

IQE plc
(“IQE” or the “Group”)
2020 Half Year Results

Record revenue performance and strong cash conversion

Cardiff, UK
8 September 2020

IQE plc (AIM: IQE) the leading supplier of advanced wafer products and material solutions to the semiconductor industry, announces its results for the six months ending 30 June 2020.

Financial Highlights

	H1 2020 £'m*	H1 2019 £'m*	Change (%)
Revenue	89.9	66.7	35%
Adjusted EBITDA**	16.3	7.4	120%
Operating loss	(5.0)	(3.1)	
Adjusted operating profit / (loss)	4.3	(1.9)	
Reported loss before tax	(6.2)	(3.7)	
Reported loss after tax	(5.0)	(10.7)	
Diluted EPS	(0.66p)	(1.38p)	
Adjusted Diluted EPS	0.28p	(1.29p)	
Cash generated from operations	15.1	4.0	278%
Adjusted cash inflow from operations	16.2	6.7	141%
Capital Investment (PP&E)	1.1	19.1	(94%)
Net Debt***	(7.4)	(0.8)	

* All figures £'m excluding diluted and adjusted diluted EPS

** Adjusted Measures: Alternative performance measures are disclosed separately after a number of adjusted non-cash, one-off or non-operational items where it is deemed necessary by the Directors to do so to provide further understanding of the financial performance of the Group. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount as detailed in note 8.

*** Net debt excludes IFRS16 lease liabilities

The following highlights of the first half results is based on these adjusted profit measures, unless otherwise stated.

Financial Highlights

- Revenue of £89.9m (HY 2019: £66.7m) representing 35% year-on-year growth and a record first half revenue performance for the Group, including an FX tailwind of £2.5m
- Adjusted operating profit of £4.3m (HY 2019: loss £1.9m) representing a return to profitability driven by additional volume against the Group's high operational gearing
- Adjusted cash inflow from operations of £16.2m (H1 2019: £6.7m) representing c.100% Adj EBITDA conversion
- Strong liquidity with a net debt of £7.4m, which has reduced by almost £9m since year end FY19 as a result of the strong operating cash generation and lower levels of capital investment
- Reported operating loss of £5.0m primarily as a result of the non-cash write down of certain development intangibles, patents and recognition of an onerous contract provision, related to cREO technologies

Operational Highlights

- **Wireless return to growth**
 - Over 50% year-on-year growth in H1 FY20
 - Strength in wafers for Power Amplifiers driven by 5G handset demand
 - Significant growth in GaN on SiC wafers for antenna elements deployed in 5G infrastructure roll-outs
- **Photonics update**
 - Over 20% year-on-year growth in H1 FY20
 - Continued growth in existing major supply chain for 3D sensing driven by content gain
 - Strong demand for lasers for communications and industrial applications, and IR sensors for aerospace and military applications
- **Resilience during a Global Pandemic**
 - Continuous production at all of IQE's global sites throughout the period
 - Strong underlying demand in IQE's markets, with telecommunications and connectivity increasingly important at a time of social distancing and remote working
- **Continued progress in operations**
 - Continued focus and improvement in productivity and yield in key Group manufacturing sites, contributing to Gross Profit improvements
 - Decision taken to close the Pennsylvania site and consolidate US MBE activities in the North Carolina site by 2024 communicated to staff and customers post half year end

- Decision to focus cREO development on filters and pause other cREO development due to re-assessed timing of anticipated revenue streams for the technology

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

“I am very proud of the results that IQE has achieved in the first half of 2020, particularly given the uncertain external environment. Building on our investments in our products, our people and our infrastructure, we have demonstrated both financial and operational resilience and have delivered record H1 revenues.

However, our priority has been to ensure all our colleagues are safe during this unprecedented time, and I would like to take this opportunity to thank our dedicated staff who successfully maintained operations at all of our global sites despite the challenges posed by the global pandemic.

IQE remains focused on executing our technology roadmap, and we are confident this momentum will continue into H2. Our business remains well-placed to capitalise on opportunities in 5G mobile network infrastructure and handsets, 3D sensing in VCSEL-based products and a host of advanced sensing applications across a broad optical spectrum.”

Full Year Outlook

To date the Group has not provided full year guidance due to the uncertainty of the global pandemic and anticipated global recession. Despite this environment, performance to date has been strong and IQE’s customers have recently reported positive trading updates and outlooks, underlining the resilience of the sector.

In this context, the Group now provides full year FY20 revenue guidance of at least £165m equating to full year revenue growth of at least 18%.

The Group expects to deliver at least a mid-single digit adjusted operating profit for FY20.

The Group reiterates PP&E cash capital expenditure guidance of no more than £10m. Any investment in additional tools will be linked to future revenue opportunities.

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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 this market which has high barriers to entry. IQE supplies the whole market and is agnostic 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

Consolidated Income Statement		6 months to	6 months to	12 months to
(All figures £'000s)	Note	30 Jun 2020	30 Jun 2019	31 Dec 2019
		Unaudited	Unaudited	Audited
Revenue		89,862	66,720	140,015
Cost of sales		(70,521)	(56,128)	(118,631)
Gross profit		19,341	10,592	21,384
Selling, general and administrative expenses		(24,260)	(13,667)	(36,297)
Impairment loss on financial assets		-	-	(4,134)
Profit on disposal of property, plant and equipment		-	-	245
Other gains / (losses)	4	(85)	-	-
Operating loss		(5,004)	(3,075)	(18,802)
Finance costs		(1,156)	(394)	(1,458)
Share of losses of joint ventures accounted for using the equity method		-	(254)	(4,688)
Adjusted profit / (loss) before income tax		3,186	(2,623)	(7,019)
Adjustments	8	(9,346)	(1,100)	(17,929)
Loss before income tax		(6,160)	(3,723)	(24,948)
Taxation		1,189	(6,926)	(10,180)
Loss for the period		(4,971)	(10,649)	(35,128)
Loss attributable to:				
Equity shareholders		(5,269)	(10,805)	(35,473)
Non-controlling interests		298	156	345
		(4,971)	(10,649)	(35,128)
Loss per share attributable to owners of the parent during the period				
Basic loss per share	10	(0.66p)	(1.38p)	(4.51p)
Diluted loss per share	10	(0.66p)	(1.38p)	(4.51p)

Adjusted basic and diluted earnings per share are presented in Note 10.

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

Consolidated statement of comprehensive income	6 months to 30 Jun 2020 Unaudited	6 months to 30 Jun 2019 Unaudited	12 months to 31 Dec 2019 Audited
(All figures £'000s)			
Loss for the period	(4,971)	(10,649)	(35,128)
Currency translation differences on foreign currency net investments*	8,424	(741)	(3,654)
Total comprehensive income / (expense) for the period	3,453	(11,390)	(38,782)
Total comprehensive income / (expense) attributable to:			
Equity shareholders	2,824	(11,507)	(39,084)
Non-controlling interest	629	117	302
	3,453	(11,390)	(38,782)

* Balance might subsequently be reclassified to the income statement when it becomes realised.

Consolidated Balance Sheet			Restated	
(All figures £'000s)	Note	As At 30 Jun 2020 Unaudited	As At 30 Jun 2019 Unaudited	As At 31 Dec 2019 Audited
Non-current assets				
Intangible assets		114,605	123,328	118,456
Fixed asset investments		-	75	75
Property, plant and equipment		135,159	136,628	136,482
Right of use assets		38,678	42,986	39,355
Deferred tax assets		7,955	7,095	5,679
Financial assets		-	8,085	-
Total non-current assets		296,397	318,197	300,047
Current assets				
Inventories		32,371	37,277	30,668
Trade and other receivables		42,546	37,313	33,065
Cash and cash equivalents	12	17,385	11,173	8,800
Total current assets		92,302	85,763	72,533
Total assets		388,699	403,960	372,580
Current liabilities				
Trade and other payables		(36,184)	(43,039)	(26,367)
Current tax liabilities		(1,430)	(1,242)	(1,162)
Bank borrowings		(5,135)	-	(2,034)
Lease liabilities	12	(4,167)	(2,897)	(3,083)
Provisions for other liabilities and charges		(354)	-	-
Total current liabilities		(47,270)	(47,178)	(32,646)
Non-current liabilities				
Bank borrowings	12	(19,632)	(12,008)	(22,736)
Lease liabilities	12	(43,913)	(46,375)	(44,895)
Provisions for other liabilities and charges		(1,486)	-	-
Deferred tax liabilities		(2,203)	-	(1,860)
Total non-current liabilities		(67,234)	(58,383)	(69,491)
Total liabilities		(114,504)	(105,561)	(102,137)
Net assets		274,195	298,399	270,443
Equity attributable to shareholders of the parent				
Share capital	14	7,968	7,913	7,961
Share premium		152,560	151,592	152,385
Retained earnings		58,557	88,494	63,826
Exchange rate reserve		35,595	30,411	27,502
Other reserves		15,036	16,324	14,919
		269,716	294,734	266,593
Non-controlling Interest		4,479	3,665	3,850
Total equity		274,195	298,399	270,443

Consolidated Statement of Changes in Equity

Unaudited (All figures £'000s)	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
At 1 January 2020	7,961	152,385	63,826	27,502	14,919	3,850	270,443
(Loss) / Profit for the period	-	-	(5,269)	-	-	298	(4,971)
Other comprehensive expense for the year	-	-	-	8,093	-	331	8,424
Total comprehensive (expense) / income	-	-	(5,269)	8,093	-	629	3,453
Share based payments	-	-	-	-	225	-	225
Tax relating to share options	-	-	-	-	5	-	5
Proceeds from shares issued	7	175	-	-	(113)	-	69
Total transactions with owners	7	175	-	-	117	-	299
At 30 June 2020	7,968	152,560	58,557	35,595	15,036	4,479	274,195

Unaudited (All figures £'000s)	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
At 1 January 2019	7,767	151,147	99,299	31,113	16,404	3,548	309,278
(Loss) / Profit for the period	-	-	(10,805)	-	-	156	(10,649)
Other comprehensive expense for the year	-	-	-	(702)	-	(39)	(741)
Total comprehensive (expense) / income	-	-	(10,805)	(702)	-	117	(11,390)
Share based payments	-	-	-	-	12	-	12
Tax relating to share options	-	-	-	-	(60)	-	(60)
Proceeds from shares issued	146	445	-	-	(32)	-	559
Total transactions with owners	146	445	-	-	(80)	-	511
At 30 June 2019	7,913	151,592	88,494	30,411	16,324	3,665	298,399

Audited (All figures £'000s)	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
At 1 January 2019	7,767	151,147	99,299	31,113	16,404	3,548	309,278
Profit for the year	-	-	(35,473)	-	-	345	(35,128)
Other comprehensive income for the year	-	-	-	(3,611)	-	(43)	(3,654)
Total comprehensive income	-	-	(35,473)	(3,611)	-	302	(38,782)
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

Consolidated Cash Flow Statement		6 months to	6 months to	12 months to
(All figures £'000s)	Note	30 Jun 2020	30 Jun 2019	31 Dec 2019
		Unaudited	Unaudited	Audited
Cash flows from operating activities				
Adjusted cash inflow from operations		16,229	6,677	16,530
Cash impact of adjustments	8	(1,144)	(2,694)	(7,582)
Cash generated from operations	11	15,085	3,983	8,948
Net interest paid		(247)	(195)	(671)
Income tax paid		(629)	(101)	(151)
Net cash generated from operating activities		14,209	3,687	8,126
Cash flows from investing activities				
Purchase of property, plant and equipment		(1,129)	(19,048)	(31,864)
Purchase of intangible assets		(386)	(940)	(1,806)
Capitalised development expenditure		(2,557)	(4,752)	(8,427)
Proceeds from disposal of property, plant and equipment		-	-	263
Acquisition of subsidiary, net of cash acquired		-	-	10
Net cash used in investing activities		(4,072)	(24,740)	(41,824)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		69	559	712
Repayment of borrowings		(5,000)	-	(17,125)
Proceeds from borrowings		5,000	12,060	41,895
Transaction costs related to loans and borrowings		-	(161)	-
Payment of lease liabilities		(1,869)	(1,035)	(3,651)
Net cash (used) / generated from financing activities		(1,800)	11,423	21,831
Net increase / (decrease) in cash and cash equivalents		8,337	(9,630)	(11,867)
Cash and cash equivalents at the beginning of the period		8,800	20,807	20,807
Exchange gains / (losses) on cash and cash equivalents		248	(4)	(140)
Cash and cash equivalents at the end of the period	12	17,385	11,173	8,800

1. REPORTING ENTITY

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).

These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2020 comprise the Company and its Subsidiaries (together referred to as 'the Group'). The principal activities of the Group are the development, manufacture and sale of advanced semiconductor materials.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2019 which were approved by the Board of Directors on 28 April 2020 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The interim financial statements do not include all of the information required for a complete set of IFRS financial statements and do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Comparative information in the interim financial statements as at and for the year ended 31 December 2019 has been taken from the published audited financial statements as at and for the year ended 31 December 2019. All other periods presented are unaudited.

The 30 June 2019 balance sheet has been restated to reflect a reclassification of a previously disclosed lease receivable of £1,996,000 to a right of use asset. The reclassification has been required to reflect the terms of a specific property sublease agreement and has no impact on total net assets or cash.

The Company's auditor in accordance with ISRE 2410 has reviewed the financial information contained in these interim financial statements. This review does not constitute an audit.

The Board of Directors and the Audit Committee approved the interim financial statements on 7 September 2020.

3. GOING CONCERN

The Group made a loss of £5.0m (H1 2019: £10.6m, FY19: £35.1m) including non-cash impairments of £6.5m (H1 2019: £nil, FY19: £9.6m) and generated cash and cash equivalents of £8.3m (H1 2019: £9.6m decrease, FY19: £11.9m decrease) resulting in a reduction in net debt (excluding lease liabilities) to £7.4m (2019: £0.8m, FY19 £16.0m) as at 30 June 2020.

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 nine 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 continues to work closely with both suppliers and customers to manage inventory levels in order to create resilience against potential disruption.
- The Group delivered record revenue of £89.9m (H1 2019: £66.7m, FY19: £140.0m) for the half year ended 30 June 2020 with an increase in adjusted profit before tax to £3.2m (H1 2019: £2.6m loss, FY19: £7.0m loss).
- Net debt (excluding lease liabilities) has reduced to £7.4m (H1 2019: £0.8m, FY19: £16.0m) as a result of a combination of increased cash generated from operations, 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.
- On 24 January 2019, the Group agreed a new £26,700,000 (\$35,000,000) three-year multi-currency revolving credit facility from HSBC Bank plc. The Group has complied with all covenants associated with the facility.

- On 29 August 2019, the Group agreed a new £30,000,000 five-year Asset Finance Loan facility from HSBC Bank plc of which £25,000,000 is drawn down at the date of this report. The Group has complied with all covenants associated with the facility.
- The Group generated cash from operating activities of £14.2m (H1 2019: £3.7m, FY19: £8.1m) and its financial forecasts and projections for the period up to and including 31 December 2021 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 severe but plausible downside financial forecasts and projections have been prepared with significant reductions to future forecast revenues, designed to reflect severe downside scenarios associated with COVID-19 disruption and demand risks, for a 18-month period to 31 December 2021. The severe but plausible downside scenario, applied to the Group's current financial forecasts, which take account of current trading and customer demand, assumes a ~20% reduction in FY21 revenue with no margin improvement partially offset by mitigations within the control of the company, including deferred investment in employee related costs and certain capital expenditure mitigations. The downside scenario illustrates that the Group is forecast to continue to comply with its banking covenants, albeit with reduced covenant headroom, and on this basis the directors believe that the group has adequate cash resources to continue operating for the foreseeable future.

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 has adequate cash resources to continue operating for the foreseeable future such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements except as follows:

- Changes in estimates associated with the recoverable value of assets related to the Group's Filter and cREO™ technology; and
- Measurement of fair values associated with outstanding derivative forward currency contracts

The impact of Coronavirus in the six-month period ended 30 June 2020 has not resulted in any indicators impairment or had a meaningful impact on significant judgements or the level of estimation uncertainty associated with the application of the Group's accounting policies. Coronavirus has had no material adverse impact on the Group's business operations with production continuing uninterrupted at all global sites and the Group delivering record revenue of £89.9m for the six months ended 30 June 2020.

Filter and CREO™ Technology Assets

The Group has cREO™ and filter technology related intangible assets totalling £11.1m that consist of patent related costs primarily relating to the historic purchase of the cREO™ technology and intellectual property portfolio from Translucent Inc. and technology development costs associated with intellectual property developed utilising the cREO™ patent portfolio.

The changing technology landscape has necessitated a review of the cREO™ patent portfolio and associated technology development costs. The review has considered technical aspects of the intellectual property and technology development, commercial routes to market for the technology and the level and nature of ongoing customer engagement which has resulted in a narrowing of development activities in order to focus investment and effort into the development of filter related technologies using cREO™. The refocus of resource and investment into filter development activities and the current lack of intent to continue to develop other aspects of the patent portfolio and intellectual property has resulted in a non-cash intangible asset charge of £6.5m that has been charged to '*selling, general and administrative expenses*' in the consolidated income statement to write-down non-filter related cREO™ patent and development costs.

An onerous contract provision of £1.8m has been included in '*provisions for other liabilities and charges*' with the cost charged to '*selling, general and administrative expenses*'. The onerous contract provision represents the cost of minimum future royalty payments payable to Translucent Inc. in the period prior to the expected commercial exploitation of the Group's filter technology.

Derivative Forward Currency Contracts

At 30 June 2020 the Group had outstanding derivative forward currency contracts with a nominal value of \$16.5m (H1 2019: \$nil, FY19: \$nil) for the sale of US\$ in exchange for GBP£.

The Group's accounting policies require that derivative forward currency contracts are measured at fair value. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follow:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Derivative forward currency contracts have been categorised as Level 1 in the fair value hierarchy. The fair value of the derivative instrument has been assessed using quoted prices in active markets for identical assets or liabilities using independent mark to market valuations provided by an appropriately regulated financial institution.

The fair value liability of £0.1m (H1 2019: £nil, FY19: £nil) has been included in the balance sheet in 'trade and other payables' with the fair value loss on the derivative instruments included in 'Other gains / (losses)' in the consolidated income statement.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019. A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

Recent accounting developments and the policy for recognising and measuring income taxes in the interim period are described below.

5.1 Recent accounting developments

In preparing the interim financial statements, the Group has adopted the following Standards, amendments and interpretations, which are effective for 2020 and will be adopted in the financial statements for the year ended 31 December 2020:

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' related to interest rate benchmark reform and the impact on financial reporting
- 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 and amendments has not had a material impact on the interim financial statements.

5.2 Income tax expense

Income tax expense is recognised at an amount determined by multiplying the profit / (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

6. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group are set out in the Strategic Report in the 2019 Annual report and financial statements and remain unchanged at 30 June 2020.

The principal risks and uncertainties include health, safety and environment, business interruption, market conditions, customer concentration, financial liquidity, legal compliance, loss of intellectual property, competition, technology change, loss of key personnel, information technology, Brexit and the impact of the on-going coronavirus pandemic.

Coronavirus

Three key risks to IQE were identified as possible impacts from Coronavirus, being adverse effects to the health and safety of employees, business disruption and reduced product demand. These risks were, and continue to be, closely monitored by a dedicated business continuity committee. However, to date the Group has seen no material impact on business operations due to the pandemic. Continuous production occurred at all of the Group's global sites throughout H1 2020 and record first half revenues were achieved during this period. While the full effects of the Coronavirus pandemic on global economic output in 2020 and beyond are still uncertain, the Group forecasts continued underlying market demand for IQE's products.

7. SEGMENTAL INFORMATION

	6 Months to 30 June 2020 Unaudited £'000	6 Months to 30 June 2019 Unaudited £'000	12 Months to 31 Dec 2019 Audited £'000
Revenue			
Wireless	45,485	30,147	68,166
Photonics	43,425	35,483	69,758
CMOS++	952	1,090	2,091
Revenue	89,862	66,720	140,015
Adjusted operating profit / (loss)			
Wireless	6,877	3,256	6,590
Photonics	6,071	1,540	1,324
CMOS++	(563)	(533)	(1,304)
Central corporate costs	(8,043)	(6,141)	(11,286)
Adjusted operating profit / (loss)	4,342	(1,878)	(4,676)
Adjusted items	(9,346)	(1,197)	(14,126)
Operating loss	(5,004)	(3,075)	(18,802)
Share of losses of joint venture accounted for using the equity method	-	(254)	(4,688)
Finance costs	(1,156)	(394)	(1,458)
Loss before tax	(6,160)	(3,723)	(24,948)

8. 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 and one-off or non-operational items. 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.

£'000s	6 months to 30 Jun 2020			6 months to 30 Jun 2019			2019		
	Adjusted Results	Adjusted Items	Reported Results	Adjusted Results	Adjusted Items	Reported Results	Adjusted Results	Adjusted Items	Reported Results
Revenue	89,862	-	89,862	66,720	-	66,720	140,015	-	140,015
Cost of sales	(70,429)	(92)	(70,521)	(56,083)	(45)	(56,128)	(119,145)	514	(118,631)
Gross profit	19,433	(92)	19,341	10,637	(45)	10,592	20,870	514	21,384
Other losses	(85)	-	(85)	-	-	-	-	-	-
SG&A	(15,006)	(9,254)	(24,260)	(12,515)	(1,152)	(13,667)	(25,791)	(10,506)	(36,297)
Impairment loss on financial assets	-	-	-	-	-	-	-	(4,134)	(4,134)
Profit on disposal of PPE	-	-	-	-	-	-	245	-	245
Operating profit / (loss)	4,342	(9,346)	(5,004)	(1,878)	(1,197)	(3,075)	(4,676)	(14,126)	(18,802)
Share of JV losses	-	-	-	(254)	-	(254)	(737)	(3,951)	(4,688)
Finance costs	(1,156)	-	(1,156)	(491)	97	(394)	(1,606)	148	(1,458)
Profit / (loss) before tax	3,186	(9,346)	(6,160)	(2,623)	(1,100)	(3,723)	(7,019)	(17,929)	(24,948)
Taxation	(637)	1,826	1,189	(7,291)	365	(6,926)	(11,991)	1,811	(10,180)
Profit / (loss) for the period	2,549	(7,520)	(4,971)	(9,914)	(735)	(10,649)	(19,010)	(16,118)	(35,128)

£'000s	6 months to 30 Jun 2020			6 months to 30 Jun 2019			2019		
	Pre-tax Adjustment	Tax Impact	Reported Results	Pre-tax Adjustment	Tax Impact	Reported Results	Pre-tax Adjustment	Tax Impact	Reported Results
Share based payments	(275)	44	(231)	(135)	182	47	771	133	904
Amortisation of acquired intangibles	-	-	-	(266)	56	(210)	(385)	81	(304)
Restructuring	-	-	-	(223)	47	(176)	(813)	164	(649)
Patent dispute legal fees	(694)	132	(562)	(573)	109	(464)	(4,308)	775	(3,533)
Impairment – intangibles	(6,537)	1,300	(5,237)	-	-	-	(3,805)	685	(3,120)
Onerous contract	(1,840)	350	(1,490)	-	-	-	-	-	-
Impairment – ROU asset	-	-	-	-	-	-	(1,623)	-	(1,623)
Impairment – financial assets	-	-	-	-	-	-	(4,134)	-	(4,134)
Share of JV losses – financial asset	-	-	-	-	-	-	(3,951)	-	(3,951)
CSDC acquisition - negative goodwill	-	-	-	-	-	-	171	-	171
Discounting	-	-	-	97	(29)	68	148	(27)	121
Total	(9,346)	1,826	(7,520)	(1,100)	365	(735)	(17,929)	1,811	(16,118)

The nature of the adjusted items is as follows:

- Share based payments – The charge recorded in accordance with IFRS 2 'share based payment' of which £0.1m (H1 2019: £0.1m, FY19 income £0.5m) has been classified within cost of sales in gross profit and £0.2m (H1 2019: £0.05m, FY19 income £0.3m) in selling, general and administrative expenses within operating loss.
- Amortisation of acquired intangibles arising in respect of fair value exercises associated with previous corporate acquisitions – The charge of £nil (H1 2019: £0.3m, FY19 £0.4m) has been classified as selling, general and administrative expenses within operating loss and is non-cash.
- Restructuring – The charge of £nil (H1 2019: £0.2m, FY19 £0.8m) relates to:
 - i. Site-specific restructuring and associated employee severance costs of £nil (H1 2019: £nil, FY19 £0.6m). The charge has been classified as selling, general and administrative expenses within operating loss and represents a cash cost.
 - ii. The closure of the Group's manufacturing facility in New Jersey, USA and the transfer of the associated trade and assets to the Group's manufacturing facility in Massachusetts, USA at a cost of £nil (H1 2019: £0.2m, FY19 £0.2m). Cash costs defrayed in the year of £nil (H1 2019: £1.3m, FY19 £1.4m) comprised severance and reactor decommissioning costs. The charge has been classified as selling, general and administrative expenses within operating loss.
- Patent dispute legal costs – The charge relates to legal fees incurred in respect of a patent dispute defence. Costs of £0.7m (H1 2019: £0.6m, FY19: £4.3m) have been classified within selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £1.1m (H1 2019: £0.7m, FY19: £4.3m).
- Impairment of intangibles – The non-cash charge of £6.5m (H1 2019: £nil, FY19 £3.8m) 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 FY19 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 £1.8m is non-cash in the current period and represents the cost of minimum guaranteed future royalty payments associated with the cREO™ technology acquired from Translucent Inc. that are payable in the period prior to the expected commercial exploitation of the Group's cREO™ filter technology.
- Impairment of right of use asset – The non-cash charge of £nil (H1 2019: £nil, FY19 £1.6m) 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 profit / (loss).
- Impairment of financial asset – The non-cash charge of £nil (H1 2019: £nil, FY19 £4.1m) related to the expected credit loss associated with the Group's preference share financial asset due from its joint venture, Compound Semiconductor Centre Limited.
- Share of joint venture losses (financial asset) - The factors that led in 2019 to the recognition an impairment loss relating to the preference share financial asset due from the joint venture, Compound Semiconductor Centre Limited, resulted in a considerable lengthening of the period over which the asset is expected to be recovered. As a result, the group reassessed the preference share as a long-term interest in the joint venture on the basis that repayment was no longer expected in the foreseeable future. As a long-term interest in an equity accounted investee, the group applied the loss absorption requirement in IAS 28.38 to the carrying amount of the preference share financial asset, after the application of an expected credit loss as described above, and allocated a further share of the joint venture's losses to the preference share financial asset. This resulted in a further write down of the asset, to £nil, representing a charge of £3,951,000, over and above the expected credit loss charge of £4,134,000, being recognised in profit or loss in 2019.
- CSDC acquisition negative goodwill – The non-cash credit of £nil (H1 2019: £nil, FY19 £0.2m) related to the negative goodwill arising on the Group's acquisition of its former joint venture, Compound Semiconductor Centre Limited. The credit was classified as selling, general and administrative expenses within operating profit / (loss).
- Discounting – This relates to the unwinding of the discounting on long term financial assets of £nil (H1 2019: £0.1m, FY19: £0.1m) and has been classified as finance costs within profit before tax.

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

(All figures £'000s)	6 months to 30 June 2020 Unaudited	6 months to 30 June 2019 Unaudited	12 months to 31 Dec 2019 Audited
Loss attributable to equity shareholders	(5,269)	(10,805)	(35,473)
Non-controlling interest	298	156	345
Finance costs	1,156	394	1,458
Tax	(1,189)	6,926	10,180
Depreciation of property, plant and equipment	6,230	4,761	10,477
Depreciation of right of use assets	1,850	1,025	3,590
Amortisation of intangible fixed assets	3,904	3,981	8,222
(Profit) / loss on disposal of PPE	-	-	(245)
Share based payments	275	135	(771)
Adjusted Items	9,071	796	18,463
Restructuring	-	223	813
Patent dispute legal costs	694	573	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	-	-	4,134
Share of joint venture losses (financial asset)	-	-	3,951
CSDC acquisition negative goodwill	-	-	(171)
Adjusted EBITDA	16,326	7,369	16,246

9. TAXATION

The Group's consolidated effective tax rate for the six months ended 30 June 2020 was 19.3% (H1 2019: -186.0%, 2019: -40.8%). The effective tax rate differs from the theoretical amount that would arise from applying the standard corporation tax in the UK of 19.0% (H1 2019: 19.0%, FY19: 19.0%) principally due to the following factors:

- The Group's results report certain financial measures after a number of adjusted items with a tax impact of £1.8m as detailed in note 8.
- Differences in overseas tax rates, principally the United States of America and Taiwan

10. EARNINGS / (LOSS) PER SHARE

(All figures £'000s)	6 months to 30 June 2020 Unaudited	6 months to 30 June 2019 Unaudited	12 months to 31 Dec 2019 Audited
Loss attributable to ordinary shareholders	(5,269)	(10,805)	(35,473)
Adjustments to loss after tax (note 8)	7,520	735	16,118
Adjusted profit / (loss) attributable to ordinary shareholders	2,251	(10,070)	(19,355)
Number of shares:			
Weighted average number of ordinary shares	796,338,502	780,640,261	787,175,574
Dilutive share options	8,963,049	24,149,201	13,562,165
	805,301,551	804,789,462	800,737,739
Adjusted basic earnings / (loss) per share	0.28p	(1.29p)	(2.46p)
Basic loss per share	(0.66p)	(1.38p)	(4.51p)
Adjusted diluted earnings / (loss) per share	0.28p	(1.29p)	(2.46p)
Diluted loss per share	(0.66p)	(1.38p)	(4.51p)

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

Diluted loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of shares and '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 period. 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.

11. CASH GENERATED FROM OPERATIONS

(All figures £'000s)	6 months to 30 June 2020 Unaudited	6 months to 30 June 2019 Unaudited	12 months to 31 Dec 2019 Audited
Loss before tax	(6,160)	(3,723)	(24,948)
Finance costs	1,156	394	1,458
Depreciation of property, plant and equipment	6,230	4,761	10,477
Depreciation of right of use assets	1,850	1,025	3,590
Amortisation of intangible assets	3,904	3,981	8,222
Impairment of intangible assets	6,537	-	3,805
Impairment of right of use assets	-	-	1,623
Impairment of financial assets	-	-	4,134
Onerous contract	1,840	-	-
Share of joint venture	-	-	3,951
Inventory write downs	2,167	1,031	3,219
Profit on disposal of property, plant and equipment	-	-	(245)
CSDC acquisition negative goodwill	-	-	(171)
Share based payments	275	135	(771)
Cash inflow from operations before changes in working capital	17,799	7,604	14,344
(Increase) / decrease in inventories	(2,920)	(2,636)	2,184
(Increase) / decrease in trade and other receivables	(6,064)	439	4,130
Increase / (Decrease) in trade and other payables	6,270	(1,424)	(11,710)
Cash inflow from operations	15,085	3,983	8,948

12. ANALYSIS OF NET DEBT

(All figures £'000s)	6 months to 30 June 2020 Unaudited	6 months to 30 June 2019 Unaudited	12 months to 31 Dec 2019 Audited
Bank borrowings due after one year	(19,632)	(12,008)	(22,736)
Bank borrowings due within one year	(5,135)	-	(2,034)
Lease liabilities due after one year	(43,913)	(46,375)	(44,895)
Lease liabilities due within one year	(4,167)	(2,897)	(3,083)
Total borrowings	(72,847)	(61,280)	(72,748)
Cash and cash equivalents	17,385	11,173	8,800
Net debt	(55,462)	(50,107)	(63,948)

On 24 January 2019, the Company agreed a new £27,300,000 (\$35,000,000) multi-currency revolving credit facility, provided by HSBC Bank plc that is secured over the assets of IQE plc and certain subsidiary companies. The facility has a three-year term and an interest rate margin of between 1.45 and 1.95 per cent per annum over LIBOR on any drawn balances.

On 29 August 2019, the Company agreed a new £30,000,000 asset finance facility, provided by HSBC Bank plc that is secured over various plant and machinery assets. The facility has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances.

Bank borrowings relate to amounts drawn down on the Group's asset finance facility.

Cash and cash equivalents comprise balances held in instant access bank accounts and other short-term deposits with a maturity of less than 3 months.

13. SHARE BASED PAYMENT ARRANGEMENTS

Long term incentive awards

On 26 May 2000, as amended by shareholders at the Annual General Meeting on 17 May 2002, The Group established a share option plan that entitles the Group's Remuneration Committee to grant long term incentive awards over shares in the company to directors and employees of the Group.

On 20 February 2020, long term incentive awards that become exercisable between three and ten years from 31 March 2020, subject to continued employment and achievement of performance conditions relating to earnings per share and total shareholder return targets over a three-year vesting period were awarded to directors and employees of the Group. Under the terms of these awards, holders of vested options are entitled to purchase shares at the nominal value of the shares at the date of grant.

All options are to be settled by physical delivery of shares. The terms and conditions of the share options granted during the six months ended 30 June 2020 are as follows:

Grant date/employees entitled	Number of instruments	Contractual life of options	Vesting conditions
Option grant to executive directors on 20 February 2020	2,727,216	10 years	3 years-service from grant date, diluted adjusted earnings per share targets between 0.25p – 0.40p and total shareholder return targets of between 100% - 130% versus the FTSE All Share Index
Option grant to employees on 20 February 2020	5,568,772	10 years	3 years-service from grant date, diluted adjusted earnings per share targets between 0.25p – 0.40p and total shareholder return targets of between 100% - 130% versus the FTSE All Share Index

Measurement of grant date fair values

The fair value of the long-term incentive awards, calculated as £1.4m at the grant date has been determined using the Monte Carlo and Black Scholes models. The following inputs were used in the measurement of the fair values at grant date.

Principal assumptions	2020	2019
Weighted average share price at grant date	37.85	29.07
Weighted average exercise price	12.35	11.02
Weighted average vesting period (years)	3	3
Option life (years)	10	10
Weighted average expected life (years)	3	3
Weighted average expected volatility factor	64%	56%
Weighted average risk-free rate	0.6%	0.9%
Dividend yield	0%	0%

The expected volatility factor is based on historical share price volatility over the three years immediately preceding the grant of the option. The expected life is the average expected period to exercise. The risk-free rate of return is the yield of zero-coupon UK government bonds of a term consistent with the assumed option life.

Non-market performance conditions are incorporated into the calculation of fair value by estimating the proportion of share options that will vest and be exercised based on a combination of historical trends and future expected trading performance. These are reassessed at the end of each period for each tranche of unvested options

14. SHARE CAPITAL

Number of shares	6 months to 30 June 2020 Unaudited	6 months to 30 June 2019 Unaudited	12 months to 31 Dec 2019 Audited
As at 1 January	796,142,302	776,699,681	776,699,681
Employee share schemes	673,585	14,596,208	19,442,621
As at 30 June / 31 December	796,815,887	791,295,889	796,142,302

(All figures £'000s)	6 months to 30 June 2020 Unaudited	6 months to 30 June 2019 Unaudited	12 months to 31 Dec 2019 Audited
As at 1 January	7,961	7,767	7,767
Employee share schemes	7	146	194
As at 30 June / 31 December	7,968	7,913	7,961

15. RELATED PARTY TRANSACTIONS

Transactions with Joint Ventures

Compound Semiconductor Centre Limited ('CSC')

The Group established CSC with its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe and on its formation, the Group contributed assets to the joint venture valued at £12,000,000 as part of its initial investment.

The activities of CSC include research and development into advanced compound semiconductor wafer products, the provision of contract manufacturing services for compound semiconductor wafers to certain subsidiaries within the IQE plc Group and the provision of compound semiconductor manufacturing services to other third parties.

CSC operates from its manufacturing facilities in Cardiff, United Kingdom and leases certain additional administrative building space from the Group. During the period the CSC leased this space from the Group for £57,500 (H1 2019: £57,500, 2019: £115,000) and procured certain administrative support services from the Group for £117,500 (H1 2019: £117,500, 2019: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £1,971,028 (H1 2019: £2,235,135, 2019: £3,468,000).

CSC granted the Group the right to use its assets following its formation for a minimum five-year period. Costs associated with the right to use the CSC's assets are treated by the Group as operating lease costs. Costs are charged by the CSC at a price which reflects the CSC's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSC's property, plant and equipment and intangible assets respectively under the terms of the joint venture agreement between the parties. Costs associated with the right to use the CSC's assets totalled £3,223,900 (H1 2019: £3,464,000, 2019: £6,656,000) in the period.

At 30 June 2020 an amount of £559,800 (H1 2019: £233,700, 2019: £222,000) was owed from the CSC.

In the Groups balance sheet 'A' Preference Shares with a nominal value of £8,800,000 (H1 2019: £8,800,000, 2019: £8,800,000) are included in financial assets at an amortised cost of £3,951,000 (H1 2019: £8,085,000, 2019: £3,951,000) and the Group has a shareholder loan of £240,500 (H1 2019: £238,500, 2019: £239,000) due from CSC.

16. RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.



Dr Drew Nelson OBE
President and Chief Executive Officer, IQE Plc.
7 September 2020



Tim Pullen
Chief Financial Officer, IQE Plc.
7 September 2020