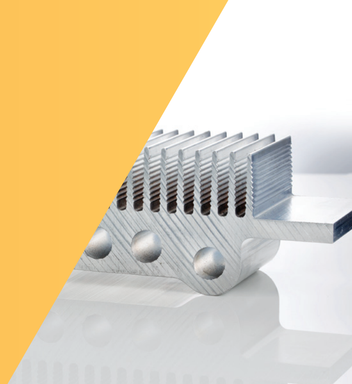
Versarien plc

Interim report for the half year ended 30 September 2015



Developing **advanced materials** and enabling **engineering exploitation**

Founded in 2011, Versarien seeks to capitalise on innovative IP, transforming it into commercially viable products that can tackle the technological challenges faced by modern day manufacturers. From being dependent upon grant income to fund operating costs we have grown to annual revenues approaching £5 million and continue to develop advanced materials and processes to satisfy customer-specific applications whilst expanding our portfolio of intellectual property through acquisition.

We are currently focused on three divisions:

2 Dimensional Products specialises in the supply, characterisation and early-stage development of materials including graphene. Founded in 2012 at The University of Manchester, where graphene was first isolated, the division is focused on the development and production of graphene platelets and the acceleration of commercial applications for graphene and graphene products. The patented process involves mechanised exfoliation in which a strong shearing force is applied to the surface of the graphene layers.

Thermal Products develops and manufactures porous copper and aluminium heat sinks. Founded in 2011 and based in Gloucestershire, the division enables engineering exploitation of thermal management solutions in advanced materials such as copper foam. It holds the exclusive rights to a patent-protected process for creating microporous copper foam, developed at the University of Liverpool, and has applications including, but not limited to, copper foam heat sinks, air cooled, liquid cooled and passively cooled and in single and two-phase products.

Hard Wear Products develops and manufactures sintered tungsten carbide parts and hard wear tooling. Founded in the 1950s and based in Buckinghamshire, the division principally manufactures bespoke products for a wide spread of wear applications, ranging from all aspects of oil and gas through measurement tools and cutting knives to difficult complex applications requiring specialised corrosion-resistant materials.

In this report

Review of the period

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For further information about our operations visit our website at

www.versarien.com

Highlights

- Group revenues broadly maintained at £2.4 million (2014: £2.5 million)
- LBITDA* of £526,000 (2014: £13,000)
- Accelerated investment in technology development with £374,000 expended in the period (2014: £103,000)
- Cash at 30 September 2015 of £2.6 million (2014: £4.9 million) and at 31 March 2015 £3.5 million
- Graphene production scaling up following confirmation of commercial manufacturing method and grant of US patent for volume manufacture of high quality graphene
- E-commerce website launched post-period end for sale of graphene products
- New product launch of graphene oxide and reduced graphene oxide
- Air-cooled heat sinks being sold from North American distributor to 49 new customers with an encouraging future pipeline
- Launch of new aluminium heat sink ranges

* LBITDA excludes exceptional items and share-based payment charges

Chairman's statement

Versarien plc comprises an exciting combination of advanced materials businesses with high growth potential together with a mature materials technology business. All of our businesses are focused on providing innovative materials for manufacturers of cutting edge products in substantial, multi-billion pound sectors.

Following the completion of two acquisitions last year the first six months of our financial year have seen the Group concentrate on developing its three business segments: Thermal Products, which develops and manufactures porous copper and aluminium heat sinks; Hard Wear Products, which manufactures tungsten carbide hard wear parts; and 2 Dimensional Products, which develops graphene nano-platelets via an exfoliation process. Whilst we focus on these three divisions the Group is continuing a strategy of exploring value-added transformational acquisitions to add value to the Group as a whole.

Thermal Products

Following the signing of the distribution agreement with Mouser towards the end of the last financial year, the first stocking order of 10,000 air-cooled heat sinks was successfully delivered. Moving from providing samples to this volume of orders was not without challenge and demonstrated our ability to manufacture in commercial quantities. These products have gradually gained traction with parts now being sold worldwide.

Hard Wear Products

The sustained low oil price has materially affected some of our customers, so our planned diversification away into other sectors, including metrology and defence has helped mitigate the effect of the downturn in the oil sector. It is pleasing that the business has provided a 14% return on sales pre-exceptional items. We continue to look for business in other markets and territories and will be well placed when the oil sector picks up.

2 Dimensional Products

Prospects in this division are excellent following the break through in the scalable manufacture of graphene platelets announced during the period. The e-commerce website is now live and we are seeing enquiries for the material in both powder and liquid forms.

Summary and outlook

I would like to thank the staff and the Board for their hard work during the period as the Group has continued to make significant progress with its advanced materials to the extent that it is now concentrating on the commercialisation of its products via a mixture of direct and distribution sales. It is still early days but we continue to be confident in gaining further commercial traction over the coming months.

Ian Balchin
Non-executive Chairman
10 December 2015

Chief Executive Officer's statement

Business overview

In this financial period we have been able to demonstrate significant progress in all our businesses, whilst also consolidating the Thermal Products operations into one new site at Cheltenham. Of significant note is 2 Dimensional Products where the patent for our high volume, high quality graphene production method has been granted in the US and since then we have seen an increase in the number of enquiries from large blue chip international organisations. The potential for this technology was further illustrated following a recent trip to San Francisco where we engaged with a number of the world's most successful companies and were the object of great interest to a number of delegates and other exhibitors.

We have concluded our negotiations around this particular piece of IP, resulting in a new agreement with Ulster University, and we have acquired the interests of The University of Manchester, simplifying the arrangement.

We still continue to work heavily with The University of Manchester on our two collaborative projects to rapidly commercialise graphene use in plastics, composites and inks for flexible antennae. Progress is also being seen in the multiple InnovateUK projects that are under way to create IP in our metal foam and graphene fields. This work has resulted in a number of new products launching, including new graphene derivatives, graphene oxide and reduced graphene oxide together with a new range of aluminium heat sinks. We have launched a new e-commerce website to showcase these new products to new customers and speed up the use of this wonder material.

Markets and trends

The global graphene market is expected to reach multi-billion US Dollars by 2025 (source: Future Markets Inc. – August 2015) and is fuelled by demand for game-changing applications in batteries, printed electronics, and conductive inks and our patented production process leaves us well placed to participate in this high growth market. The thermal management market continues to expand and is expected to reach $11 billion by next year.

Porous copper is a disruptive technology in this market and the enquiries we continue to see from global OEMs is most encouraging. We cannot anticipate when the oil price will recover and with continuing spare capacity in the marketplace it is important that we continue to diversify Hard Wear Products into other sectors.

Outlook

Proving our manufacturing process of graphene in commercial and scalable quantities gives us an excellent foundation to capitalise on the opportunities available in this market. The traction beginning to be developed for our Thermal Product applications is promising but we are still nonetheless highly dependent upon customers' time horizons which are taking longer than first anticipated. Hard Wear Products should continue to generate cash, the level of which will depend upon an upturn in the oil and gas markets and our ability to diversify into new markets. We continue to invest in our sales and marketing team to encourage further sales activity and assist in identifying further strategic options.

The Group continues to look for appropriate acquisition opportunities to complement organic growth, especially for graphene applications and, with a strong balance sheet, remains well positioned to do so. Overall, the Board continues to view the future with optimism.

Neill Ricketts
Chief Executive Officer
10 December 2015

Chief Financial Officer's review

Group results

Versarien plc's revenue for the half year ended 30 September remained stable at £2,362,000 (2014: £2,479,000), which included an increase in revenues for Thermal Products of £0.6 million and a reduction in Hard Wear Products of £0.7 million, following a decline in the oil and gas sector. The operating loss before exceptional items, depreciation/amortisation and share-based payment charges was £526,000, compared with a loss of £13,000 in the comparative period as Hard Wear Products returned £0.3 million less in operating returns.

Operating expenses rose £0.3 million in the period as a result of additional overheads from the acquisition of the Custom Systems business in February 2015 and a full six-month period following the acquisition of 2D-Tech Limited in May 2014. With the exception of these increases we have continued to carefully monitor cost and have only taken on additional overhead where we can see opportunities to accelerate the development of our technology products.

Exceptional costs of £111,000 (2014: £164,000) related mainly to redundancy and restructuring costs in consolidating Thermal Products into one site at Cheltenham, together with preparations for moving the Hard Wear Products factory. The loss before tax was £839,000 (2014: loss of £296,000) and the Group received £29,000 (2014: £nil) in respect of research and development tax credits.

Group net assets at 30 September 2015 were £6.6 million (2014: £7.8 million) with cash at the period end of £2.6 million (2014: £4.9 million). Cash outflow from operating activities was £600,000 (2014: £300,000). The Group invested £374,000 (2014: £103,000) in development costs, including £140,000 for the purchase of The University of Manchester's IP rights for the graphene exfoliation process. It also purchased plant and equipment totalling £138,000 (2014: £95,000). Investment in technology development was supported by the receipt of £74,000 in grants (2014: £71,000).

Hard Wear Products

Revenue for the period was £1,749,000 (2014: £2,442,000) with operating profit before exceptional items of £247,000 (2014: £569,000), a return of 14% on sales (2014: 23%).

The continuing low oil price has impacted our customers who, in turn, have been destocking and placed less component orders, some having reduced demand by 90%. We have mitigated the effect of this by moving into new sectors and territories and are well placed when this destocking comes to an end.

Thermal Products

Revenue for the period was £611,000 (2014: £11,000), including a contribution from the heat sink business acquired in February 2015. Operating loss before exceptional items was £540,000 (2014: loss of £355,000). The business capitalised development costs of £118,000 (2014: £103,000) as work continued on specific applications and processes. Following the consolidation of operations onto one site we have reduced the number of staff in the business as we concentrate on commercialising our product offering.

2 Dimensional Products

Revenue for the period was £6,000 (2014: £26,000) and operating loss before exceptional items was £144,000 (2014: loss of £102,000). The business capitalised development costs of £116,000 (2014: £nil) as work continued on developing specific applications using graphene.

Chris Leigh
Chief Financial Officer
10 December 2015

Group statement of comprehensive income

For the half year ended 30 September 2015

	Notes	**Six months ended 30 September 2015 Unaudited £'000**	Six months ended 30 September 2014 Unaudited £'000	Year ended 31 March 2015 Audited £'000
Continuing operations				
Revenue	2	**2,362**	2,479	4,982
Cost of sales		**(1,674)**	(1,469)	(3,089)
Gross profit		**688**	1,010	1,893
Other operating income		**40**	25	126
Operating expenses (including exceptional items)		**(1,565)**	(1,327)	(2,883)
Loss from operations before exceptional items		**(726)**	(128)	(557)
Exceptional items	3	**(111)**	(164)	(307)
Loss from operations		**(837)**	(292)	(864)
Finance charge		**(2)**	(4)	(2)
Loss before income tax		**(839)**	(296)	(866)
Income tax		**29**	—	—
Loss for the period		**(810)**	(296)	(866)
Loss attributable to:				
– Owner of the parent company		**(788)**	(281)	(830)
– Non-controlling interest		**(22)**	(15)	(36)
		(810)	(296)	(866)
Loss per share attributable to the equity holders of the Company:				
Basic and diluted	4	**(0.75)p**	(0.28)p	(0.80)p

There were no comprehensive gains or losses in the year other than those included in the Group Statement of Comprehensive Income.

Group statement of financial position

As at 30 September 2015

	Note	**30 September 2015 Unaudited £'000**	30 September 2014 Unaudited £'000	31 March 2015 Audited £'000
Assets				
Non-current assets				
Intangible assets	5	**1,818**	1,307	1,502
Property, plant and equipment		**1,468**	1,236	1,423
Deferred taxation		**65**	65	65
		3,351	2,608	2,990
Current assets				
Inventory		**1,696**	907	1,109
Trade and other receivables		**1,073**	983	1,272
Cash and cash equivalents		**2,569**	4,871	3,531
		5,338	6,761	5,912
Total assets		**8,689**	9,369	8,902
Equity				
Called up share capital		**1,056**	1,054	1,055
Share premium		**7,163**	7,138	7,150
Merger reserve		**1,017**	1,017	1,017
Share-based payment reserve		**133**	47	94
Retained earnings		**(2,755)**	(1,418)	(1,967)
Equity attributable to owners of the parent company		**6,614**	7,838	7,349
Non-controlling interest		**(44)**	(15)	(22)
Total equity		**6,570**	7,823	7,327
Liabilities				
Non-current liabilities				
Trade and other payables		**263**	113	181
Provisions		**203**	200	203
Long-term borrowings		**38**	—	13
		504	313	397
Current liabilities				
Trade and other payables		**1,179**	886	855
Invoice discounting advances		**96**	—	—
Deferred consideration		**300**	300	300
Current portion of long-term borrowings		**40**	47	23
		1,615	1,233	1,178
Total liabilities		**2,119**	1,546	1,575
Total equity and liabilities		**8,689**	9,369	8,902

Group statement of changes in equity

For the half year ended 30 September 2015

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 April 2014 (audited)	831	1,853	1,017	35	(1,137)	—	2,599
Issue of shares	223	5,537	—	—	—	—	5,760
Cost of share issue	—	(252)	—	—	—	—	(252)
Loss for the period	—	—	—	—	(281)	(15)	(296)
Share-based payments	—	—	—	12	—	—	12
At 30 September 2014 (unaudited)	1,054	7,138	1,017	47	(1,418)	(15)	7,823
Issue of shares	1	13	—	—	—	—	14
Cost of share issue	—	(1)	—	—	—	—	(1)
Loss for the period	—	—	—	—	(549)	(7)	(556)
Share-based payments	—	—	—	47	—	—	47
At 1 April 2015 (audited)	1,055	7,150	1,017	94	(1,967)	(22)	7,327
Issue of shares	1	13	—	—	—	—	14
Loss for the period	—	—	—	—	(788)	(22)	(810)
Share-based payments	—	—	—	39	—	—	39
At 30 September 2015 (unaudited)	**1,056**	**7,163**	**1,017**	**133**	**(2,755)**	**(44)**	**6,570**

Included within the merger reserve is £53,000 in respect of the merger with Versarien Technologies Limited and £964,000 in respect of the acquisition of Total Carbide Limited. £212,000 in respect of the acquisition of 2D-Tech Limited is included within the share premium account.

Statement of Group cash flows

For the half year ended 30 September 2015

	Six months ended 30 September 2015 Unaudited £'000	Six months ended 30 September 2014 Unaudited £'000	Year ended 31 March 2015 Audited £'000
Cash flows from operating activities			
Cash used in operations	**(600)**	(300)	(1,119)
Interest paid	**(2)**	(4)	(2)
Net cash used in operating activities	**(602)**	(304)	(1,121)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	**—**	37	(154)
Purchase of intangible non-current assets	**(374)**	(103)	(277)
Purchase of tangible non-current assets	**(138)**	(95)	(255)
Net cash used in investing activities	**(512)**	(161)	(686)
Cash flows from financing activities			
Share issue	**14**	5,540	5,553
Costs of share issue	**—**	(252)	(252)
Receipt of finance leases net of repayments	**42**	(11)	(22)
Invoice discounting loan	**96**	(156)	(156)
Net cash from financing activities	**152**	5,121	5,123
Increase in cash and cash equivalents	**(962)**	4,656	3,316
Cash and cash equivalents at start of period	**3,531**	215	215
Cash and cash equivalents at end of period	**2,569**	4,871	3,531

Note to the statement of Group cash flows

For the half year ended 30 September 2015

	Six months ended 30 September 2015 Unaudited £'000	Six months ended 30 September 2014 Unaudited £'000	Year ended 31 March 2015 Audited £'000
Loss before income tax	**(810)**	(296)	(866)
Share-based payments	**39**	12	59
Depreciation and amortisation	**161**	103	221
Loss on equity interest	**11**	—	—
Disposal of non-current assets	**—**	—	3
Finance costs	**2**	4	2
Increase in inventories	**(587)**	(132)	(298)
Decrease/(increase) in trade and other receivables	**178**	14	(275)
Increase/(decrease) in trade and other payables	**406**	(5)	35
Cash used in operations	**(600)**	(300)	(1,119)

Notes to the unaudited interim statements

For the half year ended 30 September 2015

1. Basis of preparation

Versarien plc is an AIM-listed company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company's registered office and its principal place of business is 2 Chosen View Road, Cheltenham, Gloucestershire GL51 9LT.

The interim financial statements were prepared by the Directors and approved for issue on 10 December 2015. These interim financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2015 were approved by the Board of Directors on 20 July 2015 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified and did not contain statements under Sections 498 (2) or (3) of the Companies Act 2006 and did not contain any emphasis of matter.

As permitted, these interim financial statements have been prepared in accordance with UK AIM Rules and the IAS 34 "Interim Financial Reporting" as adopted by the European Union. They should be read in conjunction with the annual financial statements for the year ended 31 March 2015, which have been prepared in accordance with IFRS as adopted by the European Union. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2015, as described in those annual financial statements. Where new standards or amendments to existing standards have become effective during the year, there has been no material impact on the net assets or results of the Group.

Certain statements within this report are forward looking. The expectations reflected in these statements are considered reasonable. However, no assurance can be given that they are correct. As these statements involve risks and uncertainties, the actual results may differ materially from those expressed or implied by these statements.

The interim financial statements have not been audited.

2. Segmental information

	Central £'000	2 Dimensional Products £'000	Thermal Products £'000	Hard Wear Products £'000	Intra-group adjustments £'000	Total £'000
Six months to 30 September 2015						
Sales	**—**	**6**	**611**	**1,749**	**(4)**	**2,362**
Gross margin	**—**	**11**	**6**	**671**	**—**	**688**
Other operating income	**—**	**27**	**9**	**4**	**—**	**40**
Operating expenses	**(277)**	**(182)**	**(555)**	**(428)**	**(12)**	**(1,454)**
Exceptional items	**(45)**	**(2)**	**(36)**	**(17)**	**(11)**	**(111)**
(Loss)/profit from operations	**(322)**	**(146)**	**(576)**	**230**	**(23)**	**(837)**
Finance income/(charge)	**4**	**(1)**	**(5)**	**—**	**—**	**(2)**
(Loss)/profit before tax	**(318)**	**(147)**	**(581)**	**230**	**(23)**	**(839)**
Six months to 30 September 2014						
Sales	—	26	11	2,442	—	2,479
Gross margin	—	12	(44)	1,045	(3)	1,010
Other operating income	—	25	—	—	—	25
Operating expenses	(221)	(139)	(311)	(476)	(16)	(1,163)
Exceptional items	(105)	—	(1)	(58)	—	(164)
(Loss)/profit from operations	(326)	(102)	(356)	511	(19)	(292)
Finance income/(charge)	4	—	(5)	(3)	—	(4)
(Loss)/profit before tax	(322)	(102)	(361)	508	(19)	(296)

3. Exceptional items

	Six months ended 30 September 2015 Unaudited £'000	Six months ended 30 September 2014 Unaudited £'000	Year ended 31 March 2015 Audited £'000
Acquisition costs	**—**	45	76
Restructuring and redundancy costs	**100**	96	162
Associate company set-up costs	**11**	23	69
	111	164	307

Restructuring and redundancy costs relate to Thermal Products exiting the premises at Mitcheldean and Avonmouth and consolidating on a single site in Cheltenham, together with costs incurred in considering options for moving the factory of Hard Wear Products. Associate and company set-up costs relate to the loss of acquiring the equity interest of DV Composite Tools Limited on consolidation.

4. Loss per share

The loss per share has been calculated by dividing the loss after taxation of £788,000 (2014: £281,000) by the weighted average number of shares in issue of 105,547,246 (2014: 101,541,596) during the period.

The calculation of the diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options. However, in accordance with IAS 33 "Earnings per Share", potential Ordinary shares are only considered dilutive when their conversion would decrease the profit per share or increase the loss per share. As at 30 September 2015 there were 7,256,899 (2014: 2,882,478) potential Ordinary shares that have been disregarded in the calculation of diluted earnings per share as they were considered non-dilutive at that date.

5. Intangible assets

	30 September 2015 Unaudited £'000	30 September 2014 Unaudited £'000	31 March 2015 Audited £'000
Goodwill	**1,023**	999	1,013
Customer relationships/order books	**86**	91	108
Development costs	**685**	170	346
Licence	**24**	47	35
Total	**1,818**	1,307	1,502

6. Acquisition of subsidiary

On 25 September 2015 the Company completed the transfer of 50.1% of the share capital of DV Composite Tools Limited, formerly the Company's associate, from Dimar Limited for nil consideration. The fair value at the date of acquisition was a liability of £21,000. This resulted in goodwill of £10,000 arising on consolidation together with a loss on equity of £11,000 included within exceptional items.

Notes to the unaudited interim statements *continued*

For the half year ended 30 September 2015

7. Dividends

As stated in the AIM Admission document the Board's objective is to continue to grow the Group's business and it is expected that any surplus cash resources will, in the short to medium term, be re-invested into the research and development of the Group's products. In view of this, no dividend is declared and the Directors will not be recommending a dividend for the foreseeable future. However, the Board intends that the Company will recommend or declare dividends at some future date once they consider it commercially prudent for the Company to do so, bearing in mind its financial position and the capital resources required for its development.

8. Interim Report

Copies of the Interim Report are being sent to shareholders and are available to the public from the offices of Versarien plc at 2 Chosen View Road, Cheltenham, Gloucestershire GL51 9LT. The Interim Report and interim announcement will also be available on the Group's website at www.versarien.com.

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