

Calnex
Insight and Innovation

Interim Results HY23

Tommy Cook, CEO

Ashleigh Greenan, CFO

Calnex Solutions

Our portfolio enables R&D, pre-deployment and in-service testing for network technologies and networked applications, enabling our customers to validate the performance of the critical infrastructure associated with telecoms and computing networks

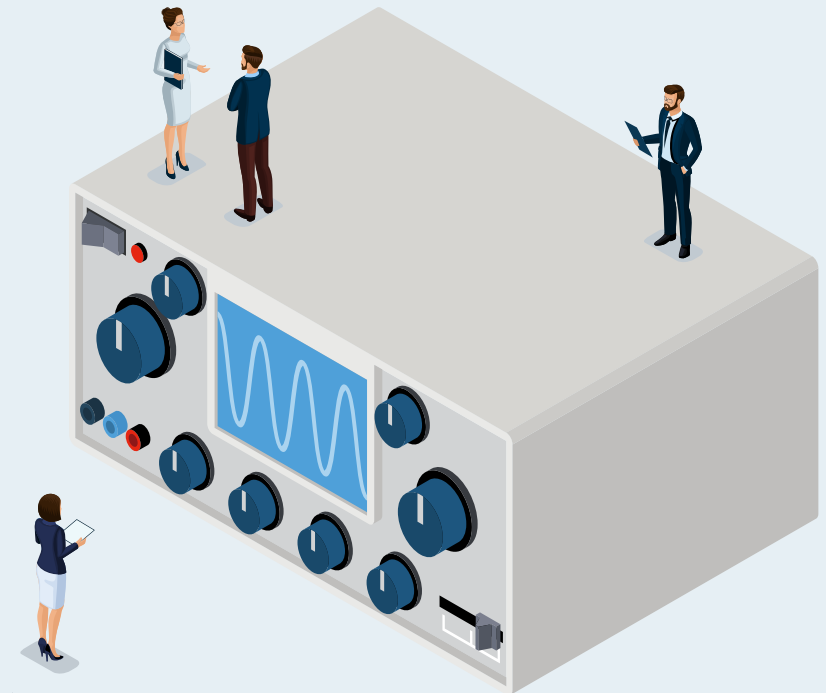
We have established a position at the forefront of the global test and measurement industry

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

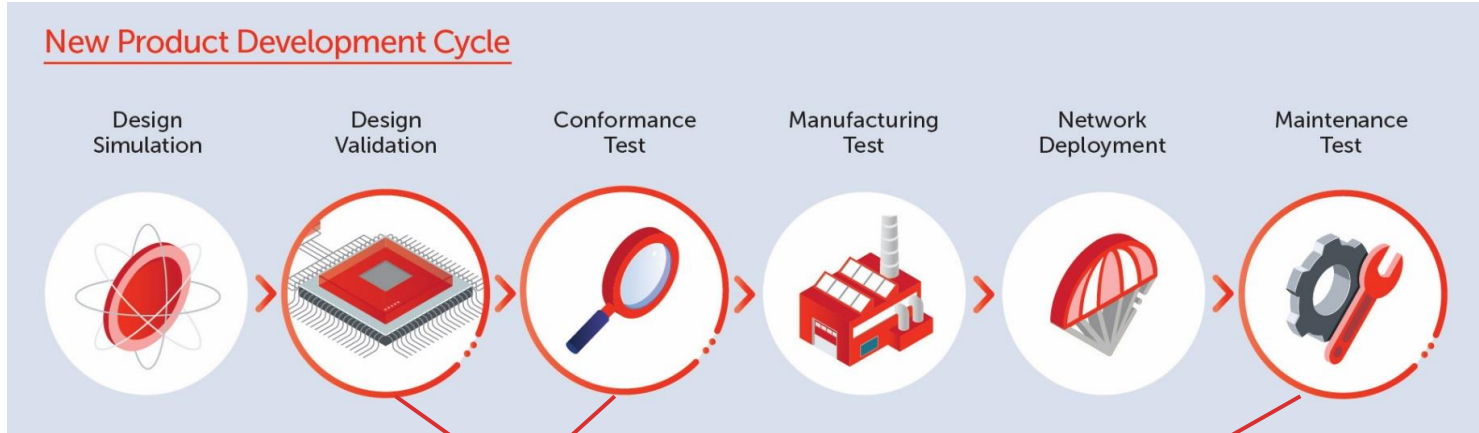
To date, we have secured and delivered orders from over 680 customer sites in 68 countries across the world

Lean business model, with global distribution channels in place and manufacturing outsourced to a high quality local partner

Test solutions for the world's telecoms and cloud computing industries



Where we fit in the telecoms lifecycle



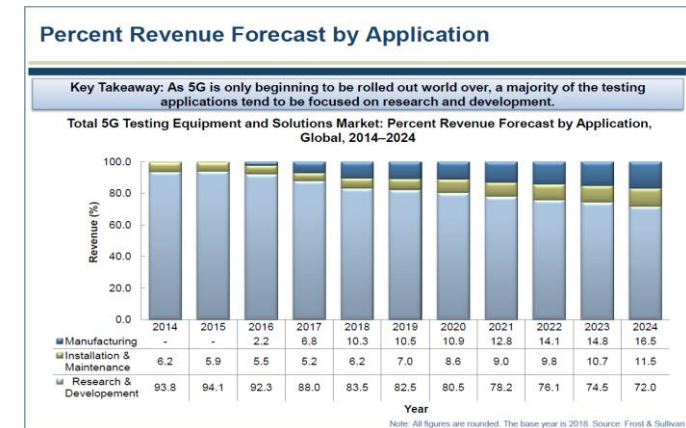
R&D Design Validation and Conformance Testing

- 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

Focused on high value niches of the testing market



Supporting the world's telecoms industry

TELECOM EQUIPMENT VENDORS



HYPERSCALE, ENTERPRISE



NETWORK OPERATORS



COMPONENT MANUFACTURERS





Review of the Period



£12.7m

Revenue
+38%

£3.1m

Profit before tax
+34%

£14.4m

Closing cash

0.31p

Interim dividend

Continued positive performance

Robust first half for Calnex

Considerable growth in revenue and profit before tax.

Growth across our product lines.

Successful navigation of macroeconomic challenges to date.

Protected profit margins while investing in the business.

Maintained strong customer and supplier relationships.

Underlying long-term growth drivers of the telecoms and cloud computing sector remain.

HY23 operational highlights

Navigation of macroeconomic challenges

Successful mitigation of well-documented, global supply chain shortages to date.

We remain cognisant of supply chain issues although we are starting to see an improving picture.

The impact of inflation on the business is being managed within our budget.

Delivered on growth strategy through M&A

The recently acquired iTrinegy Limited enhances our position as a Network Emulation test vendor and opens up a new set of customers.

Integration is progressing as planned.

Building out the team and sales channel, which remains a key focus for the second half.

Continuing Data Centre opportunities

Interest from hyperscale operators who want to optimise their data centre operations continues to grow.

Commenced shipping of the significant data centre order received in FY22, with positive customer feedback.

A new version of our Network Synchronisation product, Sentry, will be launched in H2.

Conformance to O-RAN standards and new standards

New customer groups within existing customer base as well as new customers have bought products for O-RAN conformance testing.

New head of standards engagement activities appointed in August who will be central to refreshing and strengthening engagement with the numerous industry bodies.



Financial Results



Period performance

Geography

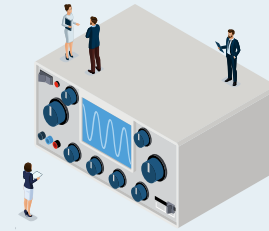


ROW: Robust growth in Rest of the World driven by a strong performance in Europe.

North Asia: Healthy growth, concerns remain about when the market will return as still impacted by US restrictions.

Americas: Strong revenue growth underpinned by shipment of significant order.

Product line



Lab Sync: Solid performance driven by up-take in the latest releases of very high speed interface support, (e.g. PAM4, 400G)

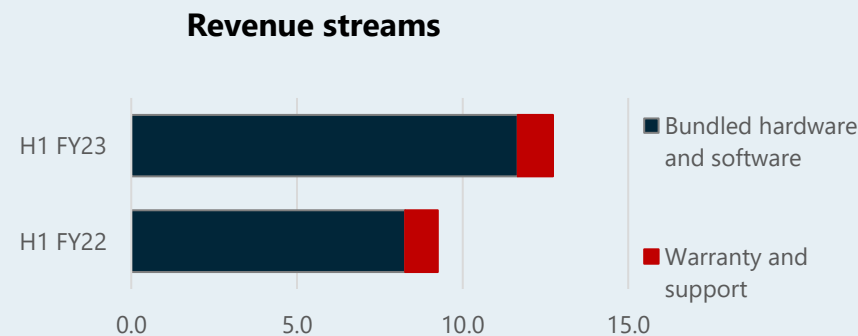
Network Sync: continues to benefit from growth from both the Telecom's sector as well as the Data Centre application.

Cloud & IT: Growth driven by both the addition of the NE-ONE platform and also by growth in SNE sales.

Income statement

Year ending 31 March	H1 FY23 £000	H1 FY22 £000
Revenue	12,728	9,251
Cost of sales	(3,111)	(2,205)
Gross Profit	9,617	7,046
Other income	150	93
Administrative expenses (excl D&A)	(4,691)	(3,262)
EBITDA	5,076	3,877
Amortisation of development costs	(1,610)	(1,398)
Underlying EBITDA	3,466	2,479
Other depreciation & amortisation	(368)	(160)
Operating Profit	3,098	2,319
Finance expense	(12)	(11)
Profit before tax	3,086	2,308
Tax	(656)	(512)
Profit for the period	2,430	1,796
Gross Profit margin %	76%	76%
EBITDA %	40%	42%
Underlying EBITDA %	27%	27%
Profit before tax %	24%	25%
Basic EPS (pence)	2.78	2.05
Adjusted basic EPS (pence)	2.67	1.99

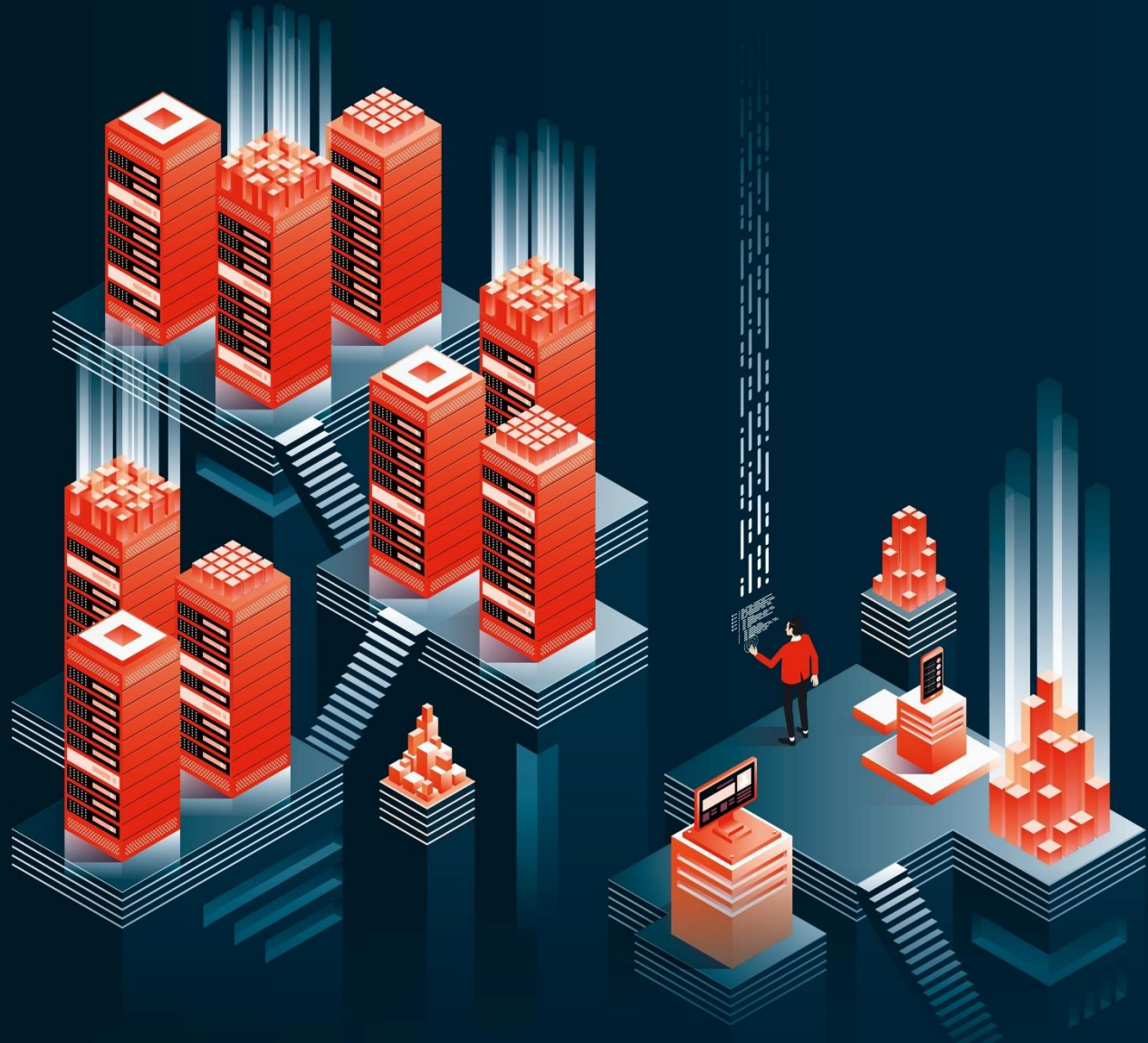
- Revenue growth of 38%; approx. a third of the growth came from positive currency movements.
- Gross margin 76% in line with prior year. Price increases successfully implemented in line with market.
- Underlying EBITDA £3.5m (FY22: £2.5m). Underlying EBITDA margin 27% in line with prior year. Continued planned investment to support the growth of the business, whilst maintaining profit margins.
- R&D amortisation £1.6m (FY22: £1.3m). Planned increases in R&D headcount to support new and ongoing projects.
- Effective tax rate 21% to take into account future increases in tax rates, offset by R&D tax credit benefits.



Cashflow

Year ending 31 March	H1 FY23 £000	H1 FY22 £000
Cashflows from operating activities		
EBITDA	5,076	3,877
Add back non cash items	49	(4)
Movements in net working capital	(1,275)	(732)
Cash generated from operations	3,850	3,141
Interest paid	-	(11)
R&D tax credit cash refunds received	393	-
Net cash from operating activities	4,243	3,130
Development costs capitalised	(2,247)	(1,904)
Other capital expenditure	(64)	(154)
Dividends paid	(490)	-
Other financing activities	(100)	(97)
Net cash flows before one off items	1,342	975
One off cashflow items		
Acquisition of iTrinegy (net cash effect)	(2,263)	-
Net cash from one off cashflow items	(2,263)	-
Net (decrease)/increase in cash	(921)	975
Opening cash per cashflow	13,857	12,668
Closing cash per cashflow	12,936	13,643
Include fixed term deposit	1,500	-
Total cash and fixed term deposits	14,436	13,643

- £1.3m of cash generated in Period before acquisition of iTrinegy (H1 FY22: £1.0m).
- Closing cash of £14.4m (H1 FY22: £13.6m), including fixed term deposits (cash held in high interest deposit accounts).
- Net cash from operating activities of £4.2m (H1 FY22: £3.1m).
- 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 £2.2m (H1 FY22: £1.9m), reflecting the planned investment in the R&D team.
- Acquisition of iTrinegy (cash free, debt free basis), for an initial cash consideration of £2.5m; additional £0.5m paid to vendors in exchange for all available cash (£0.7m at acquisition date) left within the acquired business.



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Strategy

Operating in high growth markets

During the first half of this year, the worldwide aggregate telecom equipment market grew by just 3%, as growth slowed from the 7% increase displayed during the first half of 2022.

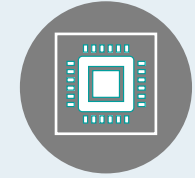
[Source: Dell'Oro](#)

However, the global 5G infrastructure market size is estimated to reach USD 95.88 billion by 2030, registering a CAGR of 34.2% from 2022 to 2030. [Source: Research & Markets](#)

Hyperscale [data center](#) operators will double their capex levels over the next five years ... total global data center capex to \$350 billion by 2026. ... outlook for spending on data center infrastructure capex is optimistic, with a five-year projected growth of 10%. [Source: Dell'Oro](#)



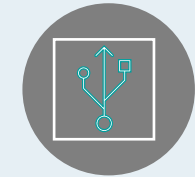
The telecoms industry is a **highly competitive environment**.



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



The build out of mobile networks and migration to **5G**, the emergence of the **Internet of Things**, the exponential growth of **data creation** and shift to **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.

Evolving product portfolio

Synchronisation testing in the lab

LAB SYNC

Telecom



Paragon-neo



Paragon-X

- Sustained positive response to the launch of enhanced Paragon-neo.
- Addressable market continuing to grow as timing continues to increase in importance.

One-box Sync conformance

Testing synchronisation performance of networks

NETWORK SYNC

Telecom

Data Centre



Sentinel



Sentry

- Telecom: Enhance OTA capability to strengthen position to address 4G & 5G opportunities.
- Data Centre: Strengthen alignment to hyperscale customers with flexible rackmount platform solution.

Network Sync validated by the experts

Network emulation for real-world testing in the lab

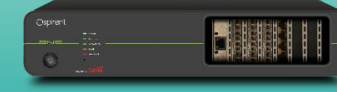
CLOUD & IT

Infrastructure

Applications



Attero-100G



SNE

- O-RAN industry initiative creating opportunity for Network Emulation.
- Enhance SNE to support Attero-like performance.

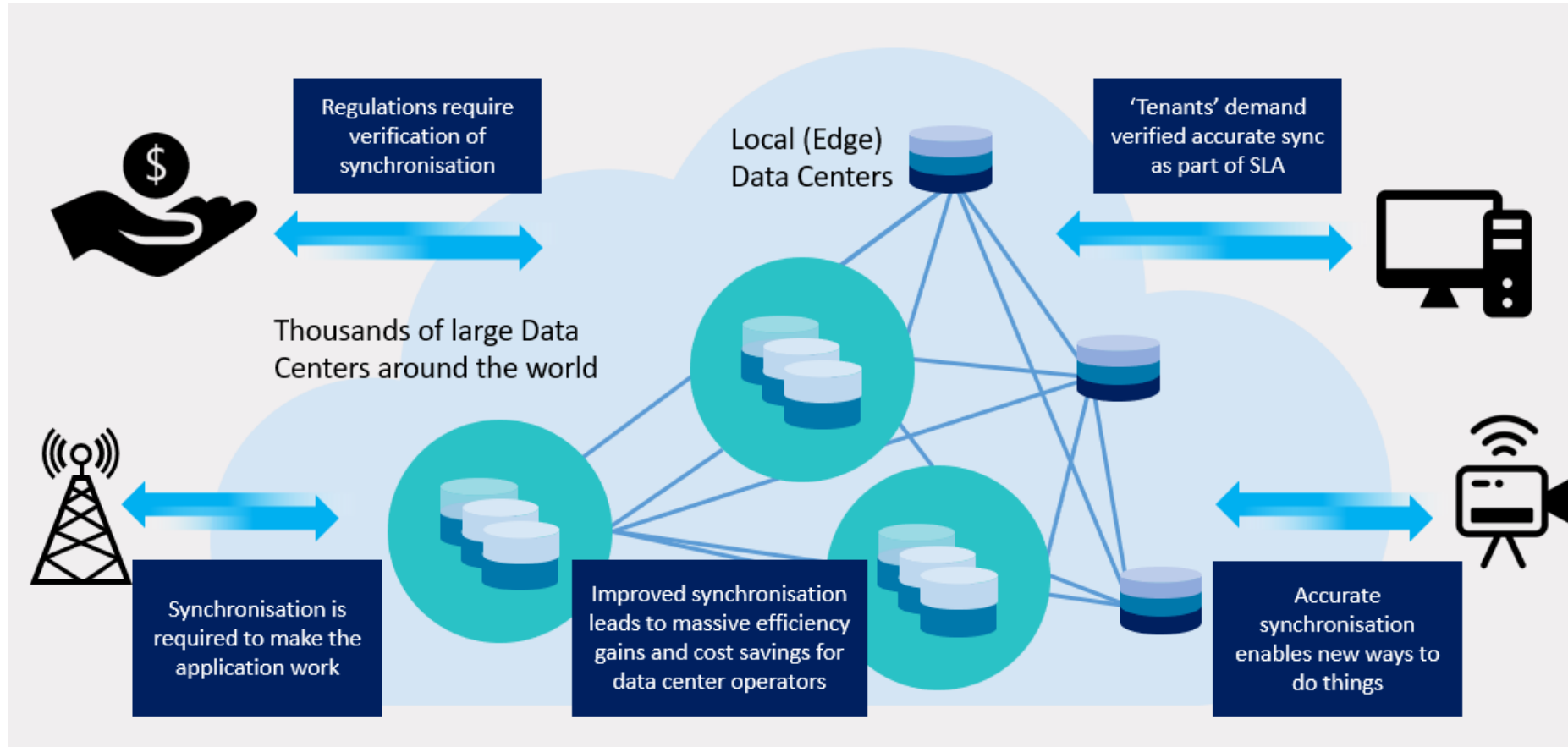
Unique 'full-coverage' emulation portfolio



NE-ONE

- Develop route to market to expand addressable market.
- Support for VMware, AWS today, Azure support coming soon.

Spotlight on Sentry – synching the cloud



Sentry

New version of our Network Synchronisation product – leveraging the Sentinel technology.

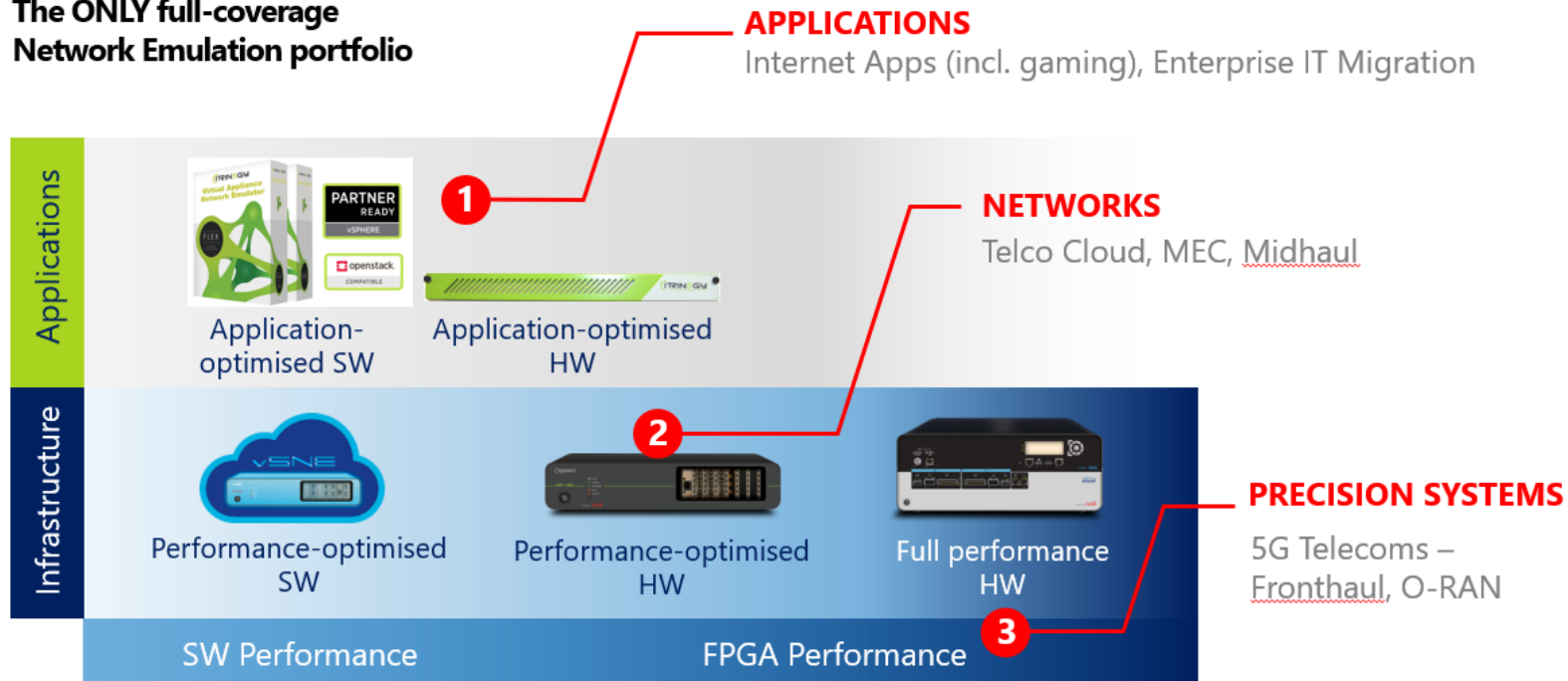
Form, fit and function optimised for the data centre environment.

Significant ROI for customers – massive efficiency gains and cost savings.

Launching in H2.

iTrinegy Acquisition progressing as planned

The ONLY full-coverage
Network Emulation portfolio



Position in the markets confirmed.

Initial focus on North America where we see greatest opportunity.

We have signed new relationships with US partner to harmonise with our distributor strategy.

Positive initial discussions with Spirent to go into targeted customers.

Business development team hired.

Confident in our growth expectations for the offering.

Strategy in action:



Tier-1 Equipment Manufacturer

We have sold **Lab Sync** products successfully for a number of years.



The strong relationship led to the introduction to a group looking for a **Network Emulation (SNE)** solution.



The group buying the Lab Sync products are regularly asked by their **customers** about trusted measurement tools.



This led to their customers contacting us about our **Field Sync (Sentinel)** solution.

Breadth of product offering + strength of customer relationships



Software developer

Company developing software-only based solutions required a **Network Emulation** solution for evaluation of their product.



After they bought a solution (**SNE**), it became clear they were developing solutions that conform to the ORAN Standards.



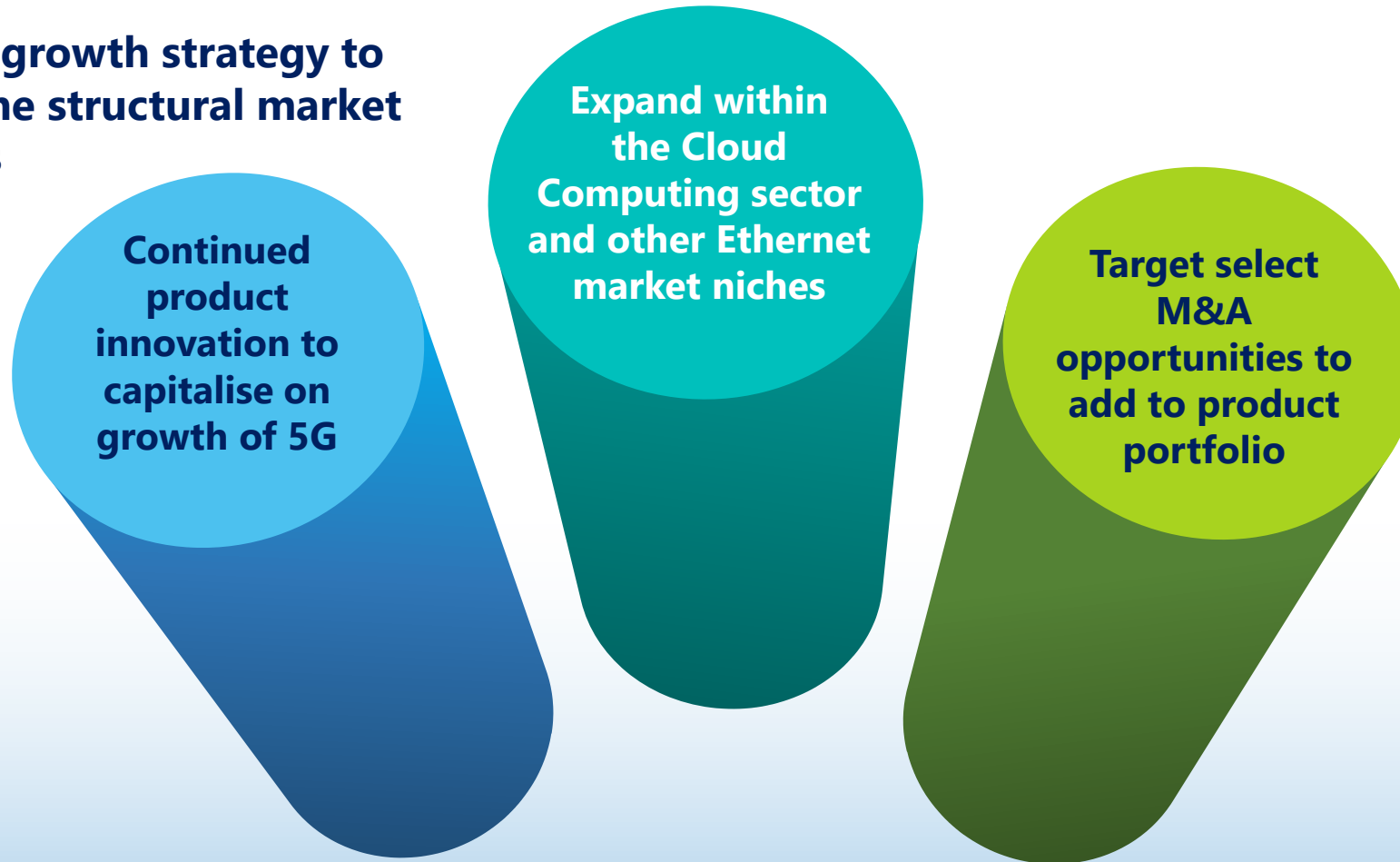
With the relationship, we were able raise and advise on the topic of the need to align with the synchronisation requirements of the ORAN Recommendations.



This led to the customer buying a product to prove the performance of their solution – **Lab Sync (Paragon-Neo)**

Consistent strategic focus

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

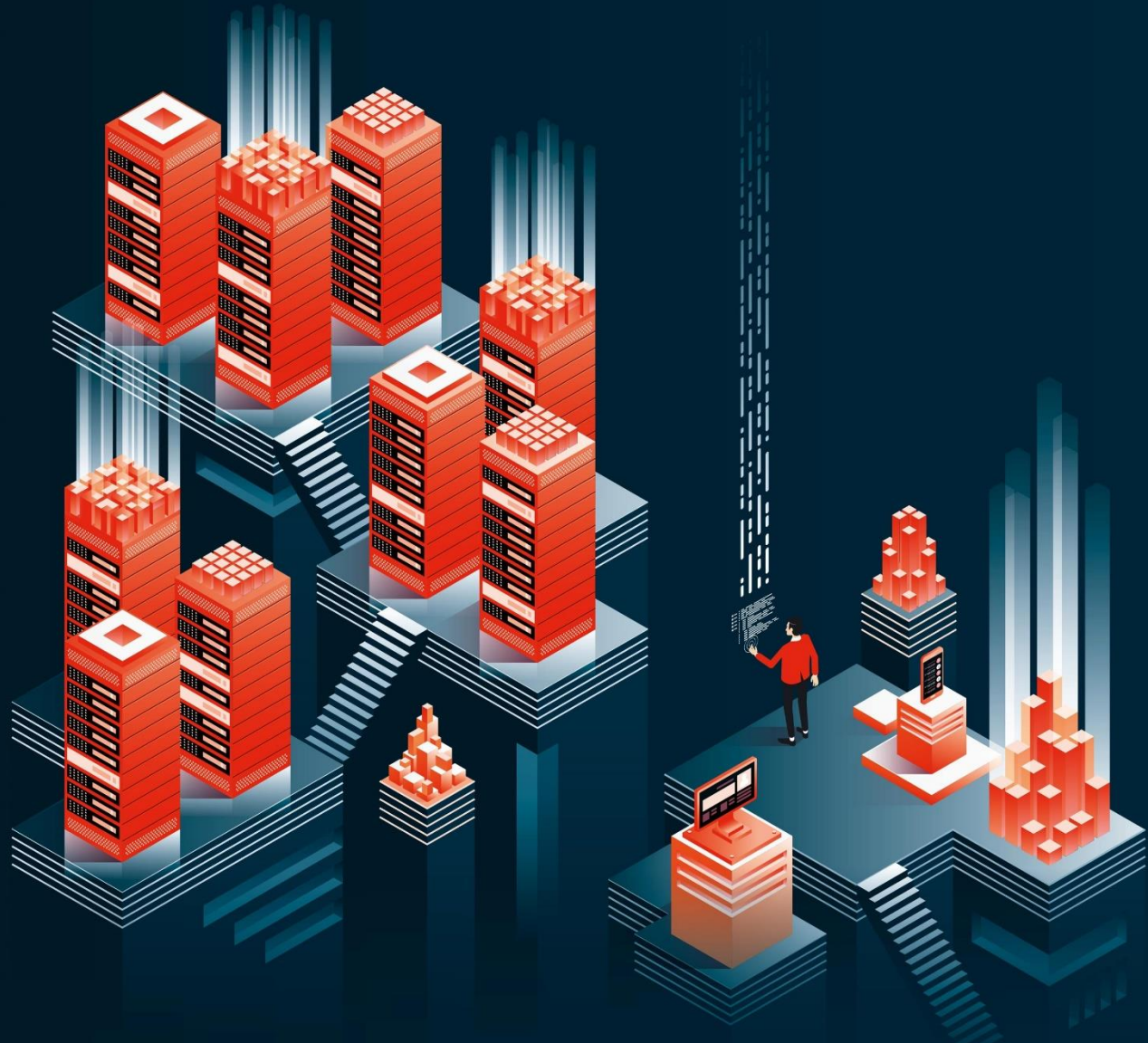


Continued careful cost management in light of inflationary pressures and management of the supply chain

Confident outlook

- Confident in outlook for FY23.
- Strong order book as we enter H2.
- No sign of slow down in telecoms investment of target segment.
- Our long-established global presence means we are well placed to withstand regional variations in end market conditions.
- Possible easing of the supply chain issues, with order backlog starting to unwind, but continue to be cautious.
- Continue to develop two new markets: cloud computing and application testing, presenting long-term opportunity.
- Expanded team and resources to enable ability to scale.





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Appendix

General information

- Share Price 154.5p (at 21.11. 2022)
- Market AIM
- Ticker CLX
- Market Cap. £135.22m
- Ord. shares in issue 87.5m



Major Shareholders

Shareholder	% of Issued Share Capital
Thomas (Tommy) Cook (CEO)	19.9%
BGF Investment Management Limited	11.85%
Scottish Enterprise	9.0%
Close Brothers Asset Management	9.0%
Sanford DeLand Asset Management	3.7%
Liontrust Asset Management	3.5%
Hargreaves Lansdown Asset Management	3.4%
JPMorgan Chase & Co	3.1%

The Board



Tommy Cook
CEO

Tommy is the founder and CEO of Calnex Solutions. He has over 39 years' experience in telecoms test and measurement ranging from hands-on design and programme management of R&D projects through to leading business teams within the market segments in which Calnex currently operates. Tommy has participated in a number of Industry Standards forums during his career, and presented technical and market insight papers in industry forums.



Ashleigh Greenan
CFO

Ashleigh qualified as a chartered accountant with Deloitte before spending 5 years at KPMG in transaction services. She has held senior finance and corporate development roles at Exova Group plc, the UK materials testing business, before joining Parsons Peebles Group Limited, where she was a director of a number of group companies and held the role of Chief Financial Officer until she joined Calnex in early 2020.



Stephen Davidson
Non-Exec
Chairman

Stephen joined the Board of Calnex in January 2022 and was appointed Chair in August 2022. He is an accomplished director of both public and private companies, with more than 20 years' PLC-board experience. He is currently a Non-executive Director at AIM-listed Actual Experience plc, JSE-listed Datatec plc and MCB Group Limited. Stephen was previously Non-executive Director at Informa plc, Rosenblatt Group plc, Restore plc, Jaywing plc, Inmarsat plc and MECOM plc.



Ann Budge
Non-Exec
Director

Ann has been a non-executive director of Calnex since 2009. Ann co-founded IT Services company Newell & Budge in 1985, which successfully grew to a staff of over 1,000 across six regional offices in the UK, with a Development Centre in New Delhi, prior to its sale to Sopra Group in 2005. Since then, Ann has held a number of non-executive roles and has been active in the investment community. She is currently Chair of Heart of Midlothian Football Club.



Graeme Bissett
Non-Exec
Director

Graeme is an experienced corporate financier and qualified chartered accountant. He is currently a non-executive director of Smart Metering Systems plc, Aberforth Split Level Income Trust plc and Cruden Holdings Ltd. Graeme was formerly Chair of Macfarlane Group PLC and acted as a non-executive director of businesses including Interbulk Group plc and Belhaven Group plc.



Margaret Rice-Jones
Non-Exec
Director

Margaret has over 20 years' experience at Board level in public and private software and technology companies. Margaret's current roles include acting as Senior Independent Director at main market-listed De La Rue plc, Chair at Origami Energy Limited, a VC-backed energy-focused technology business, and non-executive director at Holiday Extras Investments Limited.

Balance Sheet

	Nov-22 £000	Nov-21 £000	Mar-22 £000
Non-current assets			
Intangible assets	10,181	7,982	8,424
Goodwill	1,646	-	-
Tangible & right of use assets	957	699	1,065
Deferred tax asset	304	730	304
	13,088	9,411	9,793
Current assets			
Inventories	1,532	1,189	998
Trade and other receivables	6,035	2,414	4,997
Cash and cash equivalents	14,436	13,643	15,357
	22,003	17,246	21,352
Current liabilities			
Trade and other payables & lease liabilities	(6,251)	(4,648)	(5,903)
	(6,251)	(4,648)	(5,903)
Current assets			
Deferred tax liability	(2,253)	(1,650)	(2,017)
Trade and other payables	(1,965)	(868)	(718)
Other non-current liabilities	(581)	(432)	(679)
	(4,799)	(2,950)	(3,414)
Net assets	24,041	19,059	21,828

Financial Structure

Revenue

- Two revenue streams:
 - Average of 90% bundled hardware & software recognised on delivery
 - Average of 0% warranty and software support recognised over life of product

Gross profit

Gross margin: approx. 76% net of discounts given to channel partners
Cost of sales: approx. 85% is cost of billing from Kelvinside; remainder is internal direct labour
Product and bundle mix will drive margin, can fluctuate 1-2 percentage points

Admin costs

- Sales costs and other overheads
- 35%-36% of revenues in period of growth ramp up

R&D

- 100% Capitalisation of R&D spend
- Amortisation of R&D over 5 years
- R&D Cash spend budgeted at 22%-25% of CY revenues; 18-19% of R&D amortisation as a % of revenues

Tax

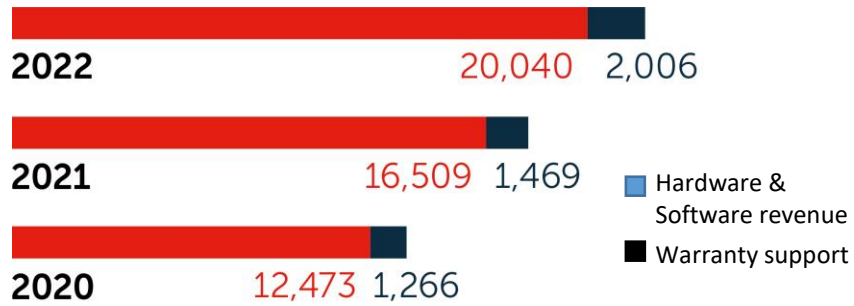
- 21% planned effective rate for FY22
- Deferred tax balances measured using tax rates applicable when the timing difference takes place
- Company benefits from use of both RDEC and SME tax R&D tax credit schemes

Cash

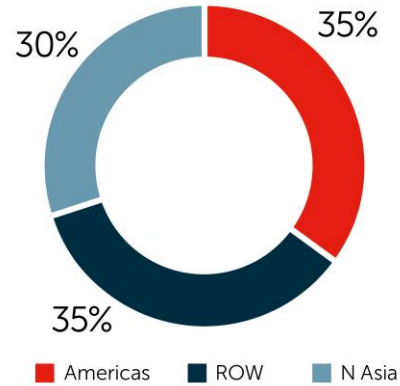
- 60 days average payment terms with customers (70% of ledger is Spirent); 75 days average supplier terms with Kelvinside
- Majority of WIP held on Kelvinside balance sheet
- No debt on balance sheet; £3m revolving credit facility in place since IPO, remains unutilised



Revenue model (year ended 31 March 2022)



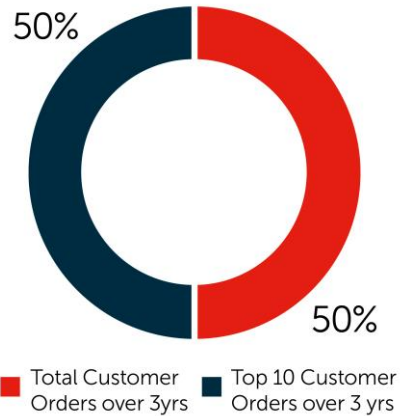
Revenue (£,000)



Geographic Split (3yr order average)

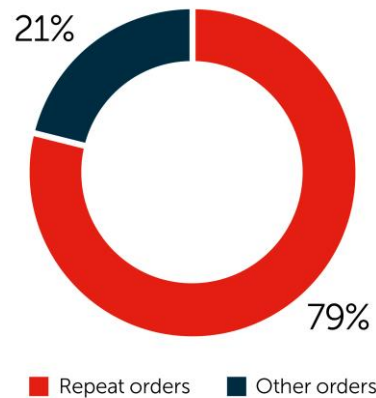


Non-Telecoms v Telecoms

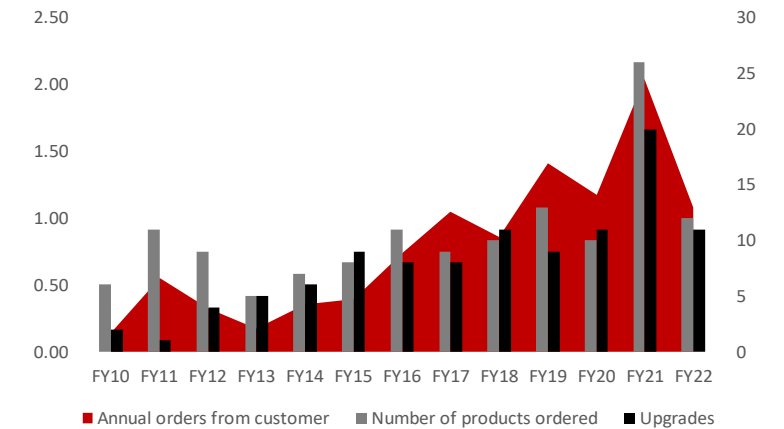


Top 10 customers (3yr order average)

Average length of relationship of top ten customers is 10 years



Repeat customers (3yr order average)



Customer Case Study

Committed to ESG

