



Synectics plc

('Synectics' or the 'Group')

Interim results for the six months ended 31 May 2017

Synectics plc (AIM: SNX), a leader in the design, integration, control and management of advanced surveillance technology and networked security systems, reports its unaudited interim results for the six months ended 31 May 2017.

Headlines

- Revenue up 5% to £33.7 million (2016: £32.1 million)
- Order intake £41.8 million (2016: £38.4 million), a book-to-bill ratio of over 1.2 times
- Order book £33.7 million, up over 28% since the year end
- Underlying profit¹ £1.3 million (2016: £0.3 million²)
- Profit before tax £1.3 million (2016: £0.2 million)
- Underlying diluted EPS¹ 6.2p (2016: 1.2p)
- Return on capital employed 9.9% (2016: 3.5%)
- Net cash as at 31 May 2017 £1.8 million (31 May 2016: net debt £1.7 million)
- Interim dividend of 1.0p (2016: nil)

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 Comparative figures for 2016 have been re-presented on a directly comparable basis so as to reflect the inclusion of share-based payments within underlying operating costs.

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

"Our specialist sector knowledge and understanding of the unique challenges our customers face are what set us apart - whether those challenges relate to protecting people or assets, or to enhancing the experience our clients can offer their own customers."

"Supporting this proposition with the right people, technology and strategy has seen us secure significant contracts across all of our markets. This has resulted in a strong performance in the first half of 2017 and positions us for further growth."

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Chairman's Statement

Overview

Synectics performed well in the first half of the current financial year. Compared with the same period last year, the Group's results showed revenue growth and a marked improvement in both gross and net margins. Order intake during the period was well in excess of revenues, and underpins expectations of strong financial results in the second half.

Although activity levels in the global oil & gas surveillance market remained subdued, there were signs of a recovery emerging. The Group's sales order intake in that sector was substantially higher than that of the previous six months. Although market conditions in the other core end-markets for Synectics held up, we have seen a lengthening of contract decision making cycles in some areas where political uncertainty is higher than normal.

Synectics has benefitted from a period of stability and increasingly effective operational management following previous significant changes to the Group's senior management and operating structure. Continued progress on a range of important internal objectives tied to those changes gives the Board confidence in Synectics' future.

Results

Synectics' revenue for the first half increased by 5% to £33.7 million, compared with £32.1 million in the same period last year. Consolidated gross margin improved considerably to 34.8% from 32.6% in 2016. The Group recorded a consolidated underlying profit¹ of £1.3 million (2016: £0.3 million). There were no material non-underlying items, so profit before tax was also £1.3 million (2016: £0.2 million). The underlying diluted earnings per share¹ were 6.2p (2016: 1.2p). More details on these results are set out in the divisional business review below.

Order intake was £41.8 million, leaving the order book at 31 May 2017 at £33.7 million, up 28% from the position at the start of the financial year. This sales performance represented a book-to-bill ratio of over 1.2 times, and supports the expectation for continued growth in the business.

Net cash at 31 May 2017 was £1.8 million (2016: net debt £1.7 million). Synectics' businesses continued, on average, to turn a relatively substantial portion of their operating profits into free cash flow, although short-term working capital balances can fluctuate significantly due to project timing.

Dividend

In light of Synectics' substantially improved profitability, the Board has decided to pay a resumed interim dividend of 1.0p per share. This is the first interim dividend paid since 2013.

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.

	Six months ended 31 May 2017	Six months ended 31 May 2016	Year ended 30 Nov 2016
£000			
Revenue	22,435	20,750	48,281
Gross margin	39.7%	37.6%	38.9%
Operating profit ³	1,970	895	4,211
Operating margin ³	8.8%	4.3%	8.7%

³ Before non-underlying items and Group central costs.

Following an exceptionally strong performance in gaming in the second half of 2016, resulting from the delivery of systems for two large Far East integrated resorts, we had anticipated a quieter first half of this financial year. However, activity turned out to be stronger than expected, with the US market growing noticeably and further sales successes in the Far East. This sector continues to perform very well for Synectics, as the specialised elements of the Synergy 3 surveillance solution attract an increasing share of the market. Key wins during the first half included a large expansion to an existing North American property, a further casino in the Philippines, and additions for existing clients elsewhere in the Far East.

Sales order intake in the first half in the oil & gas sector picked up considerably. Sales included a deep water development for Shell in the Gulf of Mexico, contracts for expansion of existing projects in the Middle East, as well as a number of new offshore projects. It is too soon to call a recovery in this market, but the broad-based profile of increased new business gives us some confidence that essential capital investments are beginning to come back on stream. Gross margins from business in the sector remained strong and, with overhead costs having been reduced, a reasonable operating profit was recorded.

Synectics has made considerable investment over the past two years in developing and restructuring its activities in the transport & infrastructure market sector. The clear strategic objective is to create a specialised, market leading offering to replicate the success generated in the oil & gas and gaming sectors. The benefits of this investment are beginning to come through, with revenues from the sector up by 15% in the first half compared with the same period a year ago. The penetration of Synectics' Synergy 3 command and control platform into important UK infrastructure continued to gain momentum, with wins in a number of high-security sites. Major successes were achieved with the expansion of existing Synectics systems in Jakarta International Airport and in a major UK bank. In the on-vehicle area, we won a further three-year extension to Synectics' long-term partnership with Stagecoach, as well as significant new orders for Rail for London trams, Germany railway company Deutsche Bahn, Hong Kong CityBus and an extended contract with a Passenger Transport Executive in the North-East of England.

The Systems division expects to see further growth in the second half.

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.

	Six months ended 31 May 2017	Six months ended 31 May 2016	Year ended 30 Nov 2016
£000			
Revenue	12,049	11,739	23,290
Gross margin	23.1%	22.8%	22.0%
Operating profit ³	529	424	522
Operating margin ³	4.4%	3.6%	2.2%

³ Before non-underlying items and Group central costs.

The IMS division continued its recent trajectory of steadily improving results towards the levels of revenue and returns of which it is capable, and which the Board expects it to deliver.

Excellent progress has been made in expanding the proportion of predictable and profitable business the division derives from large "asset" clients. Although the business development cycles are long and require substantial upfront investment of senior management time, these clients deliver partnership rather than transactional relationships, and 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.

In that vein, valuable work was won and delivered in the first half from the British Museum, Virgin Trains East Coast Mainline, intu shopping centres and several national utilities companies.

As noted in recent reports, the IMS division has continued to deliver real and increasing benefit to the Group as a whole through much closer co-operation with the Systems division. This co-operation is allowing both divisions to benefit from cross-selling and more sophisticated and differentiated customer propositions.

During the first half we have also invested in a major new customer service management system to allow our managed services business to offer substantially increased functionality and depth of reporting to its clients.

Synectics' IMS division remains one of the UK's largest and most capable providers of security systems and services, and we expect further progress in the second half.

Research & Development

Group expenditure on technology development during the six-month period totalled £1.3 million (2016: £1.1 million) of which £0.3 million (2016: £0.1 million) was capitalised and the remainder expensed to profit and loss. £0.5 million of previously capitalised development was amortised in the period. These figures are included within the results of the Systems division.

During the half year, Synectics completed significant work on the Group's next-generation platform for on-vehicle systems, as well as continued development of our market-leading command and control system, Synergy 3, including further integration with a number of leading third party sub-systems.

Outlook

The Board's view is that Synectics is in good shape to capitalise on the undoubted strengths of the technology and market positions it has built over many years.

The market for high-end electronic security and surveillance worldwide is fundamentally strong and likely to remain so. The current economic and political environment is nevertheless more uncertain than we would like, and we are conscious of the need to pay close attention to risk analysis and risk mitigation plans as part of our normal business operations.

Despite these wider uncertainties, the state of Synectics' current contracts and order book give us confidence that the Group's prospects for the remainder of this financial year and beyond are good, and that results for the full year will be in line with market expectations.

David Coghlan
Chairman
18 July 2017

Consolidated Income Statement
For the six months ended 31 May 2017

	Notes	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Revenue	3	33,662	32,141	70,913
Cost of sales		(21,963)	(21,657)	(47,014)
Gross profit		11,699	10,484	23,899
Operating expenses		(10,332)	(10,213)	(21,808)
Profit from operations				
Excluding non-underlying items	3	1,378	327	2,757
Non-underlying items	4	(11)	(56)	(666)
Total profit from operations		1,367	271	2,091
Finance income		108	113	215
Finance costs		(184)	(184)	(351)
Profit before tax				
Excluding non-underlying items		1,302	256	2,621
Non-underlying items	4	(11)	(56)	(666)
Total profit before tax		1,291	200	1,955
Income tax expense	5	(248)	(42)	(484)
Profit for the period attributable to equity holders of the Parent		1,043	158	1,471
Basic earnings per share	7	6.3p	1.0p	9.0p
Diluted earnings per share	7	6.1p	1.0p	8.8p
Underlying basic earnings per share	7	6.4p	1.2p	12.7p
Underlying diluted earnings per share	7	6.2p	1.2p	12.4p

Consolidated Statement of Comprehensive Income
For the six months ended 31 May 2017

	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Profit for the period	1,043	158	1,471
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement gain on defined benefit pension scheme, net of tax	-	-	151
	-	-	151
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(464)	17	614
Gains on a hedge of a net investment taken to equity	86	237	535
	(378)	254	1,149
Total comprehensive income for the period attributable to equity holders of the Parent	665	412	2,771

**Consolidated Statement of Financial Position
As at 31 May 2017**

	Notes	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Non-current assets				
Property, plant and equipment		2,897	3,122	3,076
Intangible assets		21,960	22,150	22,115
Retirement benefit asset		720	515	720
Deferred tax assets		216	152	216
		25,793	25,939	26,127
Current assets				
Inventories		11,627	10,541	9,997
Trade and other receivables		25,297	22,757	24,771
Tax assets		48	223	72
Cash and cash equivalents	9	5,575	3,052	5,848
		42,547	36,573	40,688
Total assets		68,340	62,512	66,815
Current liabilities				
Loans and borrowings	8	(2,986)	(3,390)	(2,778)
Trade and other payables		(23,204)	(20,093)	(22,077)
Tax liabilities		(737)	(192)	(623)
Current provisions		(243)	-	(439)
		(27,170)	(23,675)	(25,917)
Non-current liabilities				
Loans and borrowings	8	(825)	(1,331)	(900)
Non-current provisions		(163)	(25)	(215)
Deferred tax liabilities		(210)	(315)	(202)
		(1,198)	(1,671)	(1,317)
Total liabilities		(28,368)	(25,346)	(27,234)
Net assets		39,972	37,166	39,581
Equity attributable to equity holders of the Parent Company				
Called up share capital		3,559	3,559	3,559
Share premium account		16,043	16,043	16,043
Merger reserve		9,971	9,971	9,971
Other reserves		(2,341)	(2,639)	(2,341)
Currency translation reserve		1,011	494	1,389
Retained earnings		11,729	9,738	10,960
Total equity		39,972	37,166	39,581

Consolidated Statement of Changes in Equity
For the six months ended 31 May 2017

	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 2015	3,559	16,043	9,971	(2,639)	240	9,668	36,842
Profit for the period	-	-	-	-	-	158	158
Other comprehensive income							
Currency translation adjustment	-	-	-	-	254	-	254
Total other comprehensive income	-	-	-	-	254	-	254
Total comprehensive income for the period							
Dividends paid	-	-	-	-	-	(163)	(163)
Credit in relation to share-based payments	-	-	-	-	-	75	75
At 31 May 2016	3,559	16,043	9,971	(2,639)	494	9,738	37,166
Profit for the period	-	-	-	-	-	1,313	1,313
Other comprehensive income							
Currency translation adjustment	-	-	-	-	895	-	895
Re-measurement gain on defined benefit pension scheme, net of tax	-	-	-	-	-	151	151
Total other comprehensive income	-	-	-	-	895	151	1,046
Total comprehensive income for the period							
Credit in relation to share-based payments	-	-	-	-	-	56	56
Share scheme interests realised in the year	-	-	-	298	-	(298)	-
At 30 November 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							
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

Consolidated Cash Flow Statement
For the six months ended 31 May 2017

	Notes	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Cash flows from operating activities				
Profit for the period		1,043	158	1,471
Income tax expense		248	42	484
Finance income		(108)	(113)	(215)
Finance costs		184	184	351
Depreciation and amortisation charge		919	1,006	1,980
Profit on disposal of non-current assets		-	-	80
Unrealised currency translation losses/(gains)		3	(10)	(275)
Share-based payment charge		55	75	131
Operating cash flows before movement in working capital		2,344	1,342	4,007
(Increase)/decrease in inventories		(1,683)	(150)	642
Increase in receivables		(730)	(1,506)	(2,291)
Increase/(decrease) in payables		1,080	(1,407)	238
Cash generated from/(used in) operations		1,011	(1,721)	2,596
Interest received		-	1	-
Tax (paid)/received		(193)	83	15
Net cash from/(used in) operating activities		818	(1,637)	2,611
Cash flows from investing activities				
Purchase of property, plant and equipment		(116)	(129)	(350)
Capitalised development costs		(252)	(118)	(337)
Purchased software		(160)	(48)	(44)
Net cash used in investing activities		(528)	(295)	(731)
Cash flows from financing activities				
Repayment of borrowings		(746)	(711)	(786)
Interest paid		(76)	(72)	(156)
Dividends paid		(329)	(163)	(163)
Net cash used in financing activities		(1,151)	(946)	(1,105)
Effect of exchange rate changes on cash and cash equivalents		(286)	106	323
Net (decrease)/increase in cash and cash equivalents		(1,147)	(2,772)	1,098
Cash and cash equivalents at the beginning of the period		4,322	3,224	3,224
Cash and cash equivalents at the end of the period	9	3,175	452	4,322

Notes

1. General information

These consolidated interim financial statements were approved by the Board of Directors on 18 July 2017.

2. Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 31 May 2017.

The comparative figures for the financial year ended 30 November 2016 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 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 2016.

The condensed consolidated interim financial statements for the six months to 31 May 2017 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 2017 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 30 November 2017. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 30 November 2016. 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.

Changes in presentation

Share-based payment charge

During 2016, the Group changed the presentation of the share-based payment charge. The charge is now shown within underlying operating expenses. Prior to this change, the Group presented the charge as a non-underlying item.

The Group believes the new presentation is now more appropriate as share-based payment transactions are considered to be part of the underlying trading performance of the Group.

The impact of this change on the consolidated financial statements is to re-present the comparative period to 31 May 2016 to reclassify the share-based payment charge from non-underlying items to underlying profit. This change did not result in a material impact. The impact on each line item of the Consolidated Income Statement and earnings per share is shown in the table below:

Six months ended 31 May 2016

	As reported £000	Adjustment £000	Re-presented £000
Consolidated income statement			
Profits from operations			
- Excluding non-underlying items	402	(75)	327
- Non-underlying items	(131)	75	(56)
Profit before tax			
- Excluding non-underlying items	331	(75)	256
- Non-underlying items	(131)	75	(56)
Underlying earnings per share			
Underlying basic earnings per share	1.6p	(0.4)p	1.2p
Underlying diluted earnings per share	1.6p	(0.4)p	1.2p

Deferred tax

During 2016 the Group changed the presentation of its deferred tax assets and liabilities to reflect net presentation by geography.

The impact of this change on the consolidated financial statements is to re-present the comparative period at 31 May 2016 to reclassify certain of the Group's deferred tax balances. The change did not result in a material impact. The impact on each line item of the Consolidated Statement of Financial Position is shown in the table below:

	31 May 2016		
	As reported £000	Adjustment £000	Re-presented £000
Non-current assets			
Deferred tax assets	-	152	152
Non-current liabilities			
Deferred tax liabilities	(163)	(152)	(315)

3. Segmental analysis

IFRS 8 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 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 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Revenue			
Systems	22,435	20,750	48,281
Integration & Managed Services	12,049	11,739	23,290
Total segmental revenue	34,484	32,489	71,571
Reconciliation to consolidated revenue:			
Intra-Group sales	(822)	(348)	(658)
	33,662	32,141	70,913

	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Underlying operating profit			
Systems	1,970	895	4,211
Integration & Managed Services	529	424	522
Total segmental underlying operating profit	2,499	1,319	4,733
Reconciliation to consolidated underlying operating profit:			
Central costs	(1,121)	(992)	(1,976)
	1,378	327	2,757

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

	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Underlying operating profit	1,378	327	2,757
Non-underlying items (note 4)	(11)	(56)	(666)
	1,367	271	2,091

4. Non-underlying items

	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Restructuring costs	-	-	585
Amortisation of acquired intangible assets	11	56	81
	11	56	666

The restructuring costs incurred during 2016 related predominantly to severance costs arising from a review of the Group's cost base across certain areas of the business.

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 2017.

6. Dividends

An interim dividend of 1.0p per share, totalling approximately £170,000 will be paid on 15 September 2017 to shareholders on the register as at 18 August 2017.

7. Earnings per share

Earnings per share are as follows:

	Unaudited six months ended 31 May 2017 Pence per share	Unaudited six months ended 31 May 2016 Pence per share	Year ended 30 Nov 2016 Pence per share
Basic earnings per share	6.3	1.0	9.0
Diluted earnings per share	6.1	1.0	8.8
Underlying basic earnings per share	6.4	1.2	12.7
Underlying diluted earnings per share	6.2	1.2	12.4

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

	£000	£000	£000
Earnings for basic and diluted earnings per share	1,043	158	1,471
Non-underlying items	11	56	666
Impact of non-underlying items on tax expense for the period	(4)	(20)	(60)
Earnings for underlying basic and underlying diluted earnings per share	1,050	194	2,077
	000	000	000
Weighted average number of ordinary shares – basic calculation	16,468	16,375	16,404
Dilutive potential ordinary shares arising from share options	516	205	338
Weighted average number of ordinary shares – diluted calculation	16,984	16,580	16,742

8. Loans and borrowings

	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Bank term loans	1,411	2,121	2,152
Bank overdraft	2,400	2,600	1,526
Total	3,811	4,721	3,678

9. Cash and cash equivalents

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

	Unaudited six months ended 31 May 2017 £000	Unaudited six months ended 31 May 2016 £000	Year ended 30 Nov 2016 £000
Cash at bank and in hand	5,575	3,052	5,848
Bank overdraft	(2,400)	(2,600)	(1,526)
	3,175	452	4,322

10. Copies of this statement will be sent to shareholders and will be available on the Group's website (www.synecticsplc.com) and from Synectics plc, Studley Point, 88 Birmingham Road, Studley, Warwickshire B80 7AS.

- Ends -