

ATOMOS LTD
ACN 139 730 500
ASX: AMS

Appendix 4E – Preliminary Final Report

Reporting period

Reporting period: for the year ended 30 June 2019
 Previous corresponding period: for the year ended 30 June 2018

Results for announcement to the market

Atomos Ltd and its controlled entities is referred to as “Atomos”, “the Group” or “the Company” within this report.

Revenue and loss after tax for the year ended 30 June 2019	2019	2018	% change
	\$'000	\$'000	
Revenue from ordinary activities	55,681	35,648	56%
Loss from ordinary activities after tax attributable to members	(1,959)	(16,513)	88%
Net Loss for the year attributable to members	(1,959)	(16,513)	88%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,780	(10,519)	117%
Earnings before interest, tax, depreciation, amortisation and items not in the ordinary course of business ¹	1,645	222	641%
Loss from ordinary activities after tax attributable to members before items not in the ordinary course of business ¹	(652)	(1,811)	64%

¹Results have been presented to exclude the impact of items outside the ordinary course of business to allow shareholders to make a meaningful comparison with prior year comparative. Further details on the material items have been provided in the notes below.

Dividends

No dividends have been paid during the period and it is not proposed that any dividends be paid.
 No dividends were paid during the previous corresponding period.

Overview of operating results

Revenue from ordinary activities in 2019 was up \$20.0 million, or 56%, from \$35.6 million driven by the successful launch of the Ninja V and Shinobi products during the period. The revenue includes \$1.7 million in respect of the sale of components (at cost) to several third-party manufacturers used by Atomos. These components are included in the cost of products the manufacturer assembles on Atomos' behalf which are then sold to Atomos. Underlying sales revenue to external customers is therefore \$54.0 million, or 51% up on 2018.

Net loss after tax for the year was down \$14.6 million, or 88% to \$2.0m. The improvement was primarily driven by:

- Growth in gross profit of \$9.1 million;
- One-off impairment of intangibles in 2018 of \$9.7 million;
- Higher finance charges and tax expense in 2018 of \$3.0 million; and
- Increase in other gains of \$1.1 million principally due to the revaluation of embedded derivative to fair value on conversion / redemption of convertible notes

This was partially offset by:

- Investment in marketing expenses to drive entry into and penetration of the ‘Social’ market segment (\$3.3 million);
- Costs associated with the IPO of \$1.5 million in 2019;
- Increased depreciation and amortisation of \$1.2 million driven by commencement of amortisation of intangibles; and
- Increase in other operating expenses of \$2.3 million

Appendix 4E – Preliminary Final Report (continued)

Net tangible assets per security

	30/6/19	30/6/18
Net tangible assets per share:	\$0.10	\$0.02
Total number of shares on issue at year end:	151,957,624	105,722,865

Entities over which control has been gained or lost during the period

There are no entities over which control has been gained or lost during the period.

Associates and joint venture entities

There are no associates and joint venture entities.

Dividend reinvestment plans

The Company currently does not have a dividend reinvestment plan.

Independent audit report

This report is based on the consolidated financial statements that are in the process of final auditor review. The independent audit report will be included within the Company's Annual Report.

Accounting standards

This report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.

Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing 4.3A is contained in the 30 June 2019 Annual Report (which includes the Directors' Report) which has not been lodged with this Appendix 4E.

Atomos Limited
Consolidated Statement of Profit or Loss and
Other Comprehensive Income
For the year ended 30 June 2019

	2019 \$'000	2018 \$'000
Revenue	55,681	35,648
Cost of sales	(29,782)	(18,828)
Gross profit	25,899	16,820
Other income	2	332
Other gains / (losses)	1,018	(58)
Employee benefits expense	(7,035)	(6,004)
Share based payments	(1,017)	(314)
Advertising and marketing expense	(5,604)	(2,322)
Research and development expense	(4,139)	(3,764)
Administration and other expense	(2,168)	(2,878)
Transaction costs	(2,061)	(105)
Distribution expense	(1,585)	(1,233)
Depreciation and amortisation	(1,469)	(278)
Interest charges	(1,443)	(3,961)
Legal and professional services	(821)	(590)
Occupancy expense	(709)	(674)
Impairment of intangible assets	-	(9,729)
Loss before income tax	(1,132)	(14,758)
Income tax (expense)	(827)	(1,755)
Loss for the year	(1,959)	(16,513)
Other comprehensive income, net of income tax		
Items that will not be reclassified subsequently to profit or loss:	-	-
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translating foreign operations	(205)	157
	(205)	157
Other comprehensive income for the year, net of income tax	(205)	157
Total comprehensive loss for the year	(2,164)	(16,356)
	2019	2018
Earnings per share		
Basic earnings (loss) per share	(\$0.01)	(\$0.29)
Diluted earnings (loss) per share	(\$0.01)	(\$0.29)

Atomos Limited
Consolidated Statement of Financial Position
As at 30 June 2019

	2019 \$'000	2018 \$'000
Assets		
<i>Current assets</i>		
Cash and cash equivalents	5,112	1,447
Trade and other receivables	8,024	4,848
Inventories	7,886	5,953
Other current assets	2,995	1,746
Total current assets	24,017	13,994
<i>Non-current assets</i>		
Property, plant and equipment	1,673	824
Intangible assets	8,472	7,671
Total non-current assets	10,145	8,495
Total assets	34,162	22,489
Liabilities		
<i>Current liabilities</i>		
Trade and other payables	8,801	8,461
Borrowings	1,500	2,706
Provisions	610	493
Other financial liabilities	-	1,496
Current liabilities	10,911	13,156
<i>Non-current liabilities</i>		
Provisions	42	47
Total non-current liabilities	42	47
Total liabilities	10,953	13,203
Net assets	23,209	9,286
Equity		
Issued capital	44,057	28,987
Reserves	2,177	1,365
Accumulated losses	(23,025)	(21,066)
Total equity	23,209	9,286

Atomos Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Issued capital (Ordinary shares) \$'000	Issued capital (Class A shares) \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Share based payments reserve \$'000	Total equity \$'000
Balance at 1 July 2017	8,595	292	(4,553)	195	-	4,529
Transactions with owners						
Share-based payments	-	-	-	-	1,013	1,013
Conversion of Class A shares	292	(292)	-	-	-	-
Conversion of convertible notes	13,567	-	-	-	-	13,567
Issue of new share capital	7,000	-	-	-	-	7,000
Transaction costs relating to issue of shares	(467)	-	-	-	-	(467)
Income tax benefit relating to transaction costs	-	-	-	-	-	-
Total transactions with owners	20,392	(292)	-	-	1,013	21,113
Comprehensive income						
Loss for the year	-	-	(16,513)	-	-	(16,513)
Other comprehensive income	-	-	-	157	-	157
Total comprehensive income	-	-	(16,513)	157	-	(16,356)
Balance at 30 June 2018	28,987	-	(21,066)	352	1,013	9,286
Balance at 1 July 2018	28,987	-	(21,066)	352	1,013	9,286
Transactions with owners						
Share-based payments	-	-	-	-	1,017	1,017
Conversion of convertible notes	9,457	-	-	-	-	9,457
Issue of new share capital	6,000	-	-	-	-	6,000
Transaction costs relating to issue of shares	(387)	-	-	-	-	(387)
Income tax benefit relating to transaction costs	-	-	-	-	-	-
Total transactions with owners	15,070	-	-	-	1,017	16,087
Comprehensive income						
Loss for the year	-	-	(1,959)	-	-	(1,959)
Other comprehensive income	-	-	-	(205)	-	(205)
Total comprehensive income	-	-	(1,959)	(205)	-	(2,164)
Balance at 30 June 2019	44,057	-	(23,025)	147	2,030	23,209

Atomos Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	2019	2018
	\$'000	\$'000
Operating activities		
Receipts from customers	52,868	34,944
Payments to suppliers and employees	(56,363)	(37,846)
Interest received	2	1
Income taxes paid	(158)	-
Net cash used in operating activities	(3,651)	(2,901)
Investing activities		
Payments for property, plant and equipment	(1,325)	(724)
Payments for intangible assets	(1,794)	(3,629)
Net cash used in investing activities	(3,119)	(4,353)
Financing activities		
Proceeds from issue of equity instruments in the company	6,000	7,000
Proceeds from issue of convertible notes	7,000	1,112
Interest paid	(114)	(432)
Payment for transaction costs	(2,013)	(410)
Proceeds from borrowings	1,500	-
Repayments of borrowings	(1,950)	(110)
Net cash inflow from financing activities	10,423	7,160
Net change in cash and cash equivalents	3,653	(94)
Cash and cash equivalents, beginning of year	1,447	1,548
Exchange differences on cash and cash equivalents	12	(7)
Cash and cash equivalents, end of year	5,112	1,447

Notes to the Consolidated Financial Statements - Condensed

Review of Operations

The 2019 year was a pivotal period for the Company which saw the completion of a multi-year investment in a new technology platform (the Ninja Platform) which will underpin future Atomos products for the next few years. The first product developed on this new platform, Ninja V, was launched in September 2018 and has been extremely successful.

In December 2018 the Company was successfully listed on the ASX.

Summary of results for 2019 compared to prior period

Consolidated Income Statement	2019 \$'000	2018 \$'000	Change \$ \$'000	Change %
Revenue	55,681	35,648	20,033	56%
Cost of sales	(29,782)	(18,828)	(10,954)	(58%)
Gross profit	25,899	16,820	9,079	54%
Gross Margin %	47%	47%		(0%)
Operating expenses	(24,119)	(17,610)	(6,509)	(34%)
Impairment of Intangibles	-	(9,729)	9,729	100%
EBITDA	1,780	(10,519)	12,299	117%
Finance costs	(1,443)	(3,961)	2,518	65%
Depreciation and amortisation	(1,469)	(278)	(1,191)	(428%)
Loss before income tax	(1,132)	(14,758)	13,626	92%
Income tax (expense) / benefit	(827)	(1,755)	928	53%
Loss for the year	(1,959)	(16,513)	14,554	88%

Included in the above results are certain items which were not incurred in the ordinary course of business and are fully detailed in the normalised earnings section overleaf. The impact of excluding those items on the Consolidated Income Statement is as follows:

Normalised Consolidated Income Statement	2019 \$'000	2018 \$'000	Change \$ \$'000	Change %
Revenue	53,961	35,648	18,313	51%
Gross profit	24,049	17,302	6,747	39%
Gross Margin %	45%	49%		(4%)
Operating expenses	(22,404)	(17,080)	(5,323)	(31%)
EBITDA	1,645	222	1,423	641%

Revenue

Normalised revenue of \$54.0 million was 51% higher than in 2018. This was driven by strong performance of the Ninja V, launched in September 2018 and the Shinobi devices, launched in March 2019. These products represent the successful start of Atomos' push into one of its key growth areas, the 'Social' market segment. The 2019 normalised revenue was 28% higher than the prospectus forecast.

Gross Profit

Normalised gross profit was impacted by higher than anticipated component costs associated with the Ninja V. Management addressed these component cost issues which saw the second half margin increase from 43.4% to 45.3%, resulting in 44.6% for the full year. This compares with the prospectus forecast of 47.1%.

Review of Operations (continued)

Operating Costs

Normalised operating costs of \$22.4 million were \$5.3 million or 31% up on 2018 and \$2.8 million or 14% higher than the prospectus forecast. This cost increase principally reflects higher marketing expenditure of \$2.3 million. The additional investment in marketing was to support Atomos' entry into the emerging Social segment in 2019 and to support further growth.

EBITDA

The normalised EBITDA for 2019 was \$1.6 million which compares with 2018 of \$0.2 million and the prospectus forecast of \$0.3 million.

Finance Costs

Finance Costs for 2019 of \$1.4 million (2018: \$4.1 million) were significantly reduced reflecting the fact that the convertible notes were redeemed or converted to equity at the IPO.

Depreciation and Amortisation

Depreciation and amortisation increased by \$1.2 million. This increase represented the initial amortisation of previously capitalised development costs as the Company commenced commercialisation of the development effort.

Income Tax Expense

Income tax expenses incurred of \$0.6 million during the period relate to non-Australian 100% subsidiaries where a taxable profit was reported and \$0.2 million due to a tax differential within the Australian tax consolidated Group relating to Research and Development grants.

Net Loss (After Tax)

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$1.96 million (2018: loss \$16.5 million).

Reconciliation of normalised earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS term which the Group uses to measure performance. This includes a number of items which are not in the ordinary course of business, these have been excluded in the table below to provide a view of normalised earnings.

\$'000	2019 Reported	Items not in the ordinary course of business¹	Underlying Result
Revenue	55,681	(1,720)	53,961
Cost of sales	(29,782)	(130)	(29,912)
Gross profit	25,899	(1,850)	24,049
Gross Margin %	47%		45%
Operating Expenses – ongoing	(22,404)		(22,404)
Operating Expenses – one-off	(1,715)	1,715	0
EBITDA	1,780	(135)	1,645
Depreciation and amortisation	(1,469)	0	(1,469)
Finance costs	(1,443)	1,442	(1)
Loss before income tax	(1,132)	1,307	175
Income tax (expense) / benefit	(827)	0	(827)
Loss for the year	(1,959)	1,307	(652)

¹Items not in the ordinary course of business (2019)

\$'000

Revenue

Sales to suppliers: supplier pass through sales at no margin	(1,720)
Revenue	(1,720)

Cost of sales

Sales to suppliers: supplier pass through sales at no margin	1,720
One off Inventory write-off/clearance	1,277
Resolution of European Customs duty dispute	(3,127)

Cost of sales **(130)**

Operating Expenses

Revaluation of embedded derivative and other financial instruments	(1,018)
IPO & other transaction costs	2,033
Accelerated vesting of pre IPO share options	535
Costs associated with resolving European customs dispute	165

Operating Expenses **1,715**

Interest on convertible notes	1,442
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Total Items not in the ordinary course of business **1,307**

Reconciliation of normalised earnings (continued)

	2018 Reported	Items not in the ordinary course of business ²	Underlying Result
Revenue	35,648		35,648
Cost of sales	(18,828)	482	(18,346)
Gross profit	16,820	482	17,302
Gross Margin %	47%		49%
Operating Expenses - ongoing	(17,080)		(17,080)
Operating Expenses – one-off	(10,259)	10,259	0
EBITDA	(10,519)	10,636	222
Depreciation and amortisation	(278)		(278)
Finance costs	(3,961)	3,961	0
Loss before income tax	(14,758)	14,702	(56)
Income tax (expense) / benefit	(1,755)		(1,755)
Loss for the year	(16,513)	14,702	(1,811)
²Items not in the ordinary course of business (2018)			\$'000
Cost of sales			
One off Inventory write-off			482
Cost of sales			482
Operating Expenses			
Asset impairment charges			9,993
Transitional costs			878
Incremental listed company costs			(210)
Revaluation of embedded derivatives			(377)
Employee share plan costs			(153)
Transaction costs			128
Operating Expenses			10,259
Interest on convertible notes			3,961
Total Items not in the ordinary course of business			14,702

-End of Appendix 4E – preliminary final report-