IQE plc

("IQE" or the "Group")

2019 FULL YEAR RESULTS

Cardiff, UK
28 April 2020

Positioned for short-term resilience and long-term growth

IQE plc (AIM: IQE) the leading supplier of advanced wafer products and material solutions to the semiconductor industry, announces its full year results for the year ended 31 December 2019, which are in line with the unaudited summary financials released in the trading update of 24 March 2020.

2019 Financials

	FY 2019 £'m*	FY 2018 £'m*
Revenue	140.0	156.3
Adjusted EBITDA***	16.2	26.4
Operating (loss)/profit	(18.8)	8.7
Adjusted operating (loss)/profit	(4.7)	16.0
Reported (loss)/profit after tax	(35.1)	1.2
Adjusted diluted EPS(p)	(2.46)	1.38
Cash generated from operations (Adjusted)	16.5	17.0
Capital investment (PP&E)	31.9	30.3
Net (debt)/funds**	(16.0)	20.8

**   All figures £'m excluding adjusted diluted EPS*
*** Net (debt) / funds excludes IFRS16 lease liabilities*
Adjusted Measures: The Directors believe that the adjusted measures provide a more useful comparison of business trends and performance. Adjusted measures exclude certain non cash charges and one-off or non-operational items as detailed in note 4. The following highlights of the full year results is based on these adjusted profit measures, unless otherwise stated.

Financial Highlights

- Revenue of £140.0m (FY 2018: £156.3m) and an adjusted operating loss of £4.7m (FY 2018: profit of £16.0m) were in line with the November 2019 Trading Update guidance and are as reported in the Trading Update on 24 March 2020.

- Reported operating loss after tax of £35m (FY 2018: £1.2m profit) as a result of the adjusted operating loss, recognition of a share of joint venture losses of £5m and exceptional items including
  - non-cash balance sheet write-downs of assets of £9.5m
  - cash costs associated with a confidential legal dispute £4.3m
  - non-cash deferred tax asset write-downs of £10m

- Capital expenditure of £31.9m (FY 2018: £30.4m), as the Group completed the infrastructure phase of the capacity expansion programme

- Adjusted operating cashflow of £16.5m (FY 2018: £17.0m) and net debt (excluding lease liabilities) of £16.0m as at 31st December 2019 near the lower end of £15-20m range highlighted in November 2019 Trading Update guidance and as reported in the March 24th Trading Update.

Dr Drew Nelson, Chief Executive Officer of IQE, said:

"I'm pleased today to report our full year financial results for 2019, having previously postponed the release based on advice from the FCA and FRC due to the uncertainty in the external market during these challenging times.

"The global coronavirus pandemic is having a significant impact on all of our lives. I am confident IQE continues to take the right steps to protect our staff and also to maintain production at all of our global sites. I'm proud that as a supplier within the critical communications sector, IQE's technology has a role to play in helping the world stay connected during this difficult time.

"Looking at this year, I am pleased to report that Q1 2020 trading was slightly higher than our internal expectations and the outlook for Q2 remains positive at this time. IQE remains well positioned to withstand the near-term uncertainty, and we are confident our technology will be a critical part of the world's technologically driven future."

Operational Highlights

- **Infrastructure phase of the capacity expansion programme completed:**

  - Mega Foundry in Newport, South Wales entered production for 3D sensing products
  - Wireless capacity in Taiwan increased to address changes in global supply chain dynamics
  - GaN capacity in Massachusetts to capitalise on forthcoming 5G infrastructure deployments

- **Next Generation Product Development:**

  - 10G and 25G Full Service Distributed Feedback (DFB) Lasers and 10G and 25G Avalanche Photodiodes (APDs) for high-speed datacoms and 5G fronthaul and backhaul
  - Filters (based on IQE's patented cREO technology) and Switches for 5G
  - Photonics roadmap progress including strong results for Long Wavelength Vertical Cavity Surface Emitting Lasers (VCSELs) for future smartphone and LIDAR deployments
  - Lasers and sensors for environmental and health monitoring

- **Evolution of the Board and Executive Management to support growth ambitions and scalability of operations:**

  - Phil Smith CBE, appointed as Chairman
  - Carol Chesney, FCA, appointed as Non-Executive Director and Chair of the Audit Committee
  - Tim Pullen, ACA, appointed as Chief Financial Officer (CFO)
  - Executive Management Board established and fully operational

- **Increase to credit facilities to support navigation of challenging market conditions:**

  - £30m asset financing facility put in place, increasing total available facilities to ~£57m (£25m drawn down at 31st December 2019)
  - Formal agreement in place to relax debt covenants in December 2020 and June 2021, as a precaution, to ensure continued access to debt facilities in severe downside scenarios

Current trading and 2020 outlook

The full effects of the Coronavirus pandemic on global economic output in 2020 are still uncertain. The effect of an anticipated downturn on IQE's markets is also uncertain and the increased risk to near-term performance is not currently quantifiable.

Given the unprecedented levels of uncertainty, we are unable to provide explicit guidance at this point in time. However, in line with the Trading Update on 24 March trading so far in 2020 has been in line with previous expectations, and the outlook for Q2 2020 remains positive.

We continue to monitor developments around the pandemic, economic activity and specific market intelligence very closely and will update the market as the situation evolves.

Investment in Research and Development will continue and we anticipate spending of up to £10m on capitalised intangibles in 2020. Investment in Property Plant & Equipment will significantly reduce in 2020, to under £10m, following the completion of the infrastructure phase of our capacity expansion programme.

IQE has sufficient liquidity in the form of credit facilities to navigate downside scenarios if required.

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ABOUT IQE

http://iqep.com

IQE is the leading global supplier of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- handset devices
- global telecoms infrastructure
- connected devices
- 3D sensing

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in a market which has high barriers to entry. IQE supplies the whole market and is agnostic as to the winners and losers at chip and OEM level. By leveraging the Group's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with c. 650 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore, and is listed on the AIM Stock Exchange in London.

Financial Review

The Group reports financial performance in accordance with International Financial Reporting Standards adopted by the European Union ('IFRS') and provides disclosure of additional alternative non IFRS GAAP performance measures to provide further understanding of financial performance. Details of the alternative performance measures used by the Group including a reconciliation to reported IFRS GAAP performance measures is set out in note 4.

Consolidated revenues declined by 10.4% to £140.0m (2018: £156.3m), primarily as a result of (i) a fall in demand from a major Wireless customer due changes in global technology markets resulting from a changing geo-political context and (ii) a fall in demand from a major Photonics customer due to technical matters outside of IQE's control.

Segmental information has been restated in the financial statements to reflect changes in the Group's operating and reporting structure following the establishment of an Executive Management Board that has consolidated responsibility for the Group's primary markets and operating segments under the leadership of an Executive VP, Global Business Development, Wireless and Emerging Products and an Executive VP, Global Business Development, Photonics & Infrared. This change to the Group's operating and reporting structure has resulted in the consolidation of the previously disclosed Infrared segment into Photonics and the reclassification of certain revenues and associated costs pertaining to a specific site, which has shared production, between the Wireless and Photonics segments.

Photonics represents the largest proportion of the Group's revenue accounting for 49.8% (2018: 42.7%) of total wafer sales with Wireless representing 48.7% (2018: 56.2%) and CMOSS++ representing 1.5% (2018: 1.1%) on a restated basis.

Photonics wafer revenues were up 4.4% to £69.8m (2018: £66.8m) despite a significant loss of volume from an Indium Phosphide customer that experienced technical issues with an end customer that were outside the Group's control. Photonics demand, especially for VCSEL and Infrared products continued to grow in 2019. VSCEL revenues accounted for circa 50% of total Photonics revenues in 2019. Single digit % growth was driven by demand from the Group's existing VCSEL supply chain and initial volumes from Android supply chains. Infrared revenues accounted for circa 30% of total Photonics revenues in 2019 with growth rates consistent with historic growth being driven primarily by defence applications.

Wireless wafer revenues were down 22.4% to £68.2m (2018: £87.9m). The decline in Wireless revenue reflects the global market changes related to the geo-political landscape, including the impact of a significant decline in volume from one of the Group's major GaAs Power amplifier customers, despite maintaining the previous share of that customers business. GaAs wafers account for circa 70% of Wireless revenues in 2019, with GaN wafers accounting for circa 30%.

Gross profit declined from £37.5m to £21.4m. Adjusted gross profit, which excludes the charge for share based payments, decreased from £36.8m to £20.9m resulting in an adjusted gross margin decline on wafer sales from 23.9% to 14.9%. The decline in adjusted gross profit margin reflects under-utilisation of assets in a period where revenue has declined and additional manufacturing capacity has been installed at the Group's manufacturing sites in Newport (UK), Hsinschu (Taiwan) and Massachusetts (US).

Other income declined from £1.1m to £nil. The decrease in other income relates to the net insurance proceeds received in 2018 following the death of the former Chief Financial Officer, Phillip Rasmussen. The net insurance income was excluded from the adjusted profit measures in 2018 as the income did not relate to underlying trading.

Selling, general and administrative ('SG&A') expenses increased from £29.9m to £36.3m. Adjusted SG&A, which excludes adjustments for share based payments, amortisation of acquired intangibles, restructuring costs, patent dispute legal costs and certain non-current asset impairments increased from £20.7m to £25.8m reflecting an increase in non-cash amortisation charges, an increase in corporate costs as the business primes itself for growth and exchange rate movements.

Restructuring costs totalling £0.8m (2018: £3.3m) relates to site-specific employee related restructuring of £0.6m (2018: £nil) and additional costs of £0.2m (2018: £3.3m) associated with the closure of the Group's manufacturing facility in New Jersey. Patent dispute legal costs of £4.3m (2018: £1.3m) relate to a confidential legal dispute. The associated arbitration hearing ruled entirely in favour of IQE. In a related Court process, in which the counterparty has stated it is considering appealing the award, the case is not yet fully resolved. This means that whilst IQE can maintain its position that the eventual outcome will not be adverse, any potential positive impacts cannot currently be estimated. Non-current asset impairments totalling £9.5m (2018: £nil) relates to the impairment of certain intangible, right of use and non-current financial assets detailed in note 4.

Operating profit decreased from £8.7m to a current year loss of £18.8m. Reflecting the adjustments noted above, adjusted operating profit decreased from £16.0m to an operating loss of £4.7m. The segmental analysis in note 3 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Wireless adjusted operating margins declined from c.18.8% to c.9.7%, primarily reflecting declines in volume and associated underutilisation of manufacturing capacity. The decline in adjusted Photonics operating margins from c.15.3% to c.1.9% primarily reflects increased non-cash amortisation charges and increased cost associated with the Group's newly commissioned Newport foundry where volumes continue to ramp.

Share of losses in joint ventures of £4.7m (2018: £2.0m) reflects payments of £0.7m made on behalf of the Group's joint venture, CSDC, in the period prior to its acquisition on 10 October 2019 and the application of the loss absorption requirement of IAS28.38 resulting in a charge of £4.0m following reassessment of the recoverability of the Group's preference share debt due from CSC to long term during the year (see note 4).

The acquisition of CSDC was for a nominal cash consideration of £5 and by taking control of the loss-making operation, the Group is well placed to take the necessary steps to restructure the operation and pursue various Asian market sales opportunities for MBE-based products to return the operation to profitability.

Finance costs increased to £1.5m from income of £0.1m in 2018 reflecting the Group's utilisation of its borrowing facilities to fund capital expansion and the unwind of discounting associated with lease liabilities following the implementation of IFRS 16 'Leases'.

The charge for taxation increased from £5.6m to £10.2m reflecting increases in non-cash deferred tax charges. Increased deferred tax charges principally relate to the reversal of previously recognised US deferred tax assets, deferred tax associated with accelerated capital allowances in excess of depreciation, reflecting the significant recent capital investment in the business partially offset by the recognition of deferred tax assets on current year taxable losses in the UK. The largest component of the deferred tax charge relates to the partial reversal of previously recognised US deferred tax assets. A forecast shift in the balance of the Group's projected manufacturing production and hence profits between the US and rest of the world has resulted in lower projected utilisation of US deferred tax assets in future years resulting in the partial reversal of previously recognised US deferred tax assets with a tax impact of ~£9.6m.

The tax charge on adjusted items of £1.8m and the associated low effective tax rate principally reflects the non-deductible nature of certain asset impairments, the tax treatment of the equity accounted CSC loss absorption and the impact of the effective tax rate arising on the tax credit associated with the share-based payment credit. The tax credit associated with share-based payments principally reflects the reduction in future tax deductions associated with the decrease in share price and a reduction in the number of options where performance criteria are expected to be achieved.

Cash invested remained consistent with the prior period at £42.1m (£42.4m) as the Group has completed the infrastructure phase of its capacity expansion programme. Capital expenditure has remained broadly consistent at £31.9m (2018: £30.4m) related to the investments in the new Mega Foundry in Newport, focused on the 3D sensing market, the expansion of the Group's wireless (GaAs) capacity in Taiwan and the consolidation of the Group's wireless GaN capacity in Massachusetts.

Investment has continued in technology and intellectual property. Technology based development expenditure totals £8.4m (2018: £10.4m).

Investment in capital and technology development has partially been funded by debt. The Group's net debt position of £16.0m (2018: £20.8m net funds), excluding lease liabilities arising on implementation of IFRS 16 compares to committed bank borrowing facilities of £57.0m (2018: £nil).

Financial Summary

	2019	2018
	£'000	£'000
Revenue	**140,015**	156,291
Adjusted EBITDA (see below)	**16,246**	26,404
Operating (loss) / profit		
• Adjusted*	**(4,676)**	16,040
• Reported	**(18,802)**	8,660
(Loss) / profit after tax		
• Adjusted*	**(19,010)**	11,229
• Reported	**(35,128)**	1,189
Net cash flow from operations		
Before adjustments (note 4)	**16,530**	16,982
Reported	**8,948**	16,988
Free cash flow**		
Before exceptional cash flows	**(25,445)**	(26,045)
Reported	**(33,027)**	(26,039)
Net (debt)/cash excluding lease liabilities***	**(15,970)**	20,807
Equity shareholders' funds	**266,593**	305,730
Basic EPS – adjusted****	**(2.46p)**	1.44p
Basic EPS – unadjusted	**(4.51p)**	0.13p
Diluted EPS – adjusted****	**(2.46p)**	1.38p
Diluted EPS – unadjusted	**(4.51p)**	0.12p

Financial Results

Consolidated income statement for the year ended 31 December 2019

	2019 £'000	2018 £'000
Revenue	**140,015**	**156,291**
Cost of sales	**(118,631)**	**(118,840)**
Gross profit	**21,384**	**37,451**
Other income and expenses	**-**	**1,097**
Selling, general and administrative expenses	**(36,297)**	**(29,888)**
Impairment loss on financial assets	**(4,134)**	**-**
Profit on disposal of property, plant and equipment	**245**	**-**
Operating (loss) / profit	**(18,802)**	**8,660**
Finance (costs) / income	**(1,458)**	**87**
Share of losses of joint ventures accounted for using the equity method	**(4,688)**	**(2,000)**
Adjusted (loss) / profit before income tax	**(7,019)**	**13,974**
Adjustments	**(17,929)**	**(7,227)**
(Loss) / Profit before income tax	**(24,948)**	**6,747**
Taxation	**(10,180)**	**(5,558)**
(Loss) / Profit for the year	**(35,128)**	**1,189**
(Loss) / Profit attributable to:		
Equity shareholders	**(35,473)**	**966**
Non-controlling interest	**345**	**223**
	(35,128)	**1,189**
(Loss) / earnings per share attributable to owners of the parent during the year		
Basic (loss) / earnings per share	**(4.51p)**	**0.13p**
Diluted (loss) / earnings per share	**(4.51p)**	**0.12p**

Adjusted basic and diluted (loss) / earnings per share are presented in note 5.

All items included in the (loss) / profit for the year relate to continuing operations.

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

Consolidated statement of comprehensive income for the year ended 31 December 2019

	2019 £'000	2018 £'000
(Loss) / profit for the year	**(35,128)**	**1,189**
Currency translation differences on foreign currency net investments*	**(3,654)**	**11,140**
Total comprehensive (expense) / income for the year	**(38,782)**	**12,329**
Total comprehensive (expense) / income attributable to:		
Equity shareholders	**(39,084)**	**12,010**
Non-controlling interest	**302**	**319**
	(38,782)	**12,329**

*** Items that may be subsequently be reclassified to profit or loss.**

Items in the statement above are disclosed net of tax.

Consolidated balance sheet as at 31 December 2019

	2019 £'000	2018 £'000
Non-current assets		
Intangible assets	118,456	121,775
Fixed asset investments	75	75
Property, plant and equipment	136,482	124,445
Right of use assets	39,355	-
Deferred tax assets	5,679	13,244
Financial assets	-	7,937
Total non-current assets	300,047	267,476
Current assets		
Inventories	30,668	35,709
Trade and other receivables	33,065	38,015
Cash and cash equivalents	8,800	20,807
Total current assets	72,533	94,531
Total assets	372,580	362,007
Current liabilities		
Trade and other payables	(26,367)	(45,908)
Current tax liabilities	(1,162)	(431)
Bank borrowings	(2,034)	-
Lease liabilities	(3,083)	-
Provisions for other liabilities and charges	-	(2,554)
Total current liabilities	(32,646)	(48,893)
Non-current liabilities		
Bank borrowings	(22,736)	-
Lease liabilities	(44,895)	-
Deferred tax liabilities	(1,860)	-
Provisions for other liabilities and charges	-	(3,836)
Total non-current liabilities	(69,491)	(3,836)
Total liabilities	(102,137)	(52,729)
Net assets	270,443	309,278
Equity attributable to the shareholders of the parent		
Share capital	7,961	7,767
Share premium	152,385	151,147
Retained earnings	63,826	99,299
Exchange rate reserve	27,502	31,113
Other reserves	14,919	16,404
	266,593	305,730
Non-controlling interest	3,850	3,548
Total equity	270,443	309,278

Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	7,767	151,147	99,299	31,113	16,404	3,548	309,278
Comprehensive expense							
(Loss) / profit for the year	-	-	(35,473)	-	-	345	(35,128)
Other comprehensive expensefor the year	-	-	-	(3,611)	-	(43)	(3,654)
Total comprehensive expense for the year	-	-	(35,473)	(3,611)	-	302	(38,782)
Transactions with owners							
Share based payments	-	-	-	-	(641)	-	(641)
Tax relating to share options	-	-	-	-	(124)	-	(124)
Proceeds from shares issued	194	1,238	-	-	(720)	-	712
Total transactions with owners	194	1,238	-	-	(1,485)	-	(53)
At 31 December 2019	7,961	152,385	63,826	27,502	14,919	3,850	270,443

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	7,560	145,927	98,333	20,069	16,061	3,229	291,179
Comprehensive income							
Profit for the year	-	-	966	-	-	223	1,189
Other comprehensive income for the year	-	-	-	11,044	-	96	11,140
Total comprehensive income for the year	-	-	966	11,044	-	319	12,329
Transactions with owners							
Share based payments	-	-	-	-	1,826	-	1,826
Tax relating to share options	-	-	-	-	(437)	-	(437)
Proceeds from shares issued	207	5,220	-	-	(1,046)	-	4,381
Total transactions with owners	207	5,220	-	-	343	-	5,770
At 31 December 2018	7,767	151,147	99,299	31,113	16,404	3,548	309,278

Other reserves relates to share based payments.

Consolidated cash flow statement for the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Adjusted cash inflow from operations	16,530	16,982
Cash impact of adjustments	(7,582)	6
Cash generated from operations	8,948	16,988
Net interest paid	(671)	(66)
Income tax paid	(151)	(665)
Net cash generated from operating activities	8,126	16,257
Cash flows from investing activities		
Purchase of property, plant and equipment	(31,864)	(30,375)
Purchase of intangible assets	(1,806)	(1,550)
Capitalised development expenditure	(8,427)	(10,437)
Proceeds from disposal of property, plant and equipment	263	-
Acquisition of subsidiary, net of cash acquired	10	-
Net cash used in investing activities	(41,824)	(42,362)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	712	813
Repayment of borrowings	(17,125)	
Proceeds from borrowings	41,895	-
Payment of lease liabilities	(3,651)	-
Net cash generated from financing activities	21,831	813
Net decrease in cash and cash equivalents	(11,867)	(25,292)
Cash and cash equivalents at 1 January	20,807	45,612
Exchange (losses)/gains on cash and cash equivalents	(140)	487
Cash and cash equivalents at 31 December	8,800	20,807

Notes to the financial statements for the year ended 31 December 2019

1. General information

IQE plc ('the company') and its subsidiaries (together 'the Group') develop, manufacture and sell advanced semiconductor materials. The Group has manufacturing facilities in Europe, United States of America and Asia and sells to customers located globally.

IQE plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom and is quoted on the Alternative Investment Market (AIM). The address of the Company's registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, except for the impact of the implementation of IFRS 16 'Leases'.

2.1 Basis of preparation

The financial statements of IQE plc have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRS IC) interpretations adopted by the European Union and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS.

2.2 Going concern

The Group made a loss of £35,128,000 (2018: £1,189,000 profit) and had a decrease in cash and cash equivalents of £12,007,000 (2018: £24,805,000 decrease) for the year ended 31 December 2019.

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- On 24 January 2019, the Group agreed a new £26,700,000 ($35,000,000) three-year multi-currency revolving credit facility from HSBC Bank plc. The Group has complied with all covenants associated with the facility.

- On 29 August 2019, the Group agreed a new £30,000,000 five-year Asset Finance Loan facility from HSBC Bank plc of which £25,000,000 is drawn down at the date of this report. The Group has complied with all covenants associated with the facility.

- The Group generated cash from operating activities of £8,126,000 (2018: £16,257,000) and its financial forecasts and projections for the period up to and including 30 June 2021 show that the Group is forecast to continue to comply with its banking covenants and has adequate cash resources to continue operating for the foreseeable future.

- On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak has created significant uncertainty in global economies and the markets in which the Group operates which pose risks to the Group's continuity of business operations, demand for its products and its forecast future financial performance given current world health and global economic conditions.

Business Continuity Risk

The Executive Management Board has set up a Business Continuity Subcommittee, chaired by the Chief Financial Officer, to manage the Group's response to the outbreak of the coronavirus pandemic.

The subcommittee is responsible for monitoring risk indicators, external guidance and maintaining regular communications with employees and other stakeholders. The subcommittee has formulated policies and potential actions in readiness for different scenarios and is working closely with relevant business functions within the Group to co-ordinate COVID-19 responses and on-going dialogue with customers and suppliers to ensure that proactive steps are taken to respond to any situation.

The Group's operations are geographically diversified. Manufacturing operations are located at nine different sites across three continents, significantly lessening the impact of potential disruption at any single site.

The nature of the Group's operations, as a critical semiconductor technology supplier, also means that the Group and its manufacturing sites are less likely to be affected by 'lockdown' scenarios than other businesses, something that has been evidenced by our classification as a *critical infrastructure provider* in the United States where the Department of Homeland Security deems IQE to have a "*special responsibility to maintain* (our) *normal work schedule*", in the United Kingdom where the Secretary of State, Department for Business, Energy & Industrial Strategy has written to the Group stating that 'manufacturing is a critical part of our economy and I would like to be clear that there is no restriction on manufacturing continuing under the current rules' and in Taiwan and Singapore, where National Government's continue to support manufacturing.

All manufacturing sites continue to remain operational and production has not been affected by any disruption at all of the Group's global sites at the date of this report. The Group has introduced social distancing measures at its sites and has restricted the numbers of people on site to the minimum essential for production, with other staff working from home. The Group dual or multi-sources key raw materials (substrates, gases, consumables) wherever possible, from a broad range of global suppliers, reducing the likelihood of potential disruption to IQE production from any single supplier. The Group continues to work closely with both suppliers and customers to manage inventory levels in order to create resilience against potential disruption.

Market Conditions

Trading for the first quarter of 2020 was slightly above expectations. The smartphone handset market has seen the launch of new models from several OEM's and communications infrastructure related demand linked to 5G deployment, particularly in Asia, shows signs of growth. The Group is also experiencing growth in sales of military infra-red products.

Despite current market conditions, there remains a risk of a global economic downturn which could in turn adversely affect global demand for Smartphones and other electrical devices that incorporate the Group's products and/or delay the roll out of 5G communications networks. Such scenarios would adversely affect demand from IQE's customers and therefore the financial performance of the Group.

Conversely, at a time of social distancing and self-isolation, with many thousands of people continuing to work at home, demand for smartphone handsets may withstand an economic downturn better than many other sectors. Furthermore, the Group considers it likely that Governments will pursue 5G infrastructure deployments as part of economic stimulus packages as they emerge from the health crisis. There is already some evidence of this in Asia.

Whilst the risk of disruption to supply chains and of economic downturn is likely to remain for some months, the effects on the Group's markets are unclear at the date of this report. Due to this, Management and the Directors have considered severe but plausible downside scenarios to the Group's financial forecasts and projections when considering going concern.

Severe but plausible downside financial forecasts and projections have been prepared with significant reductions to future forecast revenues, designed to reflect severe downside scenarios associated with COVID-19 disruption and demand risks, for a 15-month period to 30 June 2021. The severe but plausible downside scenario, applied to the Group's current financial forecasts, which take account of current trading and customer demand, assumes a ~1/3 reduction in revenue in H2 2020 and a ~1/4 reduction in H1 2021 partially offset by controllable working capital and capital expenditure mitigations. The downside scenario illustrates that the Group is forecast to continue to comply with its banking covenants, albeit with reduced covenant headroom, and has adequate cash resources to continue operating for the foreseeable future.

The Group has a long-standing and trusted relationship with its bankers, HSBC Bank plc, who remain supportive. The Group has maintained close on-going dialogue with its bankers regarding the evolving effects and risks of COVID-19 on the business, including discussion of the Group's severe but plausible downside financial forecasts in order to agree the relaxation of certain banking covenants at 31 December 2020 and 30 June 2021 as a precautionary measure designed to increase covenant headroom and availability of cash funding under the terms of the Group's committed bank facilities in the event of a more extreme scenario.

The Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's severe but plausible downside cash flow forecasts and projections, in conjunction with increased covenant headroom following formal relaxation of certain bank covenants associated with the Group's committed bank facilities show that the Group has adequate cash resources to continue operating for the foreseeable future such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2. Significant accounting policies

2.3 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations.

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

- Annual improvements to IFRS Standards 2015-2017 Cycle
- IFRS 16 'Leases'.
- Amendments to IAS 19 'Employee Benefits' which clarifies the accounting for defined benefit plan amendments, curtailments and settlements.
- Amendment to IAS 28 'Investments in associates and joint ventures' which clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied.
- Amendments to IFRS 9 'Financial Instruments' which clarifies the treatment of financial assets with prepayment features with negative compensation.
- Interpretation 23 'Uncertainty over Income Tax Treatments' which explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company, except for the adoption of IFRS 16 'Leases'.

(b) New standards, amendments and interpretations issued but not effective and not adopted early

A number of new standards, amendments to standards and interpretations which are set out below are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these consolidated financial statements.

- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 'Insurance Contracts'
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' which clarifies the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures.
- Amendments to IFRS 3 'Business Combinations' which clarifies the definition of a business.
- Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' which are intended to make the definition of material easier to understand.
- Amendments to references to the 'Conceptual framework' in IFRS standards.

The Directors anticipate that none of the new standards, amendments to standards and interpretations are expected to have a significant effect on the financial statements of the Group or parent company.

3. Segmental analysis

The Chief Operating Decision Maker is defined as the Executive Management Board. The Executive Management Board consider that the Wireless, Photonics and CMOS++ markets are the Group's primary reporting segments.

The Executive Management Board assess the performance of these operating segments based on their adjusted operating profit.

Revenue	**2019 £'000**	**Restated 2018 £'000**
Wireless	68,166	87,862
Photonics	69,758	66,807
CMOS++	2,091	1,622
Revenue	**140,015**	**156,291**
Adjusted operating (loss) / profit		
Wireless	6,590	16,548
Photonics	1,324	10,239
CMOS++	(1,304)	(1,295)
Central corporate costs	(11,286)	(9,452)
Adjusted operating (loss) / profit	**(4,676)**	**16,040**
Adjusted items (see note 4)	(14,126)	(7,380)
Operating (loss) / profit	**(18,802)**	**8,660**
Share of losses of joint venture accounted for using the equity method	(4,688)	(2,000)
Finance (costs) / income	(1,458)	87
(Loss) / profit before tax	**(24,948)**	**6,747**

Segmental information has been restated to reflect changes in the Group's operating and reporting structure following the establishment of an Executive Management Board that has consolidated responsibility for the Group's primary markets and operating segments under the leadership of an Executive VP, Global Business Development, Wireless and Emerging Products and an Executive VP, Global Business Development, Photonics & Infrared. This change to the Group's operating and reporting structure has resulted in the consolidation of the previously disclosed Infrared segment into Photonics and the reclassification of certain revenues and associated costs pertaining to a specific site, which has shared production, between the Wireless and Photonics segments.
Finance costs are not allocated to the segments because treasury is managed centrally.

Measures of total assets and liabilities for each reportable segment are not reported to the chief operating decision maker and therefore have not been disclosed.

4. Adjusted profit measures

The Group's results report certain financial measures after a number of adjusted items that are not defined or recognised under IFRS including adjusted operating profit, adjusted profit before income tax and adjusted earnings per share. The Directors believe that the adjusted profit measures provide a more useful comparison of business trends and performance and allow management and other stakeholders to better compare the performance of the Group between the current and prior year, excluding the effects of certain non-cash charges and one-off or non-operational items. The Group uses these adjusted profit measures for internal planning, budgeting, reporting and assessment of the performance of the business.

The tables below show the adjustments made to arrive at the adjusted profit measures and the impact on the Group's reported financial performance.

	2019			**2018**		
(All figures £'000s)	Adjusted Results	Adjusted Items	**Reported Results**	Adjusted Results	Adjusted Items	**Reported Results**
Revenue	140,015	-	**140,015**	156,291	-	**156,291**
Cost of sales	(119,145)	514	(118,631)	(119,536)	696	(118,840)
Gross profit	20,870	514	**21,384**	36,755	696	**37,451**
Other income	**-**	-	-	**-**	1,097	1,097
SG&A	(25,791)	(10,506)	(36,297)	(20,715)	(9,173)	(29,888)
Impairment loss on financial assets	-	(4,134)	(4,134)	-	-	-
Profit on disposal of PPE	245	-	245	-	-	-
Operating (loss)/profit	(4,676)	(14,126)	**(18,802)**	16,040	(7,380)	**8,660**
Share of JV losses	(737)	(3,951)	(4,688)	(2,000)	-	(2,000)
Finance costs	(1,606)	148	(1,458)	(66)	153	87
(Loss)/profit before tax	(7,019)	(17,929)	**(24,948)**	13,974	(7,227)	**6,747**
Taxation	(11,991)	1,811	(10,180)	(2,745)	(2,813)	(5,558)
(Loss)/profit for the period	(19,010)	(16,118)	**(35,128)**	11,229	(10,040)	**1,189**

	2019			**2018**		
(All figures £'000s)	Pre tax Adjustment	Tax Impact	**Adjusted Results**	Pre tax Adjustment	Tax Impact	**Adjusted Results**
Share based payments	771	133	**904**	1,044	(3,607)	**(2,563)**
Amortisation of acquired intangibles	(385)	81	**(304)**	(518)	109	**(409)**
Restructuring	(813)	164	**(649)**	(3,337)	701	**(2,636)**
Insurance income	-	-	**-**	1,097	(197)	**900**
Patent dispute legal fees	(4,308)	775	**(3,533)**	(1,262)	227	**(1,035)**
Impairment – intangibles	(3,805)	685	**(3,120)**	-	-	**-**
Impairment – ROU asset	(1,623)	-	**(1,623)**	-	-	**-**
Impairment – financial assets	(4,134)	-	**(4,134)**	-	-	**-**
Share of JV losses – financial asset	(3,951)	-	**(3,951)**	-	-	**-**
CSDC acquisition - negative goodwill	171	-	**171**	-	-	**-**

Onerous property lease	-	-	**-**	(4,404)	-	**(4,404)**
Discounting	148	(27)	**121**	153	(46)	**107**
Total	(17,929)	1,811	**(16,118)**	(7,227)	(2,813)	**(10,040)**

The nature of the adjusted items is as follows:

- Share based payments – The credit (2018: credit) recorded in accordance with IFRS 2 'Share based payment' of which £514,000 (2018: £696,000 credit) has been classified within cost of sales in gross profit and £257,000 (2018: £348,000 credit) has been classified as selling, general and administrative expenses in operating profit. £1,331,000 of cash has been defrayed in the year (2018: £nil) in respect of employer social security contributions following the exercise of unapproved employee share options.

- Amortisation of acquired intangibles - The charge of £385,000 (2018: £518,000) relates to the amortisation of acquired intangibles arising in respect of fair value exercises associated with previous corporate acquisitions that has been classified as selling, general and administrative expenses within operating profit and is non-cash.

- Restructuring – The charge of £813,000 (2018: £3,337,000) relates to:

  i. Site-specific restructuring and associated employee severance costs of £587,000 (2018: £nil). The charge has been classified as selling, general and administrative expenses within operating profit and represents a cash cost.
  ii. The closure of the Group's manufacturing facility in New Jersey, USA and the transfer of the associated trade and assets to the Group's manufacturing facility in Massachusetts, USA at a cost of £226,000 (2018: £3,337,000). Cash costs defrayed in the year of £1,360,000 (2018: £nil) comprise severance and reactor decommissioning costs with non-cash costs of £2,203,000 charged in 2018 relating to asset impairments. The charge has been classified as selling, general and administrative expenses within operating loss.

- Insurance income - The income relates to insurance proceeds received following the death of the Chief Financial Officer, Phillip Rasmussen, in April 2018. Obligations payable to Phillip Rasmussen's estate and fees associated with the recruitment of Phillip Rasmussen's successor totalling £nil (2018: £1,037,000) were netted off the gross insurance proceeds of £nil (2018: £2,134,000). The net insurance proceeds were cash received in 2018 and have been classified as other income within operating loss.

- Patent dispute legal costs – The charge relates to legal fees incurred in respect of a patent dispute defence. Costs of £4,308,000 (2018: £1,262,000), of which £4,304,000 has been defrayed in the year (2018: £nil) have been classified within selling, general and administrative expenses within operating profit.

- Impairment of intangibles – The non-cash charge of £3,805,000 (2018: £nil) relates to the impairment of certain development costs, patent costs and software where the Group has taken the decision to either discontinue using the asset or discontinue the relevant technology development activities.

- Impairment of right of use asset – The non-cash charge of £1,623,000 (2018: £nil) relates to the impairment of the right of use asset relating to space at the Singapore manufacturing site sub-let by Compound Semiconductor Development Centre Limited, the Group's former joint venture that was acquired during the year. The charge has been classified as selling, general and administrative expenses within operating profit.

- Impairment of financial asset – The non-cash charge of £4,134,000 (2018: £nil) relates to the expected credit loss associated with the Group's preference share financial asset due from its joint venture, Compound Semiconductor Centre Limited.

- Share of joint venture losses (financial asset) - The factors that have led to recognising an impairment loss relating to the preference share financial asset due from the joint venture, Compound Semiconductor Centre Limited, have resulted in a considerable lengthening of the period over which the asset is expected to be recovered. As a result, the group has reassessed the preference share as a long-term interest in the joint venture on the basis that repayment is no longer expected in the foreseeable future. As a long-term interest in an equity accounted investee, the group has applied the loss absorption requirement in IAS 28.38 to the carrying amount of the preference share financial asset, after the application of an expected credit loss as described above, and allocated a further share of the joint venture's losses to the preference share financial asset. This has resulted in a further write down of the asset, to £nil, representing a charge of £3,951,000, over and above the expected credit loss charge of £4,134,000, being recognised in profit or loss.

- CSDC acquisition negative goodwill – The non-cash credit of £171,000 (2018: £nil) relates to the negative goodwill arising on the Group's acquisition of its former joint venture, Compound Semiconductor Centre Limited. The credit has been classified as selling, general and administrative expenses within operating profit.

  - Discounting – This relates to the unwind of discounting on long term financial assets of £148,000 (2018: £257,000) and the unwinding of discounting on long term liabilities of £nil (2018: £104,000). Discounting is non-cash and has been classified as finance costs within profit before tax.

- Onerous property lease – The non-cash charge of £nil (2018: £4,404,000) related to an increase in the provision for an onerous property lease that was originally made in 2014 following the restructuring of the Group's operations in Singapore. The increase in the provision made in 2018 for unused and unlet space at the manufacturing site extended the provision to the end of the lease obligation in 2022. The extension of the onerous lease provision resulted in a charge of £4,404,000 that was classified within selling, general and administrative expenses within operating profit. Cash costs associated with the annual rental for the unused and unlet space total £1,460,000 (2018: £1,539,000) are included within payment of lease liabilities in the financing section of the cash flow statement.

The group has implemented the requirements of IFRS 16 'Leases' from 1 January 2019 with the Singapore property lease accounted for on balance sheet from this date. IFRS 16 'Leases' has been implemented using the modified retrospective approach applying the practical expedient that allows on transition an adjustment to the value of the right of use asset by the amount of any previously recognised onerous lease provision as an alternative to performing an impairment review. The adoption of this practical expedient results in the reclassification of the lease provision as part of the net value of the right of use asset in the Group's balance sheet from 1 January 2019.

The cash impact of adjusted items in the consolidated cash flow statement represents the cash costs defrayed in 2019 in respect of restructuring, employer social security on employee share schemes and patent dispute legal costs totalling £7,582,000.

Adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) is calculated as follows:

	2019 £'000	2018 £'000
(Loss)/profit attributable to equity shareholders	(35,473)	966
Non-controlling interest	345	223
Finance costs / (income)	1,458	(87)
Tax	10,180	5,558
Depreciation of property, plant and equipment	10,477	6,773
Depreciation of right of use assets	3,590	-
Amortisation of intangible fixed assets	8,222	6,109
Loss/(profit) on disposal of PPE	(245)	-
Share based payments	(771)	(1,044)
Adjusted Items	18,463	7,906
Restructuring	813	3,337
Insurance income	-	(1,097)
Patent dispute legal costs	4,308	1,262
Impairment of intangibles	3,805	-
Impairment of right of use asset	1,623	-
Impairment of financial asset	4,134	-
Share of joint venture losses (financial asset)	3,951	-
CSDC acquisition negative goodwill	(171)	-
Onerous property lease	-	4,404
Adjusted EBITDA	**16,246**	**26,404**
IFRS 16 impact on 2018	-	2,144
Adjusted EBITDA under IFRS 16	**16,246**	**28,548**

5. (Loss) / Earnings per share

Basic (loss) / earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares and the dilutive effect of 'in the money' share options in issue. Share options are classified as 'in the money' if their exercise price is lower than the average share price for the year. As required by IAS 33, this calculation assumes that the proceeds receivable from the exercise of 'in the money' options would be used to purchase shares in the open market in order to reduce the number of new shares that would need to be issued.

The directors also present an adjusted earnings per share measure which eliminates certain adjusted items in order to provide a more meaningful measure of underlying profit. The adjustments are detailed in note 4.

	2019 **£'000**	**2018** **£'000**
(Loss)/Profit attributable to ordinary shareholders	(35,473)	966
Adjustments to (loss)/profit after tax (note 4)	16,118	10,040
Adjusted (loss) / profit attributable to ordinary shareholders	**(19,355)**	**11,006**

	2019 **Number**	**2018** **Number**
Weighted average number of ordinary shares	787,175,574	761,750,145
Dilutive share options	13,562,165	37,072,892
Adjusted weighted average number of ordinary shares	**800,737,739**	**798,823,037**
Adjusted basic (loss) / earnings per share	(2.46p)	1.44p
Basic (loss) / earnings per share	(4.51p)	0.13p
Adjusted diluted (loss) / earnings per share	(2.46p)	1.38p
Diluted (loss) / earnings per share	(4.51p)	0.12p

6. Cash generated from operations

Group

	2019 £'000	2018 £'000
(Loss)/Profit before tax	(24,948)	6,747
Finance costs	1,458	(87)
Depreciation of property, plant and equipment	10,477	6,773
Depreciation of right of use assets	3,590	-
Amortisation of intangible assets	8,222	6,109
Impairment of intangible assets	3,805	-
Impairment of property, plant & equipment	-	1,651
Impairment of right of use assets	1,623	-
Impairment of financial assets	4,134	-
Share of joint venture	3,951	-
Inventory write downs	3,219	1,419
Profit on disposal of fixed assets	(245)	-
CSDC acquisition negative goodwill	(171)	-
Non-cash provision movements	-	5,495
Share based payments	(771)	(1,044)
Cash inflow from operations before changes in working capital	**14,344**	**27,063**
Increase in inventories	2,184	(2,806)
Increase in trade and other receivables	4,130	(4,032)
(Decrease) / increase in trade and other payables	(11,710)	(3,237)
Cash inflow from operations	**8,948**	**16,988**

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ABOUT IQE
http://iqep.com

IQE is the leading global supplier of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- handset devices
- global telecoms infrastructure
- connected devices
- 3D sensing

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in this market which has high barriers to entry. IQE supplies the whole market and is agnostic to the winners and losers at chip and OEM level. By leveraging the Group's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with c. 650 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore, and is listed on the AIM Stock Exchange in London.