Versarien PLC

Interim Results

Released : 09 Jun 2023

RNS Number : 1783C
Versarien PLC
09 June 2023

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9 June 2023

Versarien Plc

("Versarien", the "Company" or the "Group")

Interim Results for the six months ended 31 March 2023

Versarien Plc (AIM: VRS), the advanced engineering materials group, announces its unaudited interim results for the six months ended 31 March 2023.

Financial Summary

- Group revenues of £2.62 million (2022: £3.89 million)
- Graphene revenues of £0.09 million (2022: £0.97 million)
- Adjusted LBITDA* of £2.01 million (2022: £0.31 million)
- Loss before tax of £3.40 million (2022: £2.16 million)
- Cash of £0.76 million as at 31 March 2023 (30 September 2022: £1.35 million), with placing to raise gross proceeds of £0.53 million post period end

*Adjusted LBITDA (Loss Before Interest, Tax, Depreciation and Amortisation) excludes Exceptional items, Share-based payment charges and other losses)

Turnaround Strategy

As announced on 29 March 2023, the Company has engaged experienced strategy and turnaround specialist, David Stone, and his firm Prompt Business Strategies Limited, to aid the Company in developing its strategic plans which are:

- To maintain and strengthen the Group's scientific teams supported by grant funding applications
- To use the Group's internally generated know-how in the areas of construction and textiles to be a manufacturing light operation as Versarien works with its prospective customers
- As commercial traction develops to licence Versarien's technology, brands and manufacturing know-how
- To divest non-core activities and Asian assets to reduce the requirement for funding from the capital markets

Diane Savory, Non-executive Chair of Versarien, commented:

"The period under review was extremely challenging from a financial perspective, both from a balance sheet point of view and with the decline in Graphene revenues reflecting the ending of the DSTL development contract. However, following the Annual General Meeting we have, with the assistance of David Stone and his team, been developing a strategy that focuses on maintaining appropriate IP to support our core end-sectors of construction and textiles whilst reducing cash-outflows to a level that can be supported by proposed asset sales, marketing of which is in process. We believe this strategy will ensure a brighter future for Versarien."

For further information please contact:

Versarien Plc	
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Notes to Editors:

The strategy of Versarien Plc (AIM:VRS) is to be a recognised graphene company with a wide portfolio of high-quality verified materials supported by its own UK based research and development driving recurring revenue growth through its innovative graphene product applications.

For further information please see: http://www.versarien.com

Chair's Statement

Following the AGM we have, with the assistance of David Stone and his team at Prompt Strategies Limited, been developing a strategy that focuses on maintaining appropriate IP to support our commercial goals in our core end-sectors of construction and textiles, whilst reducing cash-outflows to a level that can be supported by proposed asset sales.

Our core objectives are:

- to maintain and, as appropriate, strengthen our scientific teams supported by grant funding applications;
- use our internally generated know-how in the areas of construction and textiles to be a manufacturing light operation as we work with our prospective customers; and
- as commercial traction develops to licence our technology, brands and manufacturing know-how in order to generate revenue and shareholder value.

Historically, the Group has been mainly reliant upon support from the capital markets, strategic investors, grant funding and loans to provide working capital to support its operations, both in the UK and abroad, in anticipation of the graphene sector gaining traction. With such traction not yet having been achieved, coupled with a diminishing appetite in the capital markets for small cash consuming technology businesses, the Company has little alternative but to restructure its business in anticipation of being able to create future shareholder value. In doing so, there is a fine line to balance between protecting IP, continuing research and development to maintain commercial knowledge, and maximising both medium and longer term value, whilst also generating sufficient working capital for Group purposes.

The strategic focus for the Group is on developing its commercial graphene applications (Cementene and Graphene Wear), whilst operating from a significantly reduced cost base that maintains sufficient resource within the Group to maximise the market opportunity.

In order to generate further funds for the Group, as previously announced, marketing of the mature businesses for sale is in process, as is the IP and assets previously acquired from Hanwha in December 2020. Based on certain asset sale assumptions our projections suggest that we would have sufficient resources for a further period of 24 months. However, we are at an early stage of marketing so nothing is certain in this respect and further announcements will be made in due course, as appropriate.

In order to generate required funding Versarien has used its placing authorities from the last two annual general meetings to place new equity at share prices which have been considerably lower than historic averages. The asset sales process is underway, but whilst the timing and quantum is not yet certain, the Company is cautiously optimistic of the outcome.

The specifics of the turnaround strategy are as follows:

- to adopt a manufacturing light approach followed by licencing of technology manufacturing know-how and brands;
- to reduce research and development infrastructure costs whilst maintaining or increasing current staffing levels;
- selling the non-core businesses of Total Carbide and AAC Cyroma;
- selling the IP and assets that originated in the acquisition from Hanwha Aerospace;
- reducing the costs of running the parent company; and
- reducing the manufacturing and infrastructure costs at Longhope whilst maintaining current staffing levels.

These actions will result in a much-simplified Group with significantly fewer staff. The appointment of a new CEO will be deferred until the asset sale process is completed.

Diane Savory OBE
Non-executive Chair

Chief Technology Officer's Review

The current environment remains challenging and the recent announcement of the UK's National semiconductor strategy was disappointing from a graphene viewpoint. The potential £1bn investment over the next decade is a start, but pales in comparison to US and EU pledges of £42bn and £37bn, respectively. Graphene is mentioned by name only once, yet is seen as an enabling material by experts in the field for the majority of the quantum technologies that are promised. Versarien's IP portfolio and CVD assets acquired from Hanwha are ideally placed to manufacture the highest quality graphene required for our UK semiconductor industry given the right support and environment, but in the circumstances, we believe disposing of these assets is strategically the correct move.

Our R&D team has been slimmed down significantly in recent months both due to cost cutting to concentrate on our strategic objectives, together with staff being attracted elsewhere, but I remain highly optimistic in being able to retain the key people that can help solidify our R&D and commercialisation efforts. We have continued to gain traction in our focus markets of construction and textiles, with more trial data to support the benefits of graphene and the impacts it can have on sustainability, and key demonstrators with our partners such as Costain, National Highways and most recently, Banagher. Our Graphene-Wear textile coatings, used in Umbro's Pro Training Elite kit, continue to gain traction with further seasonal launches in progress.. Graphene-Wear is being continually developed with other 2D material based formulations and is proving attractive where multi-colours can be achieved.

It is interesting to see a very different dynamic within the UK and global graphene sectors emerging, with first movers going through financial difficulties, yet other UK private companies gaining from large private investments. This has certainly provided a more competitive UK graphene landscape. The UAE's graphene and 2D materials research is also developing rapidly through the creation of its Research and Innovation Centre for 2D Materials (RIC-2D). Although Versarien has not yet been awarded any projects as part of its RIC-2D Fund, we have several discussions ongoing to deliver Versarien products and technologies to the region, with my invitation to take part in the 2D Materials Symposium hosted by Khalifa University ("KU") and the EU's Graphene Flagship project, in May 2023, an opportunity to have wider discussions with KU academic and commercial teams.

Gnanomat continues to make technological progress. Having successfully delivered phase 1 of its development contract with a large Thai oil and gas company it is now in negotiations for further development work estimated at circa €170,000 to be completed over the next few months for use in high-performance pseudo-capacitor applications.

Dr Stephen Hodge

Chief Technology Officer

Chief Financial Officer's review

The period under review was extremely challenging from a financial perspective. The last Annual Report referred to there being a material uncertainty related to going concern and the need to raise additional funding.

In March 2023 we utilised the remaining authority from the 2022 AGM to issue 10.6 million shares at a price of 3p per share, raising £0.32 million gross, and in May 2023 we used the authority granted by shareholders at the 2023 AGM to issue 42.5 million shares at 1.25p per share, raising £0.53 million gross. Clearly, the Board would have preferred to issue equity at higher share prices, but the Company's current circumstances have not enabled it to do so.
In the period under review, Group revenues decreased from £3.9 million to £2.6 million, a reduction of £1.3 million. The mature businesses accounted for £0.3 million of the reduction, but the main part relates to the technology businesses where we no longer have the benefit of revenue from the DSTL development contract.

The loss from operations was £3.13 million (2022: £1.86 million) with the comparative period having the revenues from the DSTL contract which did not recur in the current period thus affecting both gross margin and operational results.

The adjusted LBITDA for continuing operations was £2.01 million compared to £0.31 million for the comparative period in 2022, calculated as follows:

	6 months ended 31 March 2023	6 months ended 31 March 2022
	£'000	£'000
(Loss) from operations	**(3,130)**	(1,862)
Depreciation and Amortisation	**683**	713
Share based payments	**264**	561
Exceptional items	**170**	(44)
Other losses	-	318
Adjusted LBITDA	**(2,013)**	(314)

Adjusted LBITDA (which is not a GAAP measure and is not intended as a substitute for GAAP measures and may not be the same as that used by other companies) is a measure used by management to reflect the core operating performance of the underlying businesses rather than the effects of non-core financial and non-cash expenses.

The reported loss before tax was £3.40 million (2022: £2.16 million). Group net assets at 31 March 2023 were £10.48 million (30 September 2022: £11.60 million) with cash at the period end of £0.76 million (30 September 2022: £1.35 million).

Net cash used in operating activities was £1.83 million (2022: £0.96 million) and investment in development costs and equipment was £0.14 million (2022: £1.70 million), net principal lease payments were £ 0.35 million (2022: £0.25 million) and CBILS repayments £0.05 million (2022: £0.04 million) giving total cash outflows of £2.37 million (2022: £2.95 million).

These activities were financed by net funds received from the share issues of £2.02 million (2022:£nil and funds from Innovate UK and sharing agreements of £nil (2022:£ 2.41 million

The deficit of £0.35 million (2022: £0.54 million) together with reduced drawings on the invoice finance facilities of £0.24 million (2022: £0.17 million increase) resulted in a cash reduction of £0.59 million (2022: £0.37 million).

Technology Businesses

The Technology Businesses have seen a decrease in revenue to £0.09 million from £0.97 million in the comparative period following the successful completion of the DSTL development project. Discussions relating to product supply are ongoing. Further information is given in note 3, segmental information.

As stated in the last Annual Report, development costs primarily relating to the GSCALE project were capitalised with a carrying value of £4.15 million.

Goodwill arising on consolidation of £3.13 million relates to the Technology Businesses and represents the excess of the fair value of the Group's share of net assets of acquired subsidiaries at the date of acquisition. It is usually reviewed annually for impairment but, given the change of strategic direction a further review has been carried out at the interim stage based on value in use cash flow forecasts covering a five year period. This review indicates no impairment is required and a further review will be carried out at the year-end.

The change in strategy to a much-simplified structure has resulted in a number of cost savings which are anticipated to flow through in to the second half of this financial year. We are also looking to reduce the manufacturing footprint at Longhope following the adoption of the manufacturing light strategy.

Mature Businesses

The mature businesses have seen a revenue decline, principally in AAC but remain broadly EBITDA positive. The disposal process for both Total Carbide and AAC Cyroma is in progress.

Going Concern

The interim statements have been prepared on a going concern basis as described in note 1, basis of preparation.

Chris Leigh
Chief Financial Officer

Consolidated Interim Financial Statements

Group statement of comprehensive income

For the 6 months ended 31 March 2023

	Notes	31 March 2023 Unaudited £'000	31 March 2022 Unaudited £'000
Revenue	3	**2,621**	3,892
Cost of sales		**(2,138)**	(2,499)
Gross profit		**483**	1,393
Other operating income		**57**	107
Other losses*		**-**	(318)
Operating expenses (including exceptional items)		**(3,670)**	(3,044)
Loss from operations before exceptional items		**(2,960)**	(1,906)
Exceptional items	4	**(170)**	44
Loss from operations		**(3,130)**	(1,862)
Finance charge		**(270)**	(302)
Loss before income tax		**(3,400)**	(2,164)

Income Tax	5	**-**	81
Loss for the period		**(3,400)**	(2,083)
Loss attributable to:			
- Owners of the parent company		**(3,199)**	(2,062)
- Non-controlling interest		**(201)**	(21)
		(3,400)	(2,083)
Loss per share attributable to the equity holders of the Company:			
Basic and diluted loss per share	6	**(1.55)p**	(1.06)p

There is no other comprehensive income for the period.

* The other losses relate to the fair value assessment of the Lanstead sharing agreements at the balance sheet date.

Group statement of financial position

As at 31 March 2023

	Note	**31 March 2023 Unaudited £'000**	30 September 2022 Audited £'000
Assets			
Non-current assets			
Intangible Assets	7	**10,585**	10,636
Property, plant and equipment		**5,363**	5,861
Deferred taxation		**25**	25
Trade and other receivables		**37**	38
		16,010	16,560
Current assets			
Inventory		**1,975**	2,131
Trade and other receivables		**1,955**	2,155
Cash and cash equivalents		**762**	1,351
		4,692	5,637
Total assets		**20,702**	22,197
Equity			
Called up share capital		**2,047**	1,941
Share premium		**36,874**	34,961
Merger reserve		**1,256**	1,256
Share-based payment reserve		**5,023**	4,759
Accumulated losses		**(32,893)**	(29,694)
Equity attributable to owners of the parent company		**12,307**	13,223
Non-controlling interest		**(1,825)**	(1,624)
Total equity		**10,482**	11,599
Liabilities			
Non-current liabilities			
Trade and other payables		**706**	600
Deferred taxation		**-**	67
Innovate Loan		**5,000**	5,000
Long-term borrowings		**1,419**	1,595
		7,125	7,262

Current liabilities		
Trade and other payables	**2,183**	1,957
Invoice discounting advances	**425**	660
Current portion of long-term borrowings	**487**	719
	3,095	3,336
Total liabilities	**10,220**	10,598
Total equity and liabilities	**20,702**	22,197

Group statement of changes in equity

For 6 months ended 31 March 2023

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Accumulated losses £'000	Non-controlling interest £'000	Total equity £'000
At 1 April 2022 (unaudited)	1,941	34,948	1,256	4,405	(26,708)	(1,401)	14,441
Issue of shares	-	13	-	-	-	-	13
Loss for the period	-	-	-	-	(2,986)	(223)	(3,209)
Share-based payments	-	-	-	354	-	-	354
At 30 September 2022 (audited)	**1,941**	**34,961**	**1,256**	**4,759**	**(29,694)**	**(1,624)**	**11,599**
Issue of shares	106	1,913	-	-	-	-	2,019
Loss for the period	-	-	-	-	(3,199)	(201)	(3,400)
Share-based payments	-	-	-	264	-	-	264
At 31 March 2023 (unaudited)	**2,047**	**36,874**	**1,256**	**5,023**	**(32,893)**	**(1,825)**	**10,482**

Statement of Group cash flows

For the 6 months ended 31 March 2023

	6 months ended 31 March 2023 Unaudited £'000	6 Months ended 31 March 2022 Unaudited £'000
Cash flows from operating activities		
Cash used in operations	**(1,561)**	(830)
Interest paid	**(270)**	(135)
Net cash used in operating activities	**(1,831)**	(965)
Cash flows from investing activities		
Purchase/capitalisation of intangible assets	**(98)**	(1,337)
Purchase of property, plant and equipment	**(45)**	(359)
Net cash used in investing activities	**(143)**	(1,696)
Cash flows from financing activities		
Share issue	**2,040**	0
Share issue costs	**(21)**	0
Funds received from Innovate UK	**-**	1,030

Funds received from sharing agreements	**-**	1,377
Net funds (paid)/received from CBILS	**(52)**	(38)
Principal payment of leases under IFRS 16	**(347)**	(248)
Invoice discounting loan (repayments)/proceeds	**(235)**	173
Net cash generated from financing activities	**1,385**	2,294
Increase in cash and cash equivalents	**(589)**	(367)
Cash and cash equivalents at start of period	**1,351**	3,462
Cash and cash equivalents at end of period	**762**	3,095

Note to the statement of Group cash flows

For the 12 months ended 31 March 2023

	6 months ended 31 March 2023 Unaudited £'000	6 months ended 31 March 2022 Unaudited £'000
Loss before income tax	**(3,400)**	(2,164)
Adjustments for:		
Share-based payments	**264**	561
Depreciation	**534**	372
Amortisation	**149**	341
Disposal of tangible assets	**-**	(1)
Finance cost	**270**	302
R&D Tax credit received	**-**	81
Loss on FV movement of share agreement	**-**	318
Increase/(Decrease) in trade and other receivables and investments	**200**	158
(Increase)/Decrease in inventories	**156**	(253)
(Decrease)/Increase in trade and other payables	**266**	(545)
Cash used in operations	**(1,561)**	(830)

Notes to the unaudited interim statements

For the 6 months ended 31 March 2023

1. Basis of preparation

Versarien Plc is an AIM quoted company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company's registered office is Units 1A-D, Longhope Business Park, Monmouth Road, Longhope, Gloucestershire, GL17 0QZ.

The interim financial statements were prepared by the Directors and approved for issue on 9 June 2023. These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the period ended 30 September 2022 were approved by the Board of Directors on 20 February 2023 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain statements under sections 498 (2) or (3) of the Companies Act 2006. The report contained reference to a material uncertainty related to going concern.

As permitted, these interim financial statements have been prepared in accordance with UK AIM Rules and UK-adopted IAS 34, "Interim Financial Reporting". They should be read in conjunction with the annual financial statements for the period ended 30 September 2022, which have been prepared in accordance with UK-adopted international accounting standards, consistent with the IFRS framework adopted in UK law. The accounting policies applied are consistent with those of the annual financial statements for the period ended 30 September 2022, as described in those financial statements. Where new standards or amendments to existing standards have become effective during the year, there has been no material impact on the net assets or results of the Group.

These interim financial statements have been prepared on a going concern basis making the following assumptions:

- The Group meets its day-to-day working capital requirements through careful cash management and the use of its invoice discounting facilities which are expected to continue;
- As at 31 March 2023, the Group had cash balances totalling £0.76 million with £0.18 million of headroom on its invoice discounting facilities;
- The Group has utilised its authority to issue 42.5 million shares without pre-emption rights and raised £0.53 million gross post period end and expects the placing authority to be renewed at the next general meeting: and
- The Group is following a turnaround strategy to cut costs and sell certain assets anticipated to generate material cash inflows

The Directors have prepared detailed projections of expected future cash flows for a period of twelve months from the date of issue of this interim statement.

The Group continues to apply for grants as part of its funding strategy but is now primarily dependent upon cash inflows from the sale of assets or from further issue of shares if there is a requirement to bridge an intervening period. Consequently, this represents a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern.

Certain statements within this report are forward looking. The expectations reflected in these statements are considered reasonable. However, no assurance can be given that they are correct. As these statements involve risks and uncertainties the actual results may differ materially from those expressed or implied by these statements. The interim financial statements have not been audited.

3. Segmental information

The segment analysis for the 6 months to 31 March 2023 is as follows:

	Central	**Technology Businesses**	**Mature Businesses**	**Intra-group Adjustments**	**TOTAL**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	-	87	2,534	-	2,621
Gross Margin	-	(277)	760	-	483
Other gains/(losses)	-	-	-	-	-
Other operating income	-	54	3	-	57
Operating expenses	(916)	(1,801)	(947)	(6)	(3,670)
(Loss)/ profit from operations	(916)	(2,024)	(184)	(6)	(3,130)
Finance income/(charge)	(170)	(39)	(61)	-	(270)
(Loss)/profit before tax	(1,086)	(2,063)	(245)	(6)	(3,400)

The segment analysis for the 6 months to 31 March 2022 is as follows:

	Central	**Technology Businesses**	**Mature Businesses**	**Discontinued Operations**	**Intra-group Adjustments**	**TOTAL**
	£'000	**£'000**	**£'000**		**£'000**	**£'000**
Revenue	-	966	2,843	83	-	3,892

Gross Margin	-	679	695	19	-	1,393
Other gains/(losses)	(318)	-	-	-	-	(318)
Other operating income	-	105	2	-	-	107
Operating expenses	(971)	(1,293)	(797)	(5)	22	(3,044)
(Loss)/ profit from operations	(1,289)	(509)	(100)	14	22	(1,862)
Finance income/(charge)	(236)	(28)	(38)	-	-	(302)
(Loss)/profit before tax	(1,525)	(537)	(138)	14	22	(2,164)

4. Exceptional items

Exceptional items relate to redundancy costs principally in relation to the closure of Versarien Graphene Inc.

5. Taxation

The tax charge on the results for the period has been estimated at £nil (2022: £nil). At the last year end the Group had £25.52 million of trading losses carried forward to set-off against future trading profits. Taxation received in the comparative period relates to R&D tax credit.

6. Loss per share

The loss per share has been calculated by dividing the loss after taxation of £3,199,000 (2022: £2,062,000) by the weighted average number of shares in issue of 205,983,636 (2022: 194,179,790) during the period.

The calculation of the diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options. However, in accordance with IAS33 "Earnings per Share", potential Ordinary shares are only considered dilutive when their conversion would decrease the profit per share or increase the loss per share. As at 31 March 2023 there were 15,205,850 (2022: 14,677,130) potential Ordinary shares that have been disregarded in the calculation of diluted earnings per share as they were considered non-dilutive at that date.

7. Intangible assets

	31 March 2023 Unaudited £'000	31 March 2022 Audited £'000
Goodwill	**3,132**	3,132
Patents, trademarks and other	**3,304**	3,355
Development costs	**4,149**	4,149
Total	**10,585**	10,636

8. Dividends

As stated in the 2013 AIM Admission document, the Board's objective is to continue to grow the Group's business and it is expected that any surplus cash resources will, in the short to medium term, be re-invested into the research and development of the Group's products. Consequently, the Directors will not be recommending a dividend for the foreseeable future. However, the Board intends that the Company will recommend or declare dividends at some future date once they consider it commercially prudent for the Company to do so, bearing in mind its financial position and the capital resources required for its development.

9. Interim Report

This interim announcement is available on the Group's website at www.versarien.com

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