

Calnex Solutions plc

Test solutions for the world's networks

Interim Results for the 6 months to 30 September 2021



Tommy Cook, CEO

Ashleigh Greenan, CFO


Calnex

Test solutions for the world's telecom networks



Calnex Solutions

- We design, produce and market test instrumentation and solutions for network synchronization and network emulation
- Our solutions enable our customers to validate the performance of the critical infrastructure associated with telecoms networks
- We have established a position at the forefront of the global test and measurement industry
- Providing our equipment to the world's telecoms network operators, network equipment providers, component manufacturers plus companies building and operating their own networks & data centres
- To date, we have secured and delivered orders from over 600 customer sites in 68 countries across the world



Focused on high value niches of the testing market

Where we fit in the telecoms lifecycle



- **R&D Design Validation and Conformance Testing**

- Critical points in the development cycle, require high capability and high-value test equipment
- Fully prove the operation design and conformance with International Standards
- Stress test equipment to ensure will operate under all conditions
- Repeated each time network equipment is upgraded

- **Maintenance Testing post deployment**

- Deep insight is required to identify and rectify complex maintenance issues

Supporting the world's telecoms industry

TELECOM EQUIPMENT VENDORS



HYPERSCALE, ENTERPRISE



NETWORK OPERATORS



COMPONENT MANUFACTURERS



Operating in high growth markets

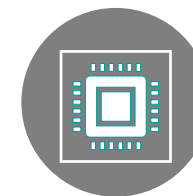
*The global market for telecoms test and measurement equipment in 2020 for mobile networks alone estimated to be around **US\$1.3 billion** and is forecast to exceed US\$2 billion by 2024, expanding at a **CAGR of 11.5 per cent**.*

*Global high speed Ethernet test equipment market estimated to be around US\$1.4 billion in 2019, forecast this market to grow to **US\$1.7 billion by 2022**.*

Source: Frost & Sullivan



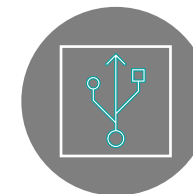
The telecoms industry is a highly competitive environment.



Requiring innovative products, technologies and services to support investment in new digital infrastructure.



The migration of mobile networks to **5G**, the emergence of the **Internet of Things**, the exponential growth of **data creation** and the shift to using **cloud computing** are all driving forces in the continuous development of telecom networks around the world.



This in turn drives growth in the need for test and measurement instrumentation and solutions.



Review of H1 FY22

£9.3m

Revenue

+20%

£2.3m

Adjusted PBT

£13.6m

Closing cash

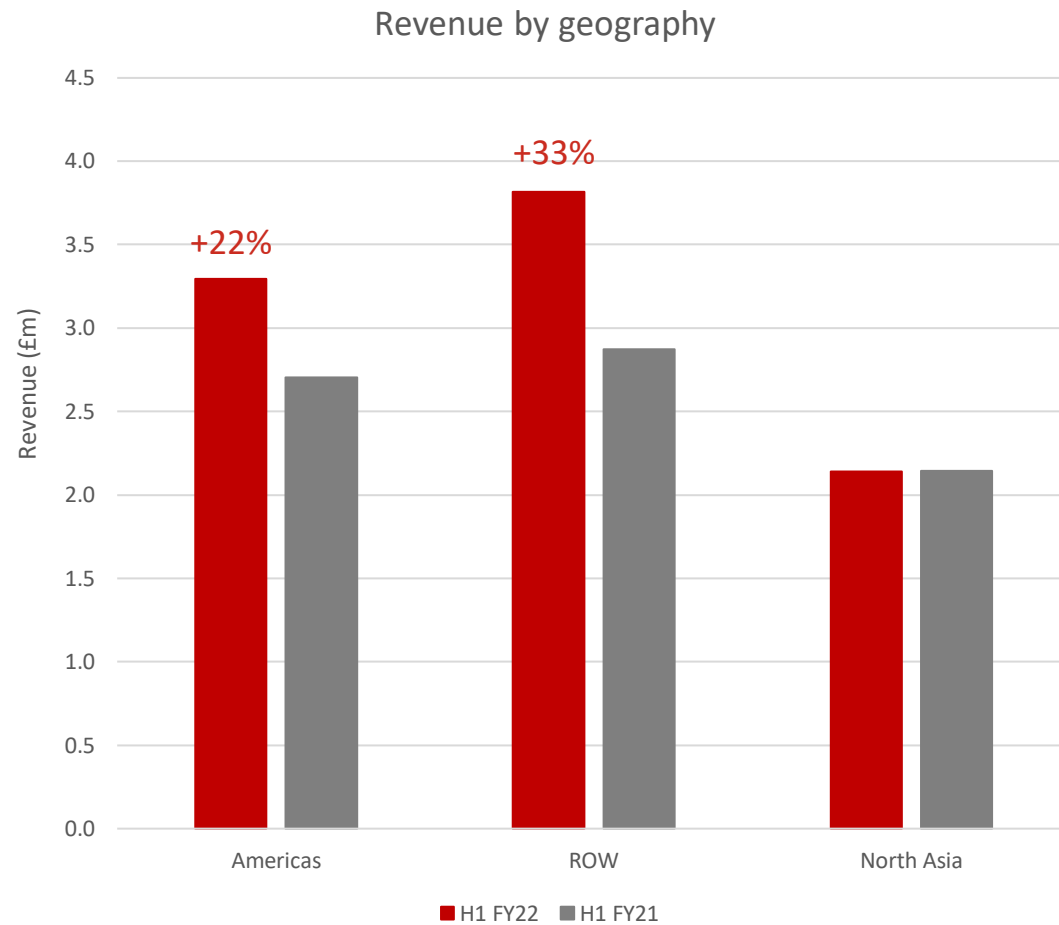
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Maiden interim dividend

Continued strong performance

- Another considerable step forward for Calnex, with revenue and profit before tax ahead of management expectations at the start of FY22
- Brought forward investment in the business, to support our growth aspirations
- Continued strong demand for testing instrumentation, with new product launches having been well received and a positive outlook

Return to pre-COVID spending patterns



- Revenues to the Americas grew 22%
- Rest of the World experienced a 33% uplift in revenues
- North Asia remained flat due to the ongoing geopolitical tensions between the US and China, exacerbating component supply issues

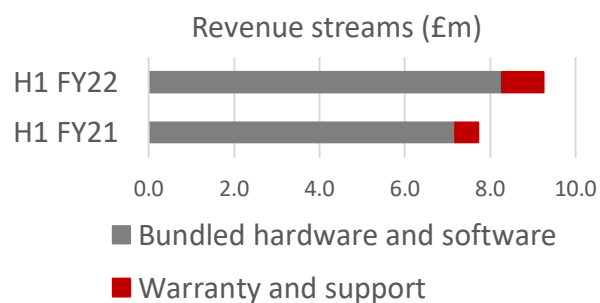


Financial Review

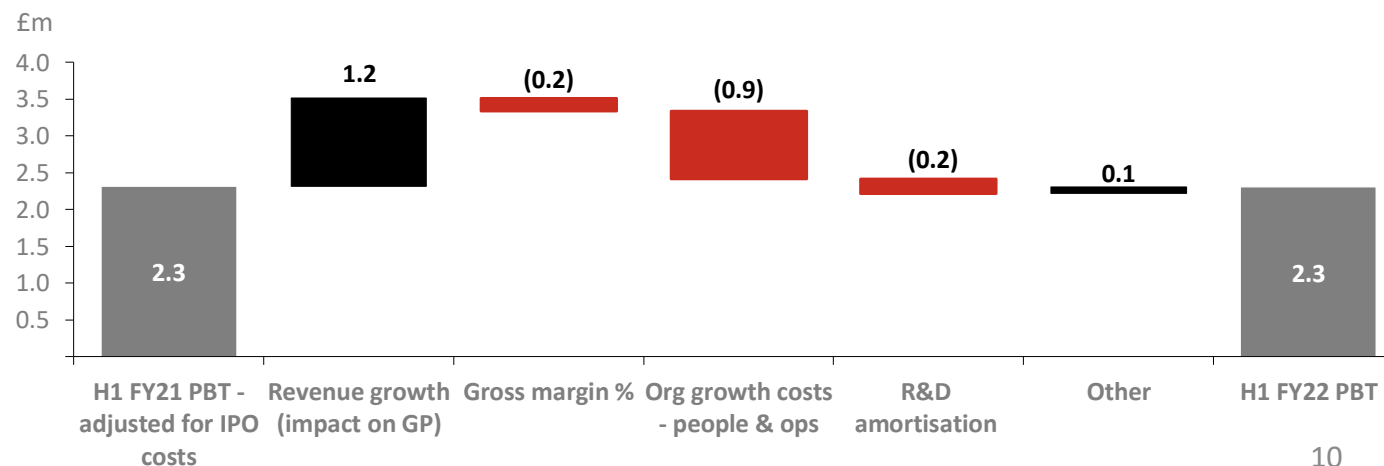
Income statement

Year ending 31 March	H1 FY22 £000	H1 FY21 £000
Revenue	9,251	7,721
Gross Profit	7,046	6,031
Other income	93	103
Administrative expenses (excl D&A)	(3,262)	(2,710)
EBITDA	3,877	3,424
Amortisation of development costs	(1,398)	(1,200)
Add back exceptional items	-	369
Underlying EBITDA	2,479	2,593
Other depreciation & amortisation	(160)	(135)
Operating Profit (excluding exceptional items)	2,319	2,458
Finance expense	(11)	(139)
Adjusted profit before tax	2,308	2,319
Exceptional items	-	(369)
Profit before tax	2,308	1,950
Tax	(512)	(505)
Profit for the period	1,796	1,444

Gross Profit margin %	76%	78%
Adjusted profit before tax %	25%	30%
Basic EPS (pence)	2.05	2.41
Adjusted basic EPS (pence)	1.99	1.93



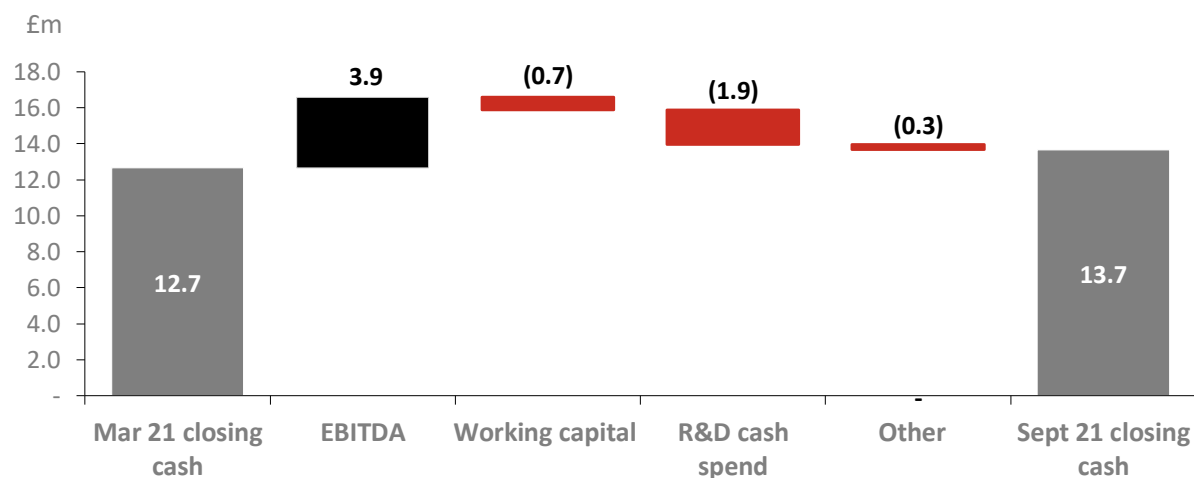
- Revenue growth of 20%.
- Gross margin 76% for the period – within anticipated range. Product and bundle mix will drive margin in a period.
- Adjusted PBT £2.3m (H1 FY21: £2.3m). Reflecting planned step change in cost base for FY22 due to investment to support growth.
- R&D amortisation £1.4m (H1 FY21: £1.2m). Planned increases in R&D headcount to support new and ongoing projects.
- Effective tax rate 22.2% driven by the measurement of deferred tax balances in line with the increases in corporation tax rate to 25% in FY24
- Change in weighted average number of shares in issue pre and post IPO driving EPS movement



Cashflow

Year ending 31 March	H1 FY22 £000	H1 FY21 £000
Cashflows from operating activities		
EBITDA	3,877	3,424
Add back non cash items	(4)	398
Discontinued operations	-	(202)
Movements in net working capital	(732)	(571)
Cash generated from operations	3,141	3,049
Interest paid	(11)	(154)
Net cash from operating activities	3,130	2,895
Cashflows from investing activities		
Development costs capitalised	(1,904)	(1,484)
Other capital expenditure	(154)	(3)
Net cash used in investing activities	(2,058)	(1,487)
Net cash flows before financing activities	1,072	2,586
Cashflows from financing activities		
Repayment of borrowings	-	(340)
IPO - Fees	-	(171)
Other	(97)	(50)
Net cash from financing activities	(97)	(561)
Net increase in cash	975	847
Cash at the start of the period	12,668	3,664
Cash at the end of the period	13,643	4,511

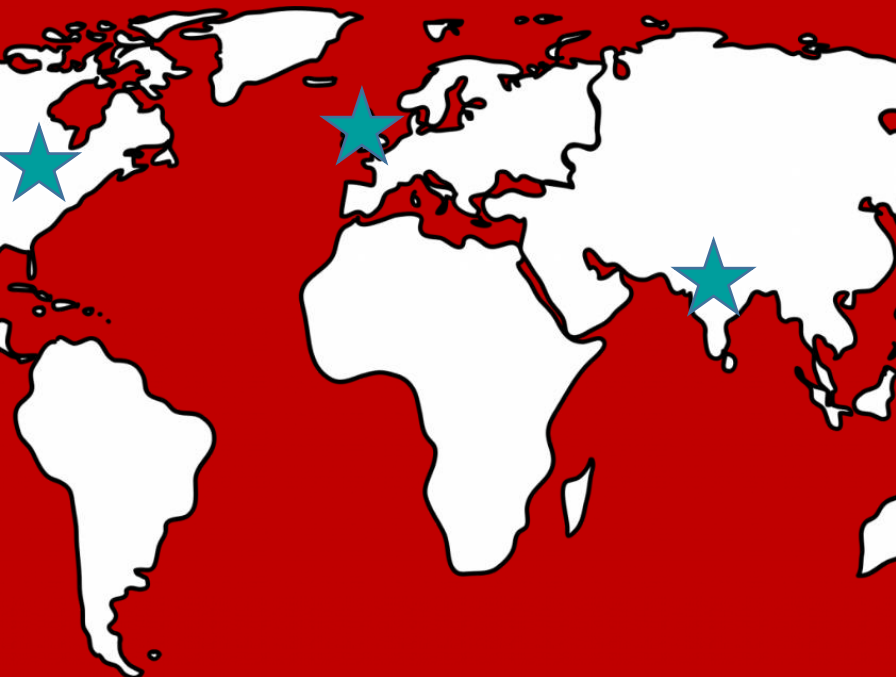
- Strong cash flow performance as a result of strong trading in the period, ahead of management expectations at start of FY22
- Closing cash is £13.6m, £0.9m positive movement in the period
- Net cash from operating activities of £3.1m (H1 FY21: £2.9m)
- Working capital movements largely driven by movements in trade and other receivables due to timing and volume of shipping to customers
- Investment in R&D was £1.9m (H1 FY21: £1.5m), reflecting the growth in the R&D team
- There is currently no debt on the balance sheet, leading to no borrowings related cashflows in the current period



Strategy & Outlook

Investing in our people and operations

- Increased staffing levels across Business Development, Sales, R&D and support roles, in order to support new product development and maximise exposure in new and existing territories
- New Vice President of Operations tasked with advancing internal manufacturing operations
- Awarded a Gold standard accreditation from Investors in People
- Successfully continued with hybrid working



Recognised by UK5G - as one of the “Best of British” for our Test & Measurement solutions

Product launches well received

Synchronisation testing in the lab

LAB SYNC



Paragon-neo



Paragon-X

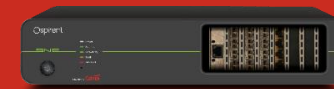
- Sustained positive response to the launch of enhanced Paragon-neo. Continues to be market leader in high accuracy time transfer testing, and the tool of choice to perform Standards compliance testing.
- As anticipated, O-RAN industry initiative is increasing the number of companies developing network equipment, expanding the addressable market.
- Addressable market continuing to grow as timing continues to increase in importance.

Network emulation for real-world testing in the lab

CLOUD & IT



Attero-100G



SNE

- O-RAN industry initiative also creating opportunity for Network Emulation products to evaluate other aspects of the recommendation.
- Expanded SNE interface provides support to 100G. Strong early customer interest.
- Launch of vSNE planned for H2.

Portable field test units

FIELD SYNC



Sentinel

- Release in June of the new 5G OTA (Over-the-air) capability has seen strong uptake from telecoms customer base.
- Strong uptake from hyperscale enterprise customers who are investing in their datacentre operations.
- Ahead of target performance with positive outlook.

Revenue growth across all product lines



Sentinel

- Top 10 customer since FY20.
- Facebook produces some of the most popular websites and apps in the world. Facebook technologies empower over a billion people around the globe and a crucial enabler for this is their network of data centers.
- While maintaining accurate timing across any network is paramount, Facebook's challenge was to synchronize all their servers across many data centers with sub-millisecond precision.
- Facebook developed a number of different ways to measure the actual time error in their data centers.
- Facebook identified that Calnex's Sentinel Synchronization Tester addressed some of their unique challenges.

[Learn more here](#)

Customer Case Study

Maintaining accurate time with Facebook/Meta datacentres



'With Sentinel we are now able to verify that we've improved our timing synchronization accuracy from 10 milliseconds to 100 microseconds.'

Oleg Obleukhov, Production Engineer, Facebook

- A tier 1 Server manufacturer placed orders of circa. £1M during the last 18 months.
- A new customer to Calnex in FY21, likely to be a top 10 customer for FY22
- Purchasing for lab test equipment to verify implementation of O-RAN functionality into their products.
- Business coming from multiple sites indicating the O-RAN support being implemented across a number of their product ranges.
- As Telecom networks migrate to SDN (Software Defined Networks), networks being architected with elements located in cloud infrastructure. Server vendors view O-RAN support as value add capability in their products.
- As O-RAN recommendations evolve, new players are entering the market. This includes both young innovative companies developing new products to establish presence and established companies looking to move sideways to open new revenue streams

Customer Case Study

O-RAN brings new players into the market



Paragon-neo

Delivering against the growth strategy

Three-pillared growth strategy to capitalise on the structural market growth drivers

Continued product innovation to capitalise on growth of 5G

Releases of significant enhancements to Lab Sync & Field Sync platforms, supporting the very high-speed interfaces (e.g. 400G).

Release of a new Sentinel measurement module, allowing the measurement of timing from 5G networks.

Expand within the Cloud Computing sector and other Ethernet market niches

Major evolution of the SNE software platform with significant usability enhancements and subsequent launch of Virtual version.

Target select M&A opportunities to add to product portfolio

We continually assess the market for select M&A opportunities which meet our strict criteria and will ensure that any acquisitions are strategic and earnings enhancing.



Confident outlook

- Strong levels of trading seen in H1 have continued into the second half of the year
- Demand for telecoms testing equipment remains strong
- Global semiconductor shortage is being closely monitored by the Board but no negative impacts to date
- Confident in meeting the upgraded market forecasts for the year



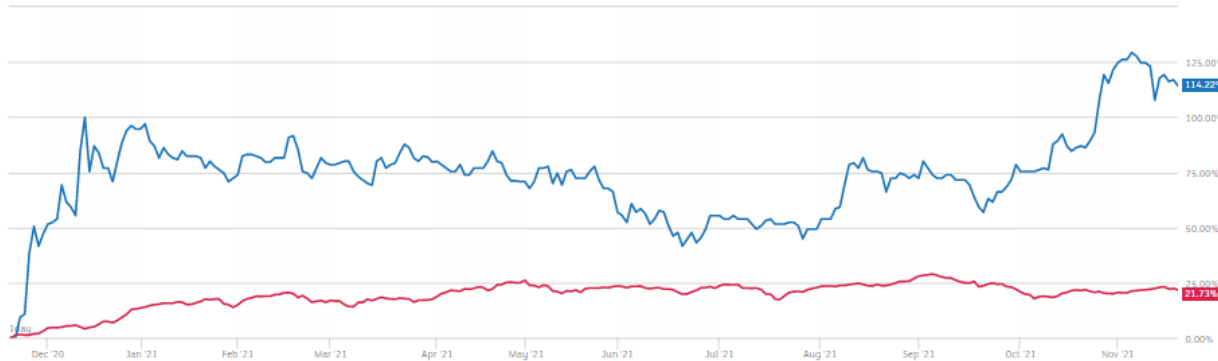
Q&A

General information

- Share Price 132p (at 18.11.2021)
- Market AIM
- Ticker CLX
- Market Cap. £117m
- Ord. shares in issue 87.5m

Major shareholders

Shareholder	% of Issued Share Capital
Thomas (Tommy) Cook (CEO)	21.0%
BGF Investment Management Limited	15.0%
Scottish Enterprise	9.0%
Otus Capital Management Limited	5.0%
Lombard Odier Asset Management	5.0%
Slater Investments Limited	4.7%
Hargreaves Lansdown Asset Mgmt	3.4%
Ann Budge (Non-Executive Director)	3.0%



CALNEX SOLUTIONS PLC | FTSE AIM All-Share Index X

The Board



Tommy Cook
CEO

Founded Calnex in 2006

Over 38 years' experience in telecoms test and measurement, most recently at Agilent Technologies.

Engineering background and his expertise ranges from hands-on design, programme management of R&D projects through to leading business teams within the market segments in which Calnex currently operates.



Ashleigh Greenan
CFO

Joined Calnex in 2020.

Previously CFO at Parsons Peebles Group Limited, global supplier of electromechanical products and services.

Prior to this she held finance and corporate development roles at Exova Group plc, the UK materials testing business.

Ashleigh qualified as a chartered accountant with Deloitte, before spending 5 years at KPMG in transaction services.



George Elliott
Non-Exec Chairman

Extensive board experience at private and public technology companies.

Currently Chairman of Optoscribe Ltd and formerly Non-Exec Chairman of Craneware plc from 2007 - 2019. CFO of Wolfson Microelectronics plc from 2000-2007.



Ann Budge
Non-Exec Director

Experienced Non-Executive Director and Angel Investor, particularly within the technology sector.

Co-founded Newell & Budge in 1985 before its sale to Sopra Group in 2005. Currently, Owner and Chair of Heart of Midlothian football club.



Graeme Bissett
Non-Exec Director

Experienced corporate financier and qualified chartered accountant.

Former Chairman of Macfarlane Group plc and NED at SMS Group plc, having previously held NED and Finance Director roles.

Balance sheet

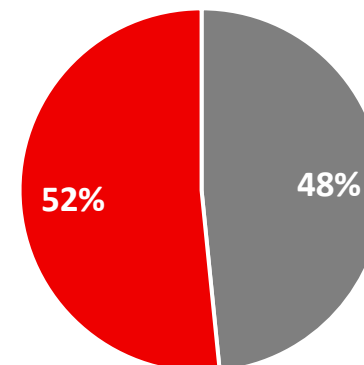
Year ending 31 March	H1 FY22	H1 FY21
	£000	£000
Non-current assets		
Intangible assets	7,982	7,009
Tangible & right of use assets	699	621
Deferred tax asset	730	250
	9,411	7,880
Current assets		
Inventories	1,189	1,226
Trade and other receivables	2,414	2,148
Cash and cash equivalents	13,643	4,511
	17,246	7,885
Current liabilities		
Borrowings	-	(719)
Other current liabilities	(4,648)	(3,094)
	(4,648)	(3,813)
Current assets		
Borrowings	-	(1,217)
Deferred tax liability	(1,650)	(1,260)
Trade and other payables	(868)	(349)
Other non-current liabilities	(432)	(484)
	(2,950)	(3,310)
Net assets	19,059	8,642

Repeat Customer Demand

Top 10 customers by revenue

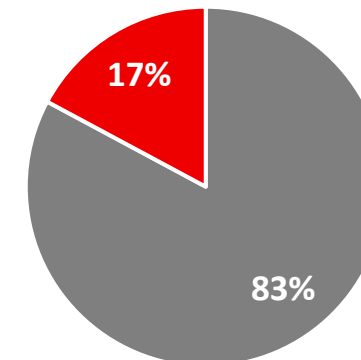
	Year of first sale	FY18	FY19	FY20
Telecoms Customer 1	'09	834	1,525	1,264
Telecoms Customer 2	'11	388	811	1,230
Telecoms Customer 3	'10	711	1,384	1,081
Telecoms Customer 4	'11	127	19	625
Telecoms Customer 5	'10	534	219	607
Non-Telecoms Customer 1	'20	-	-	589
Telecoms Customer 6	'09	691	414	486
Non-Telecoms Customer 2	'11	59	129	442
Telecoms Customer 7	'11	226	233	441
Telecoms Customer 8	'13	89	331	320
Revenues from top 10 customers		3,659	5,065	7,085
Revenue from other customers		4,759	5,439	6,654
Total revenue		8,418	10,504	13,739
Top 10 customers as a % of total		43%	48%	52%
Revenue growth			25%	31%
CAGR FY15 to FY20				16%
Total no. of customers in year		205	237	253

Top 10 customers
3 year average



■ Top 10 customer revenue
■ Other customer revenue

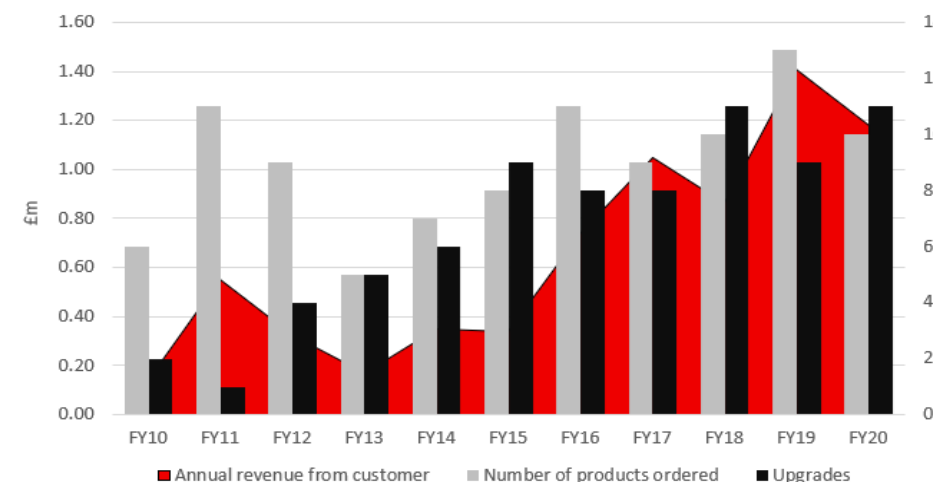
Repeat customers
3 year average



■ Repeat customer revenue
■ Other revenue

- Top 10 customers account for just over 50% of revenues in FY20; balance is split across remaining customer base
- Average length of customer relationship for Top 10 is 9yrs
- Non Telecoms customers appearing in Top 10 in recent years; 14% of top 10 customer revenue in FY20

Customer case study: Telecoms Customer 3



Calnex is focussed on including effective environmental goals into the Group’s strategic decisions, operations and supply chain

Environment	Social	Governance
<p>Calnex’s HQ - Linlithgow Oracle Global Services Oracle is committed to a 55% reduction in emissions per unit of energy consumed within their operations worldwide and to have 50% renewable energy use within their real estate/facilities portfolio by 2025.</p> <p>Kelvinside - contract manufacturer Has implemented an Environmental Management system which is ISO 14001 certified (International Standard for Environmental Systems). A member of The Green Network for Businesses in Scotland.</p> <p>Spirent Communications plc, a key sales channel partner Reported to have sourced 100 per cent electricity from renewable sources in 2020. Aiming to achieve carbon neutral certification in two years and are working on a net zero carbon target by 2035.</p>	<p>Long-standing charity committee which is responsible for identifying opportunities where we can assist those in need in the local area.</p> <p>Employees can take 1 day off a year to spend on a charitable day helping in the community.</p> <p>Investors in People: Gold award achieved – unusual on first attempt.</p> 	<p>Committed to high standards of corporate governance.</p> <p>Strength and experience of the Board provides additional level of financial and governance oversight.</p>



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