

Chairman's Statement

Introduction

I am pleased to present Haydale Graphene Industries Plc's ("Haydale", the "Group" or the "Company") full year audited results to 30 June 2020 ("FY20").

During the year the Group has made significant progress in moving from a research and development organisation to one focussed on the delivery of sustainable commercial revenues. Notwithstanding the impact of Covid-19 on revenue in the latter part of the year, the Group has made positive strides in driving profitable sales, developing its operational and technical capacity and controlling its cost base.

Summary Financials

Commercial revenue for FY20 of £2.95 million (FY19: £3.47 million) showed a disappointing fall on the prior year. This reflects the adverse impact of Covid-19 which has restrained revenues, especially in the US division where demand for our proprietary Silicon Carbide ('SiC') blanks has been significantly affected by subdued demand for global aviation. Despite the fall in revenue, Gross Profit increased marginally to £2.06 million (FY19: £1.90 million). The Gross profit margin of 69.9% (FY19: 54.8%) showed a significant year on year improvement and this was principally due to reduced sales of lower margin SiC into the US fracking industry. Other operating income in the year at £0.76 million (FY19: £0.79 million) is broadly in line with prior year, although it has benefitted from the support offered by the US Cares Act during the latter part of the year.

The focus on reducing costs continued in the year with adjusted Administrative Expenses falling by £0.87 million (12.7%) to £5.99 million (FY19: £6.86 million) on a like-for-like basis. Over the last two reporting periods, the Company has reduced its operating cost base by £1.7 million in total. Non-recurring one off restructuring costs, principally relating to the closure of the Taiwan facility during the year, were £0.06 million (FY19: £0.35 million). Total Trading Admin Expenses are £7.05 million (FY19: £8.53 million).

Total comprehensive loss for the year was £4.23 million (FY19: £7.12 million), including the £0.06 million of restructuring costs (FY19: £2.13 million including an impairment of intangible assets of £1.79 million) the loss from trading activities was £4.23 million (FY19: £5.85 million).

Operations

Whilst Covid-19 may have overshadowed the past year it has certainly not defined it for the Group. The path towards the goals that were put in place in 2019 has evolved to cope with the Coronavirus pandemic but the priorities of focussed investment in our technology, delivery of commercial revenue and reduction of operating costs remains at the heart of our strategy.

FOCUSSED INVESTMENT IN R&D

Haydale brings together two state of the art technologies – the patented HDPlas® functionalisation process and an understanding of graphene and other nano materials. The Company has continued to increase the level of surface functionalisation that it can achieve and this is leading to a marked improvement in the enhancements that we can deliver for our customers. For example, during the year the Group has invested in the next generation of functionalised inks delivering reduced resistivity to circa 10 ohms. This development allows for a cost effective and environmentally friendly replacement of silver, copper and aluminium etch in certain elements of the growing radio-frequency identification ('RFID') and near field communication ('NFC') sectors.

COMMERCIAL GOALS

The focussed investment in R&D is not an end goal but a means through which the Group can deliver sustainable revenue growth. During the year, all of the operating units have made positive progress in commercialising our technology portfolio despite the difficult operating environment. In April we signed a four-year agreement with Uniqe Aviation Inc/Dalian Yi Bang Science and Technology Co Ltd ("Uniqe") for the supply of electrically enhanced masterbatch into the Chinese civilian aviation and wind turbine sectors. The work that we are doing in conjunction with Uniqe in aviation should demonstrate that our electrical masterbatch can offer significant weight savings and application efficiencies without compromising passenger safety and should facilitate the wider rollout of this solution to the global aerospace sector.

GROUP RESTRUCTURING AND COST REDUCTIONS

During the year under review we re-evaluated our operating footprint and in January 2020 announced the closure of the Group's loss-making Taiwan facility and the transfer of its operations to our ink development hubs in Ammanford and Bangkok. Subsequently, we concluded a commission agreement with U-Win, a specialist sales organisation, to sell our portfolio of technologies into the biomedical sensor, automotive and other sectors in Taiwan. We have also signed a memorandum of understanding with a Sino-UK facilitator for business development in China. Whilst it is early days, management are encouraged by the progress made by both of these initiatives and believes the reorganisation will have a positive effect on the development of our ink technology and the realisation of commercial revenue in Taiwan and China.

The Group has continued to realign its costs base and during the year it has reduced its overall headcount whilst continuing to invest in its global sales presence. The Group has also realised significant cost savings and, as noted above, like-for-like administrative costs have reduced by £0.87 million, (12.7%) in the year and this has been achieved without impacting the operational effectiveness of the Group.

Chairman's Statement continued

IMPACT OF COVID-19

Demand for SiC and the SiC blanks that we manufacture at our US facility has been severely impacted by the slowdown in the aviation sector. Whilst this has undoubtedly restrained the Company's progress it has also acted as a catalyst for change in that business unit. The Group has acted decisively to reduce medium term exposure to the aviation sector by embracing new markets for its existing products and by adopting complementary products for new markets and customers. In April the US division signed an agreement to distribute CeramycShield™, a product that renews and restores old or decaying concrete, into the UK water industry. I am pleased to report that subsequent to the year end the Group shipped its first order for the product.

Within the wider business we saw an immediate slowdown when the UK lockdown was introduced in March 2020. The closure of accredited testing facilities and the furlough of staff at our customers meant that a number of projects were postponed or delayed. I am pleased to report that, as the UK moved out of the first wave, those projects and contracts have now generally started and are progressing to the revised plans.

The Group has taken advantage of national Covid-19 schemes and has accessed support from the US Cares Act and the UK Bounceback loan scheme. At no time during the crisis were any of the Group's sites closed and the Company acted and continues to act in accordance with the relevant guidelines in the jurisdictions in which it operates. In the UK, vulnerable employees were allowed to work from home and those employees who were able to work on site operated in accordance with the UK and Welsh Governments Covid-19 safety advice. The Company did access the UK Coronavirus Job Retention Scheme but at the time of this report I am pleased to say that all of our UK employees have returned to work, albeit some on a part time basis.

Director Changes

In November 2019 Haydale welcomed Mark Chapman as the Group's new Chief Financial Officer, who replaced Laura Redman-Thomas, and in June 2020 Theresa Wallis as a new independent Non-Executive Director, who replaced Roger Humm. I would like to take this opportunity to thank Laura and Roger for their services to the Group, and particularly Roger who had served as a director before the Company's AIM IPO in 2014.

Outlook

Whilst the business is well placed to benefit from a recovery in the aviation industry, given the uncertainty surrounding this sector the Board believes that it has put in place robust plans to grow the business whilst reducing reliance on individual products or sectors. As part of those plans, on 9 September 2020 the Company completed an equity placing raising £2.8 million (net of expenses) to provide additional working capital to finance operations. This injection of capital provides a solid foundation and allows the Company to focus on the delivery of its strategic goals. I would like to welcome our new shareholders and to thank our existing shareholders for their continued support at this time.

The Board is mindful of the ongoing uncertainty created by Covid-19 but considers that the long-term outlook remains positive and believe that Haydale's proprietary technology and its capacity to functionalise nano and other materials to significantly enhance the properties of host materials continues to deliver confidence in the prospects of the Group.

I would like to thank the executive team who have reacted so positively to the demands of the Covid-19 pandemic and, whilst challenges remain, I am confident in their ability to overcome them. I would also like to thank the staff, our advisors and my fellow non-executive directors for their hard work and dedication during the year.

David Banks

Chairman
29 October 2020