IQE plc
(“IQE” or the “Group”)
2021 FULL YEAR RESULTS

Cardiff, UK
29 March 2022

Strong operational progress in 2021
Strategic realignment a priority for 2022

IQE plc (AIM: IQE, "IQE" or the "Group"), the leading supplier of compound semiconductor wafer products and advanced material solutions to the global semiconductor industry, announces its results for the full year ended 31 December 2021.

Americo Lemos, Chief Executive Officer of IQE, said:

“In my first few months I have been very impressed by the quality of IQE’s people, technology and customers. As the only global outsourced epitaxy provider and a leader in our field, IQE is uniquely placed to capitalise on major technological trends while navigating a challenging external environment.

To secure this growth, we must first build a commercial engine that is orientated to our end markets, focussed on our customers and aligned with our technology innovation. My vision is to grow IQE through multiple strategic and long-term customer relationships. We will be developing this strategy more fully during 2022 and I look forward to communicating further in due course.”

FY 2021 Financials

	FY 2021 £’m*	FY 2020 £’m*	Change (%)	Constant currency change (%)
Revenue	154.1	178.0	(13%)	(7%)
Adjusted EBITDA**	18.7	30.1	(38%)	(17%)
Operating loss	(20.0)	(5.5)		
Adjusted operating (loss) / profit	(6.5)	5.4		
Reported loss after tax	(31.0)	(2.9)		
Net cash flow from operations	18.9	35.5	(47%)	
Adjusted cash flow from operations	17.9	36.3	(51%)	
Capital investment (PP&E)	15.1	5.0	201%	
Net debt / (cash***)	(5.8)	1.9		
Diluted EPS (p)	(3.87p)	(0.41p)		
Adjusted diluted EPS (p)	(2.41p)	0.29p		

** 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 4.*
**** Net debt excludes IFRS16 lease liabilities.*
The following highlights of the full year results are based on these adjusted profit measures, unless otherwise stated.

Operational Highlights

- Global site optimisation programme
  - Consolidation of US MBE production at IQE's larger and more scalable North Carolina site following the closure of Pennsylvania site in 2024
  - Closure of IQE's Singapore site by mid-2022 realising c.£4.8m per annum of cash savings as part of our MBE consolidation plan
  - Completion of the acquisition of minority interests in IQE Taiwan Corporation in December 2021
- Business development progress
  - Long-term strategic collaboration agreement signed with GlobalFoundries® in Q4 2021 to develop vital GaN on Si technologies for mobile and wireless infrastructure applications
  - Multi-year strategic partnership signed in Q3 2021 with a major semiconductor foundry to develop epiwafers for 5G small cells in Asia
- Technology development
  - Expansion of VCSEL portfolio with turnkey IQVCSEL™ product line, with initial deliveries made to multiple customers
  - Achievement of key power and reliability milestones for IQDN-VCSEL™ technology for advanced sensing applications at longer wavelengths on 150 mm GaAs substrates, relevant to future LiDAR technologies
  - Scaling of VCSEL on Ge technology (IQGeVCSEL) to 200 mm, enabling a step-change in industry economics in support of broader adoption of 3D sensing
- Business transformation progress
  - Business systems and process transformation programme commenced to provide a consistent, agile and scalable platform for business growth, including strategic IT transformation agreement entered into with Critical Manufacturing

Strategic perspectives and Outlook

Looking ahead, the Group is completing a full review of strategy under new CEO, Americo Lemos. The refreshed strategy for the Group will be completed and communicated in H2 and will be focussed on the key principles of:

- Placing customers at the centre of everything we do
- Taking a markets/products based approach
- Maintaining our technology innovation leadership
- Capturing greater value through long term and strategic agreements
- Scaling while optimising our global footprint

Operations remain resilient in 2022 to the challenging macro-economic and geopolitical backdrop. The Group continues to monitor and work to mitigate potential headwinds in global semiconductor supply chains.

In 2022 the Group will focus on building a platform for growth to deliver further progress in 2023 and beyond. The Group is confident this refreshed strategy will enable a multi-year cycle of growth, driven by the macro trends of 5G, IoT and the Metaverse, as the global economy and semiconductor markets recover from current risks and disruption.

Overall, the Group expects to grow revenues by a low single digit % in 2022 (at constant currency), with growth weighted towards H2. At this level, the Group anticipates a similar adjusted EBITDA margin % to 2021 (at constant currency). Capital expenditure of £10-15m is expected on PP&E and £6-8m on capitalised intangibles relating to development costs and IT transformation.

Group Trading Performance

Group revenue for FY 2021 was down 13% to £154.1m (FY 2020: £178.0m). The Group experienced a FX headwind of c.£10.6m affecting GBP revenue on a reported basis, with the majority of revenues being earned in USD. On a constant currency basis, Group revenue was down 7% at £165m, in line with the November 2021 trading update of £164m.

Wireless revenue of £83.2m (FY 2020: £94.2m) was down 12% year-on-year on a reported basis and down 6% on a constant currency basis. Strong growth in demand for wafers used in 5G handsets and WiFi 6 routers, resulted in an increase of 19% year-on-year for Wireless GaAs. This growth was offset by a reduction in demand for GaN wafers used in 5G infrastructure, with revenue down by 49% year-on-year. After a strong performance for GaN in 2020 resulting from the initial wave of 5G mMIMO base station deployments, particularly in Asia, delays to further global deployments were experienced in 2021. A multi-year replacement cycle is still anticipated for 5G infrastructure, including strong anticipated GaN content.

Photonics revenue of £68.1m (FY 2020: £81.6m) was down 17% year-on-year on a reported basis and down 11% on a constant currency basis. VCSEL revenue for 3D sensing applications was down by 19% as a result of smaller chip sizes. The Group maintained strong market share in its key supply chain and remains well positioned for future product evolutions. Delays were experienced in certain aerospace and security orders, with Infrared revenues down 8% year-on-year. This represents a change in phasing, with no anticipated loss of market share. InP and other revenues were up by 16%, predominantly due to strength in datacom and telecom markets as well as new growth areas of sensing.

CMOS++ revenue of £2.8m (FY 2020: £2.2m) was up by 28% year-on-year, adding scale to the Group's Si epitaxy operation which is important to the integration of compound semiconductors on silicon.

Group Adjusted EBITDA of £18.7m (FY 2020: £30.1m) on a reported basis is equivalent to £25.0m on a constant currency basis. The constant currency EBITDA margin of 15% was in line with the November 2021 trading update of c.15% margin. The year-on-year fall in margin is predominantly related to the Group's operational gearing. The Group plans to improve its profitability going forward through a global site optimisation programme and growing margins by achieving higher volumes and hence economies of scale at its strategic site locations.

A **Reported Operating Loss** of £20.0m (FY 2020: (£5.5m)) is derived as a result of the trading performance and a number of one-off exceptional items (see below), with an adjusted operating loss of £6.5m (FY 2020: £5.4m profit).

Net cashflow from operations of £18.9m (FY 2020: £35.5m) representing 96% conversion of Adjusted EBITDA, resulting in a net debt position (excluding lease liabilities) of £5.8m as at 31 December 2021 (FY 2020: net cash of £1.9m). The Group renewed a $35m revolving credit facility with HSBC in December 2021 and had a cash position as at 31 December 2021 of £10.8m.

Capital expenditure of £15.1m on PP&E (FY 2020: £5.0m) in line with the November trading update of £14-17m, focussed on the deployment of additional tools to meet growing demand for 5G handset and WiFi 6 products in Taiwan. The Group continues to invest in research and development with technology capitalisation of £3.3m of intangible assets (FY 2020: £5.4m).

Adjustments to Reported Items

In order to focus the business, longer term developments such as cREO® and Photonic Quasi Crystal are being de-prioritised in the short term to focus our development programmes on market driven solutions. IQE will retain the technology, capability and IP enabling redeployment if and when appropriate.

- An exceptional intangible asset impairment charge of £7.4m has been recognised within the Reported Operating Loss. This comprises a non-cash impairment charge of £4.7m related to cREO® development costs and patents, following a decision to pause development activities on this technology until a commercial opportunity arises, in line with the markets based approach set out in our strategic priorities.

- A non-cash impairment charge of £2.7m has also been recognised for Quasi Photonic Crystal (QPC) and Diffusers, following a similar decision to suspend development activities.

Exceptional restructuring costs of £3.7m have been recognised in respect of site closures that are part of the Group's global site optimisation programme.

- Restructuring costs of £0.7m (2020: £0.2m) relate to the previously announced closure of the Group's manufacturing facility in Pennsylvania, USA. The Group's MBE activities in Pennsylvania will be consolidated into the North Carolina site by 2024.

- Restructuring costs of £3.0m (2020: £nil) relate to the previously announced closure of the Group's manufacturing facility in Singapore. The Singapore site will be closed by mid-2022 and will result in £4.8m of annualised cash cost savings.

The Group has also recognised a non-cash Share Based Payments charge of £1.7m (FY 2020: £0.3m) and CEO transition costs of £0.7m (FY 2020: £nil). Excluding these exceptional charges totalling £13.5m, the Group has recorded an **Adjusted Operating Loss** in FY 2021 of £6.5m (FY 2020: £5.4m profit).

Results Presentation

IQE will present the FY 2021 Results via webcast at 9:00am UK time today, 29 March 2022. If you would like to view this webcast, please register by using the below link and following the instructions:

https://webcasting.brrmedia.co.uk/broadcast/62335d781c349d634ccb28b7

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Financial Review

The Group reports financial performance in conformity with UK adopted international accounting standards ("UK adopted 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 are set out in note 4.

The Group has experienced strong year on year growth in demand for wireless GaAs wafers (~20%) used in 5G handset power amplifiers and Wifi 6 routers in 2021. This is part of a multi-year replacement cycle driven by a macro technological trend. This has been offset by a reduction in demand for wireless GaN wafers (~50%) for 5G infrastructure due to a slowdown in massive MIMO deployments, particularly in Asia, when compared to 2020 and a reduction in VCSEL 3D sensing revenues (~20%). In combination with foreign exchange headwinds on a reported basis, this has resulted in a reduction in revenue of ~13.4% to £154,096,000 (2020: £178,016,000) which is equivalent to ~£165,000,000 at constant currency, which represents a ~7.3% underlying year-on-year reduction.

The Group's Wireless business segment represents the largest proportion of the Group's revenue accounting for 54.0% (2020: 52.9%) of total wafer sales with Photonics representing 44.2% (2020: 45.9%) and CMOSS++ representing 1.8% (2020: 1.2%).

Wireless wafer revenues decreased 11.6% (5.5% at constant currency) to £83,217,000 (2020: £94,193,000). The decrease in wireless wafer revenues reflects a significant decline in wireless GaN epi-wafer sales that has only partially been offset by increased sales of wireless GaAs epi-wafers for 5G and WiFi 6. Demand for wireless GaN epi-wafers has been weak due to end-market dynamics, including significantly lower levels of massive MIMO base station deployments in Asia and the slow rate of deployments in Western markets. GaN epi-wafers remain an essential material for 5G infrastructure and demand is expected to recover over the multi-year deployment cycle. Demand for wireless GaAs epi-wafers has continued to grow in 2021 despite some softening of demand in Q4, driven by 5G penetration of the smartphone handset market and WiFi 6, a dynamic which has resulted in high utilisation of manufacturing capacity at the Group's Taiwan facility, where the Group has invested in eight new and refurbished tools which are currently being commissioned to support further growth in wireless GaAs epi-wafer demand in 2022 and beyond.

Photonics wafer revenues decreased 16.6% (10.4% at constant currency) to £68,067,000 (2020: £81,627,000). The decrease in photonics wafer revenues reflects lower demand for VCSEL's used in 3D sensing which has primarily arisen from a combination of chip design changes and softening in smartphone supply chains towards the end of 2021 and as a result of lower other photonic product sales linked to a combination of factors including the re-phasing of certain defence and security orders associated with large programmes into 2022 and the slower introduction of sales of certain new products.

Statutory gross profit decreased from £33,150,000 to £17,644,000. The decrease in gross profit reflects a combination of lower trading volumes and a reduction in overall gross profit margin percentage to 11.5% (2020: 18.6%) as the Group has experienced a reduction in utilisation of manufacturing capacity at some of its sites, in the current year. Adjusted gross profit, which excludes the charge for share based payments, decreased from £33,327,000 to £18,771,000 with a decline in gross margin from 18.7% to 12.2%.

Selling, general and administrative (‘SG&A’) expenses increased from £34,697,000 to £37,699,000. Adjusted SG&A, which excludes adjustments for share based payments, restructuring costs, Chief Executive Officer recruitment costs and certain non-current asset impairments decreased from £27,759,000 to £25,302,000. Decreases in adjusted SG&A primarily reflect certain employee related cost savings and reductions in certain other areas of corporate expenditure that have been required commensurate with the decline in current year revenue.

As part of the Group’s global footprint optimisation plan restructuring costs totalling £3,681,000 (2020: £162,000) have been incurred relating to costs associated with the announced closures of the Group’s manufacturing facilities in Singapore and Pennsylvania, USA. Within the restructuring costs are £3,020,000 (2020: £nil) relating to a combination of site decommissioning and employee related costs in Singapore and £661,000 (2020: £162,000) relating to employee related costs in Pennsylvania, USA. These site closures are part of the Group’s global footprint optimisation plan.

Chief Executive Officer recruitment costs of £741,000 (2020: £nil) include settlement costs and legal fees of £318,000 associated with the transition of the former Chief Executive Officer to a non-executive role and external recruitment fees of £423,000.

Impairment of intangibles of £7,411,000 (2020: £6,537,000) relates to the write-down in value of the Group’s cREO™ filter technology development cost and patent assets totalling £4,693,000 (2020: £nil) and the impairment of Photonic quasi crystal technology related development costs and patent assets totalling £2,718,000 (2020: £nil) where the Group has taken the decision to pause development related activities given the current lack of visibility over the timeline to commercialisation of each of the technologies.

A reported operating loss of £19,978,000 has been incurred (2020: Loss of £5,517,000). Reflecting the adjustments noted above, an adjusted operating loss of £6,454,000 in 2021 compares to an adjusted operating profit of £5,386,000 in 2020 with the loss in 2021 principally reflecting the impact of the decline in year-on-year revenue. The segmental analysis in note 4 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Wireless adjusted operating margins and photonics operating margins declined from 12.1% and 11.1% in 2020 to 8.8% and 2.6% in 2021, primarily reflecting reductions in volume and the associated under- utilisation of certain manufacturing capacity.

Finance costs have remained broadly consistent year-on-year at £2,213,000 (2020: £2,165,000) and reflect £905,000 (2020: £949,000) of bank and other interest costs primarily related to the Group’s HSBC Bank plc asset finance facility and the interest expense on lease liabilities of £1,308,000 (2020: £1,216,000).

The tax charge of £8,811,000 (2020: £1,001,000 credit) consists of a current tax charge of £1,124,000 (2020: £1,132,000) primarily relating to taxable profits generated by the Group’s Taiwanese operations and a deferred tax charge of £7,687,000 (2020: £2,133,000 credit) which principally reflects the partial reversal and de-recognition of previously recognised UK and US tax losses. Deferred tax asset recognition has been restricted in the UK to reflect future forecast profitability, an assessment that includes the impact of the Group's consolidation and investment in central and functional roles in the UK whilst US deferred tax asset recognition has been restricted in the US to reflect lower future forecast profitability arising from a combination of the Group's consolidation of its US manufacturing operations and the continued shift in the balance of future forecast manufacturing and hence profits from the Group's US operations to its UK and Asian operation. The effective tax rate of 13.3% (2020: 21.4%) applicable to the tax charge of £1,803,000 (2020: £1,520,000) on adjusted items is less than the UK statutory tax rate of 19% primarily due to the non-recognition of deferred tax assets for current year UK, US and Singapore trading losses which include the adjusted Chief Executive Officer recruitment and Singapore and Pennsylvania site closure costs.

The increase in the loss for the year to £31,002,000 (2020: £2,893,000) reflects a combination of the decline in revenue in the wireless and photonics business segments, reduced profitability within both segments as the Group has experienced an increase in under-utilisation of manufacturing capacity and the impact of adjusted non-cash and other non-operational items which at an adjusted level, has reduced the loss to £19,281,000 (2020: £2,702,000 profit).

Basic and diluted loss per share has increased from a loss per share of 0.41p to a loss per share of 3.87p in the current year with adjusted basic loss per share of 2.41p (2020: 0.29p earnings) and adjusted diluted loss per share of 2.41p (2020: 0.29p earnings) reflecting the Group's loss at a statutory and adjusted profit level.

Cash generated from operations decreased in the year to £18,883,000 (2020: £35,457,000) reflecting the Group's reduced trading performance partially offset by strong management of working capital. The Group has continued to invest in growing capacity to meet demand with capital expenditure of £15,051,000 (2020: £4,993,000) principally focused in Taiwan to support future forecast growth in wireless GaAs epi-wafer demand, intangible asset expenditure of £345,000 (2020: £731,000) focused on a combination of intellectual property and the Group's multi-year strategic IT transformation programme and investment in targeted capitalised technology development of £2,994,000 (2020: £4,678,000).

The decrease in cash generated from operations, combined with investing activity cash costs of £18,305.000 (2020: £10,402,000), repayment of bank borrowings of £6,145,000 (2020: £7,030,000), repayment of lease liabilities (including interest) of £5,013,000 (2020: £3,764,000) and payment of the final cash costs of £1,792,000 (2020: £1,363,000) associated with the prior period acquisition of the minority interest in the Group's Taiwanese subsidiary, IQE Taiwan ROC have combined to reduce the Group's cash balances from £24,663,000 in 2020 to £10,791,000 in 2021 resulting in a full year net debt position of £5,804,000 (excluding lease liabilities) compared to a net funds position of £1,923,000 (excluding lease liabilities) in 2020.

Equity shareholder funds total £234,621,000 (2020: £260,435,000) with the movement from 2020 primarily reflecting the loss for the year, the impact of finalisation of the prior year acquisition of the Taiwanese minority interest and foreign exchange differences arising on the retranslation of net investments in overseas subsidiaries.

Financial Statements

Financial summary

	2021 £'000	2020 £'000
Revenue	**154,096**	**178,016**
Adjusted EBITDA (see below)	**18,679**	**30,101**
Operating (loss)/profit		
• Adjusted*	**(6,454)**	**5,386**
• Reported	**(19,978)**	**(5,517)**
(Loss)/profit after tax		
• Adjusted*	**(19,281)**	**2,702**
• Reported	**(31,002)**	**(2,893)**
Net cash flow from operations		
Before adjustments (note 5)	**17,940**	**36,324**
Reported	**18,883**	**35,457**
Free cash flow**		
Before exceptional cash flows	**(1,640)**	**24,929**
Reported	**(697)**	**24,062**
Net (debt)/cash excluding lease liabilities***	**(5,804)**	**1,923**
Equity shareholders' funds	**234,621**	**260,435**
Basic EPS – adjusted*****	**(2.41p)**	**0.29p**
Basic EPS – unadjusted	**(3.87p)**	**(0.41p)**
Diluted EPS – adjusted*****	**(2.41p)**	**0.29p**
Diluted EPS – unadjusted	**(3.87p)**	**(0.41p)**

* The adjusted performance measures for 2021 and 2020 are reconciled in note 4. The adjusted performance measures for 2017-2019 are reconciled in those financial statements.

** Free cash flow is defined as net cash flow outflow of £14,080,000 (2020: £16,003,000 inflow) before cash flows from financing activities of £11,170,000 (2020: £5,701,000) and net interest paid of £2,213,000 (2020: £2,358,000).

*** Net (debt)/cash is defined as cash less borrowings but excluding lease liabilities.

**** Adjusted EPS measures exclude the impact of certain non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability (see note 5).

Consolidated income statement for the year ended 31 December 2021

	2021 £'000	2020 £'000
Revenue	**154,096**	**178,016**
Cost of sales	(136,452)	(144,866)
Gross profit	**17,644**	**33,150**
Selling, general and administrative expenses	(37,699)	(34,697)
Impairment loss on financial assets	-	(3,788)
Profit on disposal of property, plant and equipment	77	(182)
Operating loss	**(19,978)**	**(5,517)**
Finance costs	(2,213)	(2,165)
Reversal/share of losses of joint ventures accounted for using the equity method	-	3,788
Adjusted (loss)/profit before income tax	**(8,667)**	**3,221**
Adjustments	(13,524)	(7,115)
Loss before income tax	**(22,191)**	**(3,894)**
Taxation	(8,811)	1,001
Loss for the year	**(31,002)**	**(2,893)**

Loss attributable to:		
Equity shareholders	(31,002)	(3,271)
Non-controlling interest	-	378
	(31,002)	**(2,893)**

Loss per share attributable to owners of the parent during the year		
Basic loss per share	(3.87p)	(0.41p)
Diluted loss earnings per share	(3.87p)	(0.41p)

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.

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

Consolidated statement of comprehensive income for the year ended 31

December 2021

	2021 £'000	2020 £'000
Loss for the year	(31,002)	(2,893)
Exchange differences on translation of foreign operations*	4,744	(6,104)
Total comprehensive expense for the year	**(26,258)**	**(8,997)**
Total comprehensive expense attributable to:		
Equity shareholders	(26,258)	(9,482)
Non-controlling interest	-	485
	(26,258)	**(8,997)**

* 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 2021

	2021 £'000	2020 £'000
Non-current assets		
Intangible assets	95,866	105,772
Fixed asset investments	-	–
Property, plant and equipment	129,730	126,229
Right of use assets	44,267	37,339
Deferred tax assets	-	7,821
Other financial assets	-	–
Total non-current assets	**269,863**	**277,161**
Current assets		
Inventories	31,710	30,887
Trade and other receivables	38,860	38,575
Cash and cash equivalents	10,791	24,663
Total current assets	**81,361**	**94,125**
Total assets	**351,224**	**371,286**
Current liabilities		
Trade and other payables	(37,083)	(35,605)
Current tax liabilities	(1,342)	(1,426)
Bank borrowings	(6,230)	(6,201)
Lease liabilities	(4,694)	(4,798)
Provisions for other liabilities and charges	(3,686)	(515)
Total current liabilities	**(53,035)**	**(48,545)**
Non-current liabilities		
Bank borrowings	(10,365)	(16,539)
Lease liabilities	(49,693)	(42,226)
Deferred tax liabilities	(2,060)	(2,054)
Provisions for other liabilities and charges	(1,450)	(1,487)
Total non-current liabilities	**(63,568)**	**(62,306)**
Total liabilities	**(116,603)**	**(110,851)**
Net assets	**234,621**	**260,435**
Equity attributable to the shareholders of the parent		
Share capital	8,036	8,004
Share premium	154,632	154,185
Retained earnings	29,295	62,089
Exchange rate reserve	26,035	21,291
Other reserves	16,623	14,866
	234,621	**260,435**
Non-controlling interest	**-**	–
Total equity	**234,621**	**260,435**

Consolidated statement of changes in equity for the year ended 31 December 2021

	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 2021	**8,004**	**154,185**	**62,089**	**21,291**	**14,866**	**-**	**260,435**
Comprehensive expense							
Loss for the year	-	-	(31,002)	-	-	-	(31,002)
Other comprehensive income for the year	-	-	-	4,744	-	-	4,744
Total comprehensive expense for the year	**-**	**-**	**(31,002)**	**4,744**	**-**	**-**	**(26,258)**
Transactions with owners							
Share based payments	-	-	-	-	1,850	-	1,850
Tax relating to share options	-	-	-	-	(93)	-	(93)
Proceeds from shares issued	32	447	-	-	-	-	479
Acquisition of non-controlling interest	-	-	(1,792)	-	-	-	(1,792)
Total transactions with owners	**32**	**447**	**(1,792)**	**-**	**1,757**	**-**	**444**
At 31 December 2021	**8,036**	**154,632**	**29,295**	**26,035**	**16,623**	**-**	**234,621**

	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**

Other reserves relate to share based payments.

Consolidated cash flow statement for the year ended 31 December 2021

	2021 £'000	Restated 2020 £'000
Cash flows from operating activities		
Adjusted cash inflow from operations	**17,940**	**36,324**
Cash impact of adjustments	943	(867)
Cash generated from operations	**18,883**	**35,457**
Net interest paid	(2,213)	(2,358)
Income tax paid	(1,275)	(993)
Net cash generated from operating activities	**15,395**	**32,106**
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,051)	(4,993)
Purchase of intangible assets	(345)	(731)
Capitalised development expenditure	(2,994)	(4,678)
Proceeds from disposal of property, plant and equipment	85	–
Net cash used in investing activities	**(18,305)**	**(10,402)**
Cash flows from financing activities		
Acquisition of minority interest	(1,792)	(1,363)
Proceeds from issuance of ordinary shares	472	240
Proceeds from borrowings	-	5,000
Repayment of borrowings	(6,145)	(7,030)
Payment of lease liabilities	(3,705)	(2,548)
Net cash used in financing activities	**(11,170)**	**(5,701)**
Net (decrease)/increase in cash and cash equivalents	**(14,080)**	**16,003**
Cash and cash equivalents at 1 January	24,663	8,800
Exchange losses on cash and cash equivalents	208	(140)
Cash and cash equivalents at 31 December	**10,791**	**24,663**

The comparative financial information for 2020 has been restated to reclassify cash flows associated with Acquisition of minority interest from investing activities to financing activities and to reclassify interest lease cash flows from financing activities to net interest paid in cash generated from operating activities. The reclassifications have had no impact on net assets, loss after tax or total cash flow for 2020.

Notes to the financial statements for the year ended 31 December 2021

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. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

2.1 Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with UK adopted international accounting standards ("UK adopted IFRS"). The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2 Going concern

The Group made a loss of £31,002,000 (2020: £2,893,000 loss) and used £13,872,000 of cash and cash equivalents (2020: £15,863,000 generated) resulting in a net debt position (excluding lease liabilities) of £5,804,000 (2020: £1,923,000 net cash) as at 31 December 2021.

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 continues to work 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 ended 31 December 2021 although emerging softness in smartphone related demand, weakness in 5G infrastructure demand and on-going foreign exchange headwinds have resulted in a decline in revenue for the year to £154,096,000 (2020: £178,016,000) and an adjusted loss before tax of £8,667,000 (2020: £3,221,000 profit).
- The Group's net debt (excluding lease liabilities) position of £5,804,000 (2020: £1,923,000 funds) remains low in the context of total available facilities of £55,900,000 (2020: £55,550,000) with the increase in the net debt position principally reflecting the Group's investment activities where investment in technology development and capacity expansion in the second half of 2021 has exceeded cash generated from operations. Net debt (excluding lease liabilities) consists of £10,791,000 (2020: £24,633,000) of cash net of bank loans of £16,595,000 (2020: £22,740,000) which are repayable over a period to 29 August 2024.
- On 24 January 2019, the Group agreed a new £25,900,000 ($35,000,000) three-year multi-currency revolving credit facility from HSBC Bank plc. On 30 December 2021 the multi-currency revolving credit facility was extended for an additional 15-month period to 30 April 2023 and includes an option that requires HSBC Bank plc consent to extend the facility for a further 12-month period to 30 April 2024. 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 has been drawn. The Group has complied with all covenants associated with the facility.
- The Group generated cash from operating activities of £15,395,000 (2020: £32,106,000) and its financial forecasts and projections for the period up to and including 31 December 2023 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 have been prepared with significant reductions to future forecast revenues, designed to reflect severe downside scenarios associated with demand risks for the period to 31 December 2023. The severe but plausible downside scenario, applied to the Group's financial forecasts, which take account of current trading and customer demand, assumes a ~17% reduction in 2022 revenue and a ~31% reduction in 2023 revenue partially offset by mitigations within the control of the company, including deferred investment in employee related costs and certain capital projects across the forecast period. 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 exercise of the extension option contained in the revolving credit facility from HSBC Bank plc, or refinancing of the revolving credit facility at the extension option date in April 2023. The severe but plausible downside scenario illustrates that a facility of ~£16,500,000, significantly below the Group's current committed revolving credit facility of £25,900,000 could be required in 2023. 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, formally extended the Group's £25,900,000 ($35,000,000) revolving credit facility until April 2023 with an option, that requires HSBC Bank plc consent, to extend the facility for a further 12-month period. 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 a period of at least 12 months from the date of approval of the financial statements, such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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 2021:

- 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.
- Amendments to IFRS 16 'Leases' which provides an extension to an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification beyond 30 June 2021.

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 2021 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 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 IFRSs 2018-2020 cycle 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'.
- 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 and amendments to the disclosure of accounting policies which will require disclosure of material rather than significant accounting policies.
- Amendment to IAS 8 'Accounting policies, changes in accounting estimates and errors' to introduce a new definition for accounting estimates which clarifies that an accounting estimate is a monetary amount in the financial statements that is subject to measurement uncertainty.
- Amendment to IAS 12 'Income taxes' to clarify the accounting treatment for deferred tax on certain transactions with a narrowing of the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences.

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, Executive VP Global Business Development, Photonics & Infrared and the Global Human Resources Director 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	2021 £'000	2020 £'000
Wireless	83,217	94,193
Photonics	68,067	81,627
CMOS++	2,812	2,196
Revenue	**154,096**	**178,016**

Adjusted operating (loss) / profit		
Wireless	7,305	11,393
Photonics	1,737	9,080
CMOS++	(586)	(714)
Central corporate costs	(14,910)	(14,373)
Adjusted operating (loss) / profit	**(6,454)**	**5,386**
Adjusted items (see note 4)	(13,524)	(10,903)
Operating loss	**(19,978)**	**(5,517)**
Reversal/share of losses of joint venture accounted for using the equity method	-	3,788
Finance costs	(2,213)	(2,165)
Loss before tax	**(22,191)**	**(3,894)**

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 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.

	Adjusted Results £'000	Adjusted Items £'000	2021 Reported Results £'000	Adjusted Results £'000	Adjusted Items £'000	2020 Reported Results £'000
Revenue	154,096	-	**154,096**	178,016	–	**178,016**
Cost of sales	(135,325)	(1,127)	(136,452)	(144,689)	(177)	(144,866)
Gross profit	18,771	(1,127)	**17,644**	33,327	(177)	**33,150**
SG&A	(25,302)	(12,397)	(37,699)	(27,759)	(6,938)	(34,697)
Impairment loss on financial assets	-	-	-	–	(3,788)	(3,788)
Profit on disposal of PPE	77	-	77	(182)	–	(182)
Operating (loss)/profit	(6,454)	(13,524)	**(19,978)**	5,386	(10,903)	**(5,517)**
Reversal of JV losses	-	-	-	–	3,788	3,788
Finance costs	(2,213)	-	(2,213)	(2,165)	–	(2,165)
(Loss)/profit before tax	(8,667)	(13,524)	**(22,191)**	3,221	(7,115)	**(3,894)**
Taxation	(10,614)	1,803	(8,811)	(519)	1,520	1,001
(Loss)/profit for the period	(19,281)	(11,721)	**(31,002)**	2,702	(5,595)	**(2,893)**

	Pre-tax Adjustment £'000	Tax Impact £'000	2021 Adjusted Results £'000	Pre-tax Adjustment £'000	Tax Impact £'000	2020 Adjusted Results £'000
Share based payments	(1,691)	(13)	(1,704)	(265)	210	(55)
Chief Executive Officer Recruitment	(741)	-	(741)	-	-	-
Restructuring	(3,681)	-	(3,681)	(162)	39	(123)
Impairment – intangibles	(7,411)	1,816	(5,595)	(6,537)	1,242	(5,295)
Onerous contract	-	-	-	(1,840)	350	(1,490)
Patent dispute legal fees	-	-	-	1,689	(321)	1,368
Impairment – financial assets	-	-	-	(3,788)	–	(3,788)
Share of JV losses – financial asset	-	-	-	3,788	–	3,788
Total	(13,524)	1,803	(11,721)	(7,115)	1,520	(5,595)

The nature of the adjusted items is as follows:

- Share based payments – The charge (2020: charge) relates to share based payments recorded in accordance with IFRS 2 'Share based payment' of which £1,127,000 (2020: £177,000) has been classified within cost of sales in gross profit and £564,000 (2020: £88,000) has been classified as selling, general and administrative expenses in operating profit. £46,000 cash has been defrayed in the year (2020: £nil) in respect of employer social security contributions following the exercise of unapproved employee share options.
- Chief Executive Officer recruitment – The charge of £741,000 include settlement costs and legal fees of £319,000 associated with the transition of the former Chief Executive Officer to a non-executive role and external recruitment fees of £422,000. Cash costs defrayed in the year total £152,000 (2020: £nil)
- Restructuring – The charge of £3,681,000 relates to restructuring costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA and the Group's manufacturing facility in Singapore.
    - Restructuring charges of £661,000 (2020: £162,000) relate to employee related 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 £342,000 (2020: £nil).
    - Restructuring charges of £3,020,000 (2020: £nil) consist of employee related costs of £1,540,000 (2020: £nil) and site decommissioning costs of £1,480,000 (2020: £nil) relating to the announced closure of the Group's manufacturing facility in Singapore. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the year total £nil (2020: £nil).

	2021 £'000	2020 £'000
Loss attributable to equity shareholders	(31,002)	(3,271)
Non-controlling interest	-	378
Finance costs	2,213	2,165
Tax	8,811	(1,001)
Depreciation of property, plant and equipment	13,309	12,983
Depreciation of right of use assets	3,854	3,681
Amortisation of intangible fixed assets	8,047	7,869
Loss/(profit) on disposal of PPE	(77)	182
Adjusted Items	13,524	7,115
Share based payments	1,691	265
Chief Executive Officer Recruitment	741	-
Restructuring	3,681	162
Impairment of intangibles	7,411	6,537
Patent dispute settlement and legal costs	-	(1,689)
Onerous contract provision	-	1,840
Impairment of financial asset	-	3,788
Share of joint venture losses (financial asset)	-	(3,788)
Adjusted EBITDA	**18,679**	**30,101**
Share based payments	(1,691)	(265)
Chief Executive Officer Recruitment	(741)	-
Restructuring	(3,681)	(162)
Patent dispute settlement and legal costs	-	1,689
Onerous contract provision	-	(1,840)
Impairment of financial asset	-	(3,788)
Share of joint venture losses (financial asset)	-	3,788
EBITDA	**12,566**	**29,523**

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. The Directors believe that the adjusted earnings per share measure provides a useful comparison of 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 adjustments are detailed in note 5.

	2021 £'000	2020 £'000
Loss attributable to ordinary shareholders	(31,002)	(3,271)
Adjustments to loss after tax (note 4)	11,721	5,595
Adjusted (loss)/profit attributable to ordinary shareholders	**(19,281)**	**2,324**

	2021 Number	2020 Number
Weighted average number of ordinary shares	801,653,662	797,228,579
Dilutive share options	4,097,303	11,395,298
Adjusted weighted average number of ordinary shares	**805,750,965**	**808,623,877**

Adjusted basic loss per share	(2.41p)	0.29p
Basic loss per share	(3.87p)	(0.41p)

Adjusted diluted loss per share	(2.41p)	0.29p
Diluted loss per share	(3.87p)	(0.41p)

6. Cash generated from operations

Group	2021 £'000	2020 £'000
Loss before tax	(22,191)	(3,894)
Finance costs	2,213	2,165
Depreciation of property, plant and equipment	13,309	12,983
Depreciation of right of use assets	3,854	3,681
Amortisation of intangible assets	8,047	7,869
Impairment of intangible assets	7,411	6,537
Impairment of PP&E	74	-
Impairment of financial assets	-	3,788
Share of joint venture	-	(3,788)
Inventory write downs (note 17)	866	3,025
Loss/(profit) on disposal of fixed assets	(77)	182
Non-cash provision movements	3,617	2,002
Share based payments	1,691	265
Cash inflow from operations before changes in working capital	**18,814**	**34,815**
(Increase)/decrease in inventories	(1,368)	(4,128)
Decrease/(increase) in trade and other receivables	2,930	(7,151)
(Decrease)/increase in trade and other payables	(1,493)	11,921
Cash inflow from operations	**18,883**	**35,457**

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2021 or 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the registrar of companies, and those for 2021 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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. 685 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore, and is listed on the AIM Stock Exchange in London.