

Global Specialists in Integrated Security Systems



Synectics plc

Interim Report for the six months ended 31 May 2018

Synectics plc is a leader in the design, integration, control and management of advanced surveillance technology and networked security systems

With over 30 years of field-proven experience, Synectics has acquired intimate knowledge of the unique customer requirements and priorities in commercial, public and industrial environments where security is critical to their operations.

Meeting the needs of highly demanding clients for Oil & Gas, Gaming, Transport & Infrastructure, and High Security & Public Space applications, Synectics engineers sector-specific, tailored security solutions that its customers rely upon to safeguard their people, facilities and assets – across the world.

Great technology, a flexible attitude and deep sector expertise – from decades of experience – are what set Synectics apart.

The world's leading oil & gas plants, casinos, transport operators and public authorities select Synectics.



Oil & Gas



Gaming



**Transport &
Infrastructure**



**High Security
& Public Space**

Headlines

- Revenue up 3% to £34.7 million (2017: £33.7 million)
- Order book up 18% since the year end to £28.8 million
- Underlying profit¹ up 12% to £1.5 million (2017: £1.3 million)
- Profit before tax £1.5 million (2017: £1.3 million)
- Underlying diluted EPS¹ 5.9p (2017: 6.2p) due to higher forecast tax rate
- Diluted EPS 5.9p (2017: 6.1p)
- Strong cash generation and net cash of £9.1 million at 31 May 2018 (2017: £1.8 million)
- Interim dividend increased to 1.2p (2017: 1.0p)

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



These solid interim results were underpinned by a very strong performance in the gaming sector. We expect that the results for the full year will be in line with market expectations. Building on our 30 years of customer-driven innovation, we continue to adjust our product and business development activities towards the emerging needs and opportunities we see in both our established and developing market segments."

Paul Webb
Chief Executive


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Overview

Synectics produced a solid performance in the first half of the current financial year, with results in line with the Company's plans.

The Group's revenues and profit contribution from global gaming surveillance systems grew significantly in both the United States and Asia, demonstrating our continued leadership in that sector. In addition, at the end of the half, Synectics' Gaming business received a notable order valued at around US\$5 million for a new resort and casino development in Boston, USA, further details of which are set out in the Business Review section below.

In the high security sector, it was particularly pleasing to see a number of new contract awards strengthening Synectics' position in security systems for very high profile or sensitive sites in the UK. The recent contract to enhance security provisions at a prestigious high-profile landmark in central London joins projects for Westminster Abbey, British Museum, Victoria and Albert Museum, a major utilities operator, nuclear installations, financial institutions and other high security premises.

The progress in both of these areas underlines the benefits of our strategic focus on sophisticated high-end customers with specialist security and surveillance needs.

We see opportunities to capitalise on emerging software technology applications to strengthen Synectics' position at the forefront of the market for complex surveillance solutions, and have continued to increase our investment in product and business development accordingly.

Results

Synectics' revenue for the first half increased by 3% to £34.7 million, compared with £33.7 million in the same period last year. The Group recorded a consolidated underlying profit¹ up 12% at £1.5 million (2017: £1.3 million). There were no material non-underlying items, so profit before tax was also £1.5 million (2017: £1.3 million). The first half also saw a significant appreciation of the pound against the US dollar compared to the first half of the prior year. On a constant currency basis², underlying profit and profit before tax were both up 31% to £1.7 million.

The underlying diluted earnings per share¹ were 5.9p (2017: 6.2p). The projected effective tax rate for the full year has increased from 19.2% to 32.2% due to the increased proportion of the Group's profits generated by its US subsidiary, its highest tax jurisdiction. More details on these results are set out in the divisional reports below.

Order intake was £39.2 million, leaving the order book at 31 May 2018 at £28.8 million, up 18% from the position at the start of the financial year. This sales performance represented a book-to-bill ratio of 1.13 times, and supports the expectation for continued growth in the business.

Net cash at 31 May 2018 was exceptionally strong at £9.1 million (2017: £1.8 million). The high cash inflow in the half was in part a function of an unusually positive reduction in working capital requirements due to the timing of payments on major contracts. The current average net cash is around £5 million, and this balance more accurately reflects the underlying position. It remains the case that Synectics' businesses on average turn a relatively substantial portion of their profits into free cash flow, although short-term working capital balances can fluctuate significantly.

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

2 Using average exchange rates for the six months ended 31 May 2017.

Dividend

In view of Synectics' improved profitability, the Board has decided to pay an increased interim dividend of 1.2p per share (2017: 1.0p).

Business Review

Systems

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

£000	Six months ended 31 May 2018	Six months ended 31 May 2017	Year ended 30 November 2017
Revenue	24,276	22,435	46,062
Gross margin	38.9%	39.7%	39.8%
Operating profit ³	2,368	1,970	4,238
Operating margin ³	9.8%	8.8%	9.2%

3 Before non-underlying items and Group central costs.

Once again the gaming surveillance sector was the largest contributor to the results of the Systems division. After several years where growth came mainly from casinos in the Far East, in the first half of this year

Synectics won substantial new business from leading casino operators in the United States. These included an order for a new system of nearly 4,000 surveillance channels for the Encore five-star urban resort development in Boston, as well as other major orders for Las Vegas casinos. With a contract value of around \$5 million, the Boston project will be largely delivered by the end of this financial year, with completion expected in early 2019. Upgrades and repeat orders from existing casino and cruise line customers in both major gaming regions demonstrated the strength of Synectics' products and market position in this sector.

In the oil & gas surveillance sector, the level of enquiries and quotes has picked up significantly with the global oil price having recovered to a level supporting renewed capital investment by customers. This increased activity is expected to feed through to growth in Synectics' revenues from 2019. In the first half of this year, Synectics' business from the sector was still roughly flat and profit margins, though positive, remained well below our target level. Orders were received in the period for customers operating in the Gulf of Mexico, the Middle East, Central Asia, the Far East and Africa. The division continues to enhance its specialised Ex-rated product suite, and we believe Synectics is well positioned for the coming market recovery.

The UK bus and coach market, where we have a strong footprint, remained weak, with new UK vehicle registrations down significantly on last year. This was reflected in a lower contribution from Synectics' on-bus surveillance systems activities. We did make progress in tram and light rail, in particular with the award of a strategic €1 million light rail project in Munich, and anticipate that the equipment manufacturer relationship strengthened through this project will lead on to important new business in the future.

Synectics' clear objective in the transport & infrastructure and high security sectors is to build on its current established market positions in the UK, Germany and the Far East, through offering new applications of its core software technology. These technology solutions are aimed at the growing sub-set of customers with a need for specialised, complex security and surveillance applications. In the first half of this financial year, new business was won in these sectors for the Berlin integrated transport authority, a major national utilities operator, a Far East shipyard, UK government security services and high security prisons.

The combined order book at the end of the first half across all sectors in the Systems division was up 21% since the year end.

Integration & Managed Services

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

£000	Six months ended 31 May 2018	Six months ended 31 May 2017	Year ended 30 November 2017
Revenue	10,661	12,049	25,139
Gross margin	24.7%	23.1%	22.3%
Operating profit ³	330	529	994
Operating margin ³	3.1%	4.4%	4.0%

3 Before non-underlying items and Group central costs.

Although the financial results of the IMS division for the first half showed a decline from the comparative period, this is primarily a timing issue. These results do not reflect the excellent progress made by the division in winning new business in its target strategic areas. Contract wins in the period included a prestigious high-profile landmark in central London, Westminster Abbey, a number of large computer data centres, London Goldsmiths University, an urban surveillance scheme for Huntingdonshire District Council, and further work for Magnox in the nuclear sector. The majority of these new customer wins are examples of the division's successful strategy of targeting large, sophisticated clients willing to engage in deeper partnership relationships. These relationships offer Synectics the opportunity to demonstrate to clients over time the real benefits of the greater technical capabilities and understanding of through-life value that are our competitive advantages.

Also in the first half, as a result of the launch of a newly developed security services software offering, the division won two new managed service clients and a contract extension from a large existing client. The IMS division also further increased its co-operation with the Systems division, allowing both to benefit from more sophisticated and differentiated customer propositions.

Introduction

Chairman's statement continued

Business Review continued

Integration & Managed Services continued

Synectics' Integrated Systems business remains one of the UK's largest and most capable providers of security systems and services. It ended the first half with an order book up 23% since the year end, which supports management's expectation that the division is poised to produce much improved revenue and profits in the second half.

Research & Development

As set out in its last Annual Report, Synectics is increasing expenditure on R&D this year by around £500,000 to accelerate development of its core software product base. Accordingly, expenditure on technology development during the six-month period increased to £1.5 million (2017: £1.3 million) of which £0.2 million (2017: £0.3 million) was capitalised and the remainder expensed to profit and loss. £0.3 million of previously capitalised development was amortised in the period. These figures are included within the results of the Systems division.

Outlook

Based on current order books and the pipeline of high probability expected new business, Synectics is anticipating continued excellent results from the Group's gaming surveillance activities and a significant improvement in revenue and profits from the IMS division. The Board expects that consolidated results for the full year will be in line with market expectations.

Beyond that, we believe that further planned increases in both R&D investment and business development resources are positioning the Group well for achieving its medium-term goals, and we are confident that Synectics' prospects are healthy.



David Coghlan
Chairman

17 July 2018

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Consolidated income statement

For the six months ended 31 May 2018

	Notes	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Revenue	3	34,740	33,662	70,102
Cost of sales		(22,667)	(21,963)	(46,153)
Gross profit		12,073	11,699	23,949
Operating expenses		(10,567)	(10,332)	(20,823)
Profit from operations				
– Excluding non-underlying items	3	1,518	1,378	3,149
– Non-underlying items	4	(12)	(11)	(23)
Total profit from operations		1,506	1,367	3,126
Finance income		92	108	183
Finance costs		(148)	(184)	(313)
Profit before tax				
– Excluding non-underlying items		1,462	1,302	3,019
– Non-underlying items	4	(12)	(11)	(23)
Total profit before tax		1,450	1,291	2,996
Income tax expense	5	(467)	(248)	(443)
Profit for the period attributable to equity holders of the Parent		983	1,043	2,553
Basic earnings per share	7	5.9p	6.3p	15.5p
Diluted earnings per share	7	5.9p	6.1p	15.1p
Underlying basic earnings per share	7	6.0p	6.4p	15.6p
Underlying diluted earnings per share	7	5.9p	6.2p	15.2p

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Consolidated statement of comprehensive income

For the six months ended 31 May 2018

	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Profit for the period	983	1,043	2,553
Items that will not be reclassified subsequently to profit or loss			
Remeasurement loss on defined benefit pension scheme, net of tax	–	–	(363)
	–	–	(363)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	143	(464)	(760)
(Losses)/gains on a hedge of a net investment taken to equity	(11)	86	125
	132	(378)	(635)
Total comprehensive income for the period attributable to equity holders of the Parent	1,115	665	1,555

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Consolidated statement of financial position

As at 31 May 2018

	Notes	Unaudited 31 May 2018 £000	Unaudited 31 May 2017 £000	30 November 2017 £000
Non-current assets				
Property, plant and equipment		2,687	2,897	2,796
Intangible assets		21,558	21,960	21,749
Retirement benefit asset		289	720	289
Deferred tax assets		103	216	159
		24,637	25,793	24,993
Current assets				
Inventories		12,524	11,627	10,739
Trade and other receivables		21,387	25,297	24,418
Tax assets		2	48	16
Cash and cash equivalents	9	9,891	5,575	4,721
		43,804	42,547	39,894
Total assets		68,441	68,340	64,887
Current liabilities				
Loans and borrowings	8	(825)	(2,986)	(900)
Trade and other payables		(25,355)	(23,204)	(22,493)
Tax liabilities		(405)	(737)	(328)
Current provisions		(106)	(243)	(149)
		(26,691)	(27,170)	(23,870)
Non-current liabilities				
Loans and borrowings	8	–	(825)	–
Provisions		(85)	(163)	(102)
Deferred tax liabilities		(259)	(210)	(161)
		(344)	(1,198)	(263)
Total liabilities		(27,035)	(28,368)	(24,133)
Net assets		41,406	39,972	40,754
Equity attributable to equity holders of the Parent				
Called up share capital		3,559	3,559	3,559
Share premium account		16,043	16,043	16,043
Merger reserve		9,971	9,971	9,971
Other reserves		(1,807)	(2,341)	(2,185)
Currency translation reserve		886	1,011	754
Retained earnings		12,754	11,729	12,612
Total equity		41,406	39,972	40,754

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Consolidated statement of changes in equity

For the six months ended 31 May 2018

	Called up share capital £000	Share premium account £000	Merger reserve £000	Other reserves £000	Currency translation reserve £000	Retained earnings £000	Total £000
At 1 December 2016	3,559	16,043	9,971	(2,341)	1,389	10,960	39,581
Profit for the period	–	–	–	–	–	1,043	1,043
Other comprehensive loss							
Currency translation adjustment	–	–	–	–	(378)	–	(378)
Total other comprehensive loss	–	–	–	–	(378)	–	(378)
Total comprehensive income for the period	–	–	–	–	(378)	1,043	665
Dividends paid	–	–	–	–	–	(329)	(329)
Credit in relation to share-based payments	–	–	–	–	–	55	55
At 31 May 2017	3,559	16,043	9,971	(2,341)	1,011	11,729	39,972
Profit for the period	–	–	–	–	–	1,510	1,510
Other comprehensive loss							
Currency translation adjustment	–	–	–	–	(257)	–	(257)
Remeasurement gain on defined benefit pension scheme, net of tax	–	–	–	–	–	(363)	(363)
Total other comprehensive loss	–	–	–	–	(257)	(363)	(620)
Total comprehensive income for the period	–	–	–	–	(257)	1,147	890
Dividends paid	–	–	–	–	–	(169)	(169)
Credit in relation to share-based payments	–	–	–	–	–	56	56
Share scheme interests realised in the period	–	–	–	156	–	(151)	5
At 30 November 2017	3,559	16,043	9,971	(2,185)	754	12,612	40,754
Profit for the period	–	–	–	–	–	983	983
Other comprehensive income							
Currency translation adjustment	–	–	–	–	132	–	132
Total other comprehensive income	–	–	–	–	132	–	132
Total comprehensive income for the period	–	–	–	–	132	983	1,115
Dividends paid	–	–	–	–	–	(498)	(498)
Credit in relation to share-based payments	–	–	–	–	–	35	35
Share scheme interests realised in the period	–	–	–	378	–	(378)	–
At 31 May 2018	3,559	16,043	9,971	(1,807)	886	12,754	41,406

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Consolidated cash flow statement

For the six months ended 31 May 2018

	Notes	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Cash flows from operating activities				
Profit for the period		983	1,043	2,553
Income tax expense		467	248	443
Finance income		(92)	(108)	(183)
Finance costs		148	184	313
Depreciation and amortisation charge		668	919	1,654
Loss on disposal of non-current assets		14	–	2
Unrealised currency translation losses		11	3	70
Share-based payment charge		35	55	111
Operating cash flows before movement in working capital		2,234	2,344	4,963
Increase in inventories		(1,733)	(1,683)	(857)
Decrease/(increase) in receivables		3,085	(730)	(105)
Increase in payables		2,669	1,080	330
Cash generated from operations		6,255	1,011	4,331
Tax paid		(216)	(193)	(653)
Net cash from operating activities		6,039	818	3,678
Cash flows from investing activities				
Purchase of property, plant and equipment		(152)	(116)	(309)
Capitalised development costs		(180)	(252)	(462)
Purchased software		(53)	(160)	(193)
Net cash used in investing activities		(385)	(528)	(964)
Cash flows from financing activities				
Repayment of borrowings		(75)	(746)	(1,259)
Share scheme interests realised in the period		–	–	5
Interest paid		(56)	(76)	(149)
Dividends paid		(498)	(329)	(498)
Net cash used in financing activities		(629)	(1,151)	(1,901)
Effect of exchange rate changes on cash and cash equivalents		145	(286)	(414)
Net increase/(decrease) in cash and cash equivalents		5,170	(1,147)	399
Cash and cash equivalents at the beginning of the period		4,721	4,322	4,322
Cash and cash equivalents at the end of the period	9	9,891	3,175	4,721

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For the six months ended 31 May 2018

1 General information

These consolidated interim financial statements were approved by the Board of Directors on 17 July 2018.

2 Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 31 May 2018.

The comparative figures for the financial year ended 30 November 2017 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements for the six months to 31 May 2018 do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 November 2017.

The condensed consolidated interim financial statements for the six months to 31 May 2018 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

The condensed consolidated interim financial statements for the six months to 31 May 2018 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 30 November 2018. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 30 November 2017. These accounting policies are drawn up in accordance with adopted International Accounting Standards ('IAS') and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and adopted by the EU.

Significant accounting policies

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

3 Segmental analysis

IFRS 8 'Operating segments' requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Chief Executive as he is primarily responsible for the allocation of resources to the segments and the assessment of the performance of each of the segments. Segment information is presented in respect of the Group's strategic operating segments. The operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic and operating decisions are made by the CODM.

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

	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Revenue			
Systems	24,276	22,435	46,062
Integration & Managed Services	10,661	12,049	25,139
Total segmental revenue	34,937	34,484	71,201
Reconciliation to consolidated revenue:			
Intra-Group sales	(197)	(822)	(1,099)
	34,740	33,662	70,102

3 Segmental analysis continued

	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Underlying operating profit			
Systems	2,368	1,970	4,238
Integration & Managed Services	330	529	994
Total segmental underlying operating profit	2,698	2,499	5,232
Reconciliation to consolidated underlying operating profit:			
Central costs	(1,180)	(1,121)	(2,083)
	1,518	1,378	3,149

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

	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Underlying operating profit	1,518	1,378	3,149
Non-underlying items (note 4)	(12)	(11)	(23)
	1,506	1,367	3,126

4 Non-underlying items

	Unaudited six months ended 31 May 2018 £000	Unaudited six months ended 31 May 2017 £000	Year ended 30 November 2017 £000
Amortisation of acquired intangible assets	12	11	23

5 Income tax expense

The income tax expense for the period is based on the estimated rate of corporation tax that is likely to be effective for the year to 30 November 2018.

6 Dividends

An interim dividend of 1.2p per share, totalling approximately £210,000, will be paid on 14 September 2018 to shareholders on the register as at 17 August 2018.

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Notes continued

For the six months ended 31 May 2018

7 Earnings per share

Earnings per share are as follows:

	Unaudited six months ended 31 May 2018 Pence per share	Unaudited six months ended 31 May 2017 Pence per share	Year ended 30 November 2017 Pence per share
Basic earnings per share	5.9	6.3	15.5
Diluted earnings per share	5.9	6.1	15.1
Underlying basic earnings per share	6.0	6.4	15.6
Underlying diluted earnings per share	5.9	6.2	15.2

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

	£000	£000	£000
Earnings for basic and diluted earnings per share	983	1,043	2,553
Non-underlying items	12	11	23
Impact of non-underlying items on tax expense for the period	(4)	(4)	(8)
Earnings for underlying basic and underlying diluted earnings per share	991	1,050	2,568
	000	000	000
Weighted average number of ordinary shares – basic calculation	16,554	16,468	16,480
Dilutive potential ordinary shares arising from share options	183	516	466
Weighted average number of ordinary shares – diluted calculation	16,737	16,984	16,946

8 Loans and borrowings

	Unaudited 31 May 2018 £000	Unaudited 31 May 2017 £000	30 November 2017 £000
Bank term loans	825	1,411	900
Bank overdraft	–	2,400	–
Total	825	3,811	900

9 Cash and cash equivalents

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

	Unaudited 31 May 2018 £000	Unaudited 31 May 2017 £000	30 November 2017 £000
Cash at bank and in hand	9,891	5,575	4,721
Bank overdraft	–	(2,400)	–
	9,891	3,175	4,721



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designportfolio

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