

ATOMOS LTD
ACN 139 730 500
ASX: AMS

Appendix 4E – Preliminary Final Report

Reporting period

Reporting period: for the year ended 30 June 2020

Previous corresponding period: for the year ended 30 June 2019

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 2020	2020	2019	% change
	\$'000	\$'000	
Revenue from ordinary activities	44,740	53,716	(17%)
Loss from ordinary activities after tax attributable to members	(22,098)	(1,959)	1028%
Net Loss for the year attributable to members	(22,098)	(1,959)	1028%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(17,184)	1,780	(1065%)
Earnings before interest, tax, depreciation, amortisation and items not in the ordinary course of business ¹	(7,113)	1,645	(532%)
Loss from ordinary activities after tax attributable to members before items not in the ordinary course of business ¹	(12,027)	(652)	1745%

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 comparatives. 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 2020 was down \$9.0 million, or 17%, from \$53.7 million primarily due to the impact of COVID-19. Following strong 1H'20 growth where the Company delivered revenue of \$32.6m, a 35% increase on pcp, 2H'20 revenue was \$12.1m. This represents the lowest half of revenue since 2H'14, a clear indication of the impact that COVID-19 has had on the business.

Net loss after tax for the year was up \$20.0 million, to \$22.0m. This was primarily driven by:

- Fall in gross profit of \$11.3 million;
- One-off impairment of assets in 2020 of \$6.9 million;
- Other gains of \$1.0 million included in 2019 results in relation to the revaluation of embedded derivative to fair value on conversion / redemption of convertible notes;
- Increased depreciation and amortisation of \$2.3 million primarily driven by amortisation of Right-of-use assets (\$1.3 million) and commencement of amortisation of intangibles acquired on acquisition of Timecode Systems Limited (\$0.3 million); and

- Loss incurred by the subsidiary acquired during the year - \$0.5million

This was partially offset by:

- Lower finance charges in 2020 of \$1.1 million; and
- Lower advertising and marketing spend \$1.0 million primarily due to cancellation of trade shows due to COVID-19

Appendix 4E – Preliminary Final Report (continued)

Net tangible assets per security

Net tangible assets per security	30-Jun-20	30-Jun-19
Net tangible assets per security ¹	\$0.16	\$0.10
Total number of shares on issue at period end	217,665,489	151,957,624

¹ Excludes Right of Use Asset

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

Name of the entity	Timecode Systems Limited
Date on which control was gained	2 December 2019
	\$'000
Contribution of entity to the reporting entity's profit/(loss) from ordinary activities before income tax for the period	(462)

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 audit completion. 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 Rule 4.3A is contained in the 30 June 2020 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 2020

	30-Jun-20 \$'000	30-Jun-19 \$'000
Revenue	44,740	53,716
Cost of sales	(28,640)	(28,062)
Gross profit	16,100	25,654
Other income	366	247
Other gains/(losses)	(10)	1,018
Employee benefits expense	(9,002)	(8,052)
Research and development expense	(3,761)	(4,139)
Advertising and marketing expense	(4,635)	(5,604)
Finance costs	(384)	(1,443)
Administration and other expense	(2,641)	(2,085)
Distribution expense	(1,786)	(1,585)
Warranty expense	(1,256)	-
Royalty expense	(475)	-
Occupancy expense	(471)	(709)
Legal and professional services	(1,453)	(904)
Transaction costs	(1,226)	(2,061)
Depreciation and amortisation	(3,773)	(1,469)
Impairment of assets	(6,934)	-
Loss before income tax	(21,341)	(1,132)
Income tax expense	(757)	(827)
Loss for the period	(22,098)	(1,959)
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	(97)	(205)
Other comprehensive loss for the period	(97)	(205)
Total comprehensive loss for the period	(22,195)	(2,164)
Earnings per share		
Basic loss per share	(0.12)	(0.01)
Diluted loss per share	(0.12)	(0.01)

Atomos Limited
Consolidated Statement of Financial Position
As at 30 June 2020

	Consolidated as at	
	30-Jun-20	30-Jun-19
	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	18,768	5,112
Trade and other receivables	4,668	8,024
Inventories	16,808	9,606
Other current assets	2,613	2,995
Total current assets	42,857	25,737
Non-current assets		
Property, plant and equipment	2,663	1,673
Right-of-use assets	8,963	-
Intangible assets	25,096	8,472
Total non-current assets	36,722	10,145
Total assets	79,579	35,882
Liabilities		
Current liabilities		
Trade and other payables	10,708	10,521
Borrowings	139	1,500
Provisions	567	610
Lease liabilities	1,107	-
Total current liabilities	12,521	12,631
Non-current liabilities		
Provisions	318	42
Lease liabilities	8,288	-
Deferred tax liability	1,043	-
Non-current liabilities	9,649	42
Total liabilities	22,170	12,673
Net assets	57,409	23,209
Equity		
Issued capital	101,538	44,057
Foreign currency translation reserve	50	147
Share based payments reserve	944	2,030
Accumulated losses	(45,123)	(23,025)
Total equity	57,409	23,209

Atomos Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

	Issued capital (Ordinary shares)	Accumulated losses	Foreign currency translation reserve	Share based payments reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
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 share capital	(387)	-	-	-	(387)
Transfer to issued capital on issuance of shares for services, exercised options, settled performance rights	-	-	-	-	-
Total transactions with owners	15,070	-	-	1,017	16,087
Comprehensive income					
Loss for the period	-	(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
Balance at 1 July 2019	44,057	(23,025)	147	2,030	23,209
Transactions with owners					
Share-based payments	-	-	-	263	263
Issue of new share capital	58,362	-	-	-	58,362
Transaction costs relating to issue of share capital	(2,230)	-	-	-	(2,230)
Transfer to issued capital on issuance of shares for services, exercised options, settled performance rights	1,349	-	-	(1,349)	-
Total transactions with owners	57,481	-	-	(1,086)	56,395
Comprehensive income					
Loss for the period	-	(22,098)	-	-	(22,098)
Other comprehensive income	-	-	(97)	-	(97)
Total comprehensive income	-	(22,098)	(97)	-	(22,195)
Balance at 30 June 2020	101,538	(45,123)	50	944	57,409

Atomos Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2020

	30-Jun-20 \$'000	30-Jun-19 \$'000
Operating activities		
Receipts from customers	49,541	52,868
Payments to suppliers and employees	(63,129)	(56,036)
Interest received	26	2
Income taxes paid	(124)	(158)
Net cash used in operating activities	(13,686)	(3,324)
Investing activities		
Payments for property, plant and equipment	(3,191)	(1,331)
Payments for intangible assets	(3,196)	(1,794)
Payment for acquisition of subsidiary	(5,617)	-
Net cash used in investing activities	(12,004)	(3,125)
Financing activities		
Proceeds from issue of equity instruments in the company	44,010	6,000
Payment for equity raise costs	(2,230)	(2,448)
Proceeds from issue of convertible notes	-	7,000
Interest paid	(384)	-
Repayment of lease liabilities	(664)	-
Repayments of borrowings (net)	(1,361)	(450)
Net cash inflow from financing activities	39,371	10,102
Net change in cash and cash equivalents	13,681	3,653
Cash and cash equivalents, beginning of period	5,112	1,447
Exchange differences on cash and cash equivalents	(25)	12
Cash and cash equivalents, end of period	18,768	5,112

Notes to the Consolidated Financial Statements - Condensed

Review of Operations

FY20 started strongly with a continuation of growth from FY19 which resulted in 1H'20 revenues of \$32.6 million, a 35% increase on the pcp. However, the onset of the COVID pandemic in early 2020 brought about a sharp drop in demand for Atomos products and a corresponding fall in revenue with 2H'20 being approximately 60% down on 1H'20. As the full impact on the business (and the broader industry) from the COVID pandemic became clear, the Company was forced to make a number of changes.

In order to sustain such a fall in revenue, a comprehensive review of the cost base was undertaken with significant savings realised across all cost categories, especially salaries and wages and marketing. With a reduced cost base and a significant inventory holding, the company was able to sustain itself without additional funding. However, management also recognised the opportunity to accelerate the development of certain new products to capitalise on the increase in remote working and chose to raise additional capital in order to assist in bringing these products to market.

Summary of results for 2020 compared to prior period

Consolidated Income Statement	2020 \$'000	2019 \$'000	Change \$ \$'000	Change %
Revenue	44,740	53,716	(8,976)	(17%)
Cost of sales	(28,640)	(28,062)	(578)	2%
Gross profit	16,100	25,654	(9,554)	(37%)
Gross Margin %	36%	48%		(12%)
Operating expenses	(26,350)	(23,874)	(2,476)	10%
Impairment of assets	(6,934)	-	(6,934)	
EBITDA	(17,184)	1,780	(18,964)	(1065%)
Finance costs	(384)	(1,443)	1,059	(73%)
Depreciation and amortisation	(3,773)	(1,469)	(2,304)	157%
Loss before income tax	(21,341)	(1,132)	(20,209)	1785%
Income tax expense	(757)	(827)	70	(8%)
Loss for the year	(22,098)	(1,959)	(20,139)	1028%

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

Normalised Consolidated Income Statement	2020 \$'000	2019 \$'000	Change \$ \$'000	Change %
Revenue	44,447	53,716	(9,269)	(17%)
Gross profit	17,683	23,804	(6,121)	(26%)
Gross Margin %	40%	44%		(5%)
Operating expenses	(24,796)	(22,159)	(2,637)	12%
EBITDA	(7,113)	1,645	(8,758)	(532%)

Revenue

Normalised revenue of \$44.4 million was 17% lower than 2019 due to the impact of COVID-19.

Review of Operations (continued)

Gross Profit

Normalised gross profit was impacted by higher than normal levels of discounting and product promotions to continue to drive sales during the COVID-19. This impacted the second half of the year.

Operating Costs

Normalised operating costs of \$24.8 million were \$2.7 million or 12% up on 2019. This cost increase reflects a reclassification of warranty and royalty expenses from cost of goods sold of \$1.7 million, the additional operating costs from Timecode Systems (\$0.6 million), full year public company costs and higher employee costs.

EBITDA

The normalised EBITDA loss for 2020 was \$7.1 million as compared to EBITDA of \$1.6 million in 2019. This was primarily due to reduced Gross Profit of \$8 million.

Finance Costs

Finance Costs for 2020 of \$0.4 million (2019: \$1.4 million) were significantly reduced reflecting the fact that the convertible notes were redeemed or converted to equity at the IPO (December 2018).

Depreciation and Amortisation

Depreciation and amortisation increased by \$2.3 million primarily driven by amortisation of Right-of-use assets (\$1.3 million) and commencement of amortisation of intangibles acquired on acquisition of Timecode Systems Limited (\$0.3 million).

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 Profit / Loss (After Tax)

The consolidated loss of the Group for the financial year after providing for income tax amounted to \$22 million (2019: loss \$2 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. Additionally, the reported result includes a number of items that were significant and/or not considered to be in the ordinary course of business and the table below quantifies these to provide a view of the underlying trading result.

	2020 Reported	Items that were significant and/or not in the ordinary course of business ¹	Underlying Result
\$'000			
Revenue	44,740	(293)	44,447
Cost of sales	(28,640)	1,876	(26,764)
Gross profit	16,100	1,583	17,683
Gross Margin %	36%		40%
Operating Expenses – ongoing	(24,796)		(24,796)
Operating Expenses – one-off	(8,488)	8,488	-
EBITDA	(17,184)	10,071	(7,113)
Depreciation and amortisation	(3,773)	-	(3,773)
Finance costs	(384)	-	(384)
Loss before income tax	(21,341)	10,071	(11,270)
Income tax expense	(757)	-	(757)
Loss for the year	(22,098)	10,071	(12,027)

¹Items that were significant and/or not in the ordinary course of business (2020)

	\$'000
Revenue	
Incremental discounting on inventory clearance	(293)
Revenue	(293)
Cost of sales	
One off Inventory write-off / clearance	1,083
Third party production cost write-offs	918
Custom Fees Refund	(125)
Cost of sales	1,876
Operating Expenses	
Impairment of assets	6,934
Transaction costs	1,226
Restructuring costs	328
Operating Expenses	8,488
Total Items not in the ordinary course of business	10,071

Reconciliation of normalised earnings (continued)

	2019 Reported	Items that were significant and/or not in the ordinary course of business ¹	Underlying Result
\$'000			
Revenue	53,716		53,716
Cost of sales	(28,062)	(1,850)	(29,912)
Gross profit	25,654	(1,850)	23,804
Gross Margin %	48%		44%
Operating Expenses – ongoing	(22,159)		(22,159)
Operating Expenses – one-off	(1,715)	1,715	-
EBITDA	1,780	(135)	1,645
Depreciation and amortisation	(1,469)	-	(1,469)
Finance costs	(1,443)	1,442	(1)
Loss before income tax	(1,132)	1,307	175
Income tax (expense) / benefit	(827)	-	(827)
Loss for the year	(1,959)	1,307	(652)

¹Items that were significant and/or not in the
ordinary course of business (2019)

	\$'000
Cost of sales	
One off Inventory write-off/clearance	1,277
Resolution of European Customs duty dispute	(3,127)
Cost of sales	(1,850)
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
Total Items not in the ordinary course of business	1,307

-End of Appendix 4E – preliminary final report-