

2021 Interim Results

Tuesday 14th Sept 2021

XARR

Introduction & Agenda



John Mills
CEO



Ian Tichias
CFO

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Summary and 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

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

Winning new accounts, which is driving revenue growth and giving visibility of future revenue growth

Maintained **continuity of supply** despite global component shortages. Cost increases as a result which we see continuing into 2022

On-time launch of **Xaar Irix**, the latest product from the ImagineX Platform, strengthening our product offering in the Coding & Marking sector

Acquired FFEI – part of acquisition strategy to grow capability

Revenue of £26.3m in line with management expectations

Gross margin of 29% up 2ppts v 2020

Positive aEBITDA delivery from the Printhead business unit

Strong balance sheet with net cash of £17.1m

Commitment to ESG

- + Xaar strongly believes that operating responsibly is integral to business success
- + Xaar has established an ESG Committee and a Sustainability Team
- + First objective is to establish the Sustainability Roadmap to 2030
- + We aim to disclose the Sustainability Roadmap in our 2021 Annual Report
- + Xaar's printhead technology contributes to a reduction in material and energy wastage
- + Xaar offset all of the UK regulatory Scope 1 and 2 carbon impact that we made and reported in 2020, making Xaar a carbon neutral inkjet manufacturer in 2020, which we expect to continue in future years
- + We are in the process of rolling out apprenticeship and graduate schemes over 2021 and 2022
- + We are also supporting local charities and organisations
- + Xaar has launched its Volunteering Policy aimed at promoting volunteering across the organisation

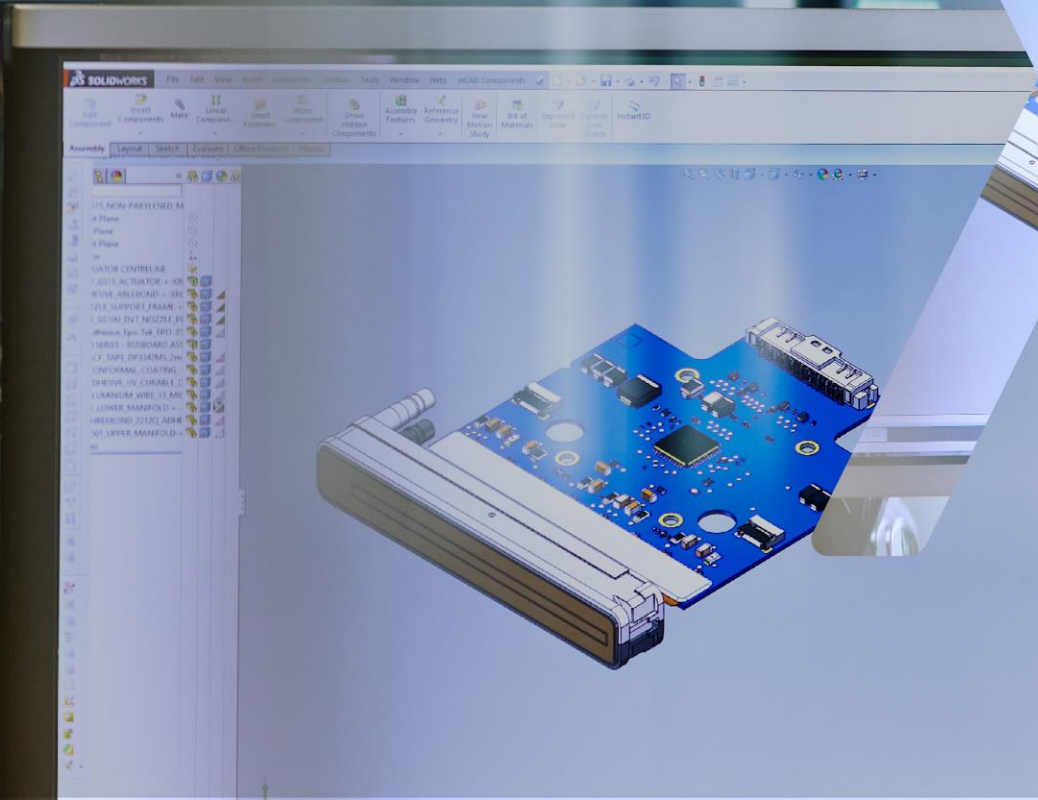




Financial Results

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Group Financial Performance

£M	2021 H1	2020 H1	Var	2020 H2	Var
Continuing Operations					
Revenue	26.3	23.7	2.6	24.3	2.0
Gross Margin	29%	27%	2%	27%	2%
Total Opex	(9.8)	(7.6)	(2.2)	(9.3)	(0.5)
aPBT	(2.3)	(1.3)	(1.0)	(2.6)	0.3
aEBITDA	(0.4)	0.7	(1.1)	(0.6)	0.2
Cashflow	(1.2)	4.9	(6.1)	2.1	(3.3)
Total Operations					
PAT	(5.3)	(5.2)	(0.1)	(9.5)	4.2
Cashflow	(2.4)	(1.5)	(0.9)	(3.6)	1.2

£M	2021 H1	2020 H1	Var	2020 H2	Var
Trade WC	12.7	16.9	(4.2)	14.3	(1.4)
Cash ¹	17.1	18.0	(0.9)	18.1	(1.0)
Net Assets	51.0	65.9	(14.9)	56.2	(6.3)

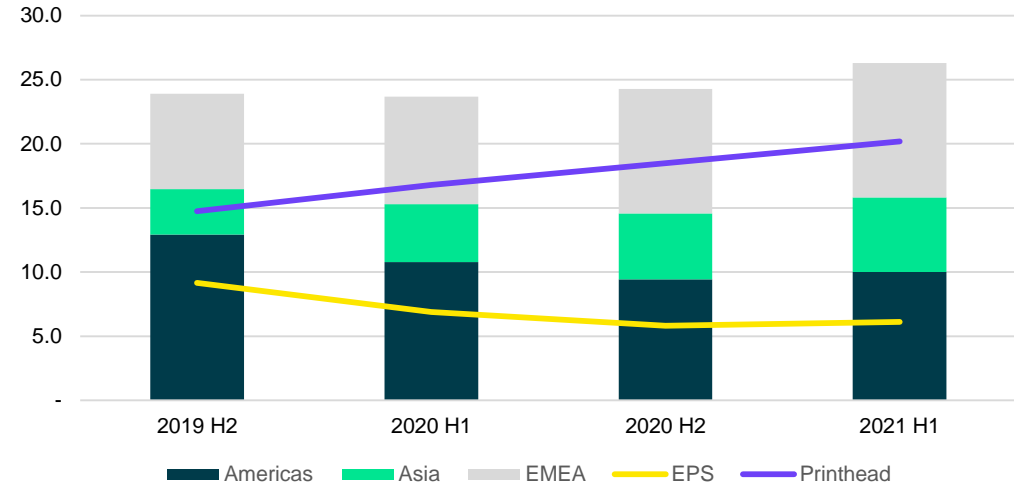
1: Cash excludes ring-fenced cash at Xaar 3D

- Revenue in line with expectations – continued growth in Printhead sales, sales at EPS impacted by COVID-19
 - Gross margin 2ppts higher due to operational leverage in the Printhead business as sales volumes increase driving increased factory throughput
 - Positive aEBITDA from Printhead BU and underlying EPS BU
 - Strong cash generation from continuing operations
 - X3D included in Discontinued Operations impacting PAT
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- Working capital reductions driven by continued optimisation of cash management
 - Strong cash position maintained
 - Strong Balance sheet with no debt

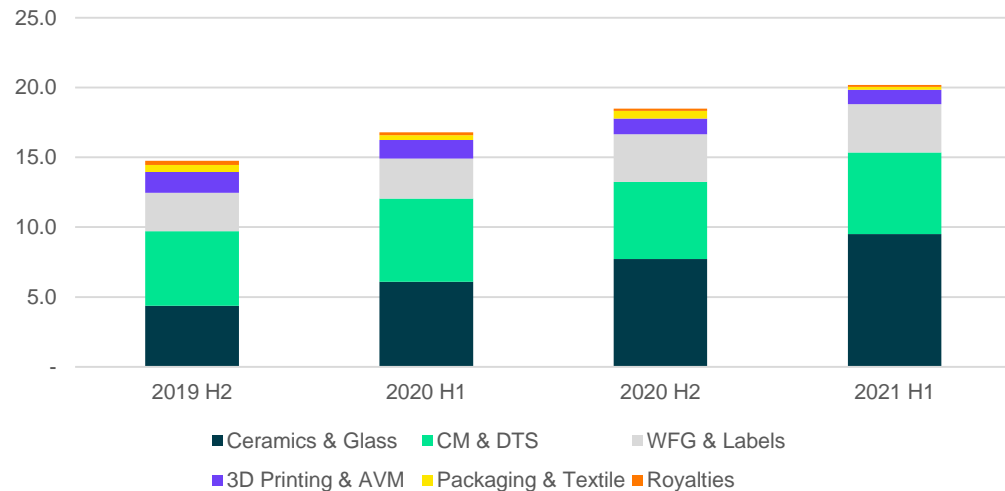
Group Revenue

- Revenue +11% y-o-y demonstrating continued momentum 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 revenue driven by fall in both machine sales and consumables as customers preserve cash and end-user markets have been slow to re-start post pandemic

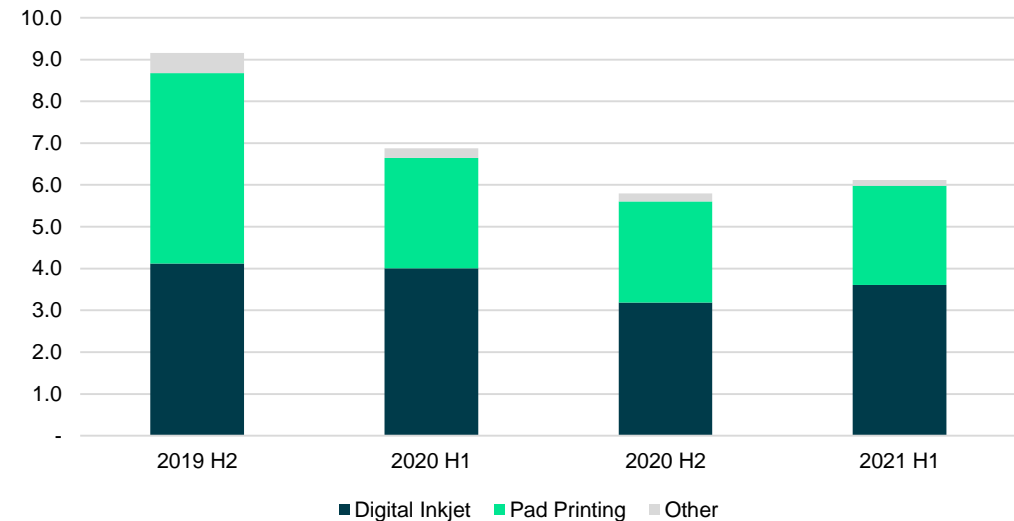
Revenue by Region and BU



Printhead Revenue by Sector



EPS Revenue by Technology



Business Unit Performance: Printhead

Printhead					
£M	2021 H1	2020 H1	Var	2020 H2	Var
Revenue	20.2	16.8	3.4	18.5	1.7
Gross Margin	35%	23%	12%	32%	3%
Total Opex	(7.9)	(5.7)	(2.2)	(7.5)	(0.4)
aPBT	(0.8)	(1.9)	1.1	(1.5)	0.7
aEBITDA	0.8	(0.1)	0.9	0.2	0.6

- Revenue up 20% 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
- OPEX higher y-o-y due to one offs in 2020
- R&D investment increased by £0.5m with investment focused on the ImagineX platform and product roadmap
- EBITDA positive and improvement in aPBT

 *Positive EBITDA generation*

Business Unit Performance: EPS

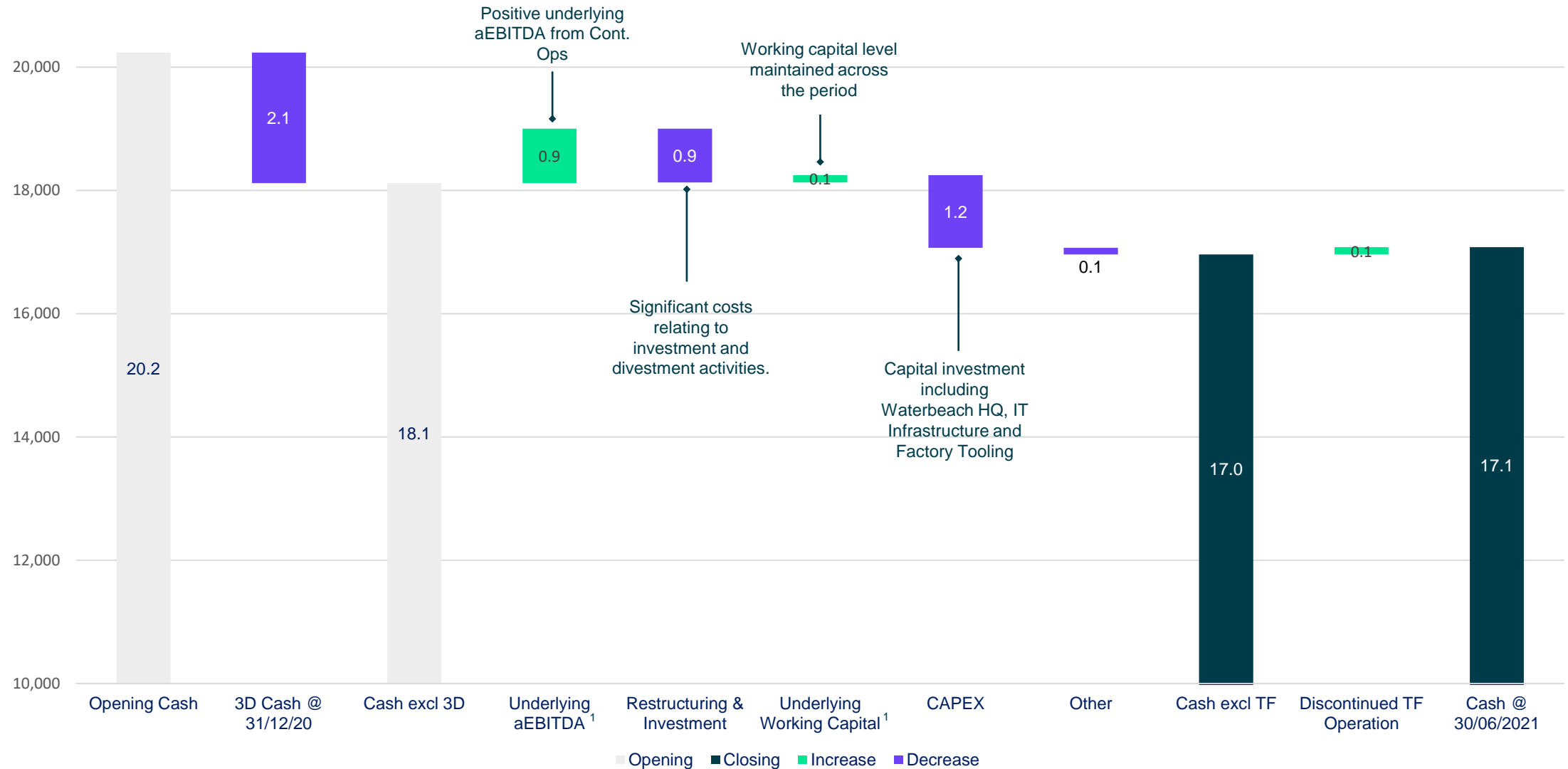
EPS					
Actual Results					
£M	2021 H1	2020 H1	Var	2020 H2	Var
Revenue	6.1	6.9	(0.8)	5.8	0.3
Gross Margin	8%	37%	(29%)	14%	(6%)
Total Opex	(1.9)	(1.8)	(0.1)	(1.8)	(0.1)
aPBT	(1.5)	0.6	(2.1)	(1.1)	(0.4)
aEBITDA	(1.2)	0.8	(2.0)	(0.7)	(0.5)

Underlying Results					
£M	2021 H1	2020 H1	Var	2020 H2	Var
Revenue	6.1	6.9	(0.8)	5.8	0.3
Gross Margin	28%	37%	(9%)	24%	4%
Total Opex	(1.9)	(1.8)	(0.1)	(1.8)	(0.1)
aPBT	(0.2)	0.6	(0.8)	(0.5)	0.3
aEBITDA	0.1	0.8	(0.7)	(0.1)	0.2

- Revenue declined -12% v H1/20, however recovery showing +5.1% v H2/20 due to increased ink jet sales
- Gross margin impacted by £1.0m of one-off inventory write downs related to legacy products
- Underlying gross margin up 4ppts v H2/20 driven by improvements in the quotation process, increased cost controls and modular build of products
- Operating expenditure continued to be tightly controlled
- Positive aEBITDA with underlying performance up v H2/20
- Balance sheet remains strong

 *Positive outlook for H2 2021*

Operating Cash Flow



¹: Underlying result removes the impact of the EPS one off adjustments

Financial Summary



Revenue is **in line with expectations**



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



Strong cash generation and underlying positive aEBITDA



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



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

Business Unit Updates

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Printhead Update

Update on Key Initiatives

Business Model Built for Partnerships

Customer engagement remains strong with growing pipeline of new machine development

Acquired FFEI as first step to widen product portfolio to further engage UDIs

Increased activity in Glass printing, PCB manufacture and 3D printing

Product Roadmap Built on ImagineX Platform

Launch of Xaar Irix

Aqueous head development progressing well

End user benefits of high viscosity capability becoming known to end users and driving increased interest

Operational Leverage Organisation and Group Structure

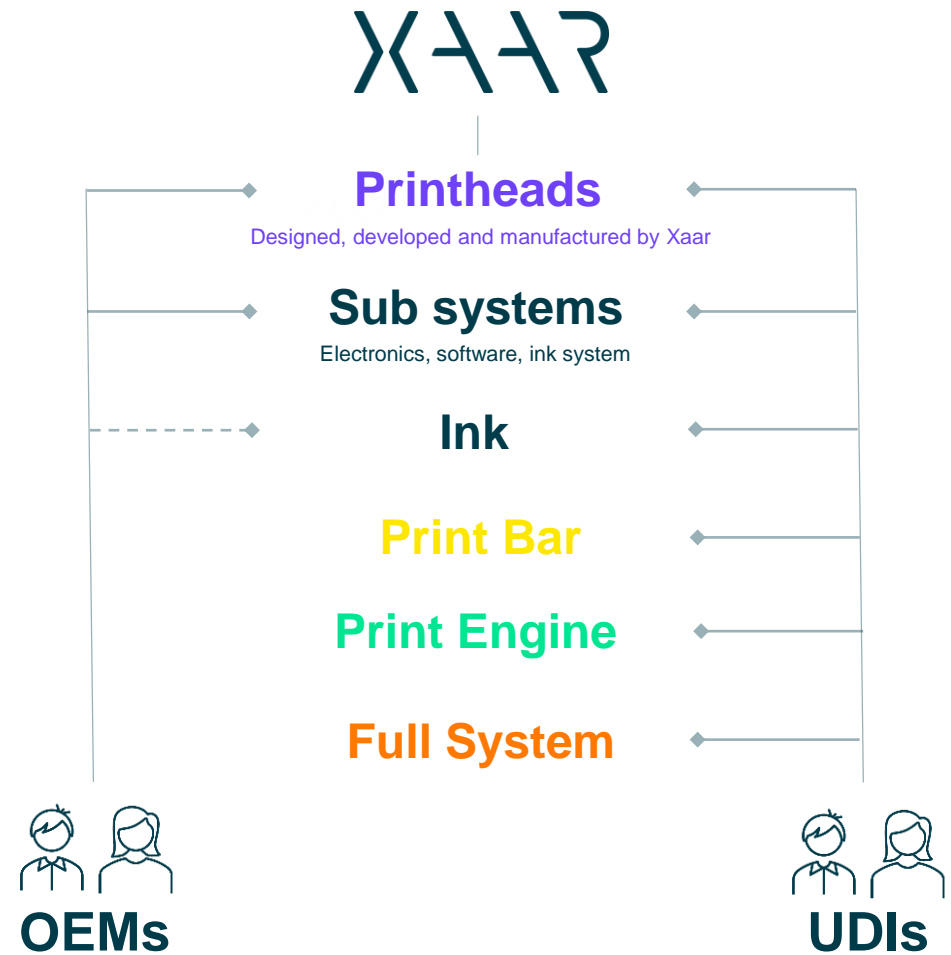
Pleased with progress implementing efficiency programs across IT and Operations

Drive to improve margins and scalability across the business have shown good progress in H1 2021

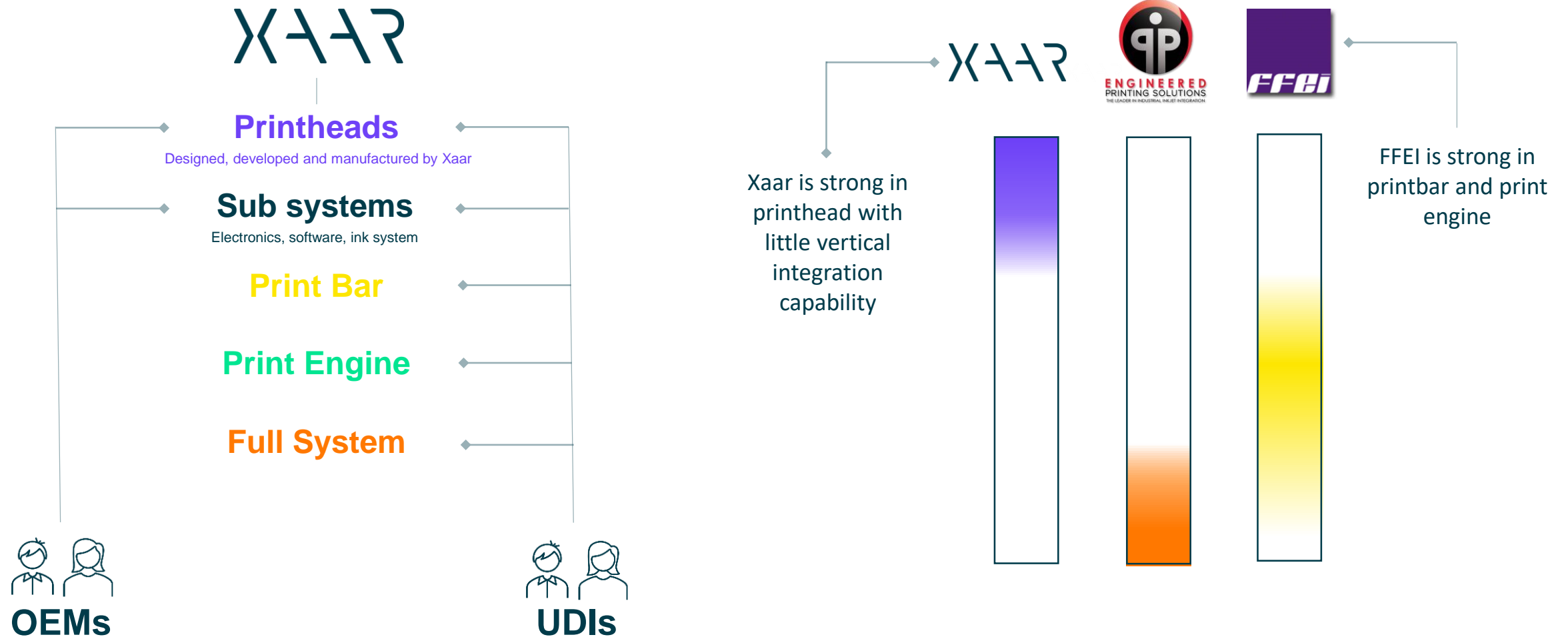
Strengthened senior team in Operations and IT

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



FFEI Bring Printbar and Print Engine – Gaps to fill in system components

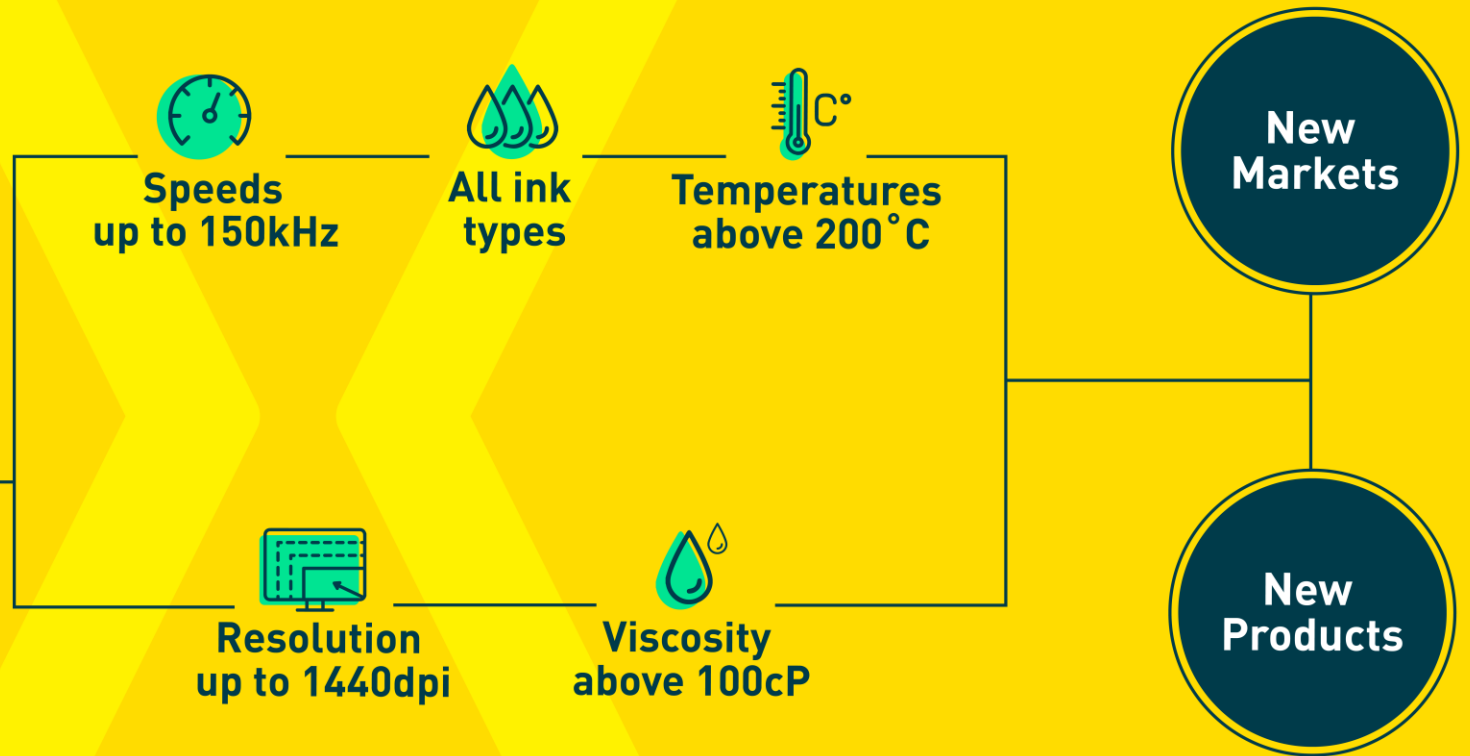


ImagineX

Powering Xaar products for the next **30 years**

Gen 1 IP

Powered **30 years** of Xaar products



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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>Launched 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 Alpha build</i> → <i>Launching Sept 2021</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 1440dpi

The Xaar Irix – Print with Confidence



Exceptional print quality using our latest nozzle manufacturing techniques



Unparalleled print uniformity with AcuDrp technology





Wide operating window giving **increased reliability and uptime**





Simple to use and easy to integrate


Printhead Summary


- 
Growth in revenue and aEBITDA

- 
Continue to be cautious on outlook due to impact of Delta variant in Asia

- 
Maintained supply despite component shortages but incurring increased costs

- 
On-time launch of new printhead Xaar Irix

- 
Acquired FFEI as part of vertical integration strategy

- 
Drive to improve margins and scalability across the business have shown good progress in H1

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**
- Delays in execution of Modular Strategy led to change of leadership in April 2021
- New leadership identified a number of issues that have led to further restructuring of the company and balance sheet
- As a consequence, we have taken further write downs of inventory and other restructuring costs
- Under new leadership we are confident that we will execute on the Modular Strategy programme as originally planned

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

Supply chain

No delivery issues despite increasing lead times with certain key system components. This **remains a risk which we continue to manage**

New management are taking the opportunity to re-structure the operation around Modular Strategy and **consolidation of product range** has resulted in an inventory write-down

Current trading

Revenue in line with expectation, margin and profitability have been impacted by **resetting of Modular Strategy by new management**

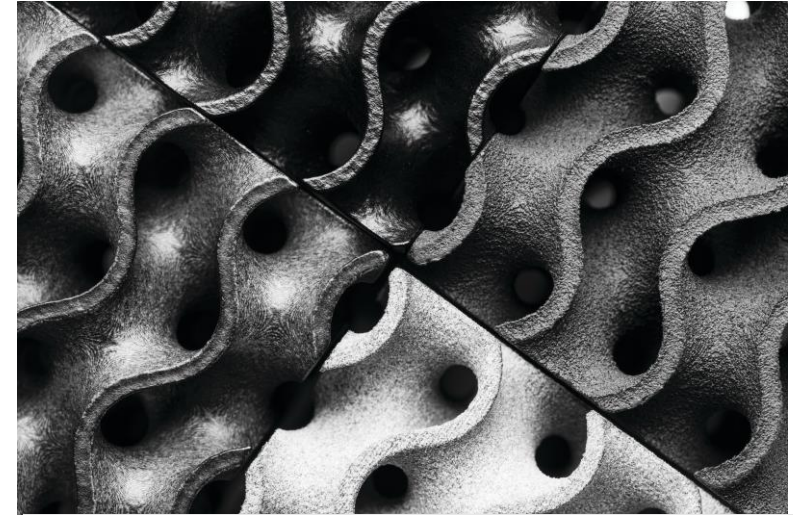
Progress has been made in the Modular Strategy, but we have identified key areas where significant improvements are required to **cut project overruns and shorten lead times**

Underlying profitability of the business is strong and with a **healthy pipeline** we see **good growth** potential

3D Update

Xaar/Stratasys Partnership

- + Commercialisation of the Xaar 3D product is progressing
- + We are very pleased that we are strengthening our relationship with Stratasys
- + It has taken longer than expected to conclude the divestment of Xaar 3D due to the mechanics of the divestment





Summary and Outlook

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Outlook

Update on Key Priorities

2021 priorities

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

Medium term aspirations

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

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**
- Increased interest in high viscosity **capability of the printheads**

Summary – Key Achievements

- +**
aEBITDA positive in PH
 - Positive aEBITDA in PH
 - Margin growth by 2ppts
 - Revenue growth
- +**
Built stable platform for the business
 - Growth in revenue and EBITDA
 - Maintained supply despite component shortages but incurring increased costs
 - Drive to improve margins and scalability across the business have shown good progress in H1 2021
- +**
Launched New Product from ImagineX Platform
 - On-time launch of new printhead Xaar Irix
 - Aqueous head development progressing well
 - End user benefits of high viscosity capability becoming known to end users and driving increased interest
- +**
EPS business model change
 - Revenue in line with expectation, margin and profitability have been impacted by resetting of modular strategy by new management
 - Re-structure of operation around modular system and consolidation of product range has resulted in an inventory write-down
 - Underlying profitability of the business is strong and with a healthy pipeline
- +**
FFEI Integration
 - First acquisition to build vertical integration strategy
 - FFEI bring strong capability in printbar and print engine
 - Still gaps to fill in system components

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

John Mills

CEO

Q&A

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