

# 2020 Full Year Results

27<sup>th</sup> April 2021

XAIR

# Introduction & Agenda



**John Mills**  
CEO



**Ian Tichias**  
CFO

**Business Highlights**

**Financial Results**

**Business Unit Updates**

**Summary & Outlook**

**Q&A**

“We have great technology,  
great people and a large  
market opportunity.  
We will be successful”.

**John Mills**

CEO

Business Highlights

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# Business Highlights

**Go-to-market strategy** for the Printhead business unit continues to deliver new accounts across a broad range of market sectors

Strong **operational leverage** will drive profitability as revenue grows

On-time launch of **Xaar Nitrox**, the latest product from the ImagineX Platform, increasing confidence in customer base that Xaar will deliver roadmap

**Operations continued uninterrupted** throughout the pandemic

**Revenue of £48.0m** in line with management expectations

**Gross margin of 27%** up 2ppt v 2019

**Positive EBITDA** delivery from the Printhead and EPS business units

**Strong balance sheet** with net cash of £18.1m with positive cashflow from continued operations of £7.1m

**Xaar 3D** classed as **discontinued operations** due to discussions to divest

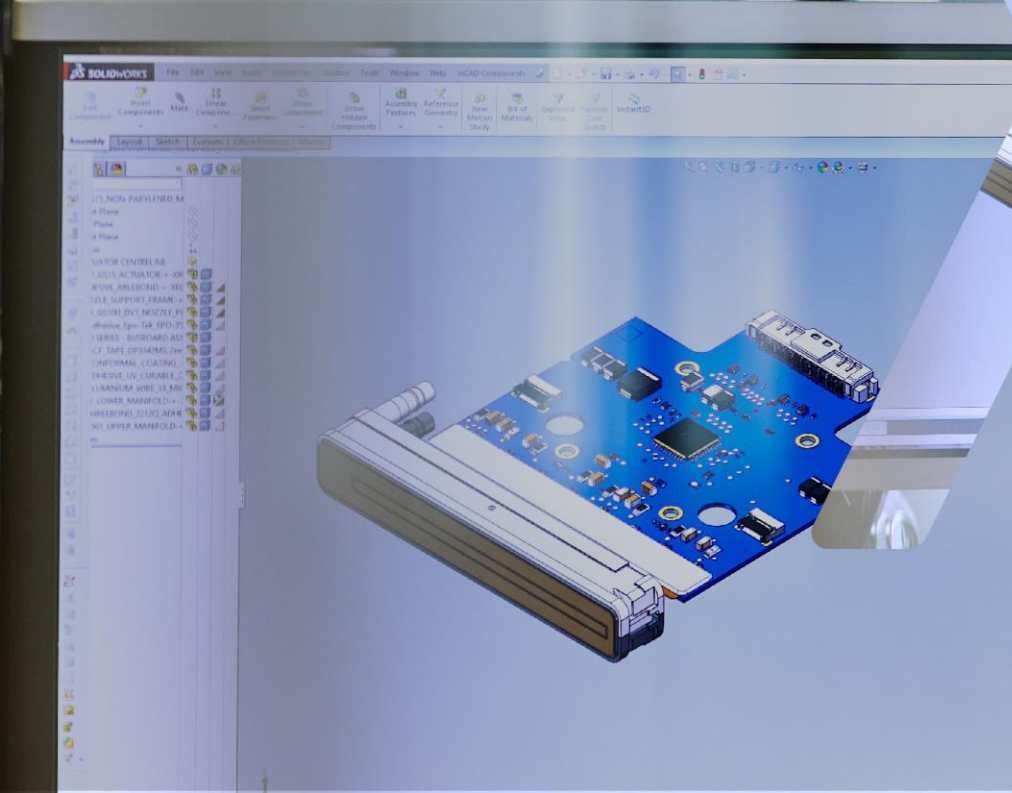
**+** *Positive outlook and continued focus on the medium-term objective of returning Xaar to profitable growth*



# Financial Results

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## Group Financial Performance

£M	2020	2019	Var
<b>Continuing Operations</b>			
Revenue	48.0	49.4	(1.4)
Gross Margin	27%	25%	2%
Total Opex	(16.9)	(20.2)	3.3
aPBT	(3.9)	(8.0)	4.1
aEBITDA	0.1	(4.9)	5.0
Cashflow <sup>1</sup>	7.1	8.4	(1.3)
<b>Total Operations</b>			
PAT	(14.7)	(71.7)	57.0
Cashflow <sup>1</sup>	1.9	(9.8)	11.7

\* Figures (£m) and percentage (%) are subject to rounding

£M	2020	2019	Var
Trade WC	14.3	19.0	(4.7)
Cash <sup>2</sup>	18.1	16.2	1.9
Net Assets	56.2	70.3	(14.1)

\* Figures (£m) and percentage (%) are subject to rounding

1: Underlying cashflow - excludes Xaar 3D and the £6.4m retained by Continuing Operations in 2019 from the sale of shares in Xaar 3D to Stratasys

2: Cash excludes ring-fenced cash at Xaar 3D

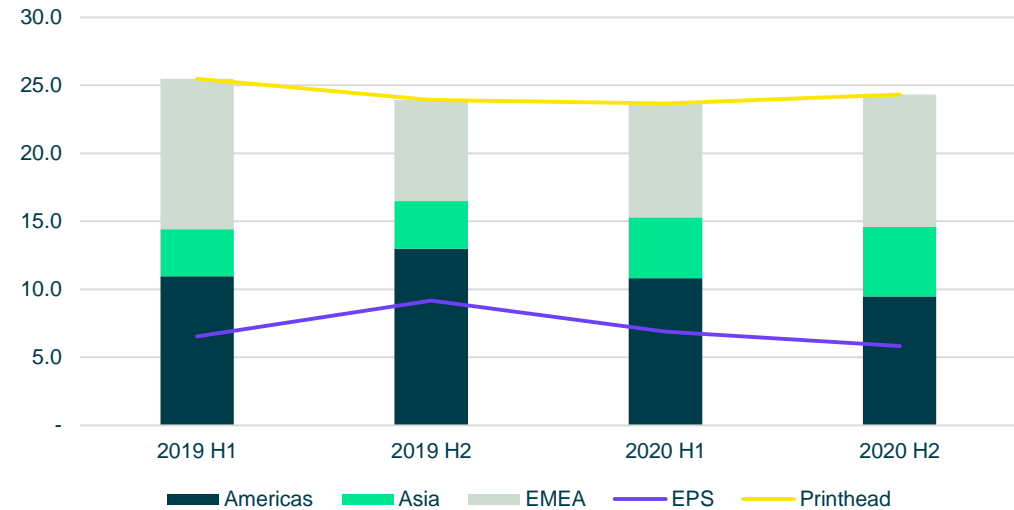
- Revenue in line with expectations – Printhead sales recovering, sales at EPS impacted by COVID
- Gross margin 2ppt higher due to operational leverage in the Printhead business as sales volumes increase driving increased factory throughput
- Positive aEBITDA from continuing operations
- Strong cash generation from continuing operations
- X3D included in Discontinued Operations impacting PAT

- Working capital reductions driven by continued optimisation of inventory levels
- Strong cash position retained by cash generation from continued operations
- Strong Balance sheet

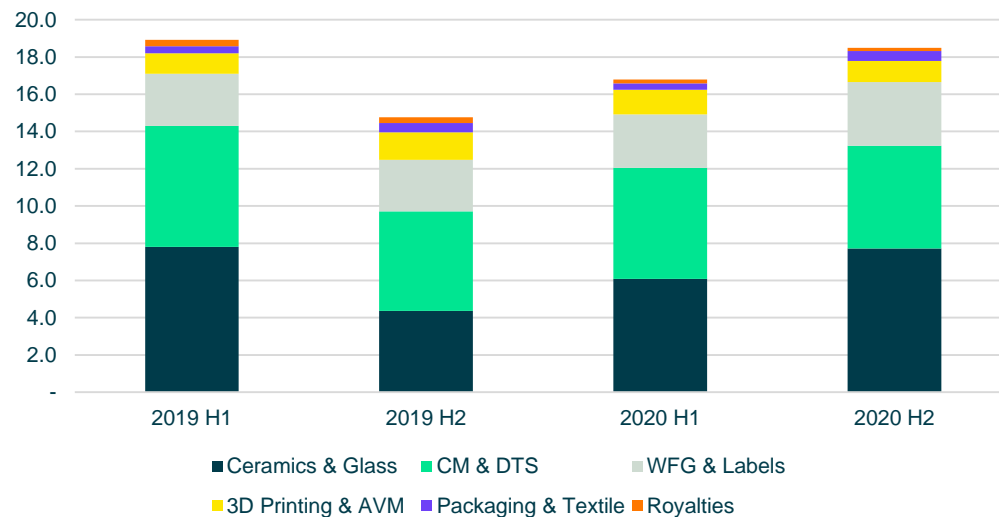
# Group Revenue

- Revenue down y-o-y but recovering from the low of H2 2019 despite the impact of COVID-19
- Printhead recovery driven by increased revenues in Asia and EMEA as the Ceramics & Glass and the WFG & Label sectors all grow
- EPS decline driven by fall in both machine sales and consumables as customers preserve cash and end-user markets are shut due to COVID-19

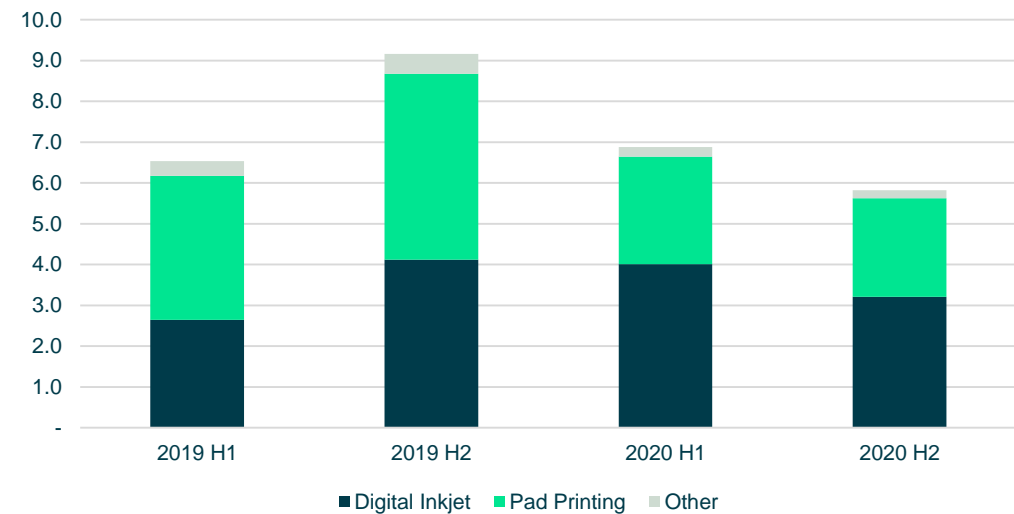
Revenue by Region and BU



Printhead Revenue by Sector



EPS Revenue by Technology





## Business Unit Performance: Printhead

Printhead			
£M	2020	2019	Var
Revenue	35.3	33.7	1.6
Gross Margin	27%	23%	4%
Total Opex	(13.2)	(15.8)	2.6
aPBt	(3.4)	(8.0)	4.6
aEBITDA	0.0	(5.3)	5.3

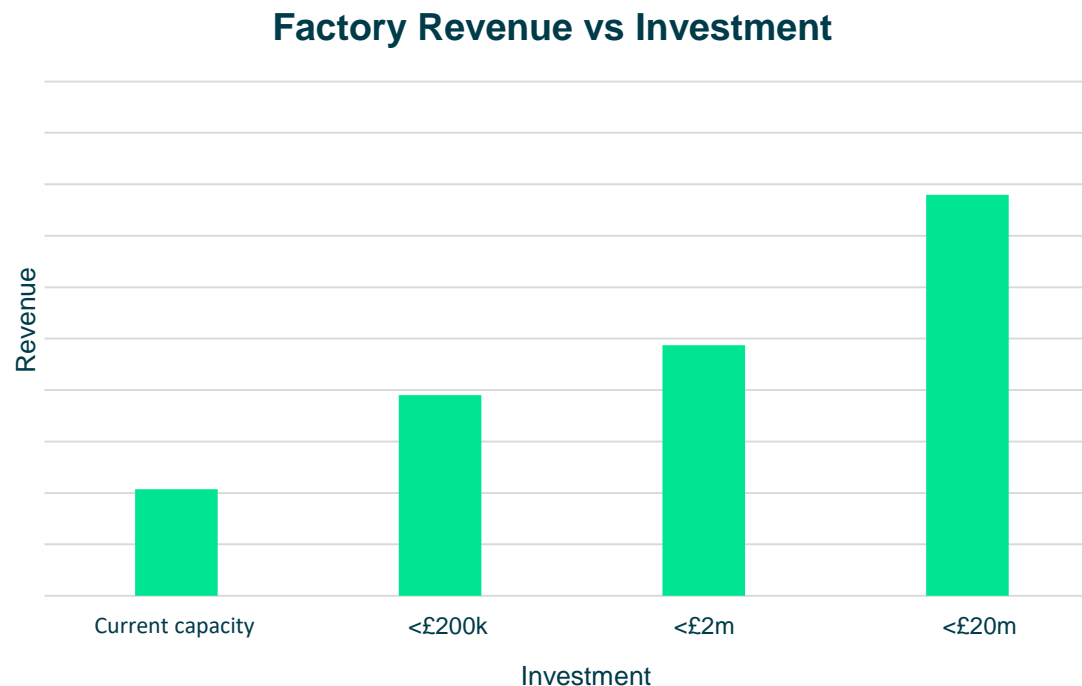
\* Figures (£m) and percentage (%) are subject to rounding

- Revenue up 5% as customers re-engage and new business wins due to competitive advantage of products
- Gross profit and gross margin increase driven by higher revenues and operational leverage
- Lower OPEX due to tight cost control and impact of restructuring implemented in H2/19
- R&D investment increased by £1.4m with investment focused on the ImagineX platform
- SG&A spend down £4.0m year-on-year helped by reduced Travel costs & one off bad debt recovery
- EBITDA positive

 *Positive EBITDA generation*

# Operational Leverage

- Factory has significant latent capacity
- Potential 3x Revenue from factory with <£2m incremental investment
- P&L leverage will drive profitability and allow further investment in infrastructure to accelerate growth
- We will provide a further update on this later in the year



## Business Unit Performance: EPS

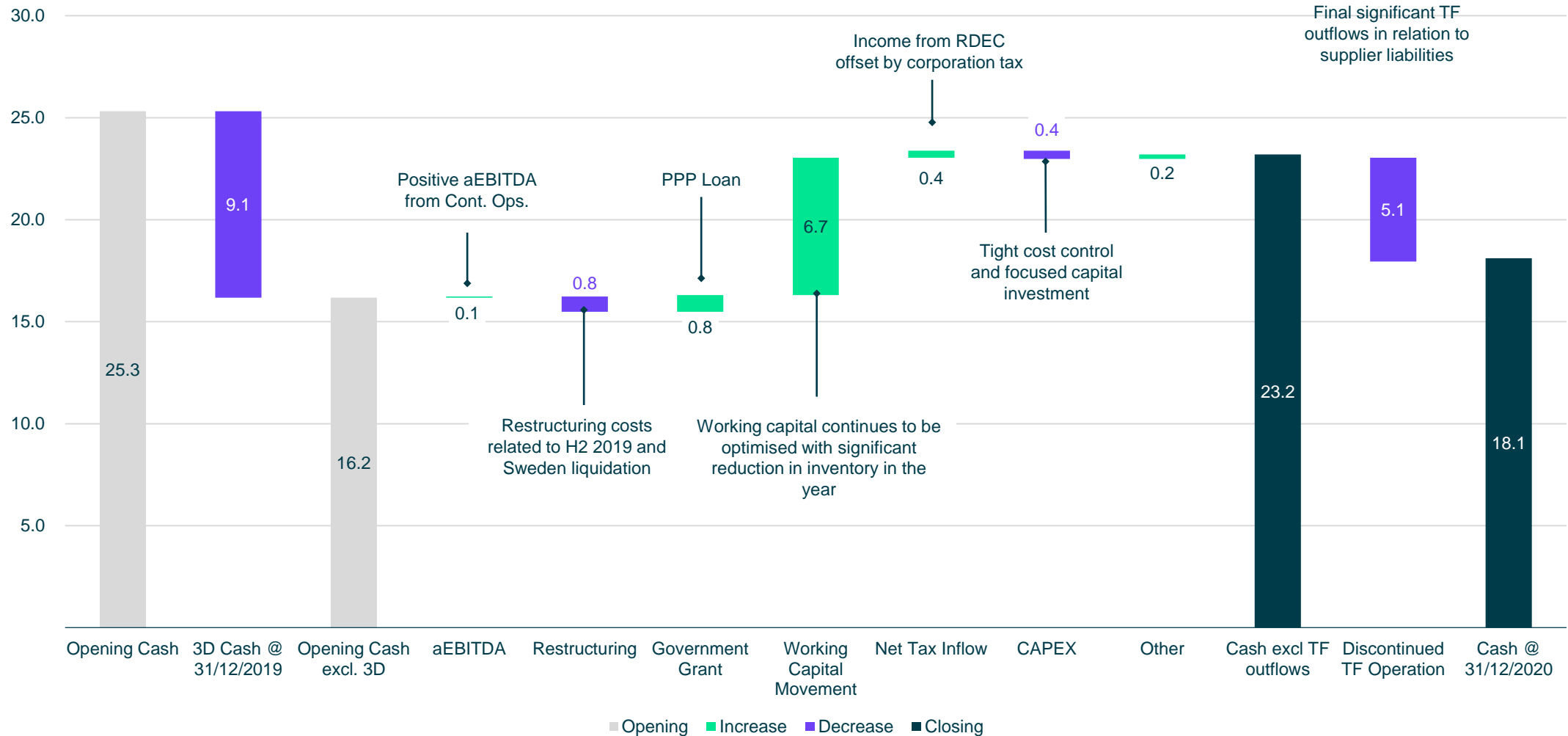
EPS						
£M	Actual Results			Underlying Performance		
	2020	2019	Var	2020	2019	Var
Revenue	12.7	15.7	(3.0)	12.7	15.7	(3.0)
Gross Margin	27%	30%	(3%)	31%	30%	2%
Total Opex	(3.7)	(4.5)	0.8	(3.7)	(4.5)	0.8
aPBT	(0.5)	0.1	(0.5)	0.1	0.1	0.1
aEBITDA	0.0	0.4	(0.4)	0.6	0.5	0.1

\* Figures (£m) and percentage (%) are subject to rounding

- Revenue declined £3.0m due to COVID-19 related slowdown principally in Pad Printing
- Gross margin impacted by £0.6m of one-off inventory write downs related to legacy products
- Underlying gross margin up 2ppt driven by improvements in the quotation process, increased cost controls and modular build of products
- Operating expenditure tightly controlled throughout the year
- Positive aEBITDA with underlying performance up year on year
- Paycheck protection program loan of \$1m taken out and expected to be forgiven in H1 2021
- Cash and balance sheet remain strong

 *Cash and balance sheet remain strong*

# Positive Operating Cash Flow



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# Financial Summary



Revenue is **in line with expectations**

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Cost control management with **strong working capital discipline**

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**Strong cash generation** and positive aEBITDA

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Balance sheet is strong and provides **stable platform for future growth**

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*Positive outlook and continued focus on the medium-term objective of return **Xaar** to profitable growth*

Business Unit Updates

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# Printhead Update

# Update on Key Initiatives

## Business Model

### Built for Partnerships

Customers understanding and engaging with the new business model

Vertically integrated solution provider proving attractive to UDIs

Strategic plan to widen product portfolio

Established China entity to strengthen customer relationships

## Product Roadmap

### Built on ImagineX Platform

Exciting product roadmap communicated to customers

On-time delivery of first two products will build confidence in Xaar's delivery

New products have compelling value proposition in new markets

## Operational Leverage

Factory has capacity to treble Printhead revenue with less than £2m investment

Efficiency programs across IT and Operations

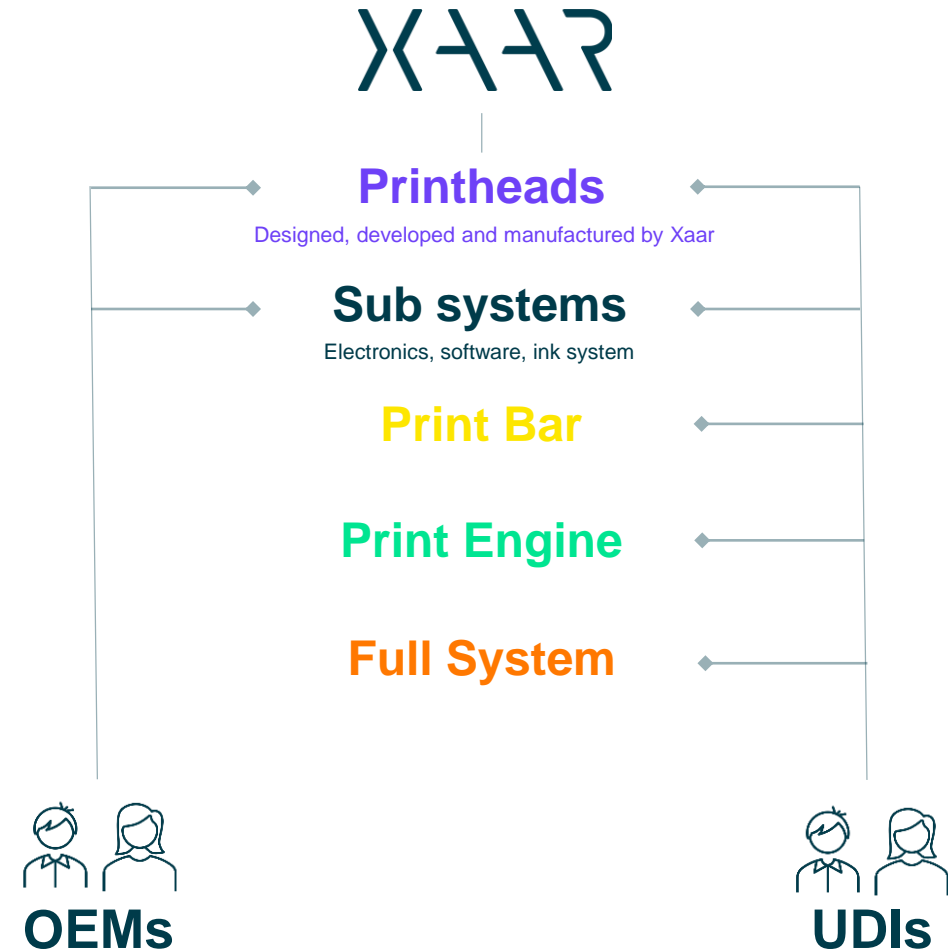
Drive to improve margins and scalability across the business

**'The New Xaar'**



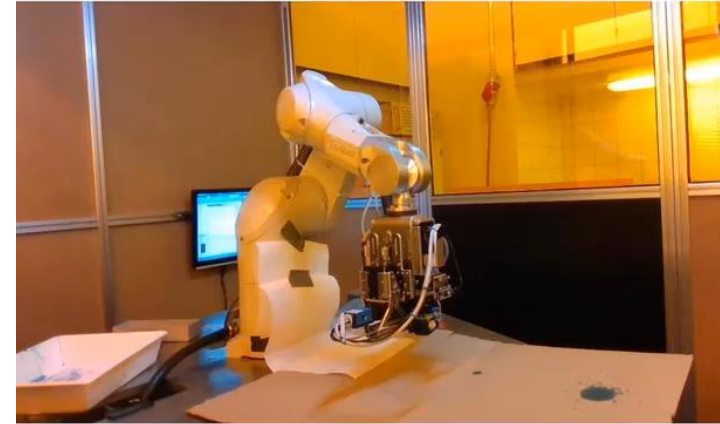
# Built for Partnerships

- Xaar will sell printheads that it has **designed, developed and manufactured**. It will not sell any third party printhead
- Xaar will sell printheads to two customer types
  - **OEMs**
  - **User Developer Integrators (UDIs) who are developing their own digital solution**
- Xaar will **NOT sell** through any competing channel
- Xaar will offer a “one stop shop” providing whatever help our partners need including electronics, ink systems, printbars, ink, integration and applications support

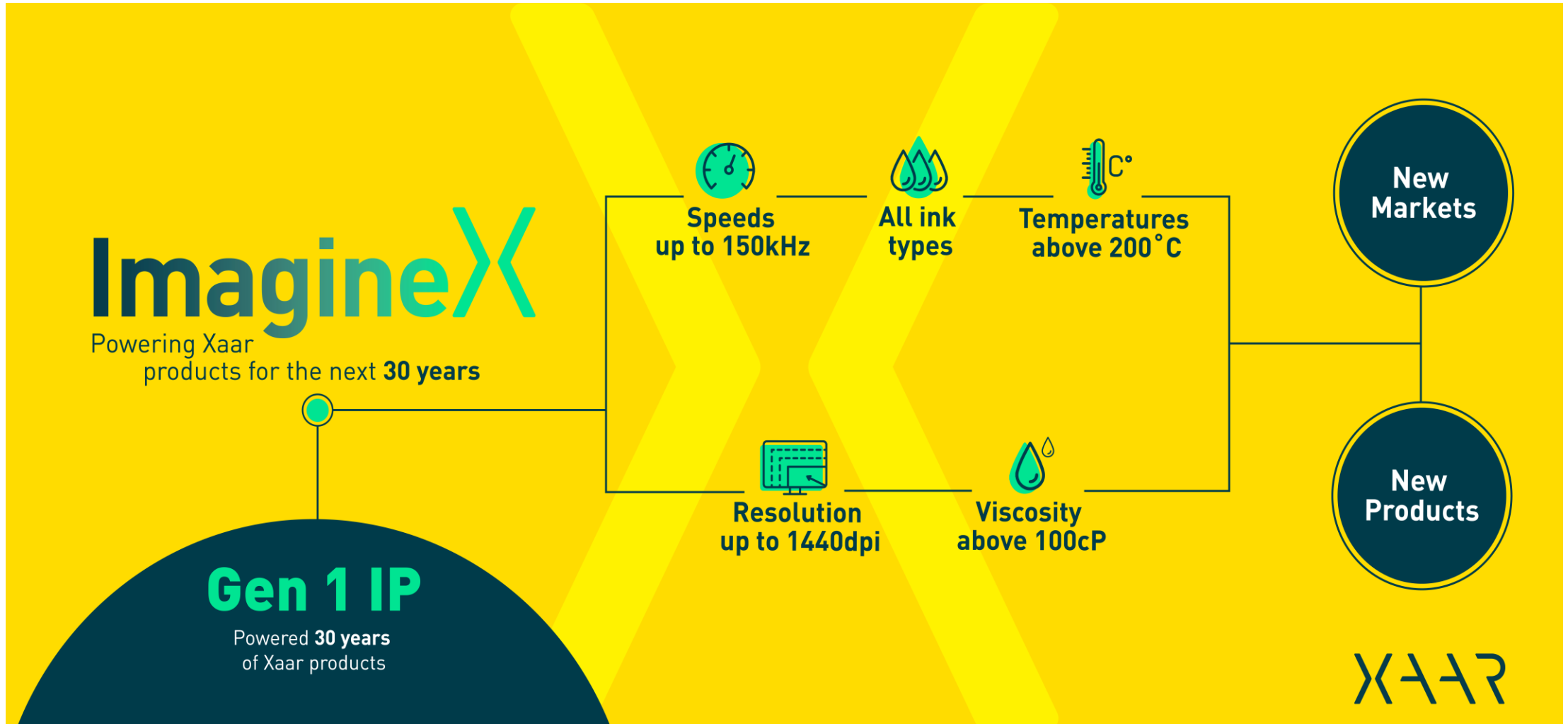


## UDI Market Segmentation

- UDIs cannot be categorised by industry
- Automotive, for example, covers nearly all print formats and materials
- UDIs need to be categorised by the technology they replace, for example robotic spray painting
- Xaar has a unique capability to function as a precision replacement for spray painting and we are now working with several UDIs in this area
- We target the technology not the industry sector for UDIs



# ImagineX Platform



## Xaar Roadmap – Powered by our ImagineX Platform

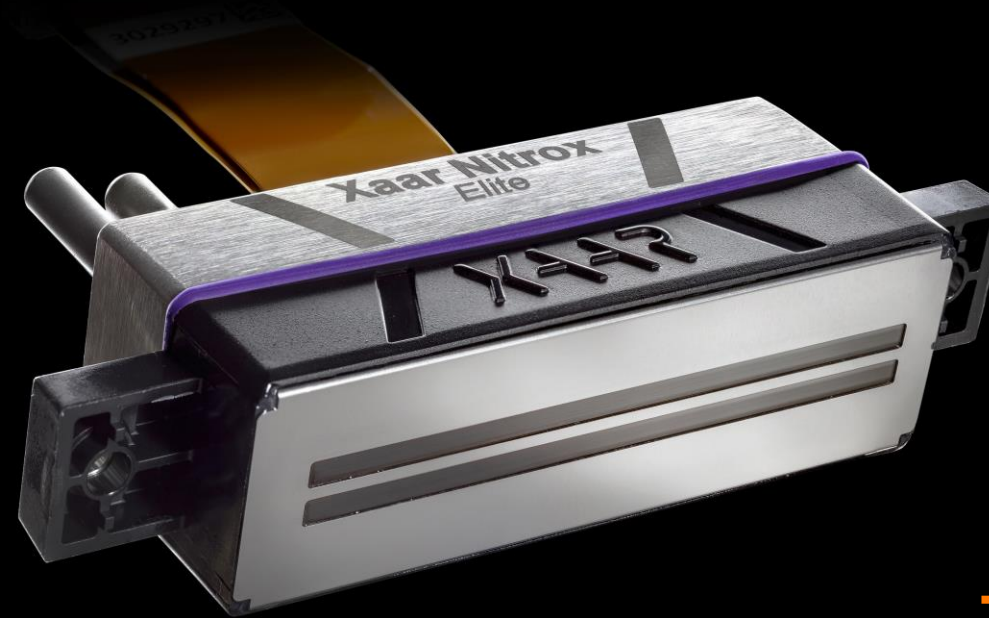
Feature/Product	Status		Benefits	
Tuned Actuator and AcuChp	<i>Launched 2020</i>	✓	Plug and play	
High Viscosity	<i>Launched 2020</i>	✓	Jetting new materials for new applications	
High Laydown	<i>Launched 2020</i>	✓	5X increase in productivity	
Duty-based Compensation	<i>In test</i>		Improved image quality and reliability	
High Frequency (48kHz)	<i>In test</i>	➡	<i>Launching 1H 2021</i>	40% increase in speed and productivity
Aqueous Compatibility	<i>In test</i>	➡	<i>In Alpha build</i>	Water based conductive inks and fluids
High Frequency (57kHz)	<i>In test</i>			60% increase in speed and productivity
Increased Throw Distance	<i>In development</i>	➡	<i>In Alpha build</i>	Image quality on curved media and reduced risk of head strike
Robust Nozzle Plate	<i>In development</i>			Image quality maintained
Ultra High Frequency (150+kHz)	<i>In development</i>	➡	<i>In test</i>	Three fold increase in speed
High Density Actuator	<i>In development</i>			Higher native resolution up to 1440npi

# The Xaar Nitrox – Go Beyond



With **lightning speeds**, printing at up to 48kHz

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**Print almost anything** – widest range of fluids and operational modes

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**Unbeatable print uniformity** with AcuChp Technology

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**Go beyond** with the Xaar Nitrox in any industry

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# Operational Sustainability

Committed to reduce our impact on the environment



Review of sustainability strategy with the aim of meeting the UK government target to become **carbon neutral by 2030**. Cross-functional project team set up to identify goals and strategy



Electricity supply moved to **green energy**



**New packaging** for our printheads introduced in 2020. We are now shipping in fully recyclable and biodegradable cardboard packs



We have **offset** all of the regulatory Scope 1 & 2 **carbon impact** that we made and reported in 2020. This makes Xaar PLC a **Carbon Neutral Inkjet supplier** from a reported footprint perspective in 2020

# Printhead Summary



**Growth in revenue and EBITDA** despite COVID-19



**Strong cash generation** as we re-balance stock levels through supply chain



Opened **China office** to provide local technical and commercial support to customers



**On-time launch** of new printhead **Xaar Nitrox** significant to re-building confidence in Xaar



**Operational leverage** will drive **profitability** as revenues grow



**Business Model working well** - Increased engagement with customers

# EPS Update



# EPS Overview

- Xaar company EPS **design, develop and manufacture** bespoke print systems that are integrated to their customers' production lines
- Good reputation in the US market leading for **high quality, reliable bespoke solutions**
- **Revenue growth** in recent years has not led to an increase in profitability and cash generation:-
  - Lack of control in the quotation process leading to project overruns
  - Requirement to develop new solution for each customer leading to lower margins
  - Lack of focus on securing aftermarket ink and spares revenue
- Objective: **Increase revenue and margins without increasing R&D costs**

## Implemented Modular Strategy

Each bespoke system now leads to a standard machine that can be **configured for other customers with similar requirements**

Solution to new projects built around existing core system with pre and post print operations coming from **portfolio of pre-developed items**

Only if sub-system doesn't exist will team **design new functions** (and then add it to the portfolio)

# EPS Summary

Good cost control and **improved margins** have generated positive underlying profit and EBITDA despite reduced revenue

Re-structuring the operation around modular system and **consolidation of product range** has resulted in an inventory write-down

**Current trading –** Economic uncertainty due to Covid-19 has delayed businesses investing in capital equipment projects impacting system sales for EPS down 19% on 2020

Implementation of Modular system has been a success **cutting project overruns and shortening lead times**

Underlying profitability of the business is strong and with a **healthy pipeline** we see **good growth** potential as Covid-19 eases in the US

# 3D Update

## Xaar/Stratasys Partnership

- Our core technologies are predominantly based on unique implementation of a powder bed fusion process (High Speed Sintering). Inkjet printheads and infrared heaters are used to manufacture products layer by layer from polymer powder materials at much higher speeds than other additive manufacturing processes
- Delays in the beta program due to COVID-19
- Increased investment over that originally planned has led to discussions on the future of Xaar 3D
- Advanced discussions to divest Xaar 3D



# Summary and Outlook

# 04

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## Summary – Key Achievements



### EBITDA positive in PH & EPS

- Revenue down £1.4m but in line with expectations
- Gross margin 2ppt higher due to operational gearing in the Printhead business
- Positive cash generation from continuing operations



### Built stable platform for the business

- Re-structure delivering revenue growth
- Re-engagement of lost customers and gaining new customers
- Strategy to deliver vertical integration model to meet customer needs
- Clear value proposition for bulk products and technology
- Strong operational leverage will drive profitability



### Launched New Product from ImagineX Platform

- On time launch of Xaar Nitrox building confidence in Xaar's ability to deliver
- Established alpha partnerships for Xaar's aqueous technology with particular interest in higher viscosity fluids



### EPS business model change

- Modular approach working
- Optimistic about growth prospects as economy recovers



### 3D

- Advanced discussions to divest Xaar 3D

# Outlook

## We enter 2021 with a strong order book

### 2021 priorities

- **Positive operational cash flow** in 2021
- Delivery of **product roadmap**
- **Execute on plans** to extend product offering for vertical integration strategy

### Medium term aspirations

- Ambition grounded in philosophy of presenting **achievable goals focused on delivery**
- Review of operations to **maximise efficiency**
- Return to **profitability 2022**

### Further Upsides

- **Aqueous capability** of printhead will open significant new markets. On track for product launch **end 2022**
- **Agility and flexibility** to capitalise on significant new opportunities as they arise
- **New markets** developing where Xaar has **technical advantage**

“We have great technology,  
great people and a large  
market opportunity.  
We will be successful”.

**John Mills**

CEO



Q&A

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**Thank you**

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Appendix

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# Covid-19 Response

## Employee Engagement:

Operations continued throughout pandemic  
Successful adaption to working from home  
Measures implemented to ensure a safe, protected workplace including a robust in-house LFT programme  
Enhanced communications including weekly email to all employees

## Cash protection and self-help actions:

Discretionary spend limited  
Travel ban and recruitment restricted to key roles  
Capex on essential spend only  
Focus on working capital management whilst implementing buffer stock to ensure continuity of supply for our customers  
Review office requirements and footprint

## Social Response:

Local community support  
Provided laptops for children of employees for home schooling  
Local charity cash and foodbank donations  
No use of UK government subsidies

# OEM Market Segmentation

Markets	Ceramics and Glass	WFG and Labels	Packaging and Textiles	C&M and DTS	3D and Adv Man
<b>Reason for grouping</b>	Oil based inks with high pigment loadings	UV inks	Water-based inks	Different printing orientations size of the printhead	Challenging inks
<b>Market size for printheads</b>	£100m	£500m	£100m	£100m	£50m
<b>Estimated Xaar share</b>	Ceramics 5% Glass <1%	<1%	0%	30%	1%
<b>Current product suitability</b>	High	Very low	Very low	Very high	High
<b>Key product requirements</b>	Robust nozzle Plug and play	Robust nozzle plate High speed 400-1200dpi	Water compatible 400-1200dpi	Long throw distance Material compatibility	Material compatibility 1200dpi High speed High Viscosity
<b>Market positions (management estimate)</b>					