash and new shares issued in Calnex Solutions plc in early FY25.

Whilst cost controls have been implemented across all cost lines and departments, the Group has not implemented any investment reduction programmes as maintaining investment in product development and customer engagement at this point is fundamental to support future growth.

Amortisation of R&D costs in H1 FY23 was £1.8m (H1 FY22: £1.6m). The increase on the prior period is due to the impact of the 5 year amortisation profile and growth in capital spend in prior years. Excluding graduate hires (of which there were 5 new hires in the Period), there have been no headcount increases in the R&D team in the Period.

Profit before tax

Loss before tax was £0.6m in the Period (H1 FY23: £3.1m profit), with the reduction in trading volumes and predominantly fixed cost base causing a negative operational leverage effect on profit.

Tax

The Group's loss-making position resulted in a tax credit of £0.2m for the Period (H1 FY23: charge of £0.7m), driven predominantly by the proportion of R&D SME enhanced tax credit relief.

The weighted average applicable tax rate for FY24 is 25% (FY23: 19%). The difference between the applicable rate of tax and the effective rate of 37% (H1 FY23: 21%) is largely due to the following:

- Availability of R&D SME enhanced deduction at 86% (increasing effective rate by 24%); and
- A combination of such as prior year adjustments, timing differences, and overseas tax (decreasing effective rate by 12%).

We expect the effective tax rate to revert back in line with the weighted average applicable tax rate once the Group returns to profitability in future periods.

Earnings per share

Basic earnings per share was a loss of 0.42p in the Period (H1 FY23: 2.78p) and diluted earnings per share was also a loss of 0.42p (H1 FY23: 2.67p), with the movement compared to the prior period attributed to reduced trading volumes.

Cashflows

The Group experienced a cash outflow of £5.6m in the period, reflecting the loss made in the Period and increases in working capital.

Working capital in the period increased by £3.3m (H1 FY23: £1.3m) driven predominantly by increased levels of product to increase responsiveness to order intake, plus inventory increases as a result of the tail end effects of supply chain issues coupled with investment in inventory to support the previous order expectations. The inventory will be sufficient to support the remainder of the year and positions the company well to deliver faster turnaround of orders to revenue in H2.

The Group paid £0.8m in tax in the period based on the profit generated in the prior year. Given the Group's current expectations for profit for FY24, this cash is potentially refundable in FY25 after submission of the FY24 year-end tax return.

Cash used in investing activities is principally cash spent on R&D activities which is capitalised and amortised over five years. Investment in R&D in the Period was £2.6m (H1 FY22: £2.5m), reflecting inflationary salary increases and graduate headcount increases.

The Group places surplus cash balances not required for working capital into notice and fixed term deposit accounts. Under IFRS, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment. This is shown separately on the balance sheet and classed as a cash outflow within investing activities in the consolidated cashflow statement in prior periods. As at 30 September 2023, the Group held surplus cash in notice accounts, but did not hold any on long term deposit.

Closing cash at 30 September 2023 was £13.5m (30 September 2022: £14.4m including fixed term deposits; 31 March 2022: £19.1m including fixed term deposits). Subject to any effects of supply chain issues, we expect this cash balance to be maintained throughout H2.

Dividend

The Board retain full confidence in future growth and accordingly has resolved to pay an interim dividend of 0.31 pence per ordinary share (FY23 Interim dividend 0.31p) on 15 December 2023 to those shareholders on the register as at 1 December 2023, the record date. The ex-dividend date is 30 November 2023.

Calnex Solutions plc
Consolidated Statement of Comprehensive Income
For the period ended 30 September 2023

		6 months to 30 Sep 2023 (Unaudited) £'000	6 months to 30 Sep 2022 (Unaudited) £'000	Year ended 31 Mar 2023 (Audited) £'000
Revenue	5	7,847	12,728	27,449
Cost of sales		(2,011)	(3,111)	(6,977)
Gross profit		5,836	9,617	20,472
Other income		111	150	751
Administrative expenses		(6,705)	(6,669)	(13,989)
Operating (loss)/profit		(758)	3,098	7,234
<i>Presented as:</i>				
EBITDA		1,405	5,076	11,295
Depreciation and amortisation of non-R&D assets		(347)	(368)	(746)
Amortisation of R&D asset		(1,816)	(1,610)	(3,315)
Operating (loss)profit		(758)	3,098	7,234
Finance costs	6	(11)	(12)	(26)
Interest received		170	-	-
(Loss)/profit before taxation		(599)	3,086	7,208
Taxation	7	223	(656)	(1,297)
(Loss)/profit and total comprehensive income for the year		(376)	2,430	5,911
Earnings per share (pence)				
Basic (loss)/earnings per share	8	(0.42)	2.78	6.75
Diluted (loss)/earnings per share	8	(0.42)	2.67	6.42

Calnex Solutions plc
Consolidated statement of financial position
For the period ended 30 September 2023

		6 months to 30 Sep 2023 (Unaudited) £'000	6 months to 30 Sep 2022 (Unaudited) £'000	Year ended 31 Mar 2023 (Audited) £'000
Non-current assets				
Intangible assets	9	11,168	10,181	10,565
Goodwill	10,11	2,000	1,646	2,000
Plant and equipment	12	434	297	404
Right of use assets	13	409	660	533
Deferred tax asset	14	691	304	272
		<u>14,702</u>	<u>13,088</u>	<u>13,774</u>
Current assets				
Inventory	15	3,837	1,532	2,748
Trade and other receivables	16	4,676	6,035	3,130
Corporation tax receivable		42	-	-
Cash and cash equivalents	17	13,478	12,936	17,583
Short term investments	17	-	1,500	1,515
		<u>22,033</u>	<u>22,003</u>	<u>24,976</u>
Total assets		<u>36,735</u>	<u>35,091</u>	<u>38,750</u>
Current liabilities				
Trade and other payables	18	5,515	6,059	5,988
Corporation tax payable		-	-	843
Lease liability payable within one year	13	271	192	260
		<u>5,786</u>	<u>6,251</u>	<u>7,091</u>
Non-current liabilities				
Trade and other payables	18	1,096	1,965	1,396
Lease liabilities payable later than one year	13	280	566	431
Deferred tax liability	14	2,663	2,253	2,457
Provisions	19	15	15	15
		<u>4,054</u>	<u>4,799</u>	<u>4,299</u>
Total liabilities		<u>9,840</u>	<u>11,050</u>	<u>11,390</u>
Net assets		<u>26,895</u>	<u>24,041</u>	<u>27,360</u>
Equity				
Share capital		109	109	109
Share premium		7,495	7,495	7,495
Share option reserve		1,327	764	873
Retained earnings		17,964	15,673	18,883
Total equity		<u>26,895</u>	<u>24,041</u>	<u>27,360</u>

Calnex Solutions plc
Consolidated statement of cashflows
For the period ended 30 September 2023

	6 months to 30 Sep 2023 (Unaudited) £'000	6 months to 30 Sep 2022 (Unaudited) £'000	Year ended 31 Mar 2023 (Audited) £'000
Cashflow from operating activities			
(Loss)/profit before tax from continuing operations	(599)	3,086	7,208
<i>Adjusted for:</i>			
Finance costs	11	12	26
Interest received	(170)	-	(160)
Government grant income	(111)	(96)	(201)
R&D tax credit income	-	-	(390)
Movement in provisions	-	(141)	-
Share based payment transactions	450	286	574
Depreciation	211	368	371
Amortisation	1,952	1,610	3,690
Movement in inventories	(1,234)	(569)	(1,554)
Movement in obsolescence provision	145	109	(122)
Movement in trade and other receivables	(1,546)	(1,054)	1,619
Movement in trade and other payables	(649)	239	(329)
Cash (outflow)/inflow generated from operations	(1,540)	3,850	10,732
Movement in provision (overseas tax)	-	-	(140)
Corporation and foreign tax payments	(843)	-	(70)
Corporation tax receivable	(42)	-	-
R&D tax credit cash refunds received	-	393	589
Net cash (outflow)/inflow from operating activities	(2,425)	4,243	11,111
Investing activities			
Purchase of intangible assets	(2,554)	(2,247)	(4,523)
Purchase of plant and equipment	(117)	(64)	(181)
Purchase of subsidiary: net of cash acquired	-	(2,263)	(2,263)
Short term investment: fixed term deposit	1,515	-	(15)
Interest received	170	-	160
Net cash outflow from investing activities	(986)	(4,574)	(6,822)
Financing activities			
Payment of lease obligations	(151)	(111)	(245)
Dividends paid	(543)	(490)	(761)
Share options proceeds	-	11	11
Government grant income	-	-	432
Net cash outflow from financing activities	(694)	(590)	(563)
Net (decrease)/increase in cash and cash equivalents	(4,105)	(921)	3,726
Cash and cash equivalents at the beginning of the period	17,583	13,857	13,857
Cash and cash equivalents at the end of the period	13,478	12,936	17,583

Calnex Solutions plc
Consolidated statement of changes in equity
For the period ended 30 September 2023

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total Equity £'000
Balance as at 30 September 2022	109	7,495	764	15,673	24,041
<i>Transactions with owner in their capacity as owners</i>					
Share options	-	-	109	-	109
Interim dividend	-	-	-	(271)	(271)
	-	-	109	(271)	(162)
Profit for period ended 31 March 2023	-	-	-	3,481	3,481
Balance as at 31 March 2023	109	7,495	873	18,883	27,360
<i>Transactions with owner in their capacity as owners</i>					
Share options	-	-	454	-	454
Final dividend	-	-	-	(543)	(543)
	-	-	454	(543)	(89)
Loss for period ended 30 September 2023	-	-	-	(376)	(376)
Balance at 30 September 2023	109	7,495	1,327	17,964	26,895

Calnex Solutions plc
Notes to the interim consolidated financial statements
For the period ended 30 September 2023

1. General information

The interim consolidated financial statements cover the consolidated entity Calnex Solutions plc and the entities it controlled at the end of, or during, the interim period to 30 September 2023 (“the Group”).

Calnex Solutions plc (“the Company”) is a public limited company and is domiciled and incorporated in Scotland.

The registered office is:

Oracle Campus
Linlithgow
West Lothian
EH49 7LR

The principal activity of the Group is the design, production and marketing of test instrumentation and solutions for network synchronisation and network emulation enabling its customers to validate the performance of critical infrastructure associated with telecommunications networks, enterprise networks and data centres.

The interim consolidated financial statements for the period ended 30 September 2023 are unaudited, and do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. They do not therefore include all the information and disclosures required in annual statutory financial statements and should be read in conjunction with the Group annual report and accounts for the year ended 31 March 2023.

The Group annual report and accounts for the year ended 31 March 2023 were approved by the Board of Directors on 22 May 2023 and have been delivered to the Registrar of Companies. The auditor’s report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The interim consolidated financial statements for the period ended 30 September 2023 were approved by the Board of Directors on 20 November 2023.

2. Basis of preparation

The interim consolidated financial statements for the period ended 30 September 2023 have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board, endorsed by, and adopted for use in, the United Kingdom.

The accounting policies and methods of computation adopted are consistent with those applied in the Group’s consolidated financial statements for the year ended 31 March 2023 and have been applied consistently to all periods presented.

There have been no new standards or amendments to existing standards effective from 1 April 2023 that are applicable to the Group or that has had any material impact on the financial statements and related notes as at 30 September 2023.

The Directors do not anticipate that the adoption of any of the new standards and interpretations issued by the IASB and IFRIC with an effective date for the Group after the date of these interim financial statements will have a material impact on the Group’s interim financial statements in the period of initial application.

3. Going concern

The interim consolidated financial statements have been prepared on the basis that the Group will continue as a going concern.

In adopting the going concern basis, the Directors have considered the principal risks and uncertainties of the group, which remain unchanged from those reported in the Group annual report for the year ended 31 March 2023, a copy of which is available on the Company's website at: <https://investors.calnexsol.com>. The uncertainties arising from the macro-economic backdrop and inflationary pressures are covered by existing risks, and these continue to be closely monitored.

The Board has reviewed cashflow forecasts and availability of cashflow to fund the ongoing operations of the Group. Based on this review, along with regular oversight of the Group's risk management framework, the Board has concluded the going concern basis to remain appropriate.

4. Operating segments

Operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. As the Group has a central cost structure and a central pool of assets and liabilities, the Board of Directors do not consider segmentation in their review of costs or the balance sheet. The only operating segment information reviewed, and therefore disclosed, are the revenues derived from different geographies.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Americas	1,893	4,538	9,644
North Asia	1,527	3,168	6,475
Rest of world	4,427	5,022	11,330
Total revenue	<u>7,847</u>	<u>12,728</u>	<u>27,449</u>

5. Revenue

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Sale of goods	5,981	11,665	24,579
Rendering of services	1,866	1,063	2,870
Total revenue	<u>7,847</u>	<u>12,728</u>	<u>27,449</u>

6. Finance costs

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Interest expense on lease liabilities	11	12	26
Total finance costs	<u>11</u>	<u>12</u>	<u>26</u>

7. Taxation

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Current taxation			
UK corporation tax on profits for the period	-	413	1,143
Foreign current tax expense	46	8	149
Adjustments relating to prior years	(42)	-	(4)
Deferred taxation			
Origination and reversal of temporary differences	(233)	235	(46)
Adjustments relating to prior years	6	-	-
Effects of changes in tax rate	-	-	55
Taxation charge	<u>(223)</u>	<u>656</u>	<u>1,297</u>
(Loss)/profit before tax for the year	(599)	3,086	7,208
Effective tax rate	37%	21%	18%

The weighted average applicable tax rate for the period ended 30 September 2023 is forecast at 37% (2022: 21%), being the current period tax charge as a percentage of profit/(loss) before tax.

The current underlying corporation tax rate is 25% and the movement to the effective tax rate of 37% has been affected by the following factors:

- UK corporation tax rate: 25%
- Timing differences/deferred tax movement/ disallowable expenses (12%)
- Enhanced R&D relief 24%

8. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the total of the weighted average number of Ordinary Shares in issue during the year and adjusting for the dilutive potential Ordinary Shares relating to share options.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
(Loss)/profit after tax attributable to shareholders	(376)	2,430	5,911
Weighted average number of shares used in calculation:			
Basic earnings per share	87,524	87,508	87,520
Diluted earnings per share	92,430	91,493	92,070
(Loss)/earnings per share – basic (pence)	(0.42)	2.78	6.75
(Loss)/earnings per share – diluted (pence)	(0.42)	2.67	6.42

9. Intangible Assets

Included within intangible assets are the following significant items:

- Intellectual property representing the cost of patent applications and on-going patent maintenance fees.
- Acquired intellectual property from business combinations.
- Capitalised development costs representing expenditure relating to technological advancements on the core product base of the Group. These costs meet the requirement of IAS 38 (Intangible Assets) and will be amortised over the future commercial life of the related product. Amortisation is charged to administrative expenses.

	Intellectual property £'000	Development Costs £'000	Total £'000
Cost			
At 1 April 2023	3,526	30,395	33,921
Additions	-	2,554	2,554
Disposals	-	-	-
At 30 September 2023	<u>3,526</u>	<u>32,949</u>	<u>36,475</u>
Amortisation			
Balance at 1 April 2023	2,482	20,874	23,356
Charge for the period	136	1,816	1,952
Eliminated on disposal	-	-	-
At 30 September 2023	<u>2,618</u>	<u>22,690</u>	<u>25,308</u>
Net book value			
31 March 2023	<u>1,044</u>	<u>9,522</u>	<u>10,565</u>
30 September 2023	<u>908</u>	<u>10,260</u>	<u>11,168</u>

10. Business combinations

In the prior financial period, on 12 April 2022, Calnex Solutions plc acquired 100 per cent of the issued share capital of iTrinegy Ltd, a leading developer of Software Defined Test Networks technology for the software application and digital transformation testing market. This acquisition was made on a cash free, debt free basis, for an initial cash consideration of £2.5 million, fully funded from Group free cash. An additional £0.5 million was also paid to the vendors in exchange for them leaving all available cash (£0.7m at acquisition date) within the acquired business. Up to a further £1 million consideration is potentially payable subject to the achievement of revenue growth from the NE-ONE product line in the year ended 31 March 2024 (the 'Earn-Out Payment'). This Earn-Out Payment will be realised as a combination of cash and new ordinary shares issued in Calnex Solutions plc. The maximum number of new ordinary shares that may be issued as a result of the Earn-Out Payment targets being met in full is 322,579.

As at 30 September 2022, the reported business combination financial impact was provisional on release of the interim financials. In line with the 12 month measurement period afforded within IFRS 3 *Business Combinations*, the accounting work was finalised ahead of the year end, 31 March 2023. A reconciliation of adjustments processed following the interim reporting period ended 30 September 2022 is detailed below:

	Goodwill £'000
Goodwill reported as at 30 September 2022	1,646
<i>Adjustments reducing net identifiable assets of acquired entity:</i>	
Recognition of deferred tax liability arising from IP fair value adjustment	311
'Other payables' acquisition accounts finalisation adjustment	43
Total adjustments	<u>354</u>
Goodwill reported as at 31 March 2023	<u>2,000</u>

All values identified in relation to the acquisition of iTrinegy Ltd were final as at 31 March 2023.

11. Goodwill

The goodwill arising in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from the business combination. The Board considers the Group to consist of a single cash generating unit, reflective of not only the manner in which the Board (who operate as the Chief Operating Decision Makers) assesses and reviews performance and resource allocation of the group, but also the centralised cost structure and pooled assets and liabilities which are critical to revenue generation across all platforms. The determination of a single cash generating unit within the Group therefore reflects accurately the way the Group manages its operations and with which goodwill would naturally be associated.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Cost	<u>2,000</u>	<u>1,646</u>	<u>2,000</u>

The Group tests goodwill for impairment annually, or more frequently if there are indications that the goodwill has been impaired. The Group has an annual impairment testing date of 31 March. As at 30 September 2023, management has reviewed goodwill for indicators of impairment, and has considered the Group's trading performance, the Group's principal risks and uncertainties, and the other assumptions utilised in the value in use calculation. Management has performed sensitivity analyses on the key assumptions both with other variables held constant and with the other variables simultaneously changed. Management has concluded that there are no reasonable changes in the key assumptions that would cause the carrying amount of goodwill to exceed the value in use for the cash generating unit.

No evidence of impairment was found at balance sheet date.

12. Plant & equipment

	Plant and equipment £'000
Cost	
At 1 April 2023	570
Additions	117
Disposals	-
At 30 September 2023	<u>687</u>
Amortisation	
Balance at 1 April 2023	166
Charge for the period	87
Eliminated on disposal	-
At 30 September 2023	<u>253</u>
Net book value	
31 March 2023	<u>404</u>
30 September 2023	<u>434</u>

13. Leases

The Group has recognised a right-of use asset and a lease liability for the lease of land and buildings for its head office in Linlithgow, Scotland.

The Group leases IT equipment with contract terms ranging between 1 to 2 years. The Group has recognised right-of use assets and lease liabilities for these leases.

The Group also leases land and buildings in Belfast and one motor vehicle. These leases are low-value, so have been expensed as incurred. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about the right of use assets and leases for which the Group is a lessee is presented below:

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Right of use assets			
NBV brought forward in the period	533	791	791
Additions to right of use assets for the period	-	-	-
Depreciation charge for the period	(124)	(131)	(258)
NBV carried forward for the period	<u>409</u>	<u>660</u>	<u>533</u>
	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Lease liabilities			
Balance brought forward in the period	691	857	857
Lease additions for the period	-	-	53
Payment of lease expense	(151)	(111)	(245)
Interest on lease expense	11	12	26
Balance carried forward for the period	<u>551</u>	<u>758</u>	<u>691</u>
<i>Represented as:</i>			
Due within 1 year	271	192	260
Due in more than 1 year	280	566	431
Total amounts due	<u>551</u>	<u>758</u>	<u>691</u>

14. Deferred tax

Deferred tax asset

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Opening balance	272	304	304
Recognised in statement of comprehensive income	405	-	(192)
Recognised in equity	14	-	160
Closing balance	<u>691</u>	<u>304</u>	<u>272</u>

Deferred tax assets arise as follows:

Unused losses	321	-	-
Share based remuneration	348	265	250
Other timing differences	22	39	22
Total deferred tax asset	<u>691</u>	<u>304</u>	<u>272</u>

Deferred tax liability

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Opening balance	2,457	2,017	2,017
Recognised in statement of comprehensive income	206	236	440
Closing balance	<u>2,663</u>	<u>2,253</u>	<u>2,457</u>

Deferred tax liabilities arise as follows:

Deferred tax on acquisition	226	19	260
Timing differences on development costs	2,333	2,151	2,108
Accelerated capital allowances	104	83	89
Total deferred tax liability	<u>2,663</u>	<u>2,253</u>	<u>2,457</u>

15. Inventory

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Finished goods	4,314	2,071	3,055
Provision for obsolescence	(478)	(539)	(307)
	<u>3,837</u>	<u>1,532</u>	<u>2,748</u>

16. Trade and other receivables

Trade receivables are consistent with trading levels across the Group and are also affected by exchange rate fluctuations. No interest is charged on the trade receivables.

The Group has reviewed for estimated irrecoverable amounts in accordance with its accounting policy, and at the balance sheet date, there are no amounts outstanding beyond agreed credit terms.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Trade receivables	2,675	5,237	2,605
Other receivables	180	468	213
Prepayments and accrued income	<u>1,821</u>	<u>330</u>	<u>312</u>
	<u><u>4,676</u></u>	<u><u>6,035</u></u>	<u><u>3,130</u></u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Cash and cash equivalents

Cash and cash equivalent amounts included in the Consolidated Statement of Cashflows comprise the following:

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Cash at bank	8,222	6,370	12,439
Cash on short term deposit	<u>5,256</u>	<u>6,566</u>	<u>5,144</u>
Total cash and cash equivalents	<u><u>13,478</u></u>	<u><u>12,936</u></u>	<u><u>17,583</u></u>
Short term investment: Fixed term deposit	<u><u>-</u></u>	<u><u>1,500</u></u>	<u><u>1,515</u></u>

Short term cash deposits of £5,255,881 are callable on a notice of 95 days.

Cash held on long-term deposits (being deposits with maturity of greater than 95 days) that cannot be readily converted into cash have been classified as short term investments in prior periods.

The Directors consider that the carrying value of cash and cash equivalents and short term investments approximates their fair value.

18. Trade and other payables

Trade and other payables are consistent with trading levels across the Group but are also affected by exchange rate fluctuations. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure all payables are paid within the agreed credit terms.

Deferred income relates to fees received for ongoing services to be recognised over the life of the service rendered.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Trade payables	2,038	2,204	1,770
Other taxes and social security	217	183	197
Other payables	84	76	75
Accruals	783	1,818	1,275
Deferred income	2,393	1,778	2,671
	<u>5,515</u>	<u>6,059</u>	<u>5,988</u>
<i>Amounts due in more than one year</i>			
Deferred income	1,096	1,748	1,166
Other payables	-	217	230
	<u>1,096</u>	<u>1,965</u>	<u>1,396</u>
Total amounts due	<u>6,611</u>	<u>8,024</u>	<u>7,384</u>

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

19. Provisions

Current provisions are recognised in respect of dilapidations on leased assets. No discount is recorded on recognition of the provisions or unwound due to the short-term nature of the expected outflow and the low value and estimable nature of the non-current element.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
<i>Non-current provisions</i>			
Dilapidations	<u>15</u>	<u>15</u>	<u>15</u>

20. Dividends paid and proposed

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Proposed but not yet recognised			
Interim dividend 2024: 0.31 per share	271	-	-
Declared and paid			
Final dividend 2022: 0.56p per share	-	490	490
Interim dividend 2023: 0.31p per share	-	-	271
Final dividend 2023: 0.62p per share	543	-	-

An interim dividend of 0.31 pence per Ordinary Share (FY23 interim dividend: 0.31 pence per Ordinary Share) was declared by the board on 21 November 2023, and will be paid to ordinary shareholders on 15 December 2023. The dividend is payable to all shareholders on the Register of Members at the close of business on the 1 December 2023.

All dividends are determined and paid in Sterling.

21. Events after the reporting date

On 5 October 2023, the Company submitted an application to Companies House to strike off iTrinegy Ltd, a 100% owned subsidiary of Calnex Solutions plc. This will finalise the post-acquisition hive up of the iTrinegy entity, with all trade and operations having been transferred to Calnex Solutions plc in the prior financial year.

The first Gazette notice was issued on the 17th October 2023, and expectation is the strike off will complete in the current financial year.

22. Alternative performance measures ('APMs')

The performance of the Group is assessed using a variety of performance measures, including APMs which are presented to provide users with additional financial information that is regularly reviewed by the Board of Directors. These APMs are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Underlying EBITDA	(411)	3,466	7,980
Underlying EBITDA %	(5%)	27%	29%
Capitalised R&D spend	2,554	2,247	4,523

- Underlying EBITDA: EBITDA including R&D amortisation.

Reconciliation of statutory figures to alternative performance measures – Income Statement

	6 months to 30 Sep 2023 £'000	6 months to 30 Sep 2022 £'000	Year ended 31 Mar 2023 £'000
Revenue	7,847	12,728	27,449
Cost of sales	(2,011)	(3,111)	(6,977)
Gross profit	5,836	9,617	20,472
Other income	111	150	751
Administrative expenses (excl depreciation and amortisation)	(4,542)	(4,691)	(9,928)
EBITDA	1,405	5,076	11,295
Amortisation of development costs	(1,816)	(1,610)	(3,315)
Underlying EBITDA	(411)	3,466	7,980
Other depreciation and amortisation	(347)	(368)	(746)
Operating (loss)/ profit	(758)	3,098	7,234
Finance costs	(11)	(12)	(26)
Interest received	170	-	-
(Loss)/profit before tax	(599)	3,086	7,208
Tax	223	(656)	(1,297)
(Loss)/profit for the year	(376)	2,430	5,911

23. Availability of Interim Report

The Company's Interim Report for the six months ended 30 September 2023 will be available to view on the Company's website <https://investors.calnexsol.com>.