



Enhancing our integrated product offering

Introduction

We are now two years into the turnaround of Xaar and we are extremely pleased with what we have achieved. We have implemented a new strategy across the business, with a new commercial model whilst investing in the business. This has seen significant progress as old customers have returned and new customers are continuing to engage with us. The speed with which this has been achieved is impressive and we have proved our strategy is working.

We have also made great progress updating our infrastructure and further strengthening the team, our products and the capabilities to deliver growth in the business. Operationally we have strengthened the business, improved our efficiency and margins whilst continuing to build a sustainable solid platform from which to grow the business further. During the year we successfully integrated FFEI, which will enhance our commercial offering and widens our product technology offering.

We have also established an ESG Committee and committed to our Sustainability Roadmap which will become further embedded in the business and be visible in everything we do as a business.

Xaar has achieved much in the last two years and this success will help drive us further in the coming years.

Delivered good results and finished the year well

The results for the year demonstrate significant progress for the business and we are extremely pleased with the continued strong performance which, despite challenging market conditions, demonstrates the positive momentum our strategy is driving throughout Xaar. Investment in capability and capacity provides us with further opportunities to accelerate our strategy and future growth. This leaves the business well placed to capitalise on this performance and deliver further growth and a return to profitability. Delivering profit on an adjusted basis over the second half of 2021 is a key landmark achievement for the Group. It is a milestone which has been achieved quicker than planned as part of the turnaround.

Revenue growth

Revenue for the year was £59.3 million, representing an increase of 23% relative to 2020. Organic growth before the effects of the acquisition of FFEI was 12%.

In the Printhead business we have a clear customer-focused commercial model strategy which is reaping rewards, delivering revenue growth of 14%. This approach includes removal of distribution channels, a clear pricing strategy, and a sales process that is focused on selling the printhead based on its technical merits.

The focus has been on markets where our technology has a competitive advantage and working with the customer, both Original Equipment Manufacturers (OEMs) and User Developer Integrators (UDIs), over the entire product lifecycle to reduce their development times and, therefore time to market, and to also provide improved aftersales support. We continue to see increased customer engagement both from existing as well as new customers.

The product roadmap delivered two new products during 2021 – Xaar Nitrox and Xaar Irix – that has broadened the Bulk printhead product range to offer advantages over the competition in existing and new markets.

Revenue growth in Asia, especially China, has been significant, up 33% year-on-year, with ceramics and glass customers particularly re-engaging, increasing our market share. Revenue growth in this sector in the year was 38%.

Product Print Systems business 'EPS' delivered improved performance demonstrating strong revenue growth of 9%. This follows the effective implementation of operational changes and progress in developing a modular approach to products. As previously announced the 2021 results were impacted by non-cash adjustments relating to slow moving and obsolete inventory following the implementation of planned process improvement and strategy. This impacted the gross profit negatively by £0.7 million of provisions and write downs.

Digital Imaging delivered revenue of £5.3 million in the period from acquisition on 11 July 2021.

Improved margins and returns

This strong revenue growth, coupled with our increased operational efficiency, saw the gross margin increasing to 34% in 2021 (2020: 27%). We have invested in our capability and efficiency most notably in Operations and support functions but have continued to exercise discipline in our cost management actions.

Accordingly, we can report a much reduced adjusted loss for the year of £0.6 million, compared to £3.9 million last year, and crucially we can report an adjusted profit for the second half of the year.

Pleasingly we can report positive adjusted EBITDA in each of our businesses, which is a notable step towards full year profitability for the Group.

Strong balance sheet

The Group retains a strong balance sheet and cash position. Net cash at 31 December 2021 was £25.1 million. This represents an improvement of £7.0 million in the year. This has been primarily driven by the £9.3 million initial consideration received for the Xaar 3D divestment and continued strong cash generation in our Printhead business. We have taken the opportunity to invest in inventory of £9.1 million in the year to successfully secure materials to meet expected 2022 production requirements and to increase our holding of finished goods.

This gives us greater assurance that we can deliver on customer demands throughout 2022. We have taken further proactive actions to adapt product designs to accommodate alternative components, increasing our resilience to supply chain constraints.

On track with our journey, plan and strategy and more confidence in our capability

During the last two years we have successfully re-set the Group with a new business model and established a robust platform to deliver profitable growth. The turnaround is now at the end of the first phase, we have established a clear strategy and we are ready for the next stage to achieve sustainable profitable growth.

The first phase focused on stabilising the business and establishing a clear strategy. Commercially this has seen the Printhead business reduce complexity in its routes to market by eliminating third party distributors and selling directly to OEMs and UDIs. Our principal strategy is to provide an integrated solution for customers whereby they can access more of the printing ecosystem, to include supporting elements such as ink supply systems and the electronics required for printing. We help our customers take advantage of the Inkjet opportunity and working with Xaar means a higher chance of success by being faster to market, making our customers' investment more profitable.

This approach has seen us deliver a more vertically integrated product offering to a wider group of customers in more market sectors.

Refreshed customer engagement

Accordingly, we have regained customers, particularly in core sectors such as Ceramics and Glass, and we now have significant market opportunities in 3D, Coding & Marking and Direct-to-Shape. Our 2021 revenue in the ceramics and glass sector has increased by over 40% since 2020 and the number of OEM projects commissioning Xaar products has doubled year on year for each of the last two years.

Our commercial approach has also been updated with new branding and a fresh, clear communication plan which has helped to regain the trust of OEMs, making sure the advantages of Xaar technology are well understood. The level of engagement from lapsed and established customers and our desire to listen to their needs and to work with them to find a solution, through consistent communication, indicates this has been working and we are regaining their trust.

Financial highlights

£59.3m

Revenue – Continuing operations

in line with management expectations (2020: £48.0 million)

34%

Gross margin – Continuing operations

increased from 27% in 2020, benefiting from operational leverage in the business

£5.7m

Gross R&D spend

by continuing operations of £5.7 million, up £1.2 million on 2020 with investment focused on the ImagineX platform and product roadmap

(£2.3m)

Net cash outflow

Net cash outflow from continuing operations before Xaar 3D disposal proceeds (2020: £7.1 million inflow)

£9.3m

Cash inflow on Xaar 3D disposal

Initial cash consideration received, with a further £10.9 million contingent consideration

£25.1m

Net cash

Strong closing balance sheet with net cash and treasury deposits (2020: £18.1 million excluding Xaar 3D)

Xaar's position in the 3D business is one of technology enabler and our end goal has been, and remains, to supply printheads for use in 3D applications and not become an OEM in the sector. That was the rationale behind our partnership with Stratasys, a recognised leader in 3D with a proven track record and strong routes to market. On 1 November 2021 we sold our remaining stake in Xaar 3D to Stratasys, and we will continue our relationship with them as a supplier of printheads.

Vertically integrated product offering

The acquisition of print systems and printbar specialist FFEI in July 2021 further widens our product offering for our OEM and UDI customers with a broader product range including print engines for adding effects and embellishments digitally. FFEI has been successfully integrated and strengthens Xaar's capabilities and skills. This will accelerate Xaar's existing growth strategy and widen the product portfolio, further engaging UDI customers. We have a growing pipeline with a significant number of opportunities thanks to our technology advantages. This will give us further opportunities for additional vertical integration, and we continue to strengthen our offering with more products in the pipeline for 2022.

Our product roadmap, built on the ImagineX platform, has already delivered significant enhancements to the current portfolio with two products, Xaar Irix and Xaar Nitrox, launched on time during 2021.

Our EPS business performed well, increasing revenue and margins on an underlying, ongoing basis. The non-cash adjustments made in the year were necessary to rebase the business and ensure a strong financial platform from which to drive further growth. In addition, we changed the leadership of EPS and embedded the more efficient modular operational approach which will enable further margin growth. With increased control, focus and a more precise commercial approach EPS is well placed to deliver sustainable margin growth in the coming years.

Operational capability

We have made significant progress in building a world class leadership team, making some key appointments during the year which will drive the business in the next phase of our transformation. This has strengthened our capability and experience across the business, most notably in our Operations, Finance, Human Resources, and EH&S Management, as well as re-organising the sales team. This increase in operational support includes further investment in infrastructure such as IT, manufacturing and supply chain management.

During the year we established new corporate headquarters in Cambridge, UK and focused our Printhead operations into our main manufacturing facility in Huntingdon, UK. We also opened a new Customer Service Centre in Shenzhen, China. These changes give the benefit of increased efficiency in how our teams work together, providing us with a better way of working more closely and collaboratively with our customers across the world and will deliver £0.7 million of annualised cost savings.

We are proud of how our teams have continued to respond to the difficulties presented by COVID-19. We have proven the business can operate effectively with greater efficiency whilst building greater business resilience.

During the year we have worked on embedding new values into our culture. This is an important step in changing the mindset and culture of our business and has seen employees show engagement and empowerment. A cross functional project team developed an easy to remember logo for our values, launched a new values award, which is embedded across the Group, and developed a new video which we are using for employee engagement, recruitment and induction.

Sustainability

We established an ESG Committee during the year, constituted by a cross functional internal team and supplemented with external expertise. This group, formed from representatives from across the business, has developed a co-ordinated Sustainability Roadmap that will push Xaar towards its goal of 'Net Zero by 2030'. The Roadmap has four key pillars:

1. Environment
2. People
3. Innovation
4. Community.

Its purpose is to drive our ESG goals beyond the Energy Reduction scope to a Group wide activity and provide an essential backbone for much of Xaar's future investment and activity. It has the full backing of the Board and is sponsored by Alison Littley, Senior Independent Director.

Digital inkjet printing is inherently more sustainable compared to traditional analogue printing with a smaller carbon footprint. It reduces and prevents excessive waste and uses less energy due to the ability to print short runs or Direct-to-Shape. With TF Technology ink recirculation, Xaar printheads are capable of printing very viscous fluids reducing the need for energy intensive drying processes. We are passionate in continuing further adoption and understanding of the environmental benefits our products can bring to customers.

Product development and increased capability

In aggregate the market size across these sectors is huge. We have a unique roadmap of product development to ensure we offer an increasing vertically integrated commercial strategy to capitalise on this market opportunity. The ImagineX platform will deliver a number of features over the next few years which will provide significant enhancements to the current portfolio; these include:

- Substantially improved speed and throughput (frequencies up to 150kHz, equivalent to a threefold increase in speed compared to current products)
- Aqueous compatibility
- Increased throw distance to improve image quality on curved surfaces
- Increased robustness to improve the life of the printhead and maintain image quality
- Higher viscosities enabling a broader range of fluids to be printed (above 100cP)
- Higher resolutions (up to 1440 dpi).



We have made strategic acquisitions to the Group that enable us to strengthen our customer offering and we will continue to adopt this approach in the future as we look to continue increasing our capability and become a fully integrated inkjet product provider.



These features will help strengthen our position in markets where we are already well represented and will drive improved adoption in several markets where we are currently not, such as Wide Format Graphics, Labels, Packaging and Textiles. The performance enhancements in our product roadmap give a clear path for OEMs to upgrade their products and maintain their product differentiation.

Development of our aqueous product remains on track, and we intend to release more details on this later in the year. The exciting opportunity this product provides is significant as we would have an unrivalled portfolio that could satisfy market demands which we are currently not able to due to our printhead architecture.

We have made strategic bolt-on acquisitions to the Group that enable us to strengthen our customer offering and we will continue to adopt this approach in the future as we look to continue increasing our capability and become a fully integrated inkjet product provider.

The actions taken in the last two years leave us with a strong balance sheet. The strong operational gearing that exists in the business, which has already delivered good margin growth, has greater capacity to support further margin improvement in the medium term. The business is well placed to move into the next phase of its transformation and to deliver sustainable profitable growth in the medium term.

Significant opportunity

Xaar's digital inkjet technologies are transforming print processes in a wide range of markets, and the medium- and long-term opportunity for the business remains significant.

We have already grown market share in core, mature markets such as Ceramics & Glass and Coding & Marking. There remains further growth opportunity in these areas as our technology is best in class and we have a clear competitive advantage over our competitors due to our core technologies (TF Technology ink recirculation, High Laydown Technology, Ultra High Viscosity Technology).

Increased market opportunity exists in sectors that are looking for further digitisation of printing on which we can capitalise. We see opportunities typically in areas where fluid applications are challenging, such as Flat Panel Display, Semiconductors, Printed Electronics and Optics. We are well placed to succeed in these markets as Xaar technology offers an unrivalled method of non-contact, fluid deposition with incredible precision, control and speed.

Other markets that already use digital printing such as architectural glass printing and 3D printing are tremendously exciting as our technology has unique benefits that can give our customers commercial advantage in reducing costs and lead times for their products.

Outlook

The positive momentum in the business has continued in the first quarter of 2022 and we remain optimistic about the short-term outlook for the business. Customer engagement and sales orders have been maintained in quarter 1 and are in line with our expectations. We anticipate continued performance improvements during 2022 with further good organic revenue growth.

Due to the action taken to secure supply by investing in working capital during 2021 we believe we are well placed to satisfy customer demand for the year ahead and we have the supply chain resilience to withstand most disruption. We are continuing to invest in the business, adding skills, capability and capacity.

We expect an improved gross margin which will come from the continued efficiency gains we have in the business. Whilst that enhancement won't be at the same incremental increase as for 2021, we are confident of returning to 40% gross margins in the medium term.

Whilst we are conscious of the continuing risks arising from the economic consequences of wider global issues, and COVID-19 continues to be a risk to economic disruption, particularly in Asia, we remain on track to return the business to profitable growth and look forward to the future with confidence.

We have the right strategy and remain confident in our ability to achieve our target of a full year profit this year.

John Mills
Chief Executive
Officer

29 March 2022

Ian Tichias
Chief Financial
Officer

29 March 2022