elektron technology plc

Interim report 2011/2012

Investing in innovation

Elektron Technology is a global group, managing, exploiting and developing technologies within the Fast Moving Engineered Products sector in business to business markets.

- Sales up 67% to £34.4 million (H1 2010: £20.6 million)
- EBIT (pre non-recurring and special items) up 36% to £3.5 million (H1 2010: £2.6 million)
- Non-recurring and special items of £0.6 million largely relating to further streamlining of the business, amortisation of intangibles plus abortive acquisition costs
- Underlying earnings per share up 6% to 2.38p (2010: 2.25p*)
- Interim dividend up 8% to 0.27p (2010: 0.25p) payable on 14 December 2011
- The Group has a strong order book and raw material price increases have generally been successfully passed on

* Note re taxation: Reported EPS for the first half of 2010/11 were 2.42p after a tax credit of 1.1%. However the tax rate on underlying earnings for full year 2010/11 was 19.2% following the utilisation during the year of certain tax losses brought forward. Underlying EPS have been calculated on profits adjusted for non-recurring and special items, using the full year tax rate of 19.2% in 2010/11 and an estimated tax rate of 24% for 2011/12.

Investing in innovation and growth

Summary of Chairman's and Chief Executive's statement

- The Group has enjoyed another successful six months continuing the trend of the past two years.
- Sales increased by 67%.
- Underlying earnings per share increased by 6% from 2.25p to 2.38p.
- The Board is pleased to declare an interim dividend of 0.27p (2010: 0.25p).

Revenue (£'000)

£34,417
+67%

Adjusted operating profit (£'000)

£3,473
+36%

Elektron Technology plc (www.elektron-technology.com – 'Elektron' or 'the Group') is a global group, managing, exploiting and developing technologies within the Fast Moving Engineered Products sector in business to business markets. Its mission is to deliver a highly competitive return to shareholders by creating innovative solutions for its customers. It owns a diverse portfolio of brands in the electro-component and instrumentation markets with potential for significant growth. The Group operates worldwide and employs 1,200 people, two thirds of whom are based outside the UK.

The Group has enjoyed another successful six months continuing the trend of the past two years. Sales increased by 67% largely as a result of the acquisition of Hartest which joined the Group on 1 September 2010.

Favourable changes in sales mix, together with price increases to pass on commodity costs, have delivered higher gross margins at 41.2%, compared with 40.6% in the comparable period last year. Operating margins reduced from 12.4% to 10.1%, mainly as a result of increased expenditure on R&D, sales, marketing, HR and IT. The Group is investing heavily in these areas to enable it to grow to the next level. It remains a key target to achieve 15% operating margins.

During the period the Group incurred non-recurring and special items of £595,000 largely relating to further streamlining of the business, amortisation of acquisition intangibles plus abortive acquisition costs. Most of the costs relate to the UK where there is a need to rationalise the sometimes complex structure that has been built up through the acquisition of numerous companies that have themselves acquired businesses in the past. The abortive acquisition costs relate to a large but ultimately unsuccessful transaction. The directors were determined not to overpay.

In the first half of 2010/11 the Group benefited from a small tax credit as a result of the utilisation of tax losses brought forward. The period under review saw an estimated charge of 24% on underlying earnings (2010/11 full year: 19.2%).

£1.5m of cash was generated from operations in the period, despite a seasonal outflow of working capital. With £1.2m invested in fixed assets, net debt has been reduced to £4.0m, leaving the Group's gearing ratio below 25%.

Underlying earnings per share increased by 6% from 2.25p to 2.38p. At constant tax rates, the increase would have been 12%.

The Board is pleased to declare an interim dividend of 0.27p (2010: 0.25p) that will be paid on 14 December 2011 to holders on the register as at 23 September 2011. As previously, a scrip dividend alternative is being offered to shareholders.

As a result of the Group's profitability, both interest and dividend cover remain very strong.

Regional sales performance

UK

We continue to invest in our people and infrastructure while maintaining a focus on the streamlining of processes leading to economies of scale and much improved financial information.

During the course of H1 we opened our new R&D Technology Centre in Cambridge, bringing together our New Product Development ("NPD") capability and focusing on the generation of technology platforms. A recruitment drive in the Cambridge area to increase our R&D team is currently underway. We have instituted a robust process for evaluating NPD proposals and have already identified a number of large scale innovation projects which show great potential.

We are reviewing our UK footprint which has grown as a result of numerous acquisitions. We currently operate from 10 sites. The review includes a proposal for a centre for High Tech manufacturing based in the UK. Should this proposal proceed, future UK investment in manufacturing will be concentrated in one location.

As previously announced our Romford office will close during H2. We are also examining the growth and profit potential of all our brands. Those that do not show the necessary potential will be offered for sale.

Also in H1 we completed the second phase of the Group's new ERP computer system which went live on the first trading day of H2. This project now covers approximately 50% of the Group's operations and when complete will replace numerous non compatible systems. Once fully operational, the suite of options available to users will dramatically enhance their ability to monitor and control the business.

EMEA (excluding UK)

There is considerable potential for the Group's products in the main economies of Germany, France and Italy as well as the emerging economies in Europe. Two years ago there was little focus on continental Europe. We now have 10 sales people actively operating in this important market, with a particular emphasis on Germany. All new sales recruits are expected to be fluent in at least one other language besides English.

	H1 2011/12		H1 2010/11		Full Year 2010/11	
Regional sales performance	**£'000**	**%**	£'000	%	£'000	%
United Kingdom	**14,967**	**44**	8,354	41	21,321	43
Rest of Europe, Middle East & Africa	**8,259**	**24**	5,614	27	13,014	26
Asia Pacific	**7,338**	**21**	3,286	16	9,148	18
Americas	**3,853**	**11**	3,365	16	6,557	13
Total	**34,417**	**100**	20,619	100	50,040	100

The focus in the period has been on rationalising and expanding our distributor network and identifying the larger opportunities provided by original equipment manufacturers (OEM's) to whom we are able to offer customised solutions for a given application.

APAC

Our business in the APAC region was enhanced by the addition of Tinsley India as a result of the acquisition of Hartest. This brand continues to perform strongly.

A complete top-down restructure of our activities in the region began towards the end of H1. Subsequent to the restructure, new business opportunities have increased by over £3 million. A new commercial strategy is being implemented which will increase the image and awareness of Elektron across APAC, making the launch of brands in the region easier and more cost effective.

Americas

The Americas continue to generate significant opportunities for Bulgin and Arcolectric. The pipeline of opportunities and order book stand at record levels. Our hybrid sales model, through direct, manufacturer's representatives and distribution has resulted in comprehensive North American sales coverage with the equivalent of more than 350 sales people actively creating demand for Elektron solutions.

As we move into the second half of the year, we are optimistic that several of our larger opportunities will close and as a result make this a breakthrough year for the region. Carnation Genisys and Henson were introduced to the US market during H1 with early indications of promise.

Strategy and Outlook

As mentioned above we shall continue both to invest in our people and to streamline our UK organisation. We shall continue to expand and invest in our geographical coverage of existing brands with particular emphasis on the opportunities offered by the Carnation Genisys brand and the APAC region.

H2 will see the introduction of our newest range of connectors which will dramatically increase our addressable market. The Group is increasing its web presence via e-commerce as well as a suite of websites in various languages.

Current indicators show a relatively favourable picture. Price increases have generally allowed the Group to claw back increases in raw material costs and the Group has a strong order book, although this typically gives only 8 weeks' visibility of sales at any time. Orders for the brands with mature products and businesses have generally trended flat to slightly lower and sales to the public sector have been weak. However, we are pleased to report that these factors have so far been more than counterbalanced by growth in the brands with newer products such as Carnation and Henson and by expansion into overseas territories.

Keith Daley
Chairman

John Wilson
Chief Executive Officer

Consolidated statement of comprehensive income
unaudited interim results to 31 July 2011

		Unaudited Half year to 31 July 2011 £'000	Unaudited Half year to 31 July 2010 £'000	Audited Year to 31 January 2011 £'000
Revenue		**34,417**	20,619	50,040
Cost of sales		**(20,234)**	(12,238)	(28,969)
Gross profit		**14,183**	8,381	21,071
Operating expenses				
Net operating expenses (excluding non-recurring and special items)		**(10,710)**	(5,826)	(15,771)
Operating profit before non-recurring and special items		**3,473**	2,555	5,300
Non-recurring and special items		**(595)**	(354)	(1,504)
Total operating expenses		**(11,305)**	(6,180)	(17,275)
Operating profit		**2,878**	2,201	3,796
Finance income		**1**	—	1
Finance costs		**(141)**	(92)	(244)
Profit before taxation		**2,738**	2,109	3,553
Taxation (see note 2)		**(643)**	24	(636)
Profit for the year attributable to equity shareholders		**2,095**	2,133	2,917
Other comprehensive (expense)/income				
Currency translation differences on foreign currency net investments		**(22)**	(60)	(28)
Available-for-sale financial assets – gains arising during the period		**—**	318	409
Total other comprehensive (expense)/income		**(22)**	258	381
Total comprehensive income for the period attributable to equity shareholders		**2,073**	2,391	3,298
Earnings per share	– basic	**1.97p**	2.42p	3.00p
	– diluted	**1.94p**	2.41p	2.98p
Adjusted earnings per share (see note 3)	– basic	**2.38p**	2.25p	4.20p
	– diluted	**2.35p**	2.24p	4.17p

Consolidated balance sheet
unaudited interim results as at 31 July 2011

	Unaudited 31 July 2011 £'000	Unaudited 31 July 2010 £'000	Audited 31 January 2011 £'000
Assets			
Non-current assets			
Goodwill	1,253	—	1,253
Other intangible assets	3,414	57	3,481
Property, plant and equipment	4,670	4,100	4,250
Available-for-sale financial assets	—	3,953	—
Deferred tax	102	775	164
Total non-current assets	9,439	8,885	9,148
Current assets			
Inventories	9,349	5,426	9,169
Trade and other receivables	12,759	8,270	11,810
Cash and cash equivalents	876	3,811	1,201
Total current assets	22,984	17,507	22,180
Total assets	32,423	26,392	31,328
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called-up share capital	5,320	5,182	5,320
Share premium	2,902	2,254	2,902
Merger reserve	1,047	1,047	1,047
Capital redemption reserve	163	163	163
Other reserves	85	65	107
Retained earnings	6,556	5,086	5,046
Total equity	16,073	13,797	14,585
Non-current liabilities			
Long-term borrowings	1,384	767	1,973
Accruals and deferred income	69	98	64
Long-term provisions	304	64	273
Total non-current liabilities	1,757	929	2,310
Current liabilities			
Trade and other payables	9,522	5,616	9,445
Dividend payable	585	—	—
Short-term borrowings	2,173	3,681	1,893
Current portion of long-term borrowings	1,298	885	1,609
Current tax payable	364	797	1,006
Short-term provisions	651	687	480
Total current liabilities	14,593	11,666	14,433
Total liabilities	16,350	12,595	16,743
Total equity and liabilities	32,423	26,392	31,328

Consolidated statement of changes in equity
unaudited interim results to 31 July 2011

	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 February 2010	4,406	117	1,047	163	125	2,635	8,493
Profit for the period	—	—	—	—	—	2,133	2,133
Currency translation differences on foreign currency net investments	—	—	—	—	(60)	—	(60)
Available-for-sale financial assets – gains arising during the year	—	—	—	—	—	318	318
Total comprehensive (expense)/income for the period	—	—	—	—	(60)	2,451	2,391
Share issue	776	2,329	—	—	—	—	3,105
Expenses incurred in share issue	—	(192)	—	—	—	—	(192)
At 31 July 2010	5,182	2,254	1,047	163	65	5,086	13,797
Profit for the period	—	—	—	—	—	784	784
Currency translation differences on foreign currency net investments	—	—	—	—	32	—	32
Available-for-sale financial assets – gains arising during the year	—	—	—	—	—	91	91
Total comprehensive income for the period	—	—	—	—	32	875	907
Share issue	102	335	—	—	—	—	437
Expenses incurred in share issue	—	(10)	—	—	—	—	(10)
Credit to equity for equity settled share based payments	—	—	—	—	10	—	10
Adjustment for scrip dividend element in respect of prior year	—	209	—	—	—	(209)	—
Dividends paid on ordinary shares	—	—	—	—	—	(706)	(706)
Adjustment for scrip dividend element	36	114	—	—	—	—	150
At 1 February 2011	5,320	2,902	1,047	163	107	5,046	14,585
Profit for the period	—	—	—	—	—	2,095	2,095
Currency translation differences on foreign currency net investments	—	—	—	—	(22)	—	(22)
Total comprehensive (expense)/income for the period	—	—	—	—	(22)	2,095	2,073
Dividends paid on ordinary shares	—	—	—	—	—	(585)	(585)
At 31 July 2011	**5,320**	**2,902**	**1,047**	**163**	**85**	**6,556**	**16,073**

Consolidated statement of cash flows
unaudited interim results to 31 July 2011

	Unaudited Half year to 31 July 2011 £'000	Unaudited Half year to 31 July 2010 £'000	Audited Year to 31 January 2011 £'000
Cash flows from operating activities			
Profit before taxation (continuing activities)	**2,738**	2,109	3,553
Adjustments for:			
Depreciation charge	**648**	433	1,248
Amortisation of intangible items	**77**	—	25
Loss/(profit) on disposal of fixed assets	**26**	12	(13)
Restructuring and other special items	**595**	354	1,504
Net interest payable	**140**	92	243
Operating cash flow before working capital changes	**4,224**	3,000	6,560
Increase in trade and other receivables	**(941)**	(1,454)	(87)
Increase in inventories	**(193)**	(528)	(1,163)
(Decrease)/increase in trade payables	**(641)**	1,191	696
Payments for restructuring and other exceptional costs	**(329)**	(370)	(1,894)
Other non-cash movements	**28**	(228)	(191)
Cash generated from operations	**2,148**	1,611	3,921
Interest paid	**(141)**	(92)	(244)
Taxation paid	**(512)**	—	(568)
Net cash inflow from operating activities	**1,495**	1,519	3,109
Cash flows from investing activities			
Interest received	**1**	—	1
Purchase of available-for-sale financial assets	**—**	(2,320)	—
Purchase of property, plant and equipment	**(1,124)**	(306)	(738)
Investment in intangible assets	**(105)**	(57)	(306)
Proceeds of sale of property, plant and equipment	**28**	95	130
Acquisition of subsidiary	**—**	—	(5,889)
Net cash used in investing activities	**(1,200)**	(2,588)	(6,802)
Cash flows from financing activities			
Proceeds on issue of shares	**—**	3,105	3,543
Expenses associated with share issues	**—**	(192)	(202)
(Repayment)/increase in bank loans	**(395)**	1,720	1,932
New capital leases	**—**	41	225
Payment of hire purchase and finance liabilities	**(225)**	(298)	(552)
Dividends paid	**—**	—	(556)
Net cash (used in)/generated from financing activities	**(620)**	4,376	4,390
Net (decrease)/increase in cash and cash equivalents	**(325)**	3,307	697
Cash and cash equivalents at the beginning of period	**1,201**	504	504
Cash and cash equivalents at the end of period	**876**	3,811	1,201

1. Accounting policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. Full details of accounting policies are included in the Annual Report for the year ended 31 January 2011. Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

The Group has not applied IAS 34 "Interim Financial Reporting", which is not mandatory for UK Groups, in the preparation of these interim financial statements.

2. Taxation

The tax expense on underlying earnings has been estimated at a rate of 24% (January 2011: 19.2%).

3. Earnings per share

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

Earnings

	31 July 2011 £'000	31 July 2010 £'000	31 January 2011 £'000
Earnings for the calculation of basic earnings per share, being net profit attributable to the owners of the Company	**2,095**	2,133	2,917
Adjustment in respect of exceptional tax credit	**—**	(429)	—
Adjustment in respect of non-recurring and special items net of taxation of £156,000 (July 2010: £336,000, January 2011: £392,000)	**438**	286	1,168
Earnings for the calculation of basic earnings per share before non-recurring and special items	**2,533**	1,990	4,085

July 2010 earnings before non-recurring and special items have been adjusted to offset the exceptional reported tax credit and reflect tax at the 2010/11 full year effective rate on underlying earnings of 19.2%.

Number of shares

	31 July 2011	31 July 2010	31 January 2011
Weighted average number of ordinary shares for the calculation of basic earnings per share	**106,408,259**	88,285,452	97,153,164
Effect of dilutive potential ordinary shares: share options	**1,650,000**	301,820	693,904
Weighted average number of ordinary shares for the calculation of diluted earnings per share	**108,058,259**	88,587,272	97,847,068

Earnings per share

	31 July 2011	31 July 2010	31 January 2011
Earnings per share basic	**1.97p**	2.42p	3.00p
Earnings per share diluted	**1.94p**	2.41p	2.98p
Basic earnings per share before non-recurring and special items	**2.38p**	2.25p	4.20p
Diluted earnings per share before non-recurring and special items	**2.35p**	2.24p	4.17p

4. Consolidation of Hartest Holdings plc

The results of Hartest, which was acquired in the year ended 31 January 2011, were consolidated from 1 September 2010.

5. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2011 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Copies of the interim results are available to download from the Group's website www.elektron-technology.com. Hard copies are available free of charge from the Group's registered office at Broers Building, J J Thomson Avenue, Cambridge CB3 0FA.

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