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RNS Final Results

FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2023

ZYTRONIC PLC

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Zytronic plc

("Zytronic" or the "Company"

and, together with its subsidiaries, the "Group")

Final Results for the year ended 30 September 2023 (audited)

Zytronic plc, a leading specialist manufacturer of touch sensors, announces its audited full year results for the period ended 30 September 2023 ("FY23"). Comparative data is provided for the year ended 30 September 2022 ("FY22").

Overview

- Decrease in revenues to £8.6m (2022: £12.3m)
- Headwinds arise in Gaming and Vending markets over the year impacting revenue to both. Reduction of Gaming sales of £2.3m and Vending of £1.0m
- Gross margin excluding exceptional costs of 24.5% (2022: 30.5%) and including exceptional costs of 17.4% (2022: 30.5%)
- LBITDA excluding exceptional costs at £0.4m (2022: EBITDA of £1.5m) and including exceptional costs at £1.4m (2022: EBITDA of £1.5m) with loss before tax of £2.0m (2022: profit before tax of £0.7m)
- Basic loss per share of 15.4p (2022: earnings per share of 5.6p)
- Proposed final dividend of 0.0p (2022: 2.2p)
- Closing net cash of £4.7m (2022: £6.4m) with interest earned of £0.2m (2022: less than £0.1m)

Commenting on current trading and the outlook for the business, Non-executive Chair, Chris Potts said:

"With the trends exhibited in the second half of FY23 continuing in the first quarter of FY24, revenues in the current year to date are lower than the same period last year. Nevertheless, the Group benefits from a strong balance sheet and has good visibility over its cost base over the next twelve-month period. With reinvigoration of the Group's business development function and differentiated technology and products, there are grounds for cautious optimism over the medium term."

1. The exceptional figure includes one-off charges of £1.0m relating to previously announced stock and doubtful debt impairment of £0.5m, costs of restructuring of £0.3m and goodwill impairment of £0.2m

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A copy of this announcement can be found on the Group's website as detailed below. The Annual Report and Accounts for FY23 will be made available on the website in late January 2024 and posted to shareholders who have requested a hard copy. A further announcement will be made in this regard which will also confirm posting of the Group's notice of Annual General Meeting and proxy voting forms.

Notes to Editors

The Group's operating subsidiary Zytronic Display Ltd ("ZDL") is a world-renowned developer and manufacturer of a unique range of internationally award-winning optically transparent interactive touch sensor overlay products for use with electronic displays in industrial, self-service and public access equipment.

ZDL's products employ a sensing solution that is readily configurable and is embedded in a laminate core which offers significant durability, environmental stability, and optical enhancement benefits to meet system-specific design requirements.

ZDL has continually developed process and technological know-how and IP since the late 1990's around two projected capacitance ("PCAP") sensing methodologies; trademarked by as PCT™ ("Projected Capacitive Technology") and MPCT™ ("Mutual Projected Capacitive Technology"), in which 15 internationally granted patents are held.

The Group is headquartered at Blaydon-upon-Tyne in the United Kingdom. ZDL operates from this site, providing its manufactured products globally through a number of sales channel partners. ZDL is relatively unique in the touch eco-system as it offers a complete one-stop solution including processing internally of the form and factor of glass and film substrates, the assembly of the associated touch overlay products, in environmentally controlled cleanrooms to customers' specific requirements and the development of the bespoke firmware, software and electronic hardware which links the manufactured touch interactive overlays to customer's integrated systems and product.

For more information about ZDL's technologies and products please see www.zytronic.co.uk and for information about the Group, please see https://www.zytronicplc.com,

2023 Chair review

Introduction

Since joining the Board in August 2023, I have greatly enjoyed learning about the business and meeting the team and, I am proud to take on the role of Non-executive Chair at a British company with such strong potential, albeit at a challenging time.

Markets and trading

Group performance in FY23 has been disappointing following the apparent recovery evidenced in FY22. This recovery was a false dawn which was not sustained in FY23, as demonstrated by the decline in revenue from all the main contributory markets.

Performance is described in detail in the FY23 Chief Executive review. In summary the main reasons for the lack of continued recovery in the year were a major end customer in the Gaming market entering a voluntary Chapter 11 Bankruptcy, which immediately suspended all orders and discussions for the remainder of the year; the continuing effects of electronic component shortages, which affected both Gaming and Vending; and the lack of trade events in previous years due to COVID-19, which underpin our interaction with channel partners and customers, and which has inhibited new business development in all our key market sectors.

From my early analysis of the situation, there is little doubt that the lack of sustained recovery is linked to the continuing impact of international events on the business, which sells into a complex global sector and where exports are the dominant source of revenue with 92% of sales outside the UK in FY23 (2022: 95%). The transnational supply chains and markets in which the Group operates have been fundamentally affected, and potentially permanently changed, by the pandemic and its consequences.

In addition, within the Group during the year there have been resignations of key staff, including the Sales and Marketing Director, and further restructuring in the operations department, the reasons for which are explained in the Chief Executive and Financial reviews.

Summary results and cash position

In summary, the full-year revenue performance was towards the upper end of the range guided to by the Company in the trading update issued on 4 May 2023 at £8.6m (2022: £12.3m). This reduction was the result of the events described in the trading update. Gross margin decreased to 24.5% excluding exceptional costs (2022: 30.5%) and 17.4% including exceptional costs (2022: 30.5%). Overall, this resulted in the LBITDA excluding exceptional costs at £0.4m and including exceptional costs at £1.4m (2022: EBITDA of £1.5m) with loss before tax of £2.0m (2022: profit before tax of £0.7m). This is the equivalent of a loss of 15.4p per share (2022: earnings per share of 5.6p).

Closing net cash was £4.7m (2022: £6.4m), with further commentary provided in the Financial review.

Dividends

Based on the FY23 results and in line with the Board's prior position of not paying dividends other than from profits generated in the period, the Board is not proposing the payment of a final dividend for FY23. With no prior payment of an FY23 interim dividend, full year dividends for FY23 are therefore nil (FY22: 2.2p).

Activity

Despite the disappointing outcome for FY23, the Group has continued investment in products and future technology, which is an essential part of maintaining the competitive edge of a high technology business. This includes development work in new sensor configurations, further evolution of the AI algorithms, hybrid sensor designs to incorporate electromechanical devices on and within its interactive PCAP surface and product initiatives beyond touch components such as full interactive tables and ElectroglaZ™.
In FY24, it will continue to invest in these, as well as starting the scoping phase for a new Application Specific Integrated Circuit ("ASIC"), which is at the heart of its globally recognised, market leading, PCAP controller technology.

The Group promoted and appointed a new Sales Director during October 2023, whose first act has been to review carefully all the sales opportunities in the Customer Relationship Management system. The number and value of opportunities continues to grow overall, confirming an encouraging trend. The Group will also recruit further business development and sales executives and expand the channel partner network, to ensure the continued growth in the opportunities pipeline.

Despite a disappointing delay in order and revenue recovery post COVID-19, the short-term focus will be on continuing product investment and ensuring that the clear market opportunity reflected in the sales pipeline is realised through a revitalisation of the Group's business development activities.

Board structure

My appointment as independent Non-executive Chair has rebalanced the Board and ended the period of acting and interim Chair appointments. John Walter, who joined the Board in February 2023 as a temporary Non-executive Director, has helped us to manage the situation and led the recruitment process resulting in my appointment. The Board thanks him for his service, and for his valuable, considered, and clear input on the issues facing the business while a Director. John stands down from the Board immediately following the release of these audited results.

The Board is now comprised of two Executive Directors and two Independent Non-executive Directors, one of whom is the Chair, with a casting vote. This provides an efficient and effective Board that is compliant with the requirements of the QCA Corporate Governance Code.

Strategic situation

The Group has a 23-year record of innovation and technical excellence in the field of PCAP touch technology and operates in a truly global market, with an experienced and professional leadership team. Most of what we develop, and manufacture is exported from the UK. I am looking forward to working with the Board and the management team to build on this enviable foundation of proven capability and past success.

The Group has experienced the full range of possible changes in its global markets, covering political, economic, social and technology elements in recent years. Reflecting on this and all the points above, the Board recognises that a significant evolution of its existing strategy is required. The Board is therefore undertaking a review of the whole business and will lay out a clear strategy for recovery and the future direction of the Group in due course.

Current trading and outlook

With a continuation of the trends exhibited in the second half of FY23 into the first quarter of FY24, revenues in the current year to date are lower than the same period last year. Nevertheless, the Group benefits from a strong balance sheet and has good visibility over its cost base over the next twelve-month period. With reinvigoration of the Group's business development function and differentiated technology and products, there are grounds for cautious optimism over the medium term.

Chris Potts
Non-executive Chair
8 January 2024

2023 Chief Executive review

Introduction

The following provides the 2023 fiscal year ("FY23") review of sales and marketing, operations and the research and development ("R&D") undertaken by the Group's operational subsidiary Zytronic Displays Ltd ("ZDL"), drawing appropriate comparisons as necessary against the prior 2022 fiscal year ("FY22").

FY23 has been hampered by continued operational headwinds, tempered by an improvement in addressable opportunities as a consequence of a return towards normality post COVID-19 of the critical lead generation processes and marketing efforts for business development and the ongoing innovations around the projected capacitance ("PCAP") touch sensing technology by the R&D department.

A number of factors have had an influence on the revenue generation performance of ZDL over the course of FY23, the largest being the unpredicted turmoil that occurred with the customers in the Gaming market, coupled with an overstocking generated in FY22 in the Vending market, which are covered in more detail in this review.

On 4 May 2023, the Group issued an FY23 trading update, which explained the effects anticipated to occur by the year end as a consequence of the above, setting an expected revenue generation range of between £8.0m and £8.8m. The year concluded with reported revenues of £8.6m, a reduction of 30% against the £12.3m reported for FY22 but, in the circumstances, satisfactorily towards the top end of those revised expectations.

Markets

Of the major five key contributory markets, all have shown decline in FY23 compared to FY22, the largest being the £2.3m revenue reduction from the Gaming market. This resulted in Gaming being the second highest revenue generating market, and the Vending market becoming the highest revenue generating market in FY23.

The table below shows the revenues for each of the differentiating markets, and the lesser combined markets, referenced as Other.

Market	FY23	FY22
Vending	£2.6m	£3.6m
Gaming	£2.4m	£4.7m
Industrial	£1.2m	£1.6m
Financial	£1.1m	£1.2m
Signage	£0.6m	£0.6m
Other	£0.7m	£0.6m
Total	£8.6m	£12.3m

Note: values rounded to nearest £0.1m

Sales of products to the Vending market in FY23 have shown a circa £1.0m or 28% decline, compared to FY22. In FY23 sales were made to 36 independent customers, compared to 47 in FY22. The largest two contributors in FY22, whose combined revenues accounted for £1.5m of sales, both declined in FY23 by a combined total of £1.1m, with the largest accounting for 76% of the reduction. The decline in this instance was associated with the US-based, independently branded fountain drinks dispenser customer, which, due to fears of electronic component shortages in FY22 overstocked at that point and therefore reduced its demand in FY23.

On a positive note, an increase was observed in FY23 sales of £0.9m to 21 of the 36 customers supplied, with the value-add reseller ("VAR") channel partners in Italy and Spain, the latter particularly in its sales to commercial electric vehicle charging station customers, accounting for a combined £0.3m of the increase.

The majority of sales revenues from the Gaming market, as a component supplier, were attributable to three main display integrator customers all based in South Korea. The supplied design solutions to these customers, were then used by them to provide an integrated interactive display module to a number of slot machine original equipment manufacturers ("OEM") for use within a wide range of cabinet designs.

The 49% decline in FY23 Gaming market revenues to £2.4m was attributable to several contributory factors, the most notable being the total demise of the Aruze gaming group ("AGG"). In February 2023 AGG's casino sales entity Aruze Gaming America Inc. ("AGA") filed for a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the State of Nevada.

The subsequent effect of the Chapter 11 filing on ZDL was an inability to recover trade receivables from the AGG affiliate Aruze Philippines Manufacturing Inc. ("APMI"), the slot cabinet assembler of AGG and one of its sub-tier suppliers, and work in progress and finished goods stock for orders placed by the same sub-tier supplier, which subsequently became undeliverable. The year was then further affected by a lack of ongoing demand that would have been expected and deliverable during the second half period. Details of the financial impairments and actions taken are covered in more detail in the Financial review.

The business assets of AGA were sold by way of auction in July 2023, the slot operations, including land-based assets and online gaming, being bought by Play Synergy (in October 2023 re-branded as Aruze Gaming Global), an Empire Technological Group company, and the interactive table game assets being bought by Interblock USA. AGA was then officially wound up on 18 August 2023, which resulted in the total demise of AGG.

However, as indicated, other factors also contributed to the decline observed in the Gaming revenues for FY23, including the COVID-19 effects of "chip" and other electronic component shortages during FY22, which forced significant controller redesigns.

For one display integrator customer, and one design, which was reducing in volume as it moved towards end-of-life ("EOL"), the controller redesign meant the end OEM had to seek new extensive regulatory approvals, and thereby allowed its approved secondary source supplier to replace ZDL as primary supplier. The effect of both the loss of primary supply and reducing total volumes led to a reduction in comparable FY23 revenues of approximately £1.2m.

Sales of product solutions to the Industrial market, which are generally associated with machine control interfaces and informational kiosks, were 26% lower in FY23 over the £1.6m reported in FY22. The largest program decline coming from a USA customer, where the product is used in control dials for industrial boilers. Regionally, EMEA exhibited the largest monetary decline of £0.3m, which was relatively spread across most western European countries other than Spain, which exhibited a modest £0.1m increase. In a similar fashion to that of Vending, there are numerous individual customers that make up the sales generators in that market, being 49 in both FY23 and FY22. Of the FY23 49 customers, 34 were repeat customers from FY22, accounting for 94% of the total FY23 sales.

Product sales to the Financial market, historically dominated by two ATM customers, their affiliated group companies, sub-tier suppliers and products, have, as indicated in the FY22 review, achieved a maintenance level of revenue generation, as the products supplied are low volumes of old version new builds and in-field replacement spares. FY23 sales were 96% of the £1.2m in FY22, with sales into one ATM entity up by £0.2m at £1.0m, whilst sales to the other were down by £0.2m at £0.2m.

Sales of products to the Signage market in FY23, which comprises informational systems, wayfinders, street furniture, and tables, etc. achieved 90% of the £0.6m sales reported in FY22, with the largest individual regional declines experienced in Germany and France. Signage, is also a market where there are numerous customers, having made sales to 22 individual entities during FY23, 17 being FY22 repeat customers, with eight of these being channel partner VARs.

Sales of products to the combined Other general category in FY23, comprising of smaller individual markets such as Healthcare, Home Automation, Industrial Telematics, Military, etc. achieved an increase of 3% on the FY22 £0.6m revenues. This was generated from trading with 38 customers (FY22: 38), 23 of which we had also traded with in FY22 across those markets. The increase in revenues came from sales to the UK, offset by a near equal decline in sales to Germany.

In total across all markets, 43,500 touch sensor units were supplied in FY23, compared to 60,000 units in FY22. The Group observed a 19% reduction in small (≤14.9") touch sensors sold to 14,000 units, a 24% reduction in medium (≥15.0" ≤29.9") touch sensors sold to 22,500 units and, due in the main to the problems in the Gaming and Vending markets, a 47% reduction in large (≥30") touch sensors sold to 7,000 units. As a consequence of the significant drop in large, supplied sensors, the PCAP units supplied under the trademark MPCT™ halved to 9,500 units, whilst curved units supplied reduced by 32% to 4,500 units. The latter two trends had a particular effect on gross margin, as they carry premium pricing compared to PCT™ flat PCAP sensors.

Export sales of £7.9m reduced as a percentage in FY23 to 92% (FY22: £11.7m, 95%), with an 8% decline in EMEA invoiced sales to £3.4m, a 44% decline in the Americas to £1.4m, a 44% decline in APAC to £3.1m and a 10% improvement in the UK to £0.7m.

Operations

With the reduced productive workload over the year, manning levels were under significant operational scrutiny, particularly over the second half period. As stated in prior years' annual reports, the multi-skilling and retention of skilled operatives is key to productivity and efficiencies within the business. It was for this reason that when a reduced workload became evident as the Group was entering the second half of FY23, ZDL's operational management took the decision to reduce the working week and the manufacturing scheduling was flexed to align with demand and, in an attempt to retain the skills, a furlough scheme to pay up to 70% of normal basic pay for non-worked time for affected operatives was introduced.

However, as the scheme ran longer than management first anticipated and to align with a return to normal 5-day manufacturing practices at the start of the new 2024 fiscal year ("FY24"), a restructuring and permanent reduction in the number of direct labour employees was considered, which resulted in a 14-person reduction to 48 persons during September 2023. Of the 14 persons affected by the redundancy process, ten accepted voluntary redundancy.

Marketing

As indicated in the opening paragraph of this review, FY23, has proven to be the first year post the problematic periods associated with COVID-19, where near-normal business prospecting activities around sales and marketing are considered to have resumed, other than the human factor change to working from home permanently or as hybrid, which has made face-to-face lead generation meetings, other than at tradeshows particularly in western Europe and the USA, more difficult than they were pre-COVID-19.

Over the FY23 period, with a return of the increasing calendar of tradeshow events and pre-pandemic and international attendance levels, which started with the Global Gaming Expo in October 2022, ZDL has attended as either exhibitors (in collaboration with regional channel partners in several instances) or as attendees at a number of significant market related tradeshows, in the USA, Spain, the UK, Germany, Taiwan, Japan, Italy and China. The Group continues to see this as a primary strategy in the return to growth of the existing organic business, which will continue to be driven in FY24, as due to the global nature of ZDL sales revenues, a tradeshow provides a unique opportunity to address a wide range of existing and new customers in a geographical region in a compact time period.

At the annual Integrated Systems Europe ("ISE") expo in February, ZDL won the Best of ISE 2023 award for the Most Creative Touchscreen Control System Interface for our demonstration unit where we integrated a curved version of our multi-touch PCAP sensor product and ZXY500 controller electronics on a new to market Samsung 49" Odyssey Neo G9 gaming monitor.

Unfortunately, the previously recruited marketing specialist (as mentioned in the FY22 annual report) resigned from the business in March 2023, as did the Sales and Marketing Director, in July 2023. At the start of FY24, Zytronic has internally appointed a new Sales Director, to drive global business development. The changes provided the opportunity to re-examine the marketing processes in place and make, where deemed appropriate, changes and improvements for FY24. The first improvement has been the commissioning of a new Zytronic website, in which the Group will now combine the previous disparate trading (www.zytronic.co.uk) and investment (www.zytronicplc.com) websites into one addressable entity, reducing the technology focus to one more aligned with market applications. It is expected that this process will conclude with the new website launch circa April 2024.

In combination with this, the Group will also look to change the way it addresses trade PR to reinforce its markets and associated applications knowledge and expertise, and its digital PR in combination with the new website design to focus on the key business-to-business social media outlets of LinkedIn and YouTube.

Opportunities log

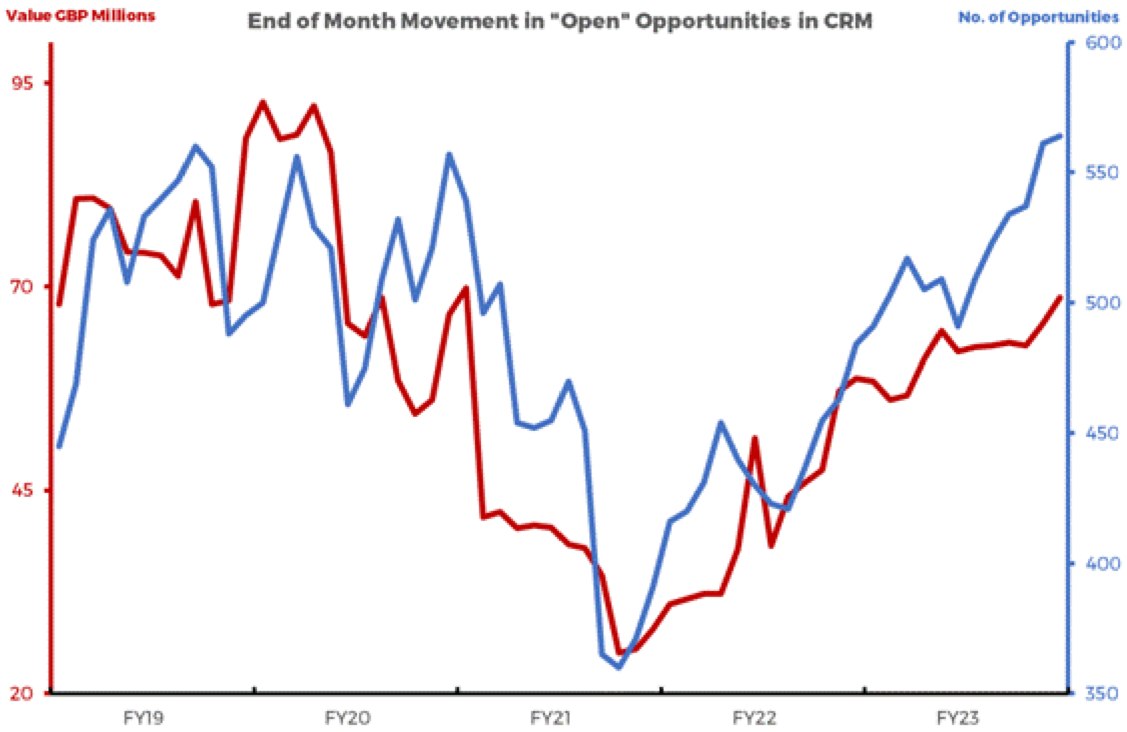
A key monitored metric in the effectiveness and responsiveness of ZDL's prospecting activities is the movements in and additions to the Opportunities Log, which is presently through a Microsoft Dynamics CRM system, which will transition as part of the move to a new integrated Epicor enterprise resource planning ("ERP") system during FY24, to log and monitor leads and opportunities generated from a combination of tradeshow participation, direct business development, indirect channel partner engagement and application directed marketing campaigns.

As it is a dynamic system, inevitably opportunities move from "Open" to "Closed" on a near-daily basis. A Closed opportunity is either "won", as it has moved from the CRM system to productive purchase order(s) (not sampling orders), or "lost", being the point at which the potential customer has confirmed either it has lost its opportunity or it no longer has interest in pursuing a ZDL solution, which can be for reasons of price, specification, capability, or opportunity duplication through multiple prospective customers who were pursuing the same end customer. Over the ten-year period between FY13 and FY23, the volume win rate of Closed opportunities is at a 34% average.

A snapshot of the CRM system is taken at each month end, to interrogate, evaluate and report upon the respective month-on-month movements. It is each business development manager's responsibility to ensure their individual and regional opportunities are accurately maintained as additions and changes occur. Consequently, with the recent appointment of a new Sales Director, they are undertaking a line-by-line review to identify any discrepancies that may exist in the Open opportunities, that should have resulted in them being Closed earlier.

To illustrate the end-of-month volume and value of Open opportunities, which are the critical fuel for new future revenue generation, as new opportunities add, which for won opportunities has an historical average maturation period of two years, the graph below is presented.

The graph illustrates the dynamic changes in the levels of Open opportunities at month ends, in both the total quantity and the total unsensitised customer projected lifetime value ("CPLV"), over the five-year time frame from the start of FY19, through to the conclusion of FY23.



As the period covers the COVID-19 pandemic and its aftermath, the graph illustrates what became an inability to add new opportunities to the log whilst existing opportunities moved from Open to Closed, as the numerous global lockdown protocols initiated from circa January 2020, and new global business prospecting activities became increasingly difficult. The result was a lagged decline for nearly two-years, before exhibiting an improvement, as business development and tradeshow activities in particular started ZDL on its road to recovery.

However, although the volume of Open opportunities has shown an improvement to pre-pandemic levels, the recovery in CPLV of those opportunities lags somewhat behind a full recovery, due in the main to post-pandemic pricing pressures emanating from Asian-based competitors.

As of 30 September 2023, there were 564 Open opportunities in the CRM system, with a CPLV of £68.6m (30 September 2022: 484 and £59.0m), the following table provides a split of these Open opportunities across the reportable markets.

	Open Opportunities	
Market	**Volume**	**CPLV**
Vending	174	£36.9m
Gaming	32	£12.0m
Industrial	155	£4.6m
Financial	20	£3.7m
Signage	92	£3.5m

Other	91	£7.9m
Total	564	£68.6m

Note CPLV is rounded to nearest £0.1m

Research and development

In combination with the increased sales and marketing activities, ZDL's R&D team, was also able to look at more market and application specific product innovations over the course of FY23, as the concerns over, and support needed for, the well documented global issues in electronic components, began to subside as expected.

Major R&D projects, which have been worked on over the course of the year, have been:

- full product designs for shelving and retail tables incorporating embedded wireless inductive phone charging and localised spotlight illumination in powered wireless, fully transparent floating designs, utilising ElectroglaZ™ panels;
- designs and developments for touch integrated round and square LCD monitors, and their utilisation in full interactive table design solutions;
- improvements to our touch controller data processing and Artificial Intelligence ("AI") algorithms that allows for improved touch sensing functionality and interfacing with other PCAP sensing methodologies and materials, which they continue to actively evaluate as a potential ZDL supplied alternative; and
- advancements in the incorporation of mechanical devices, such as buttons, joysticks and rotary dials, as floating elements within the visible area of a touch display structure, whilst maintaining full touch interactivity around these devices, enabling designers with the ability to realise hybrid solutions on a single product entity.

As the work undertaken with ZDL's technology solutions in the PCAP environment, is novel, ZDL continues to ensure adequate and appropriate IP protection is valid and in place, through the filing of patents, not only in the UK, but in other applicable international jurisdictions.

Over the course of FY23, granted patent protection has occurred in the USA (filed on 22 April 2021, granted on 25 October 2022 as US11,481,057), in Japan (filed on 9 May 2018, granted on 26 June 2023 as JP7302824) and in South Korea (filed on 9 May 2018, granted on 13 July 2023 as KR10-2556872), under the Display Arrangement Patent Family (P031248). This now takes the number of ZDL national and international granted patents to 15, across ten patent families, with a further ten patents pending, from four of the patent families, with priority dates ranging from May 2017 through to October 2021.

In FY24, work will continue on new button format integrations with the PCAP technology including new sensor configurations, which is seen as particularly pertinent to the Gaming, Industrial and Healthcare markets, as well as improved AI algorithms in support of this. As electronic capabilities are ever advancing, R&D will also begin a scoping exercise to review design concepts for a new evolution of a ZDL Application Specific Integrated Chip ("ASIC"), to incorporate improved design and greater functionality over the existing ZXY500 Series ASIC, whose initial release was in 2018.

I would finally like to conclude the review, by thanking all employees of ZDL, who have contributed to the Group over the course of a difficult FY23 trading period.

Mark Cambridge
Chief Executive
8 January 2024

2023 Financial review

Statutory results

The FY23 results for the year report Group revenue of £8.6m (2022: £12.3m), as a result of a difficult year of trading due to a number of factors. Reported gross margin at 17.4% (2022: 30.5%) and increased administration expenses at £3.5m (2022: £2.8m) both include exceptional items in the year. The statutory reported loss before tax is £2.0m (2022: profit of £0.7m).

Group revenue

Group revenue was down 30% year on year to £8.6m (2022: £12.3m) and has been impacted by several situations, with the biggest effect being the unexpected demise of a key end-customer in the first half of the year in the Gaming market. The circumstances surrounding this are explained in the earlier CEO's statement, but following this situation, the Group made no further sales of this product over the remainder of the year.

Revenues from the Vending market were also negatively impacted as one of the Group's Vending customers undertook an overstocking exercise in the previous financial year due to fears of electronic component shortages at that time, and this subsequently impacted its demand in FY23.

The split of touch sales to non-touch sales remained consistent with the prior year at 88% (2022: 89%), despite a reduction in overall volumes sold. Sales into Europe (excluding UK) of 39% of total sales (2022: 30%) meant that the region continued to be the Group's biggest geographical source of revenue, with total exports across all products accounting for 92% (2022: 95%) of total revenue. Three major customers exceeded 10% of total revenue for the year at £3.0m (2022: £4.1m).

Gross margin

Gross margin suffered over the year and decreased to 24.5% excluding exceptional costs (2022: 30.5%) and 17.4% including exceptional costs (2022: 30.5%). A number of headwinds and business decisions impacted gross margin in FY23, as explained below.

Exceptional costs for the year were £0.6m (2022: Nil) with over £0.2m of these costs being the value of the inventory write-down of finished goods and work-in-progress orders that occurred in the first half of the year relating to the Gaming market Chapter 11 event. This work ceased overnight with no likelihood of recovery at the time. As these parts are specific in design to that particular end customer (as is normal in the nature of the Groups' business) they could therefore not be sold to anyone else. This situation remained unchanged at the year end and the Group assessed the carrying value of the inventory at that time. However, post the year end, and following the sale of the related business assets to Aruze Gaming Global, the Group has subsequently made sales of some of this inventory in the new financial year, to new supply chain entities.

The Group also undertook the decision to impair its goodwill of just over £0.2m which related to the operations of Intasolve Limited (a long-dormant subsidiary). This subsidiary had been acquired in 2001 to help establish the Group's position in the touch marketplace but with continued technology advancements in its PCAP solutions, the incorporated older technology is no longer a fit. This cost has been classified as exceptional.

Over the course of the year, as the Group foresaw a reduction in productive workload, it made the decision to reduce the operational working week and to enable the retention of key skilled operatives, ran its own in-house furlough scheme, paying up to 70% of normal basic pay for non-worked time for those operatives that were affected. However, as the year ran on it became apparent that a permanent reduction in direct labour numbers was required. In September 2023, the Group entered into a redundancy process and made 14 employees redundant prior to the year end, with ten of those leaving under voluntary acceptance. The cost of this exercise to the business was over £0.1m and is classified as exceptional due to it being an infrequent occurrence.

The volume of larger format products sold over the year, most of which are into the Gaming market and were therefore impacted by the AGA situation, reduced by 47% to 7k units. As these larger format products attract higher margins, then this had an impact on gross margin over the period.

Raw material pricing continued to increase in some areas, particularly in the semiconductor market, as the shortages of supply remained into FY23 and thereby also negatively impacted margin as the Group was unable to pass on cost increases in some instances.

Loss before tax

The loss before tax for the year was £2.0m compared to a profit of £0.7m in the previous year. Administration costs increased by £0.7m over the period, with almost £0.5m of this increase being exceptional costs relating to an impairment of debtors and restructuring costs.

The revalued impairment of debtors at the balance sheet date of over £0.3m relates to the ongoing issue with AGA. APMI owed the Group over £0.2m and its sub tier supplier owed the Group over £0.1m and uncertainty remained over the recoverability of these balances. However, since the year end the Group has received payment of part of its debt from the sub tier supplier and is hopeful that this will now be repaid in full. The Group is continuing to take steps to recover the balance owed from APMI.

The other exceptional costs of over £0.1m relate to internal restructuring costs over the year which are not expected to be repeated.

Travel and marketing costs also continued to rise over that of the previous financial year as the Group continued its focus on its necessary face-to-face prospecting to enable it to grow its opportunities log and showcase its new product developments over several key market and geographical areas.

The investment in the trading company ZDL, by the Parent company that arose as part of the initial IPO of the Group back in 2000 and totalled £9.7m at the previous year end was also impaired over the year by £4.2m. This was a Parent company impairment only and had no impact on the reported Group numbers.

Tax

The tax credit arising on the loss before tax totals £0.4m (2022: charge of £0.1m). The Group is proposing to carry forward the trading losses to offset against taxable profits in the future at this higher rate of UK corporation tax, which was made effective from 1 April 2023.

Loss per share

The shares in issue at the end of the year remained consistent with those at the end of the previous year of 10,161,737. As the Group has not made a profit for the year and reports a loss after tax of £1.6m, the loss per share arising is 15.4p (2022: earnings per share 5.6p).

Dividend

As a result of a difficult trading year and the Group not making a profit, the Board has proposed it is in the best interests not to pay a final dividend for the year (2022: 2.2p) despite there being sufficient cash and reserves to do so. This is in line with its previously disclosed position of not paying dividends other than from profits generated in that year.

Capital expenditure

The Group further invested into capital expenditure over the year with £0.5m being incurred in intangible assets as R&D development continued into further product offerings and the Group continued its work on the implementation of a new ERP system.

In continuing to protect the Group's IP, further patent applications were made in FY23. The Group also spent £0.3m on tangible fixed assets, £0.1m of this spend was incurred in completing the installation of the second laser bonding machine, enabling both of ZDL's cleanroom units to have this piece of essential kit. The remainder of the spend was on the replacement of a number of production items. Depreciation and amortisation increased in FY23 to £1.0m (2022: £0.8m), with £0.2m being related to the previously mentioned impairment of Goodwill.

Cash position

Cash at the beginning of the year was £6.4m and closed at £4.7m, resulting mainly from the operational loss made by the Group over the year. Working capital, decreased over the period by £0.5m arising from the decrease in debtors, offsetting the increase to inventories and the decrease to payables and other provisions.

The increase in inventories was all in raw materials as a result of having to purchase ahead for orders that did not arise (the reduction in sales to the Gaming market is one of the biggest drivers of the increase and also the increase in controllers stock for which the order lead time was increased as the suppliers were previously struggling to satisfy demand). The Group was also issued with a last-time buy from one of its optical adhesive suppliers, which was at a preferred price, but had to be received in the year.

The decrease to debtors of £1.7m arises due to a couple of factors. The FY22 closing position was inflated by £0.4m due to a late paying debtor, who subsequently settled its debt in early FY23. The reduction in sales during FY23 also means there is less debt to be collected at the year end. The £0.3m of cash uncollected from the Gaming customers was offset by a provision for the same amount in the year.

Trade payables at the year-end of £0.5m are lower than that reported in the previous year, impacting the cash position, with accruals remaining consistent with that of last year at £0.6m.

Cashflow used in investing activities was net £0.6m (2022: £0.5m), £0.8m related to costs of investment in capital expenditure offsetting the interest earned from cash deposits of £0.2m. The Group maximised its deposits over different periods of time and obtained very good market interest rates, whilst continuing to meet the daily cashflow demands on the business.

The only financing activities to occur over the year related to the payment of a dividend for the financial year 2022 and costing £0.2m (2022: £0.2m).

The Group has recently increased its overdraft facility to £1.5m with its corporate bankers Barclays Bank plc, which is available for use in any of its three operational currencies (GBP, USD and EUR) and has again not been utilised over the year.

The Group continues to operate with no debt and has strong cash levels allowing it to remain in a solid financial position for the year ahead.

Claire Smith
Group Finance Director
8 January 2024

Consolidated statement of comprehensive income

For the year ended 30 September 2023

	Notes	**2023 £'000**	2022 £'000
Group revenue	3	**8,610**	12,340
Cost of sales		**(7,109)**	(8,577)
Cost of sales excluding exceptional items		**(6,500)**	(8,577)
Exceptional items - Goodwill impairment		**(235)**	–
Exceptional items - Other	4(a)	**(374)**	–
Gross profit		**1,501**	3,763
Distribution costs		**(159)**	(258)
Administration expenses		**(3,547)**	(2,810)
Administration expenses excluding exceptional items		**(3,092)**	(2,810)
Exceptional items	4(b)	**(455)**	–
Group operating (loss)/profit		**(2,205)**	695
Finance revenue		**200**	10
(Loss)/profit before tax		**(2,005)**	705
Tax credit/(expense)	5	**441**	(94)
(Loss)/profit for the year		**(1,564)**	611
Other comprehensive income		**-**	-
Total comprehensive (loss)/income		**(1,564)**	611
(Loss)/earnings per share			
Basic	7	**(15.4)p**	5.6p

All activities are from continuing operations

Consolidated statement of changes in equity

For the year ended 30 September 2023

	Equity share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2021	114	8,994	46	7,611	16,765
Profit for the year	-	-	-	611	611
Repurchase and cancellation of shares	(12)	-	12	(2,019)	(2,019)
Dividends	-	-	-	(170)	(170)
At 30 September 2022	102	8,994	58	6,033	15,187
Loss for the year	-	-	-	(1,564)	(1,564)
Dividends	-	-	-	(224)	(224)
At 30 September 2023	**102**	**8,994**	**58**	**4,245**	**13,399**

Consolidated statement of financial position

For the year ended 30 September 2023

	Notes	**2023 £'000**	2022 £'000
Assets			
Non-current assets			
Intangible assets		**840**	711
Property, plant and equipment		**4,958**	5,107
		5,798	5,818
Current assets			
Inventories		**2,711**	2,184
Trade and other receivables		**1,252**	2,957
Cash and short-term deposits		**4,706**	6,403
		8,669	11,544
Total assets		**14,467**	17,362
Equity and liabilities			
Current liabilities			
Trade and other payables		**488**	1,055
Derivative financial liabilities		**-**	92
Accruals		**554**	560
		1,042	1,707
Non-current liabilities			
Deferred tax liabilities (net)		**26**	468
		26	468
Total liabilities		**1,068**	2,175
Net assets		**13,399**	15,187
Capital and reserves			

Equity share capital	**102**	102
Share premium	**8,994**	8,994
Capital redemption reserve	**58**	58
Retained earnings	**4,245**	6,033
Total equity	**13,399**	15,187

Consolidated cashflow statement

For the year ended 30 September 2023

	2023 £'000	2022 £'000
Operating activities		
(Loss)/profit before tax	**(2,005)**	705
Finance income	**(200)**	(10)
Depreciation of property, plant and equipment	**445**	543
Amortisation and write-off of intangible assets	**140**	223
Impairment of goodwill	**235**	–
Amortisation of government grant	**–**	(26)
Fair value movement on foreign exchange forward contracts	**(92)**	76
Loss on disposal of asset	**–**	2
Working capital adjustments		
Increase in inventories	**(527)**	(749)
Decrease/(increase) in trade and other receivables	**1,705**	(757)
(Decrease)/increase in trade and other payables and provisions	**(723)**	126
Cash (used in)/generated from operations	**(1,022)**	133
Tax received/(paid)	**137**	(224)
Net cashflow used in operating activities	**(885)**	(91)
Investing activities		
Interest received	**189**	7
Payments to acquire property, plant and equipment	**(296)**	(280)
Payments to acquire intangible assets	**(481)**	(201)
Net cashflow used in investing activities	**(588)**	(474)
Financing activities		
Dividends paid to equity shareholders of the Parent	**(224)**	(170)
Repurchase and cancellation of shares	**–**	(2,019)
Net cashflow used in financing activities	**(224)**	(2,189)
Decrease in cash and cash equivalents	**(1,697)**	(2,754)
Cash and cash equivalents at the beginning of the year	**6,403**	9,157
Cash and cash equivalents at the year end	**4,706**	6,403

Notes to the consolidated financial statements

1. Basis of preparation

The preliminary results for the year ended 30 September 2023 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as endorsed by the European Union regulations as they apply to the financial statements of the Group for the year ended 30 September 2023. Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies adopted are consistent with those of the previous year.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 30 September 2022 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 September 2023 will be filed in due course. The auditors' report on these accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

Each of the Directors confirms that, to the best of their knowledge, the financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and the Group results, Operational review and Financial review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

2. Basis of consolidation and goodwill

The Group results comprise the financial statements of Zytronic plc and its subsidiaries as at 30 September each year. They are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

3. Group revenue and segmental analysis

Revenue represents the invoiced amount of goods sold and services provided, stated net of value-added tax, rebates and discounts.

For management purposes, the Chief Operating Decision Maker (the Board) considers that it has a single business unit comprising the development and manufacture of customised optical filters to enhance electronic display performance. All revenue, profits or losses before tax and net assets are attributable to this single reportable business segment.

The Board monitors the operating results of its entire business for the purposes of making decisions about resource allocation and performance assessment. Business performance is evaluated based on operating profits.

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All manufacturing takes place in the UK and accordingly all segment assets are located in the UK. The analysis of segment revenue by geographical area based on the location of customers is given below:

	30 September 2023		30 September 2022	
	Touch	**Non-touch**	Touch	Non-touch
	£'000	**£'000**	£'000	£'000
Sale of goods				
- Americas (excluding USA)	**207**	**251**	322	15
USA	**962**	**-**	2,015	191
- EMEA (excluding UK and Hungary)	**2,468**	**114**	3,153	58
- Hungary	**660**	**124**	251	187
- UK	**342**	**373**	339	314
- APAC (excluding South Korea)	**496**	**74**	283	254
- South Korea	**2,483**	**56**	4,586	372
	7,618	**992**	10,949	1,391
Total revenue	**8,610**		12,340	

Individual revenues from three major customers exceeded 10% of total revenue for the year. The total amount of revenue was £3.0m (2022: £4.1m).

The individual revenues from each of these three customers were: £1.0m (2022: £1.7m), £1.0m (2022: £0.8m) and £1.0m (2022: £2.4m).

4 (a). Exceptional costs - cost of sales

	30 September 2023	30 September 2022
	£'000	£'000
Write-down of stock impairment associated with doubtful debt	**239**	-
Costs of goodwill impairment	**235**	-
Costs of restructuring	**135**	-
Total exceptional costs	**609**	-

The write-down of stock in the consolidated statement of comprehensive income relates to the effects on the Group of AGA filing a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the State of Nevada.

The goodwill impairment costs of write down relate to the operations of Intasolve Limited.

The Group undertook a restructuring exercise in the year and these costs are classed as exceptional as this was a one-off event.

4 (b). Exceptional costs - administration costs

	30 September 2023 £'000	30 September 2022 £'000
Write-down of doubtful debt	**332**	-
Costs of restructuring	**123**	-
Total exceptional costs	**455**	-

The write-down of debt in the consolidated statement of comprehensive income relates to the effects on the Group of AGA filing of a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the State of Nevada.

The Group undertook a restructuring exercise in the year and these costs are classed as exceptional as this was a one-off event.

5. Tax

	30 September 2023 £'000	30 September 2022 £'000
Current tax		
UK corporation tax	-	40
Tax due on foreign subsidiary	**1**	-
Corporation tax over provided in prior years	-	(79)
Total current tax charge/(credit)	**1**	(39)
Deferred tax		
Origination and reversal of temporary differences	**(435)**	(24)
Movement related to change in tax rates	-	43
Movement related to prior year adjustments	**(7)**	114
Total deferred tax (credit)/charge	**(442)**	133
Tax (credit)/charge in the statement of comprehensive income	**(441)**	94

Reconciliation of the total tax (credit)/charge

The effective tax rate of the tax credit in the statement of comprehensive income for the year is 22% (2022: 13% charge) compared with the average rate of corporation tax charge in the UK of 22% (2022: 19%). The differences are reconciled below:

	30 September 2023 £'000	30 September 2022 £'000
Accounting (loss)/profit before tax	**(2,005)**	705
Accounting (loss)/profit multiplied by the average UK rate of corporation tax of 22% (2022: 19%)	**(441)**	134
Effects of:		
Expenses not deductible for tax purposes	**73**	(4)
Depreciation in respect of non-qualifying items	**18**	18
Enhanced tax reliefs - R&D and patent box	**(33)**	(99)
Enhanced tax reliefs - super deduction	-	(27)
Effect of deferred tax rate reduction and difference in tax rates	**(52)**	37
Tax under-provided in prior years	**(7)**	35

Tax due on foreign subsidiary	**1**	-
Total tax (credit)/expense reported in the statement of comprehensive income	**(441)**	94

Factors that may affect future tax charges

The main rate of corporation tax increased from 19% to 25% from 1 April 2023. The Group has considered the timing of the unwind of its deferred tax and has calculated its deferred tax balances at the rates at which they are expected to unwind. This has resulted in a rate of 25% being applied to deferred tax balances at the year end. As a result of this increase in the main rate of corporation tax, the Group expects its effective tax rate to increase in the medium term. The Group is expecting to carry forward its trading losses for this year to offset against taxable profits in the future.

The Patent Box regime allows companies to apply a rate of corporation tax of 10% to profits earned from patented inventions and similar intellectual property. Zytronic generates such profits from the sale of products incorporating patented components. The Group has determined that all relevant criteria has been satisfied for bringing income within the regime. While the loss-making position of the Group in 2023 has meant that there will be no benefit from the regime at present, the Group will continue to make Patent Box claims and expects to obtain tax deductions from such claims going forwards.

6. Dividends

The Directors do not propose the payment of a final dividend for this year's results. This will bring the total dividend for the year to Nil (2022: 2.2p).

	30 September 2023 £'000	30 September 2022 £'000
Ordinary dividends on equity shares		
Final dividend of 1.5p per ordinary share paid on 18 March 2022	**-**	170
Final dividend of 2.2p per ordinary share paid on 24 February 2023	**224**	-
	224	170

7. (Loss)/earnings per share

Basic LPS/EPS is calculated by dividing the (loss)/profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. All activities are continuing operations and therefore there is no difference between LPS/EPS arising from total operations and LPS/EPS arising from continuing operations.

	Loss 30 September 2023 £'000	**Weighted average number of shares 30 September 2023 Thousands**	**LPS 30 September 2023 Pence**	Profit 30 September 2022 £'000	Weighted average number of shares 30 September 2022 Thousands	EPS 30 September 2022 Pence

(Loss)/profit on ordinary activities after tax	**(1,564)**	**10,162**	**(15.4)**	611	10,836	5.6
Basic LPS/EPS	**(1,564)**	**10,162**	**(15.4)**	611	10,836	5.6

There are no dilutive or potentially dilutive instruments.

END