IQE plc

(“IQE” or the “Group”)

2020 FULL YEAR RESULTS

Cardiff, UK
25 March 2021

Record revenue of £178m underpinned by the start of the 5G mega-cycle

IQE plc (AIM: IQE), the leading supplier of advanced wafer products and material solutions to the semiconductor industry, announces its full year results for the year ended 31 December 2020.

2020 Financials

	FY 2020 £’m*	**FY 2019 £’m***	**Change (%)**
Revenue	178.0	140.0	27.1
Adjusted EBITDA	30.1	16.2	85.8
Operating loss	(5.5)	(18.8)	
Adjusted operating profit/loss	5.4	(4.7)	
Reported loss after tax	(2.9)	(35.1)	
Adjusted diluted EPS(p)	0.29p	(2.46p)	
Net cash generated from operations	35.5	8.9	298.9
Adjusted cash flow from operations	36.3	16.5	120.0
Capital investment (PP&E)	5.0	31.9	(84.3)
Net cash/(debt)**	1.9	(16.0)	

**   All figures £’m excluding adjusted diluted EPS.*
*** Net (debt) / funds excludes IFRS16 lease liabilities.*
Adjusted Measures: The Directors believe that the adjusted measures provide a more useful comparison of business trends and performance. Adjusted measures exclude certain non-cash items, non-operational items and significant infrequent items that would distort period on period comparability. The following highlights of the full year results is based on these adjusted profit measures, unless otherwise stated.

Financial Summary

- Record revenue performance of £178.0m (FY 2019: £140.0m) representing 27% YoY revenue growth driven by the start of the 5G mega-cycle

    - Wireless revenue of £94.2m (FY 2019: £68.2m) representing 38% YoY growth, driven by 5G infrastructure deployments in Asia, in particular GaN on SiC for mMIMO base stations and 5G handset market penetration, where there has been an increase in GaAs content versus 4G phones

    - Photonics revenue of £81.6m (FY 2019: £69.8m) representing 17% YoY growth, driven by continued growth in 3D Sensing and other advanced sensing applications, in particular epiwafers for Direct Time-of-Flight (DToF) camera modules that are enabling augmented reality

    - Foreign exchange headwind of £0.5m (constant currency USD revenue growth of 27.5% YoY)

- Net cashflow from operations of £35.5m (FY 2019: £8.9m) resulting from the strong trading performance, capital spending controls and working capital management, leading to a net cash position (excluding lease liabilities) of £1.9m as at 31 December 2020 (FY 2019: net debt of £16m)

- Increase in profitability with an adjusted operating profit of £5.4m (FY 2019: £(4.7m) loss) as a result of revenue growth and the benefits of high operational gearing

- Reported operating loss of £(5.5)m (FY 2019: £(18.8)m) as a result of exceptional impairment charges and legal costs reported at the half year, offset by the proceeds from the settlement of a legal dispute resolved in IQE's favour

- Capital expenditure reduced to £5.0m on PP&E (FY 2019: £31.9m) following the completion of the infrastructure phase of the Group's capacity expansion in 2018 and 2019

Strategic and Operational Highlights

- Business continuity maintained at all global sites during the COVID-19 pandemic with no interruptions to production
- Consolidation of US MBE manufacturing activities at North Carolina site by 2024, with transition underway
- Acquisition of the 10% minority interest in IQE's Taiwanese subsidiary, subject to an ongoing statutory Court process regarding valuation
- Settlement in IQE's favour in a multifaceted intellectual property legal dispute, resulting in $2.5m cash being received in February 2021
- Three new Aixtron G4 tools ordered in Q1 2021 to support volume growth for Wireless GaAs in Taiwan

- Strong progress in new product development including IQepiMo™ template technology for RF Filters, IQGeVCSEL 150™ technology for 6" VCSELs on Germanium (Ge), a critical step in the pathway to 8" VCSEL technology, and post year end IQDN-VCSEL™ technology for advanced sensing applications at longer wavelengths on 150 mm GaAs substrates
- The search for a new CEO who will lead IQE during the next phase of its growth is ongoing. The appointment of a new CEO will facilitate Drew Nelson's transition to becoming a board member with the title of President.

Dr Drew Nelson, Chief Executive Officer of IQE, said:

"*2020 was a year unlike any other and I'd like to extend my thanks to all of our staff who have shown their commitment and resilience in rising to the challenges we faced. Despite the global uncertainty that we encountered, the strength and diversification of our business enabled us to deliver record revenues of £178m, representing a 27% year-on-year increase.*

At the same time, we have made positive progress against our strategy and recorded strong growth across our Wireless and Photonics divisions, despite the external pressures.

This progress, combined with the return to a cash positive position and the range of unique materials solutions for high performance devices in our development pipeline, ensures we are well placed to maintain our leadership position as the 5G mega-cycle gathers pace in the coming years".

Current trading and H1 2021 outlook

After a consistently strong year in 2020 across IQE's broad portfolio of products, trading has continued positively in 2021. In particular, revenues for Wireless GaAs epiwafers are strong as a result of continued 5G handset market penetration and increased GaAs content. In addition, demand for 3D sensing, advanced sensing applications and communications products continues to remain positive.

IQE is well positioned for further 5G related GaN on SiC growth over the multi-year replacement cycle. In the first half of FY21, revenues of GaN on SiC are expected to be lower than in H1 FY20 amid lower market estimates for mMIMO deployment in Asia. Beyond the near term, the opportunities for this and other GaN on Si technologies are very strong as global roll outs of 5G gather pace.

The Group is experiencing a foreign exchange headwind in FY 21 on a reported basis, as the Group's revenues are predominantly earned in USD but are reported in GBP.

The Group expects revenue and Adjusted EBITDA in the first half of 2021 to be similar to H1 FY20 on a constant currency basis.

Capital expenditure on PP&E for FY21 is expected to be in the range of £20m to £30m as the Group resumes investment in capacity for specific growth platforms, including three new reactors for Taiwan to underpin further growth in FY22. Capitalisation of development costs are expected to be in the range of £7m to £10m for the full year as the Group continues to invest in future products to meet anticipated growing demand for compound semiconductors driven by the macro trends of 5G and connected devices.

Contacts:

IQE plc
+44 (0) 29 2083 9400
Drew Nelson
Tim Pullen
Amy Barlow

Peel Hunt LLP (Nomad and Joint Broker)
+44 (0) 20 7418 8900
Edward Knight
Paul Gillam
Nick Prowting

Citigroup Global Markets Limited (Joint Broker)
+44 (0) 20 7986 4000
Christopher Wren
Peter Catterall

Headland Consultancy (Financial PR)
Andy Rivett-Carnac: +44 (0) 7968 997 365
Chloe Francklin: +44 (0)78 3497 4624

Glossary

GaAs	Gallium Arsenide
GaN	Gallium Nitride
mMIMO	Massive MIMO (Multiple-Input, Multiple Output)
SiC	Silicon Carbide
VCSEL	Vertical Cavity Surface Emitting Laser

ABOUT IQE

http://iqep.com

IQE is the leading global supplier of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- handset devices
- global telecoms infrastructure

- connected devices
- 3D sensing

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in a market which has high barriers to entry. IQE supplies the whole market and is agnostic as to the winners and losers at chip and OEM level. By leveraging the Group's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with c. 650 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore, and is listed on the AIM Stock Exchange in London.

Financial Review

The Group reports financial performance in accordance with International Financial Reporting Standards adopted by the European Union ('IFRS') and provides disclosure of additional alternative non IFRS GAAP performance measures to provide further understanding of financial performance. Details of the alternative performance measures used by the Group including a reconciliation to reported IFRS GAAP performance measures is set out in note 5 to the financial statements.

On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak created uncertainty in global economies and posed a number of initial risks and uncertainties in the markets in which the Group operates although ultimately these have not adversely impacted financial performance during the year with strong global growth trends in compound semiconductor markets continuing and the Group experiencing little or no disruption to its manufacturing operations as a result of the pandemic.

The Group's trading has remained resilient throughout the year with significant growth experienced in a number of markets that has resulted in the delivery of record revenue of £178.0m (2019: £140.0m) with strong growth experienced in each of the Group's primary business segments.

The Group's Wireless business segment represents the largest proportion of the Group's revenue accounting for 52.9% (2019: 48.7%) of total wafer sales with Photonics representing 45.8% (2019: 49.8%) and CMOSS++ representing 1.2% (2019: 1.5%).

Wireless wafer revenues increased 38.2% to £94.2m (2019: £68.2m). The increase in Wireless revenue primarily reflects increased demand for GaAs wafers for 5G handset power amplifiers fuelled by growing end market demand for '5G ready' smartphones, increased demand for GaN on SiC wafers for 5G infrastructure related to initial deployments of 5G base stations and demand for high performance GaN on SiC wafers for advanced RF applications.

Photonics wafer revenues were up 17.0% to £81.6m (2019: £69.8m) with the Group experiencing consistently high demand for GaAs VCSEL wafers for 3D sensing applications throughout the year and continuing strong demand for high performance GaSb wafers for advanced sensing applications.

Gross profit increased from £21.4m to £33.2m. The increase in gross profit reflects a combination of higher trading volumes and an improvement in overall gross profit margin percentage to 18.6% (2019: 15.3%) as the Group has benefited from greater capacity utilisation in the current year. Adjusted gross profit, which excludes the charge for share based payments, increased from £20.9m to £33.3m with a gross margin improvement from 14.9% to 18.7%.

Selling, general and administrative ('SG&A') expenses decreased from £36.3m to £34.7m. Adjusted SG&A, which excludes adjustments for share based payments, restructuring costs, patent dispute legal costs and certain non-current asset impairments increased from £25.8m to £27.8m primarily reflecting an increase in investment in corporate functions and employee headcount as the Group continues to grow.

Restructuring costs totalling £0.16m (2019: £0.81m) relate to employee retention bonuses associated with the announced closure of the Group's manufacturing facility in Pennsylvania (US). Restructuring costs in 2019 related to site-specific employee related restructuring and final costs associated with the closure of the Group's manufacturing facility in New Jersey (US).

Patent dispute income of £1.7m (2019: £4.3m cost) relates to a settlement agreement associated with legal costs incurred by the Group that has been negotiated with the plaintiff following the previously announced arbitration panel ruling in favour of the Group. Patent dispute income also includes insurance income received from the Group's insurers in relation to relevant costs incurred as part of the dispute partially offset by actual legal costs incurred during the period.

Impairment of intangibles of £6.5m (2019: £3.8m) relates to the write-down in value of the Group's non-filter related cREO™ patent and development costs following the refocus of resource and investment into cREO™ filter related development activities. The onerous contract provision of £1.8m (2019: £nil), which is linked to the commercial applications of the cREO™ technology and represents the cost of minimum guaranteed future royalty payments related to the historical acquisition of the technology from Translucent Inc. that are payable in the period prior to the expected commercial exploitation of the cREO™ filter technology.

Operating loss improved from £18.8m in 2019 to a current year loss of £5.5m. Reflecting the adjustments noted above, adjusted operating loss of £4.7m in 2019 improved significantly in 2020 with a return to profitability and an adjusted operating profit of £5.4m. The segmental analysis in note 3 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Wireless adjusted operating margins and photonics operating margins improved from 9.7% and 1.9% in 2019 to 12.1% and 11.1% in 2020, primarily reflecting increases in volume and increased utilisation of manufacturing capacity.

The credit of £3.8m (2019: £4.7m charge) associated with the Group's share of losses in its joint venture, Compound Semiconductor Centre Limited, reflects the reversal of previously recognised losses as part of the application of the loss absorption requirement of IAS28.38 following an equal and opposite increase in the level of impairment loss associated with the Group's preference share debt due from CSC. The loss absorption credit of £3.8m recorded in 'share of losses in joint venture' and the increased impairment charge of £3.8m relating to the preference share financial asset recorded as an 'impairment loss on financial assets' has no net impact on the Group's loss for the year.

Finance costs increased to £2.2m from £1.5m in 2019 reflecting a combination of the Group's utilisation of its bank borrowing facilities and the unwind of discounting associated with lease liabilities.

The tax credit of £1.0m (2019: £10.2m charge) reflects an effective tax rate of ~25% with the credit principally arising as a result of the recognition of deferred tax assets for certain current year UK trading losses. The tax charge of £10.2m in 2019 primarily reflected increased deferred tax charges relating to the partial reversal of previously recognised US deferred tax assets. A forecast shift in the balance of the Group's projected manufacturing production, a position that remains unchanged in the current year, resulted in a shift in forecast profits between the US and rest of the world. The forecast shift in manufacturing and profitability in the US has restricted the Group's ability to recognise deferred tax assets for historical US trading losses and in 2019 resulted in the partial reversal of previously recognised US deferred tax assets with a tax impact of ~£9.6m. The effective tax rate of 21% (2019: 10%) applicable to the tax charge of £1.5m (2019: £1.8m) on adjusted items is reflective of applicable statutory tax rates.

The reduction in the loss for the year to £2.9m (2019: £35.1m) reflects a combination of significant growth in the wireless and photonics business segments, improved profitability within both business segments and a reduction in the impact of adjusted non-cash and other non-operational items which at an adjusted level, has resulted in a return to profitability, with an adjusted profit for the year of £2.7m (2019: £19.0m loss).

Basic and diluted loss per share has improved from a loss per share of 4.51p to a loss of 0.41p in the current year with adjusted basic earnings per share of 0.29p (2019: 2.46p loss) and adjusted diluted earnings per share of 0.29p (2019: 2.46p loss) reflecting the Group's return to profitability at the adjusted profit level.

Cash generated from operating activities increased significantly in the year to £33.3m (2019: £8.1m) reflecting the Group's positive underlying trading performance and careful management of working capital. This increase in cash generation combined with a reduction in capital expenditure and technology development costs has reduced cash expenditure on investing activities from £41.8m to £11.8m and resulted in a significant strengthening in the Group's balance sheet position with a full year net funds position of £1.9m (excluding lease liabilities) compared to a net debt position of £156.0m (excluding lease liabilities) in 2019.

Cash expenditure as part of investing activities includes £1.4m of cash cost associated with the acquisition of the minority interest in the Group's Taiwanese subsidiary, IQE Taiwan ROC. On 5 October 2020, the group acquired the remaining 9.82% of issued shares held by third party minority shareholders in its subsidiary, IQE Taiwan ROC, taking its equity ownership from 90.18% to 100.00%. The acquisition was affected using a statutory share swap arrangement under Taiwan's Business Mergers and Acquisition Law with the final total consideration payable to be determined by the Taiwan Court. Consideration paid to date consists of £1.4m which has been settled via the issuance of 2,606,689 ordinary shares in IQE plc and cash consideration of £1.4m which for a minority of selling shareholders is subject to adjustment dependent upon a price determined by the Taiwan Court.

Equity shareholder funds totals £260.4m (2019: £270.4m) with the movement from 2019 primarily reflecting the loss for the year, the impact of the acquisition of the Taiwanese minority interest and adverse foreign exchange differences arising on the retranslation of net investments in overseas subsidiaries.

Financial Summary

	2020 £'000	2019 £'000
Revenue	178,016	140,015
Adjusted EBITDA (see below)	30,101	16,246
Operating (loss) / profit		
• Adjusted*	5,386	(4,676)
• Reported	(5,517)	(18,802)
(Loss) / profit after tax		
• Adjusted*	2,702	(19,010)
• Reported	(2,893)	(35,128)
Net cash flow from operations		
Before adjustments (note 4)	36,324	16,530
Reported	35,457	8,948
Free cash flow**		
Before exceptional cash flows	23,566	(25,445)
Reported	22,699	(33,027)
Net (debt)/cash excluding lease liabilities***	1,923	(15,970)
Equity shareholders' funds	260,435	266,593
Basic EPS – adjusted****	0.29p	(2.46p)
Basic EPS – unadjusted	(0.41p)	(4.51p)
Diluted EPS – adjusted****	0.29p	(2.46p)
Diluted EPS – unadjusted	(0.41p)	(4.51p)

Consolidated income statement for the year ended 31 December 2020

	2020 £'000	2019 £'000
Revenue	**178,016**	**140,015**
Cost of sales	**(144,866)**	**(118,631)**
Gross profit	**33,150**	**21,384**
Selling, general and administrative expenses	**(34,697)**	**(36,297)**
Impairment loss on financial assets	**(3,788)**	**(4,134)**
Profit on disposal of property, plant and equipment	**(182)**	**245**
Operating loss	**(5,517)**	**(18,802)**
Finance costs	**(2,165)**	**(1,458)**
Reversal / share of losses of joint ventures accounted for using the equity method	**3,788**	**(4,688)**
Adjusted profit / (loss) before income tax	**3,221**	**(7,019)**
Adjustments	**(7,115)**	**(17,929)**
Loss before income tax	**(3,894)**	**(24,948)**
Taxation	**1,001**	**(10,180)**
Loss for the year	**(2,893)**	**(35,128)**
Loss attributable to:		
Equity shareholders	**(3,271)**	**(35,473)**
Non-controlling interest	**378**	**345**
	(2,893)	**(35,128)**
Loss per share attributable to owners of the parent during the year		
Basic loss per share	**(0.41p)**	**(4.51p)**
Diluted loss earnings per share	**(0.41p)**	**(4.51p)**

Adjusted basic and diluted loss per share are presented in note 5.

All items included in the loss for the year relate to continuing operations.

Non-controlling interest relates to minority shareholder interests in the Group's subsidiary, IQE Taiwan ROC, prior to the acquisition of the minority shareholding on 5 October 2020.

Consolidated statement of comprehensive income for the year ended 31 December 2020

	2020 £'000	2019 £'000
Loss for the year	**(2,893)**	**(35,128)**
Exchange differences on translation of foreign operations*	**(6,104)**	**(3,654)**
Total comprehensive expense for the year	**(8,997)**	**(38,782)**
Total comprehensive expense attributable to:		
Equity shareholders	**(9,482)**	**(39,084)**
Non-controlling interest	**485**	**302**
	(8,997)	**(38,782)**

*** Items that may be subsequently be reclassified to profit or loss.**

Items in the statement above are disclosed net of tax.

Consolidated balance sheet as at 31 December 2020

	2020 £'000	2019 £'000
Non-current assets		
Intangible assets	105,772	118,456
Fixed asset investments	-	75
Property, plant and equipment	126,229	136,482
Right of use assets	37,339	39,355
Deferred tax assets	7,821	5,679
Other financial assets	-	-
Total non-current assets	277,161	300,047
Current assets		
Inventories	30,887	30,668
Trade and other receivables	38,575	33,065
Cash and cash equivalents	24,663	8,800
Total current assets	94,125	72,533
Total assets	371,286	372,580
Current liabilities		
Trade and other payables	(35,605)	(26,367)
Current tax liabilities	(1,426)	(1,162)
Bank borrowings	(6,201)	(2,034)
Lease liabilities	(4,798)	(3,083)
Provisions for other liabilities and charges	(515)	-
Total current liabilities	(48,545)	(32,646)
Non-current liabilities		
Bank borrowings	(16,539)	(22,736)
Lease liabilities	(42,226)	(44,895)
Deferred tax liabilities	(2,054)	(1,860)
Provisions for other liabilities and charges	(1,487)	-
Total non-current liabilities	(62,306)	(69,491)
Total liabilities	(110,851)	(102,137)
Net assets	260,435	270,443
Equity attributable to the shareholders of the parent		
Share capital	8,004	7,961
Share premium	154,185	152,385
Retained earnings	62,089	63,826
Exchange rate reserve	21,291	27,502
Other reserves	14,866	14,919
	260,435	266,593
Non-controlling interest	-	3,850
Total equity	260,435	270,443

Consolidated statement of changes in equity for the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange Rate reserve £'000	Other reserves £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2020	7,961	152,385	63,826	27,502	14,919	3,850	270,443
Comprehensive expense							
(Loss) / profit for the year	-	-	(3,271)	-	-	378	(2,893)
Other comprehensive expense for the year	-	-	-	(6,211)	-	107	(6,104)
Total comprehensive expense for the year	-	-	(3,271)	(6,211)	-	485	(8,997)
Transactions with owners							
Share based payments	-	-	-	-	55	-	55
Tax relating to share options	-	-	-	-	57	-	57
Proceeds from shares issued	17	388	-	-	(165)	-	240
Acquisition of non-controlling interest	26	1,412	1,534	-	-	(4,335)	(1,363)
Total transactions with owners	43	1,800	1,534	-	(53)	(4,335)	(1,011)
At 31 December 2020	8,004	154,185	62,089	21,291	14,866	-	260,435

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2019	7,767	151,147	99,299	31,113	16,404	3,548	309,278
Comprehensive expense							
(Loss) / profit for the year	-	-	(35,473)	-	-	345	(35,128)
Other comprehensive expense for the year	-	-	-	(3,611)	-	(43)	(3,654)
Total comprehensive expense for the year	-	-	(35,473)	(3,611)	-	302	(38,782)
Transactions with owners							
Share based payments	-	-	-	-	(641)	-	(641)
Tax relating to share options	-	-	-	-	(124)	-	(124)
Proceeds from shares issued	194	1,238	-	-	(720)	-	712
Total transactions with owners	194	1,238	-	-	(1,485)	-	(53)
At 31 December 2019	7,961	152,385	63,826	27,502	14,919	3,850	270,443

Other reserves relates to share based payments.

Consolidated cash flow statement for the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Adjusted cash inflow from operations	**36,324**	**16,530**
Cash impact of adjustments	**(867)**	**(7,582)**
Cash generated from operations	**35,457**	**8,948**
Net interest paid	**(1,142)**	**(671)**
Income tax paid	**(993)**	**(151)**
Net cash generated from operating activities	**33,322**	**8,126**
Cash flows from investing activities		
Purchase of property, plant and equipment	**(4,993)**	**(31,864)**
Purchase of intangible assets	**(731)**	**(1,806)**
Capitalised development expenditure	**(4,678)**	**(8,427)**
Proceeds from disposal of property, plant and equipment	**-**	**263**
Acquisition of minority interest	**(1,363)**	**-**
Acquisition of subsidiary, net of cash acquired	**-**	**10**
Net cash used in investing activities	**(11,765)**	**(41,824)**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**240**	**712**
Proceeds from borrowings	**5,000**	**41,895**
Repayment of borrowings	**(7,030)**	**(17,125)**
Payment of lease liabilities	**(3,764)**	**(3,651)**
Net cash (used) / generated from financing activities	**(5,554)**	**21,831**
Net increase / (decrease) in cash and cash equivalents	**16,003**	**(11,867)**
Cash and cash equivalents at 1 January	**8,800**	**20,807**
Exchange losses on cash and cash equivalents	**(140)**	**(140)**
Cash and cash equivalents at 31 December	**24,663**	**8,800**

Notes to the financial statements for the year ended 31 December 2020

1. General information

IQE plc ('the company') and its subsidiaries (together 'the Group') develop, manufacture and sell advanced semiconductor materials. The Group has manufacturing facilities in Europe, United States of America and Asia and sells to customers located globally.

IQE plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom and is quoted on the Alternative Investment Market (AIM). The address of the Company's registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The financial information set out in the announcement does not constitute the Group's statutory accounts for the year ended 31 December 2020 or 31 December 2019. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts and their report was (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"). The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS the accounting policies have been consistently applied to all years presented.

2.2 Going concern

The Group made a loss of £2,893,000 (2019: £35,128,000 loss) but had an increase in cash and cash equivalents of £15,863,000 (2019: £12,007,000 decrease) for the year ended 31 December 2020.

On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak continues to create uncertainty in global economies and the markets in which the Group operates which pose risks to the Group's continuity of business operations, demand for its products and its forecast future financial performance given current world health and global economic conditions. The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- The Group's operations are geographically diversified. Manufacturing operations are located at ten different sites across three continents, significantly lessening the impact of potential disruption at any single site as a result of the ongoing Coronavirus pandemic. All manufacturing sites continue to remain operational and production has not been affected by any disruption at any of the Group's global sites.

- The Group dual or multi-sources key raw materials (substrates, gases, spares and consumables) wherever possible, from a broad range of global suppliers, reducing the likelihood of potential disruption to production from any single supplier. The Group works closely with suppliers and customers to manage inventory levels in order to create supply chain resilience against potential disruption. All manufacturing sites continue to remain operational and production has not been affected by any supply chain disruption.

- The Group's trading has remained resilient throughout the year with significant growth experienced in a number of markets that has resulted in the delivery of record revenue of £178,016,000 (2019: £140,015,000) and an increase in adjusted profit before tax to £3,221,000 (2019: £7,019,000 loss).

- Net debt (excluding lease liabilities) has significantly reduced with the group ending the financial year in a net funds (excluding lease liabilities) position of £1,923,000 (2019: £15,970,000 net debt) as a result of a combination of increased cash generated from operations and a reduction in capital expenditure following the completion of the infrastructure phase of the Group's expansion in Massachusetts USA, Hsinchu Taiwan and at its Newport Foundry in South Wales. Net funds (excluding lease liabilities) consists of £24,663,000 (2019: £8,800,000) of cash net of bank loans of £22,740,000 (2019: £24,770,000) repayable over a period to 29 August 2024.

- On 24 January 2019, the Group agreed a £25,735,000 ($35,000,000) three-year multi-currency revolving credit facility from HSBC Bank plc which is undrawn. The Group has complied with all covenants associated with the facility.

- On 29 August 2019, the Group agreed a £30,000,000 five-year Asset Finance Loan facility from HSBC Bank of which £25,000,000 has been drawn. The Group has complied with all covenants associated with the facility.

- On 10 December 2020, the Group agreed the extension of the relaxation of certain banking covenants applicable at 31 December 2020 and 30 June 2021 to include 31 December 2021 as an on-going precautionary measure designed to increase covenant headroom and availability of cash funding under the terms of the Group's committed bank facilities.

- The Group generated cash from operating activities of £33,322,000 (2019: £8,126,000) and its financial forecasts for the period up to and including 31 December 2022 show that the Group is forecast to continue to comply with its banking covenants and has adequate cash resources to continue operating for the foreseeable future.

- The Group's trading has remained resilient throughout the year with significant growth experienced in a number of markets with record revenue of £178,016,000 (2019: £140,015,000) and strong growth delivered in each of the Group's primary business segments. Wireless and Photonics growth drivers, which include increased demand for GaAs wafers for 5G smartphone power amplifiers, GaN on SiC wafers for 5G infrastructure and advanced RF applications, VCSEL wafers for 3D sensing applications and GaSb wafers for infrared applications, continue to remain strong and trading in Q1 2021 remains favourable with positive momentum continuing across the Group's Wireless and Photonics business units.

- The Group's severe but plausible downside financial forecasts have been prepared with significant reductions to future forecast revenues, designed to reflect severe downside scenarios associated with demand risks, for a 24-month period to 31 December 2022. The severe but plausible downside scenario, applied to the Group's financial forecasts, which take account of current trading and customer demand, assumes a 10% reduction in 2021 revenue and a 22% reduction in 2022 revenue partially offset by mitigations within the control of the company, including deferred investment in employee related costs across the forecast period and certain capital expenditure mitigations in 2022. The severe but plausible downside scenario illustrates that the Group is forecast to continue to comply with its banking covenants but would require either the extension, or refinancing of its current revolving credit facility from HSBC Bank plc on expiry in January 2022. The severe but plausible downside scenario illustrates that a facility of ~£9,000,000, significantly below the Group's current committed facility of £25,735,000 could be required in 2022. The Group has a long-standing and trusted relationship with its bankers, HSBC Bank plc, who remain supportive and who have, at the date of this report, extended formal credit approved heads of terms for a one-year extension of the Group's £25,735,000 ($35,000,000) revolving credit facility until January 2023. The credit approved heads of terms include banking covenants consistent with the covenant arrangements applicable until expiry of the existing facility. On this basis, the directors believe that the group has, or will have access, to adequate cash resources to continue operating for the foreseeable future even in a severe but plausible downside scenario.

The Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's cash flow forecasts and projections, in conjunction with the level of assessed covenant headroom on the Group's committed bank facilities show that the Group and the Company have adequate cash resources to continue operating and to meet its liabilities as they fall due for the assessed period to 31 December 2022, such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statement.

2.3 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations.

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2020:

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' to provide certain reliefs, including in relation to hedge accounting, arising from issues related to interest rate benchmark reform.
- Amendments to IFRS 3 'Business Combinations' which clarifies the definition of a business.
- Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' which are intended to make the definition of material easier to understand.
- Amendments to references to the 'Conceptual framework' in IFRS standards.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company.

(b) New standards, amendments and interpretations issued but not effective and not adopted early

A number of new standards, amendments to standards and interpretations which are set out below are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these consolidated financial statements.

- Amendment to IFRS 3 'Business combinations' to update references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures, IFRS 4 'Insurance Contracts', IFRS 16 'Leases' related to interest rate benchmark reform (phase two) and the issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- Amendment to IFRS 16 'Leases' which provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.
- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 'Insurance Contracts'
- Amendments to IAS 1 'Presentation of financial statements' on classification of liabilities which is intended to clarify that liabilities are classified as either current or non-current depending upon the rights that exist at the end of the reporting period.
- Amendments to IAS 16 'Property, plant and equipment' to prohibit the deduction from cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use with any such sales and related cost recognised in profit or loss.
- Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' to specify which costs a company includes when assessing whether a contract will be loss making.
- Annual improvements to make minor amendments to IFRS 1 'First-time adoption of IFRS', IFRS 9 'Financial Instruments', IAS 41 'Agriculture' and amendments to the illustrative examples accompanying IFRS 16 'Leases'.

The Directors anticipate that at the time of this report none of the new standards, amendments to standards and interpretations are expected to have a material effect on the financial statements of the Group or parent company.

3. Segmental analysis

3.1 Description of segments and principal activities

The Chief Operating Decision Maker is defined as the Executive Management Board. The Executive Management Board, consisting of the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Technology Officer, Executive VP Global Business Development, Wireless and Emerging Products and Executive VP Global Business Development, Photonics & Infrared consider the group's performance from a product perspective and have identified three primary reportable segments:

- Wireless – this part of the business manufactures and sells compound semiconductor material for the wireless market which includes radio frequency devices that enable wireless communications.
- Photonics – this part of the business manufactures and sells compound semiconductor material for the photonics market which includes applications that either transmit or sense light, both visible and infrared.
- CMOSS++ - this part of the business manufactures and sells advanced semiconductor materials related to silicon which include the combination of the advanced properties of compound semiconductors with those of lower cost of silicon technologies.

The Executive Management Board primarily use revenue and a measure of adjusted operating profit to assess the performance of the operating segments. Measures of total assets and liabilities for each reportable segment are not reported to the Executive Management Board and therefore have not been disclosed.

Revenue	2020 £'000	2019 £'000
Wireless	**94,193**	**68,166**
Photonics	**81,627**	**69,758**
CMOS++	**2,196**	**2,091**
Revenue	**178,016**	**140,015**
Adjusted operating profit / (loss)		
Wireless	**11,393**	**6,590**
Photonics	**9,080**	**1,324**
CMOS++	**(714)**	**(1,304)**
Central corporate costs	**(14,373)**	**(11,286)**
Adjusted operating profit / (loss)	**5,386**	**(4,676)**
Adjusted items (see note 4)	**(10,903)**	**(14,126)**
Operating loss	**(5,517)**	**(18,802)**
Reversal / share of losses of joint venture accounted for using the equity method	**3,788**	**(4,688)**
Finance costs	**(2,165)**	**(1,458)**
Loss before tax	**(3,894)**	**(24,948)**

4. Adjusted profit measures

The Group's results report certain financial measures after a number of adjusted items that are not defined or recognised under IFRS including adjusted operating profit, adjusted profit before income tax and adjusted earnings per share. The Directors believe that the adjusted profit measures provide a more useful comparison of business trends and performance and allow management and other stakeholders to better compare the performance of the Group between the current and prior year, excluding the effects of certain non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability. The Group uses these adjusted profit measures for internal planning, budgeting, reporting and assessment of the performance of the business.

The tables below show the adjustments made to arrive at the adjusted profit measures and the impact on the Group's reported financial performance.

			2020			2019
	Adjusted Results £'000	Adjusted Items £'000	Reported Results £'000	Adjusted Results £'000	Adjusted Items £'000	Reported Results £'000
Revenue	178,016	-	178,016	140,015	-	140,015
Cost of sales	(144,689)	(177)	(144,866)	(119,145)	514	(118,631)
Gross profit	33,327	(177)	33,150	20,870	514	21,384
Other income	-	-	-	-	-	-
SG&A	(27,759)	(6,938)	(34,697)	(25,791)	(10,506)	(36,297)
Impairment loss on financial assets	-	(3,788)	(3,788)	-	(4,134)	(4,134)
Profit on disposal of PPE	(182)	-	(182)	245	-	245
Operating profit / (loss)	5,386	(10,903)	(5,517)	(4,676)	(14,126)	(18,802)
Reversal / share of JV losses	-	3,788	3,788	(737)	(3,951)	(4,688)
Finance costs	(2,165)	-	(2,165)	(1,606)	148	(1,458)
Profit / (loss) before tax	3,221	(7,115)	(3,894)	(7,019)	(17,929)	(24,948)
Taxation	(519)	1,520	1,001	(11,991)	1,811	(10,180)
Profit / (loss) for the period	2,702	(5,595)	(2,893)	(19,010)	(16,118)	(35,128)

			2020			2019
	Pre-tax Adjustment £'000	Tax Impact £'000	Adjusted Results £'000	Pre-tax Adjustment £'000	Tax Impact £'000	Adjusted Results £'000
Share based payments	(265)	210	(55)	771	133	904
Amortisation of acquired intangibles	-	-	-	(385)	81	(304)
Restructuring	(162)	39	(123)	(813)	164	(649)
Patent dispute legal fees	1,689	(321)	1,368	(4,308)	775	(3,533)
Impairment – intangibles	(6,537)	1,242	(5,295)	(3,805)	685	(3,120)
Onerous contract	(1,840)	350	(1,490)	-	-	-
Impairment – ROU asset	-	-	-	(1,623)	-	(1,623)
Impairment – financial assets	(3,788)	-	(3,788)	(4,134)	-	(4,134)
Share of JV losses – financial asset	3,788	-	3,788	(3,951)	-	(3,951)
CSDC acquisition - negative goodwill	-	-	-	171	-	171
Discounting	-	-	-	148	(27)	121
Total	(7,115)	1,520	(5,595)	(17,929)	1,811	(16,118)

The nature of the adjusted items is as follows:

- Share based payments – The charge (2019: credit) recorded in accordance with IFRS 2 'Share based payment' of which £177,000 (2019: £514,000 credit) has been classified within cost of sales in gross profit and £88,000 (2019: £257,000 credit) has been classified as selling, general and administrative expenses in operating profit. £nil cash has been defrayed in the year (2019: £1,331,000) in respect of employer social security contributions following the exercise of unapproved employee share options.

- Amortisation of acquired intangibles - The charge of £nil (2019: £385,000) relates to the amortisation of acquired intangibles arising in respect of fair value exercises associated with previous corporate acquisitions and has been classified as selling, general and administrative expenses within operating profit and is non-cash.

- Restructuring – The charge of £162,000 relates to employee retention bonus costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the year total £nil.

  The 2019 charge of £813,000 relates to the closure of the Group's manufacturing facility in New Jersey, USA at a cost of £226,000 and site-specific restructuring and employee severance costs of £587,000. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs of £1,947,000 related to severance and reactor decommissioning costs of £1,360,000 associated with the closure of the New Jersey site and cash costs of £587,000 associated with site specific employee severance costs.

- Patent dispute legal costs – The credit relates to a settlement agreement of £1,825,000 (US$2,500,000) associated with legal costs incurred by the Group that has been negotiated with the plaintiff following an arbitration panel ruling in favour of the Group on 17 January 2020. The settlement has been cash received in the post balance sheet period. The credit also includes an increase in insurance income of £410,000 (2019: £nil) following final settlement with the Group's insurers partially offset by legal costs incurred during the year of £546,000 (2019: £4,308,000). Cash cost, net of the full insurance receipt of £740,000 ($1,000,000) total £867,000 as a result of the payment of current and prior period legal costs during the year of £1,607,000 (2019: £4,304,000).

- Impairment of intangibles – The non-cash charge of £6,537,000 (2019: £3,805,000) relates to the impairment of the Group's non-filter related cREO™ patent and development costs resulting from a lack of current intent to continue relevant development activities following the refocus of resource and investment into cREO™ filter related development activities. The non-cash charge in 2019 related to the impairment of certain development costs, patent costs and software where the Group took the decision to either discontinue using the asset or discontinue the relevant technology development activities.

- Onerous contract – The onerous contract provision of £1,840,000 (2019: £nil) is non-cash in the current period and represents the cost of minimum guaranteed future royalty payments associated with the use of cREO™ technology acquired from Translucent Inc.

- Impairment of right of use asset – The non-cash charge of £nil (2019: £1,623,000) relates to the impairment of the right of use asset relating to space at the Singapore manufacturing site sub-let by Compound Semiconductor Development Centre Limited, the Group's former joint venture that was acquired during 2019. The charge was classified as selling, general and administrative expenses within operating loss.

- Impairment of financial asset – The non-cash charge of £3,788,000 (2019: £4,134,000) relates to the increase in the expected credit loss associated with the Group's preference share financial asset due from its joint venture, CSC.

- Reversal / share of joint venture losses (financial asset) - The Group treats its preference share financial assets due from its joint venture, CSC, as a long-term interest in an equity accounted investee and is required to apply the loss absorption requirements of IAS 28.38 to the carrying amount of the preference share financial asset, after the application of any expected credit losses as described above and in note 3.8. Application of the loss absorption requirements following the increase in expected credit losses has resulted in the reversal of the Group's share of previously allocated joint venture losses to the preference share financial asset resulting in a non-cash credit of £3,788,000 (2019: £3,951,000 charge) which has been recognised within *'share of losses of joint ventures accounted for using the equity method'* in the Consolidated Income Statement.

- CSDC acquisition negative goodwill – The non-cash credit of £nil (2019: £171,000) relates to the negative goodwill arising on the Group's acquisition of its former joint venture, Compound Semiconductor Centre Limited (see note 31). The credit was classified as selling, general and administrative expenses within operating loss.

- Discounting – This relates to the unwind of discounting on long term financial assets of £nil (2019: £148,000). Discounting is non-cash and has been classified as finance costs within profit before tax.

The cash impact of adjusted items in the consolidated cash flow statement represents the cash costs defrayed in 2020 in respect of patent dispute legal costs, net of insurance income received in respect of patent legal costs totalling £867,000.

Adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) is calculated as follows:

	2020 £'000	2019 £'000
Loss attributable to equity shareholders	**(3,271)**	**(35,473)**
Non-controlling interest	**378**	**345**
Finance costs	**2,165**	**1,458**
Tax	**(1,001)**	**10,180**
Depreciation of property, plant and equipment	**12,983**	**10,477**
Depreciation of right of use assets	**3,681**	**3,590**
Amortisation of intangible fixed assets	**7,869**	**8,222**
Loss/(profit) on disposal of PPE	**182**	**(245)**
Share based payments	**265**	**(771)**
Adjusted Items	**6,850**	**18,463**
Restructuring	**162**	**813**
Patent dispute settlement and legal costs	**(1,689)**	**4,308**
Impairment of intangibles	**6,537**	**3,805**
Onerous contract provision	**1,840**	**-**
Impairment of right of use asset	**-**	**1,623**
Impairment of financial asset	**3,788**	**4,134**
Share of joint venture losses (financial asset)	**(3,788)**	**3,951**
CSDC acquisition negative goodwill	**-**	**(171)**
Adjusted EBITDA	**30,101**	**16,246**

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of shares and the dilutive effect of 'in the money' share options in issue. Share options are classified as 'in the money' if their exercise price is lower than the average share price for the year. As required by IAS 33, this calculation assumes that the proceeds receivable from the exercise of 'in the money' options would be used to purchase shares in the open market in order to reduce the number of new shares that would need to be issued.

The directors also present an adjusted earnings per share measure which eliminates certain adjusted items in order to provide a more meaningful measure of underlying profit. The adjustments are detailed in note 4.

	2020 £'000	2019 £'000
Loss attributable to ordinary shareholders	**(3,271)**	**(35,473)**
Adjustments to loss after tax (note 4)	**5,595**	**16,118**
Adjusted profit / (loss) attributable to ordinary shareholders	**2,324**	**(19,355)**

	2020 Number	2019 Number
Weighted average number of ordinary shares	797,228,579	787,175,574
Dilutive share options	11,395,298	13,562,165
Adjusted weighted average number of ordinary shares	808,623,877	800,737,739
Adjusted basic loss per share	0.29p	(2.46p)
Basic loss per share	(0.41p)	(4.51p)
Adjusted diluted loss per share	0.29p	(2.46p)
Diluted loss per share	(0.41p)	(4.51p)

6. Cash generated from operations

Group	2020 £'000	2019 £'000
Loss before tax	(3,894)	(24,948)
Finance costs	2,165	1,458
Depreciation of property, plant and equipment	12,983	10,477
Depreciation of right of use assets	3,681	3,590
Amortisation of intangible assets	7,869	8,222
Impairment of intangible assets	6,537	3,805
Impairment of right of use assets	-	1,623
Impairment of financial assets	3,788	4,134
Share of joint venture	(3,788)	3,951
Inventory write downs (note 17)	3,025	3,219
Loss / (profit) on disposal of fixed assets	182	(245)
CSDC acquisition negative goodwill	-	(171)
Non-cash provision movements	2,002	-
Share based payments	265	(771)
Cash inflow from operations before changes in working capital	34,815	14,344
(Increase) / decrease in inventories	(4,128)	2,184
(Increase) / decrease in trade and other receivables	(7,151)	4,130
Increase / (decrease) in trade and other payables	11,921	(11,710)
Cash inflow from operations	35,457	8,948