



Calnex Solutions plc

Test solutions for the world's networks

Interim Results for the six months to 30 September 2020

Tommy Cook, CEO

Ashleigh Greenan, CFO

The Board



Tommy Cook
CEO

Founded Calnex in 2006

Over 35 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.



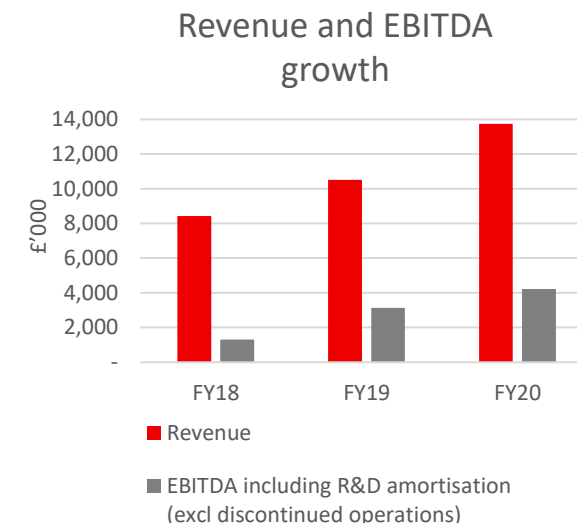
Graeme Bissett
Non-Exec Director

Experienced corporate financier and qualified chartered accountant.

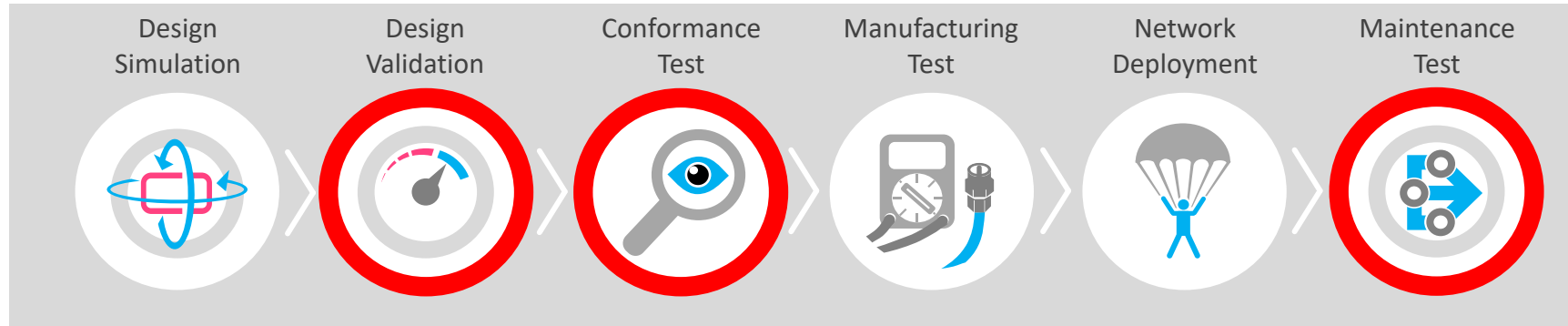
Former Chairman of Macfarlane Group plc and NED at SMS Group plc, having previously held NED and Finance Director roles.

Calnex Solutions: test solutions for the world's telecom networks

Globally-established provider of test solutions for the Telecoms Industry	<ul style="list-style-type: none"> Designs, produces & markets test instrumentation to validate the performance of critical telecom network infrastructure Scottish HQ and manufacturing, with global distribution
High quality, growing, customer base	<ul style="list-style-type: none"> Over 600 customer sites in 68 countries Customers include Network Operators (BT, China Mobile, NTT) Equipment Vendors (Ericsson, Nokia), Component Vendors (Intel, Qualcomm) and Hyperscale/ Enterprise (IBM, Facebook)
Established industry position with reputation for winning products	<ul style="list-style-type: none"> Close relationships with customers, regulatory bodies and leading market participants, provides insight into industry changes and customers' technology roadmap
Strong financial track record	<ul style="list-style-type: none"> Profitable, cash generative, with strong revenue profile Record order backlog going into FY21 with strong sales pipeline CAGR since FY15 of c. 16% Significant levels of repeat business
AIM IPO to capitalise on market drivers	<ul style="list-style-type: none"> Mass roll-out of 5G networks, IoT and cloud services creating rapid and long-term changes in telecoms market AIM IPO in October 2020: expected to support growth, increase profile and provide potential to expedite growth through M&A

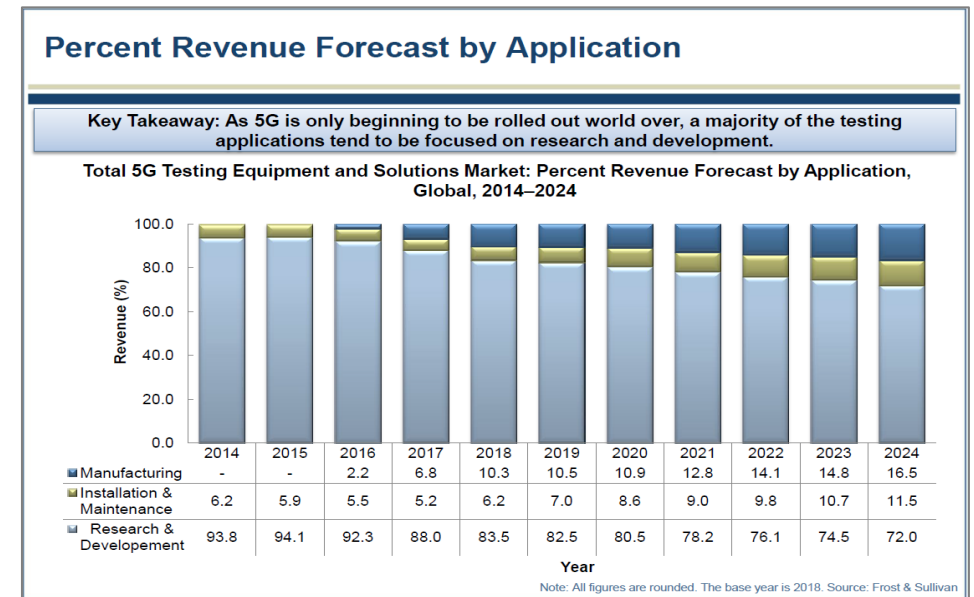


Focus on high value niches of the testing market



 Calnex's Strategic Focus

- **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 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



Strong performance in the period



Strong revenue performance in first 6 months +37%

H1 FY21: £7.7m (H1 FY20: £5.7m)



Significant Underlying EBITDA growth +69%

H1 FY21: £2.6m (H1 FY20: £1.5m)



Positive cash flow

H1 FY21: £0.9 m (H1 FY20: -£0.4m)



Continued innovation

Investment in R&D resulting in platform enhancements



High levels of repeat revenue

Supplemented by growth in customer numbers



Favourable market conditions

5G test equipment market to grow CAGR 11% 2020 – 2024*



Expansion of team

Support growth of Business Development and R&D

Successful IPO on October 5, raising £22.5m (£6m for the Company)

Resilient through COVID-19

Actions

- Quickly adjusted to remote working, and changed customer engagement approaches
- No staff furloughed or made redundant. All staff continue to work as normal
- Embraced video meetings to continue team interaction. Set up virtual coffee meetings, exercise classes, etc. to promote continued cross team engagements

Impact

- Customers successfully transitioned to remote working enabling projects to continue
- Some changes to spend patterns from top customers but overall, business remained strong
- Profit before tax benefitted from £0.3m savings in travel and events costs as a result of COVID-19
- No COVID-19 Government assistance
- No impact on supply chain or contract manufacturer

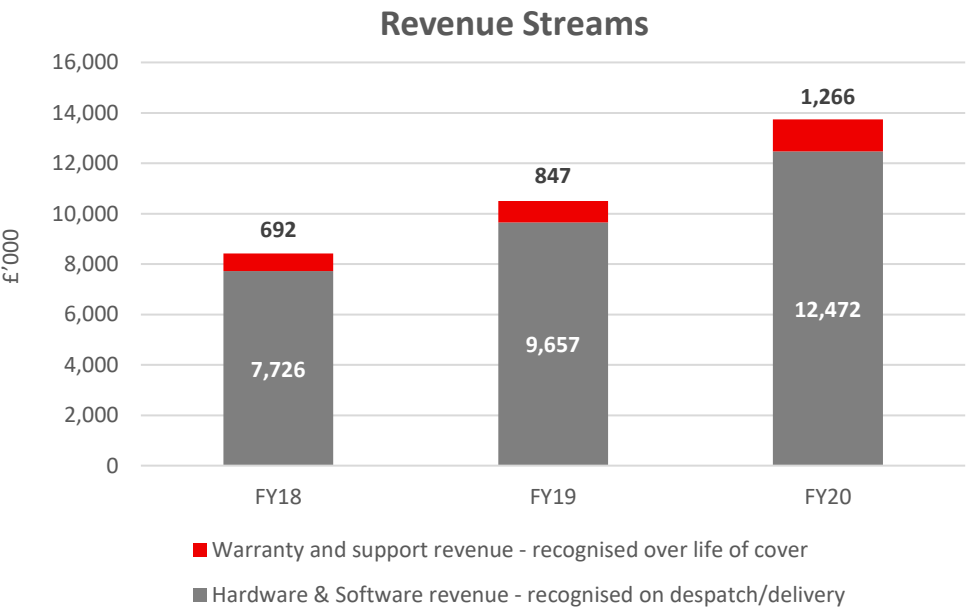
Looking forward

- We are a resilient business with repeat revenues and a robust balance sheet.
- We will continue to develop innovative product offerings to capitalise on the growth opportunities and generate sustainable revenue growth.
- Favourable market conditions continue into H2 FY21
- Strong growth in revenue from FY20 continuing throughout FY21 to date & order intake strong
- The Board anticipates FY21 financial performance will be ahead of current market expectations and H2 revenue and adjusted PBT will be broadly in line with H1 FY21

Pandemic has highlighted the world's requirement for robust, pervasive broadband delivered via resilient telecoms networks and infrastructure

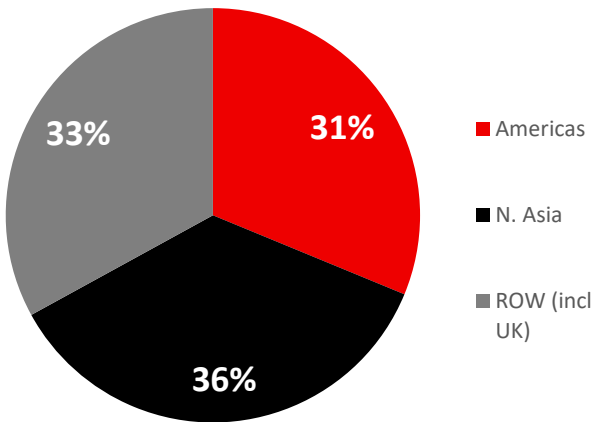
Business Model

Revenue model

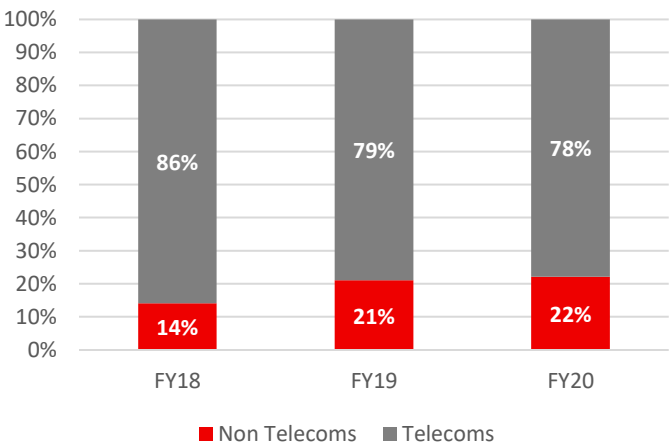


- Core sales model is bundled Hardware & Software
 - Software options differ from customer to customer
 - Price per PO dependent on software options configuration
 - Additional functionality can be added later by purchase of upgrade Options
- Geographic spread provides resilience
- 80% of revenue over last three full years has been derived from Telecoms sector

Geographic split of orders
3 year average split



Telecoms v Non-Telecoms orders



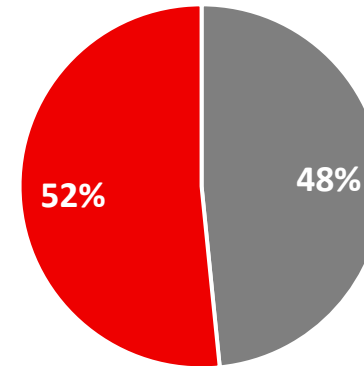
Repeat Customer Demand

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

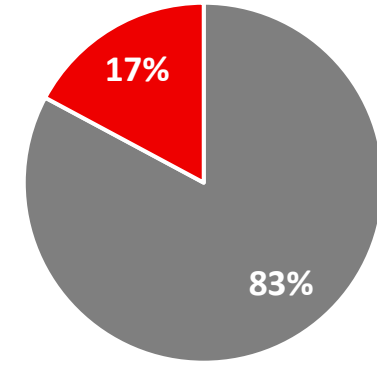
- Top 10 customers account for just over 50% of revenues in FY20; balance is split across remaining customer base
- Average length of customer relationship for Top 10 is 9yrs
- Non Telecoms customers appearing in Top 10 in recent years; 14% of top 10 customer revenue in FY20

Top 10 customers
3 year average



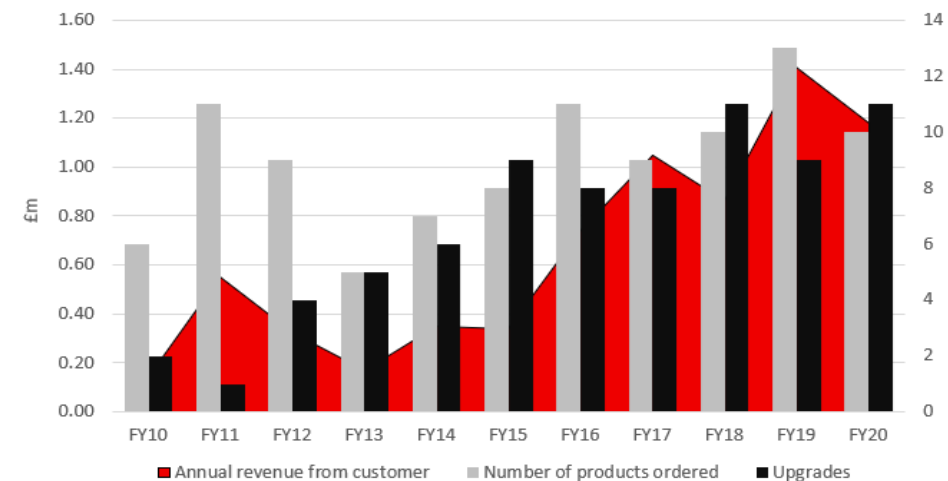
■ Top 10 customer revenue
■ Other customer revenue

Repeat customers
3 year average



■ Repeat customer revenue
■ Other revenue

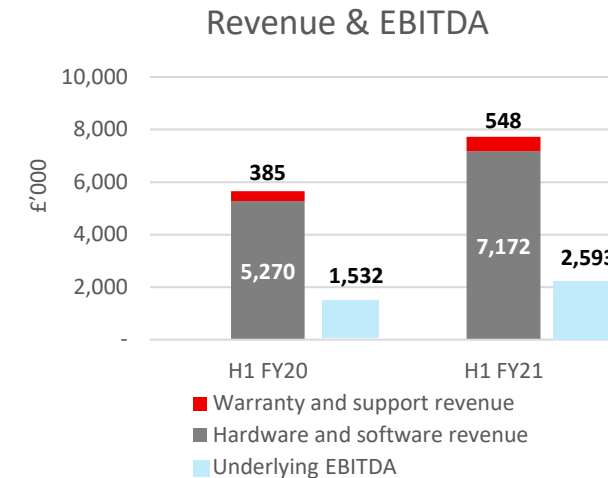
Customer case study: Telecoms Customer 3



H1 FY21 Financials

Income statement

	H1 FY21 £000	H1 FY20 £000	FY20 £000
Revenue	7,721	5,655	13,739
Cost of sales	(1,689)	(1,138)	(3,116)
Gross Profit	6,031	4,517	10,622
Other income	103	157	549
Administrative expenses (excl D&A)	(2,710)	(2,331)	(5,384)
EBITDA	3,424	2,343	5,788
Amortisation of development costs	(1,200)	(898)	(2,186)
<i>Add back exceptional items:</i>			
IPO costs	171	-	-
Share based payments	198	28	55
Loss from discontinued operations	-	59	500
Underlying EBITDA	2,593	1,532	4,157
Other depreciation & amortisation	(135)	(127)	(282)
Operating Profit	2,458	1,405	3,875
Finance expense	(139)	(181)	(339)
Adjusted profit before tax	2,319	1,223	3,536
One off items	(369)	(87)	(556)
Profit before tax	1,950	1,137	2,980
Tax	(505)	(264)	(693)
Profit for the period	1,444	873	2,287
Gross Profit margin %	78%	80%	77%
Underlying EBITDA %	34%	27%	30%
Adjusted profit before tax %	30%	21%	26%
R&D amortisation as a % of revenue	16%	16%	16%
R&D Cash spend as a % of revenue	19%	26%	21%
Adjusted EPS - basic (pence)	3.02	1.58	4.58
Adjusted EPS - diluted (pence)	2.42	1.26	3.66



- Strong revenue run rates continued from H2 FY20 into H1 FY21
- Gross margin 78% in the period. Product and bundle mix can result in variable margins if looking at half years in isolation
- Savings in travel and events costs due to COVID-19 driving Underlying EBITDA margin % up 4pps on FY20 (34% v 30%).
- IPO costs and IPO related share based payments treated as exceptional
- Adjusted PBT 30% versus and FY20 average of 26%

Cashflow

	H1 FY21 £000	H1 FY20 £000	FY20 £000
Cashflows from operating activities			
EBITDA (continuing business)	3,424	2,402	6,288
Add back:			
Other income	(103)	(157)	(549)
Other non cash items	395	(34)	204
Discontinued operations	(202)	(59)	(299)
Movements in net working capital	(571)	(580)	160
Cash generated from operations	2,943	1,572	5,804
Tax received	-	-	-
Interest paid	(154)	(164)	(278)
Net cash from operating activities	2,790	1,409	5,526
Cashflows from investing activities			
Development costs capitalised	(1,484)	(1,461)	(2,882)
Other capital expenditure	(3)	(6)	(59)
Net cash used in investing activities	(1,487)	(1,467)	(2,941)
Net cash flows before financing activities	1,303	(59)	2,586
Cashflows from financing activities			
Net payments to borrowings	(340)	(123)	(298)
Government grant income	96	109	73
Other	(147)	(296)	(577)
Net cash from financing activities	(391)	(311)	(803)
Net increase in cash	912	(369)	1,783
Cash at the start of the period	3,664	1,852	1,852
FX effect on cash	(65)	31	29
Cash at the end of the period	4,511	1,514	3,664

- Robust cash flow performance due to strong trading in the period.
- Net cash from operating activities of £2.8m (£1.4m in H1 FY20), 81% conversion of EBITDA (59% H1 FY20).
- Working capital movements represented stock increases due to timing of product shipments and effect of FY20 year-end bonus payments in April 2020.
- Cash spend on financing activities predominantly monthly capital repayments on the ThinCats loan, (with IPO proceeds), offset partially by government grants cash received.

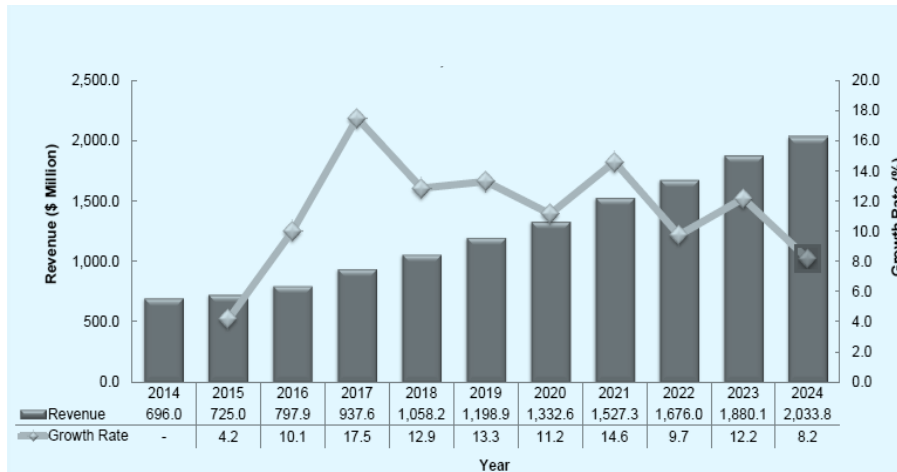
Market & Strategy

5G provides significant test equipment market

Global 5G Testing Equipment and Solutions Market Forecast to 2024 (Frost and Sullivan report):

- CAGR, 2018-2024 = 11.5%
- Market size 2021 = \$1.53B

5G Testing Equipment Market



- Fragmentation of the market offers opportunity for consolidation

“\$1,058.2 million in revenue in 2018. 5G testing equipment used to validate the chipset, device, network and application accounted for shares of 29.9%, 23.6%, 41.9% and 4.6% respectively.”

“The market is expected to reach \$2,033.8 million by 2024, expanding at a CAGR of 11.5%. Asia-Pacific (APAC) accounted for 42.5% of the total market revenue in 2018, followed by North America and Europe with shares of 32.4% and 19.5% respectively.”

“Key growth drivers include specific solutions that can validate 5G-based devices and chipsets, virtualized network infrastructure, the overhaul of legacy network infrastructure and enhanced and differentiated security requirements for 5G deployments.”

Frost and Sullivan

Three pronged growth strategy to capitalise on structural market growth drivers

Continued product innovation to capitalise on growth of 5G	Expand within the Cloud Computing sector and other market niches	Target select M&A opportunities to add to product portfolio
<ul style="list-style-type: none"> Follow the trends to higher transmission rates and track new standards to strengthen our product offering 	<ul style="list-style-type: none"> Create software-based Virtual SNE product to address migration of Telecom Network to Software Defined Networks (SDN) Opening opportunities into Enterprise to prove Application software developed in the Cloud. 	<ul style="list-style-type: none"> Selective M&A activity, where complementary products or technologies can be acquired to enhance Calnex's existing portfolio In related or adjacent growth markets Must meet stringent criteria

H2 FY21 Objectives



Further expansion in our Business Development and R&D teams



Launch new capability for current platforms



Management and mitigation of any COVID related impact

Globally-established provider of test solutions for the Telecoms Industry

Established industry position with reputation for winning products

Strong financial track record

High quality, diverse, growing customer base

Structural market drivers present growth opportunities

Favourable market conditions continue into H2 FY21

Anticipated that revenue and adjusted PBT in H2 FY21 will be broadly in line with H1 FY21

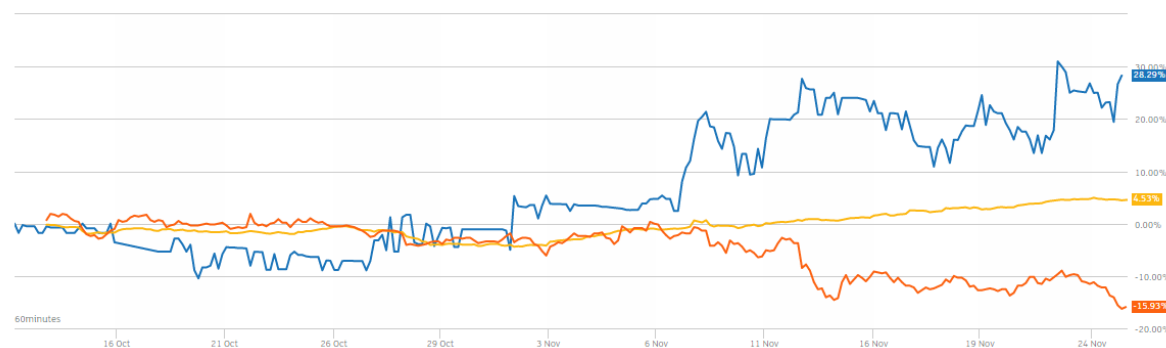
IPO provides springboard to execute on growth strategy



Q & A

General information

- Share Price 69.5p (at 24.11.2020)
- Market AIM
- Ticker CLX
- Market Cap. £62m
- Ord. shares in issue 87.5m



CALNEX SOLUTIONS PLC

FTSE AIM All-Share Index



FTSE 350 Index - Technology Hardware & Equipment



Major shareholders

Shareholder	% of Issued Share Capital
Thomas (Tommy) Cook (CEO)	21.0%
BGF Investment Management Limited	15.0%
Scottish Enterprise	8.98%
Otus Capital Management Limited	8.57%
Lombard Odier Asset Management	8.33%
Slater Investments Limited	6.24%
Ann Budge (Non-Executive Director)	3.03%

Calnex Test Solutions: Market firsts

- High-value, high performance synchronisation products for both the lab and field
- Portfolio has been developed both organically and through acquisition

Synchronisation testing in the lab

LAB SYNC

WORLD FIRST



Paragon-neo

- First to 100G, multiple rate from 100M-to-100G, and sub-billionth of second accuracy.
- Positioned as the platform to support all future rates including 200G and 400G, and all rates in-between.

WORLD FIRST



Paragon-X

- First to offer multi-rate to 10G, first to do physical layer and packet timing, and first to use Master-Slave emulation for high accuracy timing test.
- Future re-target to emerging applications out-with Telecoms.

Network emulation for real-world testing in the lab

CLOUD & IT

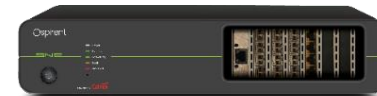
WORLD FIRST



Attero-100G

- First to offer 100G line rate impairment with 0.25 second delay – the equivalent delay of over 50,000 km of fiber.
- Future address high-speed, high-end performance applications to complement SNE's strengths.

WORLD FIRST



SNE

- First with multi-port/multi-user support of 25G interfaces.
- Market leader in port count, multi-user, flexibility.
- Software platform will deliver cloud-services based solution.

Portable field test units

FIELD SYNC

WORLD FIRST



Sentinel

- First to measure time from the air signal.
- Best-in-class at maintaining high-accuracy time in the field.
- Designed to meet the testing of new 5G networks.

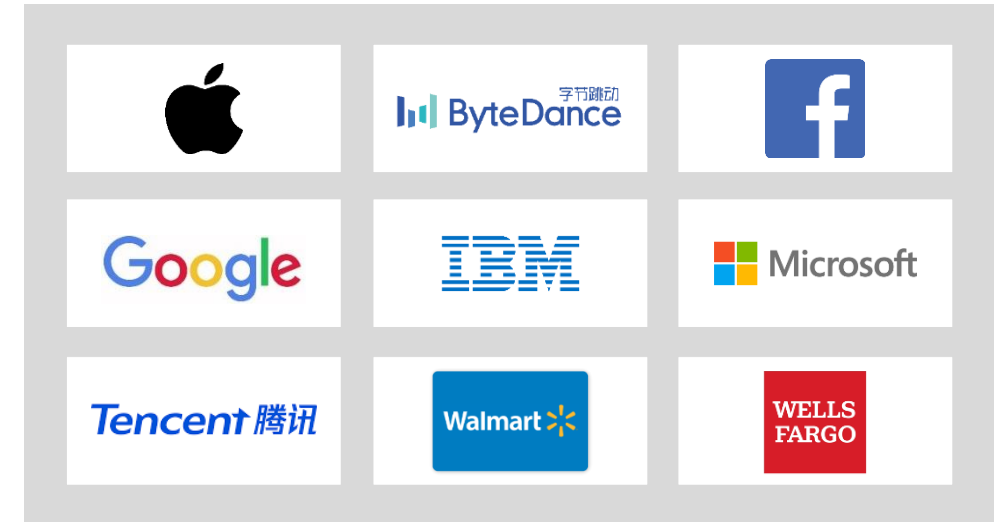
Note: So far as the Company is aware: (i) the Company was the first to offer these particular product features to the public; and (ii) the SNE product is a market leader in port count, multi-user and flexibility.

A selection of Calnex Customers

TELECOM EQUIPMENT VENDORS



HYPERSCALE, ENTERPRISE



NETWORK OPERATORS



COMPONENT MANUFACTURERS



5G driving market change

5G

Enhanced Mobile Broadband

Faster, more uniform user-experience



Demanding indoor/outdoor conditions



Extreme mobile broadband (enhanced 4G) e.g. Ultra High Definition, Virtual Reality

- New architecture (xHaul): centralised radio equipment, higher-speed interfaces
- Disaggregation/virtualization of network equipment
- 5G Radio network is Time Division Duplex
- 5G Radio deployment technique means different networks can cause interference

Massive Internet of Things

Very high numbers of low-data rate machine-to-machine connections



New form factors e.g. wearables, sensors



Smart cities, buildings, homes

- Densification including Small Cells causes added interference
- Deployment of new Network Slicing technology required to handle the massive volume of connections

Mission-critical Control

Ultra-low latency and high reliability



Autonomous vehicles, object tracking, robotics, automation, remote control



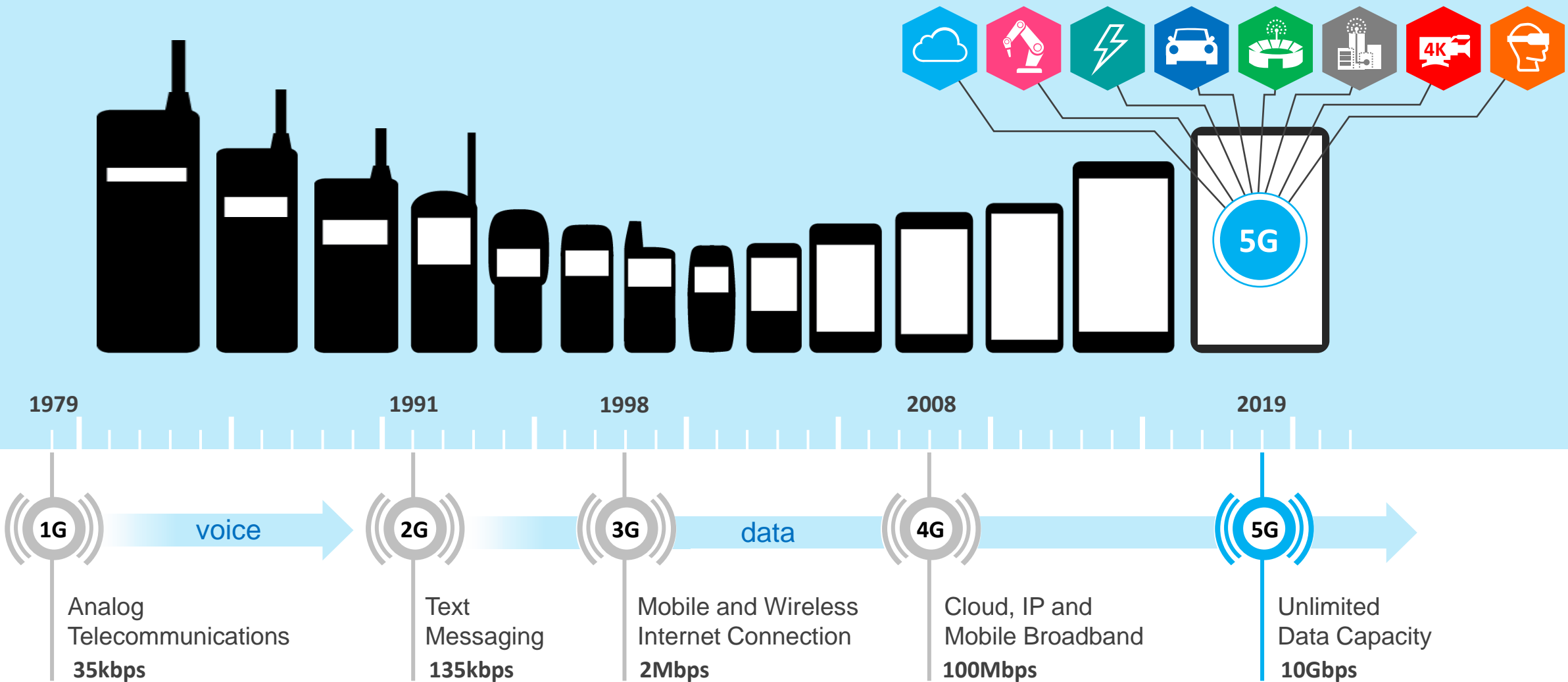
Critical infrastructure protection and control e.g. Smart Grid

- Enhanced positioning requirements demand tighter sync specs
- Computing to move to the edge of the network and latency will be critical
- Deployment of new Network Slicing technology required to handle the massive volume of connections

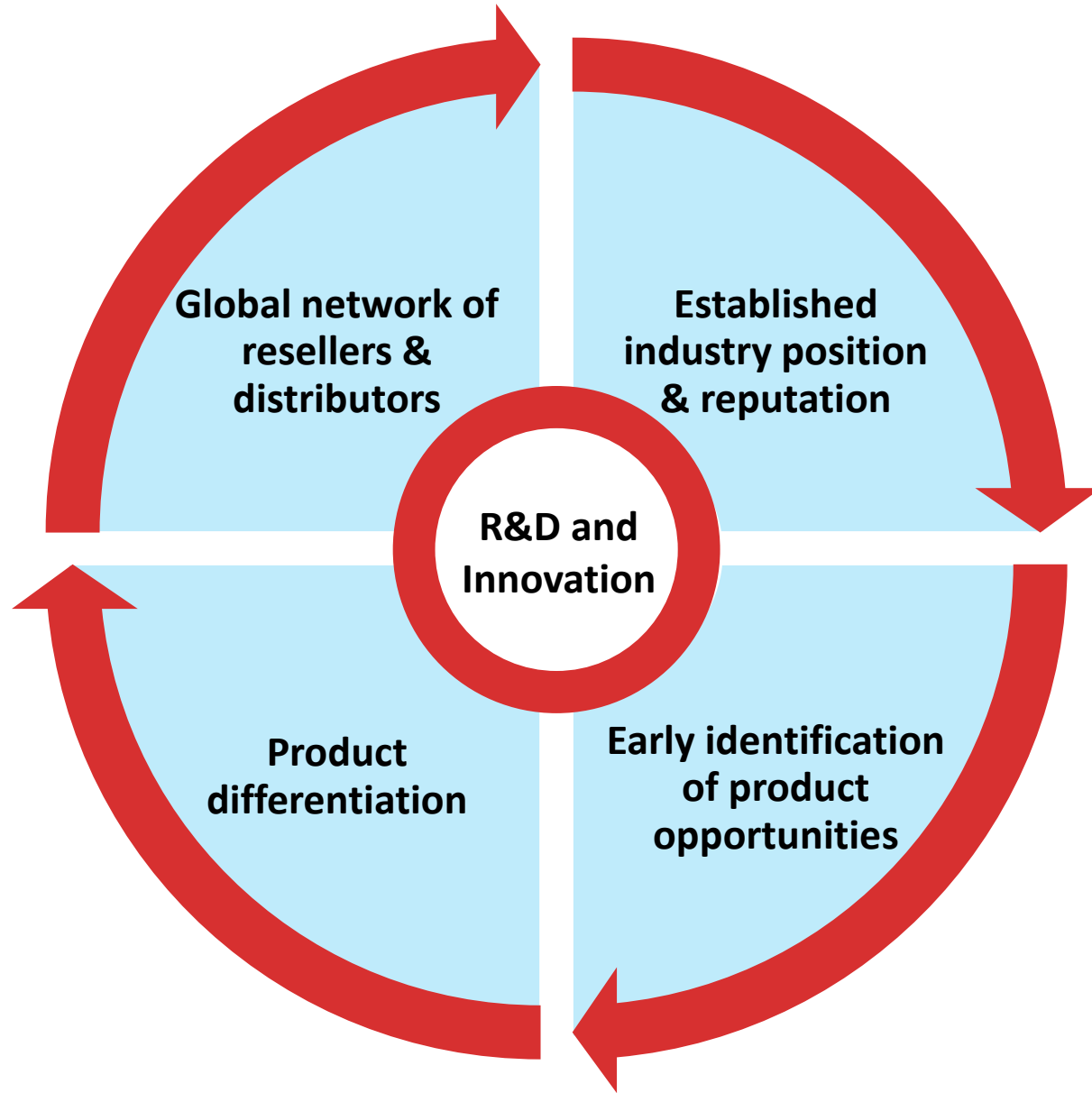
Changes to
Network and
Technology



Rapid evolution of wireless telecoms market



Competitive Positioning & Barriers to entry



- Longevity & depth of customer relationships demonstrate reputation in the industry and trusted partner status
- Close relationships with customers, regulatory bodies and leading market participants, means consistently first to market with new technologies
- Highly focused on R&D, IP and product development
- Complexity and sophistication of platforms increases adaptability and differentiates Calnex from the competition
- Global network of resellers and distributors provides established route to market and additional barrier to entry for new participants

Lean Business Operational Model

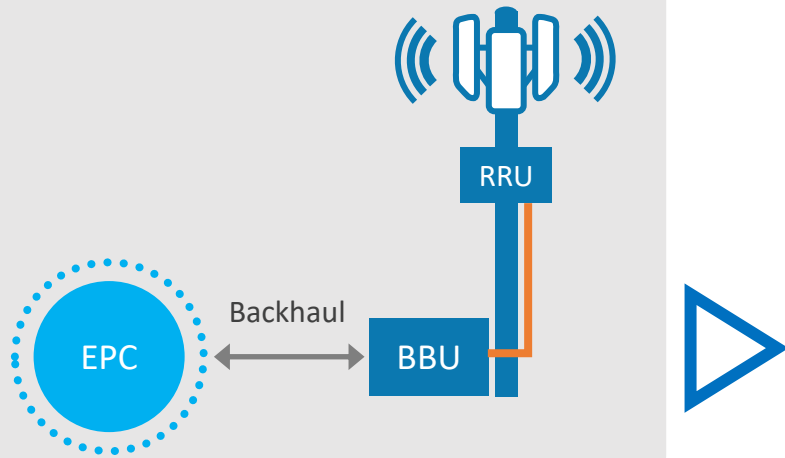
Lean business model, with global distribution channels in place and manufacturing outsourced to a high quality local partner

Distribution channels	Manufacturing capability	Operational excellence
<ul style="list-style-type: none">▪ Global reach through network of regional resellers and distributors▪ Long-term relationship with Spirent Communications Inc, includes US, China and India (71% of FY20 total sales)▪ Calnex maintains direct contact and ongoing relationships with underlying customers, due to highly technical sales process	<ul style="list-style-type: none">▪ Manufacturing outsourced to Kelvinside Electronics since 2007▪ Kelvinside Electronics operates from a custom built 40,000 sq ft facility located in Kilsyth, Scotland▪ Calnex represents over 20% Kelvinside Electronics' revenue▪ Real-time sales information enables optimisation of procurement and production schedules	<ul style="list-style-type: none">▪ Young business but experienced leadership team▪ Large company structure, with sophisticated R&D processes▪ Successful expansion through product and technology acquisitions▪ Proven ability to integrate bolt on acquisitions who benefit from access to global sales channel and increased R&D structure

Maturity of the operational model combined with agile methodology provides scalability and adaptability

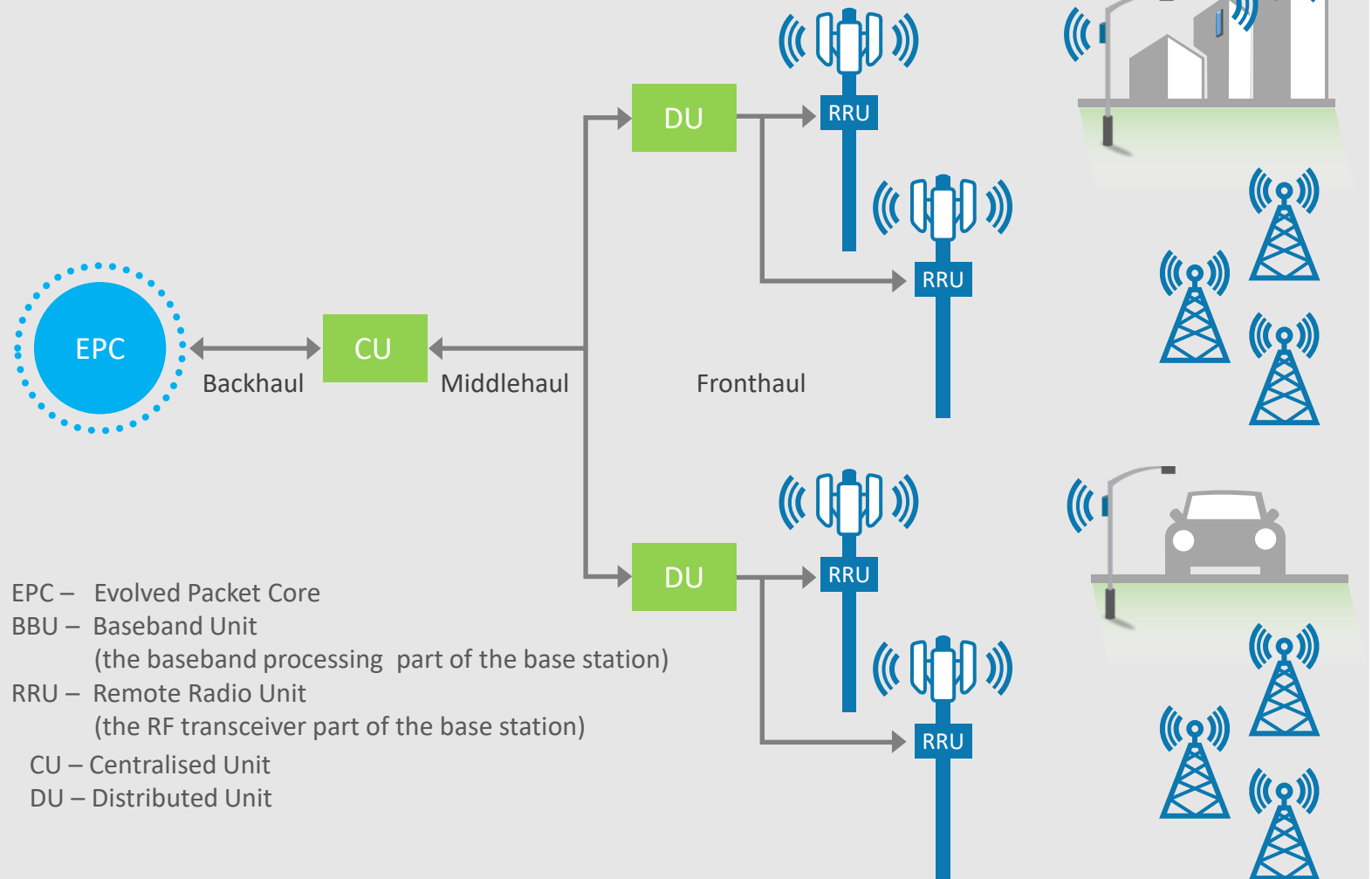
Snapshot of the complexity ahead: the evolving shape of mobile transport

Original Fronthaul Concept

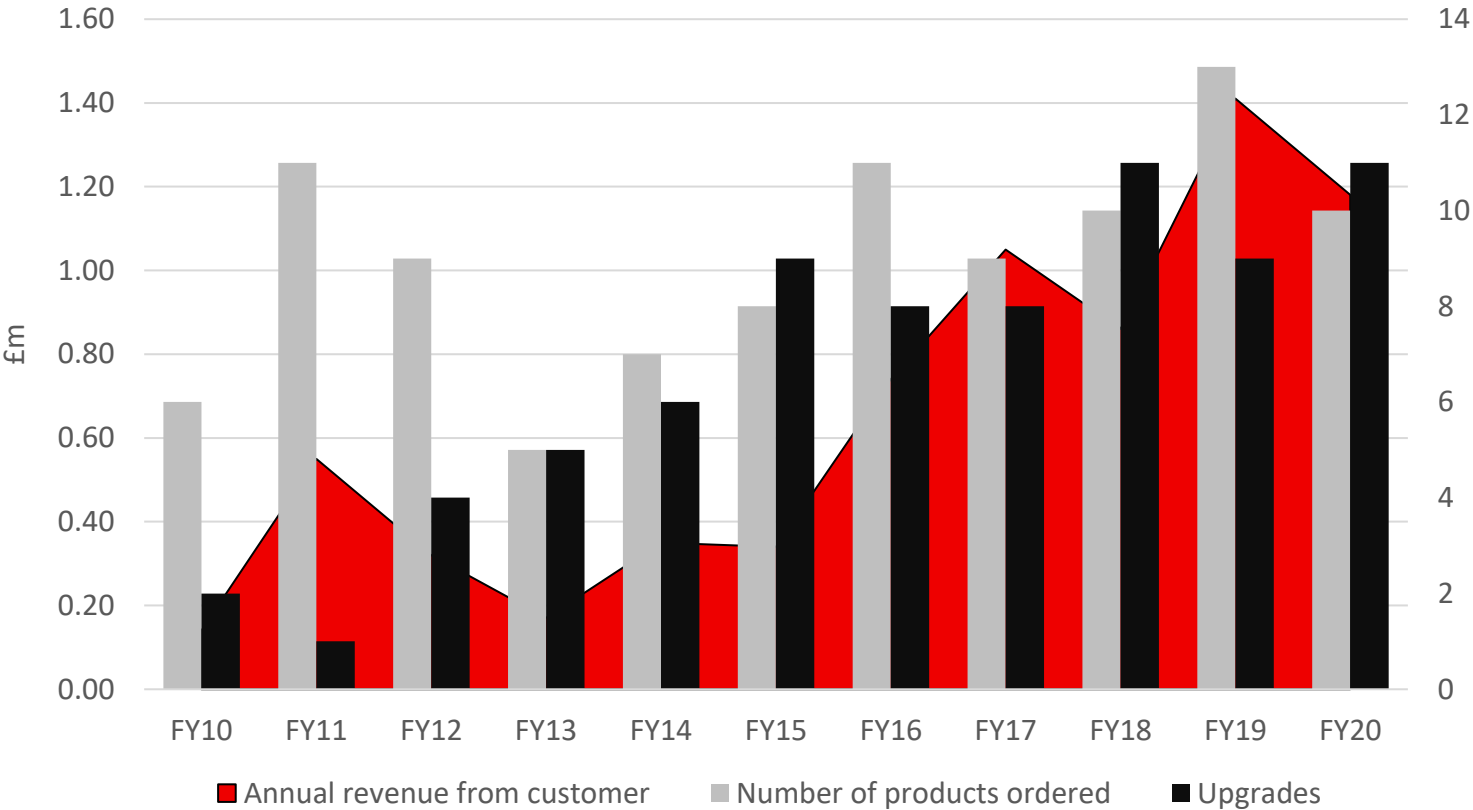


- What has previously been a consistent topology with all the mobile basestation equipment situated at the mast site, now will have equipment split and dispersed with varying topologies between deployment to meet the needs of each location.

5G Functional Split



Customer case study



	Products	Locations
2010	P-C	USA, India, Belgium
2011	P-X	USA, India, Italy
2012	P-X	USA, India, Austria
2013	P-X	USA, India
2014	P-X, A-X	USA, India, China, UK
2015	P-X, A-X	USA, India, UK, Czech Rep.
2016	P-X, A-X, P-100	USA, India, Austria, UK, France
2017	P-X, A-X, P-100	USA, India, China, Thailand
2018	P-X, A-X, P-100, A-100	USA, India, UK
2019	P-X, A-X, P-100, A-100, P-Neo, Sentinel	USA, India, China
2020	A-X, A-100, P-Neo, Sentinel	USA, India, UK

Balance sheet

Summary Balance Sheet	30 Sep 20	31 Mar 20
	£000	£000
Non-current assets		
Intangible assets	7,009	6,779
Tangible & right of use assets	621	681
Deferred tax asset	250	554
	7,881	8,013
Current assets		
Inventories	1,226	958
Trade and other receivables	2,148	2,508
Cash and cash equivalents	4,511	3,664
	7,885	7,130
Current liabilities		
Borrowings	1,936	2,276
Other current liabilities	3,095	3,555
	5,031	5,831
Non current liabilities		
Borrowings	-	-
Deferred tax liability	1,260	1,188
Trade and other payables	832	1,124
	2,092	2,312
Net assets	8,642	7,000



Insight and Innovation

calnexsol.com

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