

Chairman's introduction

Strong performance and good momentum



Strategic and operational highlights

- + Customer engagement accelerated due to expanded vertically integrated product range
- + Phase 1 of operational efficiency programme with factory re-organisation completed on time and on budget
- + Ongoing delivery of product roadmap with successful Aquinox product launch
- + Investment in working capital has allowed Xaar to successfully mitigate supply chain constraints and deliver on customer demand
- + Further operational progress made in Engineered Printing Solutions (EPS), delivering strong revenue growth
- + Expanding business capability and vertically integrated product offering: acquisition of Megnajet and successfully completed FFEI integration
- + Sustainability Roadmap embedded in business with clear strategy to reach 'net zero' by 2030

Into my third year as Chairman, I am delighted with the progress that the business has made, operationally, commercially, and strategically.

We are well positioned in growing markets, with a high quality leadership team, strong R&D and manufacturing capabilities, and with technology that differentiates us from our competitors. In addition, strong capital discipline is enabling continued investment in growth opportunities.

Our central focus remains on our core competence of designing and manufacturing world leading printheads. The continued rebuilding and strengthening across all areas of our business has resulted in a platform from which we can deliver reliable business performance and meet the requirements of our customers.

We also have a clear focus on the value chain, placing our customers at the centre of our business. We offer integrated solutions in a wide number of market sectors, enabling more consistent financial performance. The technical and competitive advantages of the Xaar Bulk piezo product range has progressed well with the launch of our latest printhead, Aquinox. This product opens new markets to Xaar with its water-based capability, and we were pleased to see the product launched to plan and on time, reaffirming the expertise and focus we have across different teams in the Group.

The Board is delighted with the progress that the management team has made in re-energising the business and would also like to thank our teams and partners worldwide for their commitment and adaptability.

Continued strategic progress

This year's strong trading performance has been driven by all elements of the business and momentum continues to build. A clear strategy is now embedded across the Group with a focus on customer needs and a drive to highlight the benefits delivered by adoption of Xaar digital print technology.

This focus, along with our well-defined product roadmap, has increased the quality and responsiveness of the business, and meaning we are well placed for further performance improvements. We believe a significant opportunity exists in market sectors and applications where Xaar technology provides commercial and technical performance advantages.

Operational improvements have also been made. We have previously discussed investing in our manufacturing facilities to improve efficiency and lower costs, and the first phase of this programme has now been completed. The Huntingdon factory reorganisation was completed in early 2023 on time and on budget. This will enable us to operate more efficiently, increase capacity and crucially generates significant cost savings, especially in reducing our energy consumption.

The acquisitions of FFEI and Megnajet have been successfully integrated, adding capability and broadening our product range. This has increased our market opportunity and means Xaar is better placed to support customers with the integration of our printhead technology.

Our product print systems business, EPS, has had an excellent year, with increased customer engagement leading to significant revenue growth, higher gross margins and strong profitability.

Strong financial results

In what has proven to be another challenging year for the global economy, the Group delivered strong sales growth of 23% (8% organic) and achieved profitability for the year. We have taken actions to build organisational strength and resilience, while focusing on cost control and careful cash management.

Additionally, there has been investment to increase efficiency and ensure consistency of operational performance. This will mean the business is well placed to further deliver on the significant opportunities ahead as external pressures ease.

As has been the case for many businesses, over the past year we have been faced with unprecedented supply chain issues coupled with rising global inflation. Through taking proactive measures with a focus on managing our supply chain, investing in both raw materials and higher levels of finished goods, we have been continually strengthening our business resilience and maintaining uninterrupted supply to our customers.

The Printhead business made good progress both commercially and operationally during the year despite the ongoing impact of COVID-19 related restrictions in China. Whilst sales volumes have grown in the USA and remained stable in EMEA, they declined significantly in Asia. The Printhead business has nevertheless performed well and responded to these difficulties in a proactive and controlled manner.

As I discussed in my report last year, following challenges in market demand and performance, a new management team was appointed in EPS. This has led to a recovery in performance during 2022 with a strong order book profile and excellent results. Revenue grew 41% (24% in local currency USD), gross margin is back at pre-pandemic levels and a full year profit delivered.

We are pleased with the progress made at FFEI and Megnaget. Having only joined the Group in July 2021 and March 2022 respectively, the integration of each business has been completed, and performance is in line with our expectations.

Cash of £8.5 million and a robust balance sheet provide a platform for further investment. This is after investment in working capital movements of £12.2 million as we managed supply chain constraints and ensured continued customer supply throughout the factory shutdown in Q1 2023.

The Board has not declared a dividend in 2022. We continue to believe that prioritising cash for investment in the business will deliver more compelling returns for shareholders in the medium term.

Committed to sustainability

We have made significant progress on ESG and the Group's Sustainability Roadmap. The Board remains committed to the business being carbon net zero by 2030. The Sustainability Roadmap demonstrates clear industry leadership and establishes a firm pathway for a more sustainable future. Decarbonisation remains a key objective and we have started work on Scope 3 and TCFD Climate Modelling for all Xaar Group sites which will be completed by early 2023.

We are passionate about delivering solutions and products for our customers that are cleaner and healthier. Our products are well placed to deliver significant benefits environmentally for our customers through greater efficiency in power consumption and reduction in water usage.

The continued rebuilding and strengthening across all areas of the business has generated a strong platform for reliable business performance.

Andrew Herbert
Chairman

We also seek to have a wider positive impact on society by understanding and prioritising employee needs, doing business responsibly, and reaching out to our local communities. The majority of our sites in the UK have moved to 100% renewable energy. We aim to switch all contracts in the UK to renewable electricity by the end of 2023. All printhead product packaging is fully recyclable. Our Apprentice Programme is well developed across the business, and we continue to support activities promoting STEM (Science, Technology, Engineering and Maths) subjects amongst young people as well as several sponsorship programmes supporting young university students and industry placements.

Driven by our people

The Board is delighted with the progress made by the Group this year, in the context of a volatile external environment for both businesses and individuals. I would like to thank all our employees who have worked tirelessly to innovate, deliver for our customers, and inspire and support each other with passion and integrity. Xaar is a great company, and I am excited about what we can achieve in the future.

Outlook

With strong foundations in place as a result of the progress in our strategy over the last three years, the Board is optimistic about the opportunities that lie ahead for the Group and for all our stakeholders including employees, customers, and shareholders.



Andrew Herbert
Chairman
27 March 2023

