Business performance

Continuing operations – revenue

Revenue for the Group of £59.3 million is an excellent performance for the year, representing a year-on-year increase of £11.3 million (2020: £48.0 million) of which FFEI represents £5.3 million in the period since acquisition.

It is a very pleasing result given the ongoing restrictions arising from COVID-19, with Printhead revenue increasing 14% and EPS 9%. Group revenues increased from £26.3 million in the first half of the year to £33.0 million in the second half driven principally by a £1.7 million increase in revenue from the EPS business. This is a strong recovery across the business demonstrating the positive customer engagement and trust that is being regained across our customer base and the continued momentum we have in the business.

Revenue from the Americas grew year-on-year across the Group, rising £3.3 million (2021: £23.6 million, 2020: £20.3 million), including £2.4 million from FFEI and despite a small drop in Printhead revenue of £0.3 million. The rise, driven by the recovery in EPS revenue, stems from increases in sales of digital machines and peripherals demonstrating the new commercial approach is being well received with customers.

Performance in Asia, and China in particular, has been very successful in 2021. This has been the key driver for the continued overall revenue growth in Printhead. Group revenue grew £1.3 million in the first half of the year to £5.8 million H1 2020: £4.5 million) and continued to grow in the second half to £6.2 million (H2 2020: £5.1 million). This growth has largely been driven by the re-engagement of Chinese Ceramic OEM customers where our new product range is proving successful. Revenues in Printhead have increased year-on-year from £9.6 million to £11.9 million, a 24% increase.

This is a real proof point for the change in strategy; the removal of distribution channels, the implementation of a clear pricing strategy, and more significantly a change in how we interact and support our customers have all helped with the speed of adoption of the Xaar 2002 together with Xaar Nitrox and Irix in China.

Revenue in EMEA has continued to rise year-on-year. Excluding FFEI, revenue was £20.9 million compared to £18.1 million, and we have seen a promising continued upward trend in revenue since H2 2019. Revenue in the first half of the year increased £2.1 million compared to H1 2020 of £8.4 million and by £0.7 million in the second half compared to £9.7 million in H2 2020.

Printhead revenue for the year increased £4.8 million to £40.1 million (2020: £35.3 million). Growth in the first half was 20% and in the second half was 8% as we saw continued momentum in revenue throughout the year.

Printhead revenue growth stems from the continued recovery in the key sectors of Ceramics & Glass (C&G) with growth of £5.2 million (38%). Increasing market share with our extended product portfolio and being able to demonstrate our clear technology advantages has proven successful in the Chinese Ceramics market, where we have regained trust with our customers. We have also established a market leading position in Glass with the Xaar 2002 and won several accounts in the Glass sector in 2021, with revenue in 2021 increasing 38% compared to 2020.

Coding & Marking (C&M) revenue has remained largely flat year-on-year, while Direct-to -Shape (DTS) revenue has declined with the majority of the decline taking place in the Americas which we believe will be a short-term flattening of demand.

Whilst still a relatively small part of our business, DTS will prove to be an increasingly important sector for the business and an area for potential growth in the long term and it is encouraging that we are showing how our unique technology advantages can prove successful in this area by winning new accounts and commissioning new machins by switching their production lines over to a digital solution.

Wide Format Graphics (WFG) and Labels revenue fell slightly in the year from £6.3 million to £6.2 million. This is an area where we have seen some delays in orders, mainly COVID-19 related. As our customers are more able to access their own customer bases with a relaxation of travel restrictions, we expect this reduction to be one of timing only and to recover in 2022.

3D Printing and Advanced Manufacturing (AVM) have stayed relatively flat year-on-year (2021: £2.4 million, 2020: £2.5 million) with gains in 3D Printing offset by a reduction in revenues from AVM. As with the DTS market, the AVM market for printheads is still relatively small but growing, and we are very excited about our prospects in this area and expecting to see significant growth in the coming years. Both 3D Printing and AVM are markets where we are well positioned to take advantage of growth opportunities, but development cycles can be long, therefore, it can take several years for a customer to reach full production and ultimately significant demand for printheads.

Revenues from Packing & Textiles remain modest. Our ability to target this sector effectively is somewhat limited by our current product range. However, advancements in the product portfolio driven by the ImagineX platform should make this large sector more accessible in the future. Full year revenue of £0.8 million was down year-on-year (2020: £0.9 million).

Our royalty revenue stream was sold during 2019 and so we have a declining legacy royalty rate which will continue to decline in 2021 and 2022 before ceasing altogether shortly thereafter.

Revenue from the EPS business increased by £1.2 million to £13.9 million (2020: £12.7 million) as the new commercial approach has seen some significant customer order wins.

Table A – Revenue by region – Continuing operations

£m	2021 H1			2021 H2				**FY 2021**				FY 2020		
	PH	EPS	Total	PH	EPS	FFEI	Total	**PH**	**EPS**	**FFEI**	**Total**	PH	EPS	Total
Americas	3.9	6.1	10.0	3.4	7.8	2.4	13.6	**7.3**	**13.9**	**2.4**	**23.6**	7.6	12.7	20.3
Asia	5.8	–	5.8	6.1	–	0.1	6.2	**11.9**	**–**	**0.1**	**12.0**	9.6	–	9.6
EMEA*	10.5	–	10.5	10.4	–	2.8	13.2	**20.9**	**–**	**2.8**	**23.7**	18.1	–	18.1
Total	20.2	6.1	26.3	19.9	7.8	5.3	33.0	**40.1**	**13.9**	**5.3**	**59.3**	35.3	12.7	48.0

* Includes plc £0.2 million 3D service fee allocated to PH and EMEA. Figures subject to rounding.

This has been driven particularly by digital inkjet machine sales with growth of 11%, which is particularly pleasing as this will be the core focus for the business in the future. Pad print machine revenue has also increased (8%) albeit with a decline year-on-year in the second half. The focus on consumables and accessory sales has contributed to the growth as a result of the change in commercial approach, with increased revenue from ink, plates and parts. We see a strengthening pipeline and order book and we are well placed to deliver further growth in 2022 as companies start to invest in capital equipment again and those markets affected by the pandemic, such as Ad Speciality and Promotional Products, start to recover.

Continuing operations – gross profit

Gross profit for the year increased by £7.2 million to £20.2 million (2020: £13.0 million) with an increase in the gross margin to 34% (2020: 27%). This was primarily the result of an improvement in the Printhead business unit's gross profit which grew from 27%. We increased utilisation of the factory as throughput was increased during the year resulting in better overhead cost recovery, supporting margin gains. We have worked hard on cost saving initiatives during the year and as we increase volumes there should be further scope for improved overhead recoveries and accordingly margin gains. During 2021 we proactively worked to secure raw materials which should reduce further supply chain risks. Issues in supply chains globally are well known and documented, particularly so for semi-conductors and other technology materials, with increasing cost pressures. Our actions in Q4 should insulate us from further costs and mean we are able to meet customer demand throughout 2022. We have increased our working capital with inventory rising £9.1 million (2020: £4.8 million reduction in inventory), This higher level of both raw materials and finished goods is a deliberate, prudent approach which we believe will see us well placed to both manage customer requirements and further insulate the business from external supply chain risks whilst utilising the high level of operational gearing to deliver further improvements in the gross margin.

Gross profit for the EPS business declined £0.2 million in the year to £3.2 million (2020: £3.4 million) with gross margin down year-on-year (2021: 23%, 2020: 27%). Actions taken to refocus the business on future growth opportunities mean 2021 results have been impacted by non-cash write down adjustments totalling £0.7 million. These are largely related to inventory we now consider to be slow moving or obsolete.

Table B – printhead revenue

£m	2021 H1	2021 H2	FY 2021	FY 2020	Var	Var %
Ceramics & Glass	**9.5**	**9.5**	**19.0**	13.8	5.2	+38%
C&M and DTS	**5.9**	**5.2**	**11.1**	11.5	-0.4	-3%
WFG & Labels	**3.4**	**2.8**	**6.2**	6.3	-0.1	-2%
3D Printing & AVM	**1.0**	**1.4**	**2.4**	2.5	-0.1	-4%
Packaging & Textiles	**0.2**	**0.6**	**0.8**	0.9	-0.1	-11%
Royalties, Commissions & Fees[1]	**0.2**	**0.4**	**0.6**	0.4	0.2	+50%
Total	**20.2**	**19.9**	**40.1**	35.3	4.8	14%

1 Royalties in H2 includes £0.2 million relating to Xaar / Stratasys service fee administered by Group.

Figures (£m) and percentages (%) are subject to rounding.

Table C – EPS revenue

£m	2021 H1	2021 H2	FY 2021	FY 2020	Var	Var %
Digital inkjet	**3.6**	**4.4**	**8.0**	7.2	0.8	+11%
Pad printing	**2.4**	**3.1**	**5.5**	5.1	0.4	+8%
Other	**0.1**	**0.3**	**0.4**	0.4	–	–
Total	**6.1**	**7.8**	**13.9**	12.7	1.2	+9%

* Figures (£m) and percentages (%) are subject to rounding.

Excluding the non-cash adjustments mainly relating to slow moving and obsolete inventory, the underlying gross margin was 28%, largely due to the resetting of the modular strategy by new management. Excluding the £0.7 million of adjustments recorded by EPS in 2021, the gross profit for the Group would have improved to £20.9 million, with a gross margin of 35%.

Continuing operations – R&D

R&D spend of £5.7 million was up £1.2 million on 2020 (2020: £4.5 million). This reflects the investment in the ImagineX platform which will be central to our long-term growth, with the added investment in FFEI of £0.4 million. The total increase is in proportion to our revenue growth and maintains a spend/revenue ratio of approximately 10%. Sales and marketing spend for the year was £6.3 million (2020: £6.0 million). The increase in spend of £0.3 million year-on-year reflects the focus on sales and business development in the Printhead business unit following the restructuring of the business in the second half of 2020. Savings were seen in both the Printhead and EPS businesses due to COVID-19 which limited our ability to visit customers and led to the cancellation of the majority of tradeshows which one, or both, businesses would have attended.

Continuing operations – expenses

General and administrative expenses increased £2.1 million from £8.0 million in 2020 to £10.1 million in 2021. This increase largely relates to planned investment in key areas of the business and infrastructure, including operations, IT and finance, offset by £0.3 million related to trading foreign exchange gains in 2021, as a result of the exchange rate volatility response to COVID-19.

Impairment reversals on financial assets were £0.4 million (2020: £0.9 million). This reversal predominantly relates to a distribution channel used by the Printhead business and the collection of a customer debt previously provided for.

Other operating income in 2020 of £0.8 million related to the PPP loan taken out by the EPS business in the US which met all qualifying criteria to be forgiven.

Restructuring and transaction costs of £1.4 million (2020: £0.8 million) predominantly relate to re-organisation costs, acquisition related professional fees and additional costs relating to the dilapidation and exit of the office on the Cambridge Science Park.

Business performance continued

Table D – Movement in net cash* (including 3D)

£'000	2021	2020
Cash & treasury deposits – Continuing operations	**25,051**	18,117
Cash & treasury deposits – 3D operations	**–**	2,120
Cash & treasury deposits at the end of the year	**25,051**	20,237
Cash & treasury deposits at the beginning of the year	**20,237**	25,322
Total net cash inflow/(outflow)	**4,814**	(5,085)
Effect of foreign exchange rate changes on cash balances	**110**	57
Increase/(Decrease) in net cash for the Group	**4,924**	(5,028)
Consisting of:		
Total cash (outflow) / inflow from continuing operations	**(2,342)**	7,073
Cash outflow from Xaar 3D business	**(2,109)**	(7,018)
Xaar 3D – Proceeds from share capital and share sale	**9,272**	–
Net cash inflow (outflow) from Thin Film operation	**103**	(5,083)
Increase/(Decrease) in net cash for the Group	**4,924**	(5,028)

* Net cash is defined as cash and cash equivalents, plus treasury deposits.

Continuing operations – profit

The profit before tax from continuing operations under IFRS was £1.0 million in 2021 (2020: £4.3 million loss). Basic earnings per share from continuing operations was 0.9p (2020: loss 5.7p).

The performance of the Printhead business improved £6.5 million from a £4.3 million loss in 2020 to a £2.2 million profit before tax in 2021, driven by increased sales, a much improved gross margin, and a reduction in operating expenditure. The EPS business went from a £0.3 million profit in 2020 to a £0.9 million loss in 2021 due to the impact arising from the write off and provisioning of legacy inventory. Excluding this one-off impact, the EPS business made a small loss which given the underlying performance of the business should see turn this into profit during 2022.

FFEI contributed a profit before tax of £0.4 million since acquisition on 11 July 2021.

In calculating the adjusted loss before tax we have adjusted for gains on derivative financial liabilities of £2.9 million (2020: £0.1 million) and fair value gains on financial assets of £1.0 million (2020: nil) alongside restructuring costs of £1.4 million, foreign exchange losses on intra-group loans of £0.1 million, and share-based payments of £0.7 million with an R&D expenditure credit of £0.3 million and amortisation of acquired intangible assets of £0.4 million (see Financial Statements – note 4 on page 130).

The adjusted loss before tax from continuing operations was £0.6 million, compared to £3.9 million loss in 2020. This is a significant step forward for the business, emphasised by the delivery of adjusted profit in the second half of 2021. The adjusted EBITDA for continuing operations in the year was £3.2 million (2020: £0.1 million).

Discontinued operations

Due to the divestment of the remaining investment in Xaar 3D, completed on 1 November 2021, the results are classified as discontinued operation. The business was classified as an asset held for sale as at 31 December 2020.

A £13.5 million profit was recorded in relation to discontinued operations (2020: £10.3 million loss) with cash outflows for the period of £1.9 million (2020: £12.1 million). The Thin Film business, which was classified as discontinued in 2019, recorded a loss of £0.2 million (2020: £3.7 million) which related to inventory commitments and supplier liabilities. All liabilities regarding the Thin Film business have now been settled. The 3D business recorded an operating loss of £4.2 million in 2021 (2020: £6.4 million loss).

The Group has recognised a gain on the sale of the investment in subsidiary of £17.9 million, comprising net cash received of £9.3 million, with contingent consideration at the transaction date of £10.9 million, less transaction costs of £0.2 million.

Basic earnings per share from discontinued operations was 20.0p (2020: loss 9.5p).

Profit for the year

The Group profit for the year was £14.2 million (2020: £14.7 million loss) of which £16.2 million is attributable to the owners of the Company (2020: £11.7 million loss), with a £2.0 million loss to non-controlling interests (2020: £3.0 million loss). The total basic earnings per share attributable to shareholders is 20.9p (2020: loss 15.2p).

Cash generation

The Group retained a healthy cash balance of £25.1 million at the year end, representing an increase of £4.9 million during the year, comprising a cash outflow from continuing operations of £2.3 million, with discontinued Xaar 3D operations utilising £2.1 million, being offset against cash proceeds received for the sale of Xaar 3D of £9.3 million.

Operating cash inflow for continuing operations before working capital was £2.7 million due to improved aEBITDA of £3.2 million delivered principally in our Printhead division.

As a result of the managed investment in inventory, working capital saw an outflow of £3.4 million, with improvements in receivables and payables helping to offset some of the £9.1 million increase in inventory.

The Group maintains a strong disciplined focus on cash, and this will continue throughout 2022. During 2021, investing activities saw a cash spend of £2.3 million, mainly on infrastructure and IT projects.

The business has a clear plan and strategy which the strong balance sheet and cash position will support. There remain external development opportunities which, if they can expand our capabilities and expertise, we will look to potentially add to the Group. We will also continue to invest internally to ensure we have the operational capacity and efficiency to meet future demand, alongside investment in our product roadmap development.

Strong balance sheet

Non-current assets increased £22.7 million in the year from £24.7 million to £47.4 million. This was driven by the increase in goodwill following the acquisition of FFEI Limited of £0.7 million, along with an increase in intangible assets of £3.8 million. The identification of financial assets at fair value arising from the sale of 3D assets was £10.9 million plus revaluation through profit and loss at year end of £1.0 million (2020: £nil). Additionally, there were increases in right-of-use assets of £7.3 million, and a £0.9 million reduction in property, plant and equipment as new purchases were controlled in line with the Group's cash focus.

Current assets, excluding the disposal group assets held for sale, increased £18.4 million from £38.1 million in 2020 to £56.5 million. A significant proportion of this increase is attributable to the increase in inventories of £9.1 million to £18.8 million (2020: £9.7 million), associated with the managed investment in our supply chain capability. Trade and other receivables increased by £2.5 million to £12.1 million (2020: £9.6 million) and cash and cash equivalents (including treasury deposits) increased by £7.0 million to £25.1 million (2020: £18.1 million), with current tax assets increasing by £0.1 million to £0.5 million (2020: £0.4 million). Each of these were primarily driven by the consolidation of FFEI.

The 3D business was classified as held for sale with £10.0 million of assets in 2020 and disposed of in 2021.

Current liabilities, excluding liabilities associated with Xaar 3D (held for sale) in 2020 of £1.6 million, increased by £8.7 million to £23.0 million (2020: £14.3 million) primarily due to the increase in trade and other payables of £11.6 million to £21.5 million (2020: £9.9 million), as a result of the consolidation of FFEI. A reduction in the provision balance of £0.2 million arose from the utilisation of the £0.3 million restructuring provision in the year, offset by an increase in warranty provision of £0.1 million. Current lease liabilities increased by £0.1 million to £1.2 million (2020: £1.1 million), with the disposal of Xaar 3D also removing the liability arising from derivative financial instrument, of £2.9 million.

Non-current liabilities increased by £10.7 million to £12.2 million (2020: £1.5 million), which mainly relate to lease liabilities recorded under IFRS 16 for property, which increased by £7.0 million to £8.5 million (2020: £1.5 million) in the year, alongside recognising a dilapidation provision on leases of £0.3 million (2020: £nil) and long-term liability of £3.4 million for the deferred consideration on the acquisition of FFEI Limited.

Dividend

No dividend has been declared for 2021, as the Board believes that prioritising cash for continued investment in the business at this stage of our rebuilding programme will deliver more compelling returns for shareholders in the medium term.

Table E – Cash flow table – Continuing operations (excluding 3D)

	2021	2020
aEBITDA	**3,183**	62
Restructuring and transaction expenses	**(1,404)**	(754)
Depreciation of right-of-use assets	**871**	1,107
Government grant (PPP loan)	**–**	819
Other	**90**	144
Operating cash flows before movement in working capital	**2,740**	1,378
Movement in working capital	**(3,383)**	6,735
Cash (utilised) /generated by operations	**(643)**	8,113
Income taxes received	**288**	351
Net cash used in investing and other financing activities	**(1,987)**	(1,391)
Net (decrease) / increase in cash and cash equivalents from continuing operations	**(2,342)**	7,073