

Microsaic Systems plc

("Microsaic", "Microsaic Systems" or the "Company")

Interim Results and Management Update for the six months ended 30 June 2016

26 August 2016

Microsaic Systems plc (AIM: MSYS), the developer of chip-based mass spectrometry ("MS") instruments designed to improve the efficiency of pharmaceutical ("Pharma") R&D, announces its unaudited interim results for the six months ended 30 June 2016 and an update on trading since the period end.

In the first half ("H1") of 2016 the new management team has continued to refocus the business and strengthen its relationships with key partners while at the same time bringing costs under control.

The Company has made excellent progress in realigning the business strategy. The board has refined its strategy to focus on the Pharma market, where there is a clear opportunity to create integrated products that combine MS with separation and purification technologies. The shift in Pharma to drive down the costs of bringing new products to market, and the shift in therapeutic focus to larger molecules (e.g. peptides, proteins and antibodies), requires higher quality analysis at the point-of-use, which is what such an integrated product offering can provide.

The key achievements in H1 2016 are detailed below:

- Revenues increased to £0.47 million (H1 2015: £0.23 million¹);
- Supported two partners with the launch of our MS product, the 4000 MiD®;
- Product sales of 15 units – more than double that achieved in H1 2015 (six units) while maintaining the momentum achieved in H2 2015;
- Resources have been refocussed on strengthening existing OEM partner relationships and creating new ones;
- Development of a new MS product: the 4500 MiD®, with increased features to address additional application areas, is under test and is on course to be launched in H1 2017;
- Operating expenses in H1 2016 down £0.12 million or 6% versus H1 2015, and approximately £0.48 million below H2 2015, reflecting tight cost control and the change in strategy; and
- Cash and cash equivalents of £1.95 million as at 30 June 2016 (31 December 2015: £3.61 million).

Subsequent to the year end, the Company has today announced plans to raise gross proceeds of up to £5.4 million through a placing of ordinary shares to existing and new investors (the "Placing"). The Board believes that the Placing will provide the additional working capital required to take the Company through to profitability. The Placing requires shareholder approval and a circular will be posted to shareholders today convening a general meeting to be held on 12 September 2016.

¹ See Note 3 of the Notes to the Financial Statements

Jim Ramage, Chief Executive Officer, commented:

“The first half results reflect the new focus on developing in-depth relationships with a selected number of partners. We are investing in these relationships at many levels including service support, application support and at senior management levels. This approach not only helps Microsaic and our partners to grow their respective businesses but also guides the Company’s resources towards new and growing application areas, which in turn helps to prioritise our development activities. This has already led to the development of the 4500 MiD®, which will address needs not met by our current product. This customer focussed approach also reassures our partners that we are addressing their needs with product and application innovation.

“In addition we have continued early feasibility and evaluation programmes with a number of companies and our goal is to sign up at least one additional OEM partner each year. The future is based on customer-led product and application innovations which extend the market addressable by our products.

“Since last September, the Company has rigorously cut costs and extended its cash runway but it now requires extra funding to allow it to further develop the product and new partnerships necessary to create a profitable self-funding business. The Company will therefore hold a general meeting on 12 September 2016 to obtain approval from shareholders for the issue of new ordinary shares as part of a fundraising.

“Your board believes that the change in strategic emphasis will allow the Company to create new in depth relationships with its partners with products designed specifically for their application needs. Hence, the Company and its partners can grow their businesses in a sustainable and mutually profitable way.”

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014 ("MAR").

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About Microsaic Systems

Microsaic Systems plc is a high technology company developing chip-based, bench-top mass spectrometry (“MS”) instruments that are designed to improve the efficiency of Pharma R&D. MS is an analytical technique of choice for biochemists across many industry sectors.

Microsaic aims to bring routine MS analysis to the pharmaceutical scientist, providing powerful methods of analysis to enable earlier decision making relating to product identification, purity and bioactivity.

The Company is working with established global companies in preparative and purification science with expertise in Pharma and life sciences to co-develop new, integrated and optimised, application-specific, solutions to improve productivity in the development of small molecule and novel biologic (peptides, antibodies) medicines.

The Microsaic 4000 MiD[®], single quadrupole, is the world's smallest MS system, retaining the functionality of larger conventional MS systems, is easier to use by non-specialists, consumes less energy and has lower running costs. The Company is also developing new MS systems, based on its patented chip technologies, to address further areas of emerging need in Pharma R&D.

Microsaic Systems was established in 2001 by a team including founders from Imperial College London, and was admitted to AIM in 2011 (ticker: MSYS).

www.microsaic.com

Operational Review

Partners

The Company is working with global separation and purification original equipment manufacturers (“OEMs”) to develop integrated solutions for their customers in Pharma R&D, and distributors, who take our off-the-shelf products.

During H1, 2016 two of our partners, one OEM and one distributor, launched the 4000 MiD[®]. The Company supported this process in a number of ways including training sales staff and service engineers.

The OEM strategy reduces channel risk and embeds customer needs into the products differentiating Microsaic from its competitors. This process of engagement and co-development can take anywhere from six to 24 months, but whilst the process can take time, it creates strong barriers to entry for our competitors and helps build important and mutually beneficial relationships. There is no guarantee that all the current opportunities will go through to commercialisation; however, the Company feels its goal of signing up one new OEM partner each year is both realistic and achievable.

Manufacturing

The manufacture of our core chip components and final testing is managed in-house at our Woking facility. The manufacture of the electronics and other non-core components is outsourced. The Company is in the process of changing its outsourced partner, which will enable it to better meet the needs of its partners and customers. Inventory of our products has been increased to ensure the smooth transition to the new manufacturer.

Research & Development (“R&D”)

Microsaic has successfully developed and implemented MEMS (Micro-Electro-Mechanical Systems) technology, which is at the core of our product design with over 60 patents already granted and another 10 pending.

Towards the end of 2015, the Company changed its R&D focus to concentrate on near term revenue generation through continuous product improvement in ways that will enable the extension of the product specification to open up new application areas and market opportunities. During H1 2016, the R&D team has been working on the development and testing of the 4500 MiD[®], which will be tested on a partner’s site in Q4 2016 and launched in H1 2017.

Corporate Review

The Company's focus is firmly on the Pharma industry, where the Board sees strong growth opportunities for our products. Since the executive team of Jim Ramage (CEO), Glenn Tracey (COO) and Bevan Metcalf (FD) were appointed in December 2015, the business strategy has been refocussed, and the Company has invested in supporting both its existing partners and also its new partners who have launched Microsaic products during the period.

The Board has also been strengthened by the appointment of Christopher Buckley on 8 March 2016, as a non-executive director. Chris has more than 30 years of international marketing and general management experience in the Pharma industry, most recently at Novartis.

Fundraising and General Meeting

The Company has announced today that it intends to raise up to £5.4 million by way of a placing of up to 108,000,000 new ordinary shares in the Company to existing and new investors. The Directors believe that the fundraising will provide the additional working capital required to take the Company through to profitability, and will strengthen the Company's balance sheet. A general meeting in respect of the Placing will be held on 12 September 2016.

Financial Review

Comprehensive income:

In H1 2016 total revenues of £472,072 were 108% higher than H1 2015 (H1 2015 Restated: £227,036). Product revenues amounted to £410,048 in the period with 15 units sold compared to six units in H1 2015 for revenues of £165,015. H1 2015 revenues had been impacted by lower than expected unit sales through the Company's main OEM channel. This has been addressed by management through strengthening the Company's relationships with its key partners, which has contributed to the increase in unit sales over the period. Consumable sales and service income at £62,024 were in line with last year (H1 2015: £62,021).

Gross profit for the period of £172,028 is 93% above H1 2015. The gross margin percentage of 36.4% is below the 39.2% recorded last year, mainly due to a higher proportion of consumable sales in H1 2015 which attract a higher margin.

Other operating income during the period was nil compared with £179,278 (following restatement) in H1 2015.

Operating expenses were £1,868,900 in the period (H1 2015: £1,987,248). The fall in operating expenses of £118,348 was mainly due to lower payroll costs.

The loss for the period, before share-based payments, tax and interest, was £1,696,872, £22,112 lower than last year (H1 2015: £1,718,984).

The comprehensive loss for the period totalled £1,697,836 (H1 2015: £1,663,616), which is 2.1% or £34,220 higher than last year. The basic loss per share fell to 2.31p in H1 2016 from 2.62p in H1 2015.

Statement of Financial Position:

Total assets at £3,582,497 are £1,616,027 below 31 December 2015, mainly due to a lower cash balance. Inventories were 8% higher at 31 December 2015 due to the transition to a new manufacturer as previously discussed. In comparison with 30 June 2015 total assets are £359,816 lower due mainly to lower cash, partially off-set by a higher corporation tax receivable of £308,484. The corporation tax receivable is due to an R&D claim, which was received in August 2016.

Total equity is £2,798,515, down £1,646,767 compared to 31 December 2015. Share based payments reserve was down £202,085 following the transfer of lapsed share options (£253,154) to retained earnings, off-set by the share based option charge for the period (£51,069). Retained earnings at -£13,342,329 are £1,444,682 lower than at 31 December 2015 due to the comprehensive loss for the period of £1,697,836 off-set by the transfer of lapsed share options. Total equity is £425,294 lower than at 30 June 2015 with additional share capital and share premium following the fundraising in September 2015 of £2,914,516, off-set by a lower share based payments reserve (down £239,636) and lower retained earnings (down £3,100,174).

Total liabilities at £783,982 are 4.1% higher than at 31 December 2015. Provisions for dilapidations and warranty increased by £55,093 during the period while trade and other payables declined by £24,353. In comparison to 30 June 2015, liabilities were £65,478 higher mainly due to additional provisions.

Statement of Cash Flows:

Net cash used in operating activities amounted to £1,630,204, £155,350 lower than H1 2015. The lower cash outflow was due to a reduction in working capital items (£260,691), increase in provisions (£71,878) and a lower tax credit adjustment (£50,937); partially offset by the non-receipt of the R&D tax credit claim in the period (£192,047). The R&D tax credit claim was received in August 2016.

Net cash used in investing activities of £22,889 compares with £142,382 last year. Last year's net cash used in investing activities included spending on property, plant and equipment of £136,596.

The net decrease in cash and cash equivalents in the period amounted to £1,653,093 compared with a decrease of £1,893,801 last year. The closing cash balance is £1,954,498.

Outlook

The performance in H1 2016 is very encouraging, maintaining the recovery in volumes seen in H2 2015. The Company's goal is to sign one new OEM partner each year and use its partners' expertise, and global commercial capabilities to grow revenues by taking advantage of the significant opportunities in the Pharma industry for high resolution point of use analysis incorporating our MS products. Subject to shareholders approving the Placing the Company believes it will be funded through to profitability and will be in a much stronger position to negotiate with potential partners and attract and retain key staff. The Company would like to thank its staff and shareholders for their continued support.

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the six months ended 30 June 2016

	Notes	6 months to 30 June 2016 Unaudited £	6 months to 30 June 2015 Unaudited RESTATED £
Revenue	3, 5	472,072	227,036
Cost of sales		(300,044)	(138,050)
Gross profit		172,028	88,986
Other operating income		-	179,278
Operating expenses		(1,868,900)	(1,987,248)
Loss from operations before share based payments		(1,696,872)	(1,718,984)
Share based payments		(51,069)	(44,147)
Loss from operations after share based payments		(1,747,941)	(1,763,131)
Finance income		8,996	7,468
Loss before tax		(1,738,945)	(1,755,663)
Tax on loss on ordinary activities		41,109	92,047
Total comprehensive loss for the period		(1,697,836)	(1,663,616)
Loss per share attributable to the equity holders of the Company			
Basic and diluted loss per ordinary share	4	(2.31)p	(2.62)p

STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 30 June 2016

	30 June 2016 Unaudited £	30 June 2015 Unaudited £	31 December 2015 Audited £
ASSETS			
Non-current assets			
Intangible assets	93,056	104,350	102,304
Property, plant and equipment	137,968	204,647	175,242
Total non-current assets	231,024	308,997	277,546
Current assets			
Inventories	647,738	578,242	600,268
Trade and other receivables	440,753	400,330	445,745
Corporation tax receivable	308,484	-	267,374
Cash and cash equivalents	1,954,498	2,654,744	3,607,591
Total current assets	3,351,473	3,633,316	4,920,978
TOTAL ASSETS	3,582,497	3,942,313	5,198,524
EQUITY AND LIABILITIES			
Equity			
Share capital	183,413	158,463	183,413
Share premium	15,714,258	12,824,692	15,714,258
Share based payments reserve	243,173	482,809	445,258
Retained earnings	(13,342,329)	(10,242,155)	(11,897,647)
Total Equity	2,798,515	3,223,809	4,445,282
Current liabilities			
Trade and other payables	583,632	626,837	607,985
Non-Current liabilities			
Provisions	200,350	91,667	145,257
Total liabilities	783,982	718,504	753,242
TOTAL EQUITY AND LIABILITIES	3,582,497	3,942,313	5,198,524

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the six months ended 30 June 2016

	Share capital £	Share premium £	Share based payments reserve £	Retained earnings £	Total equity £
At 1 January 2015	158,133	12,790,887	438,662	(8,578,539)	4,809,143
Shares issued	330	33,805	-	-	34,135
Total comprehensive loss for the period	-	-	-	(1,663,616)	(1,663,616)
Share based payments-share options	-	-	44,147	-	44,147
At 30 June 2015	158,463	12,824,692	482,809	(10,242,155)	3,223,809
At 1 January 2016	183,413	15,714,258	445,258	(11,897,647)	4,445,282
Shares issued	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(1,697,836)	(1,697,836)
Transfer in respect of lapsed share options	-	-	(253,154)	253,154	-
Share based payments-share options	-	-	51,069	-	51,069
At 30 June 2016	183,413	15,714,258	243,173	(13,342,329)	2,798,515

STATEMENT OF CASH FLOWS (UNAUDITED)
For the six months ended 30 June 2016

	6 months to 30 June 2016 Unaudited £	6 months to 30 June 2015 Unaudited £
Total comprehensive loss for the period	(1,697,836)	(1,663,616)
Amortisation of intangible assets	20,738	25,469
Depreciation of property, plant and equipment	57,669	60,221
Share based payments	51,069	44,147
Tax on loss on ordinary activities	(41,110)	(92,047)
Interest received	(8,996)	(7,468)
Increase in provisions	83,758	11,880
Increase in inventories	(78,124)	(337,067)
Decrease in trade and other receivables	6,981	115,066
Decrease in trade and other payables	(24,353)	(134,186)
Cash used in operations	(1,630,204)	(1,977,601)
Taxation received	-	192,047
Net cash used in operating activities	(1,630,204)	(1,785,554)
Cash flows from investing activities		
Purchases of intangible assets	(11,489)	(13,254)
Purchases of property, plant and equipment	(20,396)	(136,596)
Interest received	8,996	7,468
Net cash used in investing activities	(22,889)	(142,382)
Cash flows from financing activities		
Proceeds from share issues	-	34,135
Net cash from financing activities	-	34,135
Net decrease in cash and cash equivalents	(1,653,093)	(1,893,801)
Cash and cash equivalents at beginning of the period	3,607,591	4,548,545
Cash and cash equivalents at the end of the period	1,954,498	2,654,744

NOTES TO THE INTERIM FINANCIAL INFORMATION (UNAUDITED)

1. Nature of Operations

Microsaic Systems plc (the "Company") is registered in England and Wales. The Company's registered office is GMS House, Boundary Road, Woking, GU21 5BX. The Company has no subsidiaries so the financial information relates to the Company only. Microsaic is a high technology company developing chip-based, bench-top MS instruments that are designed to improve the efficiency of Pharma R&D.

2. General Information

The interim financial information has been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and implemented in the UK. The accounting policies, methods of computation and presentation used in the preparation of the interim financial information are the same as those used in the Company's audited financial statements for the year ended 31 December 2015.

The interim financial information in this statement does not constitute full statutory accounts as defined by Section 434 of the Companies Act 2006 and has not been audited.

The interim financial information for the six months to 30 June 2015 has been prepared using extracts from the financial statements prepared for the year ended 31 December 2015. Those financial statements have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified.

3. Basis of preparation

The financial statements are presented in GB Pounds Sterling. The financial information has been prepared on the historical cost basis, except where financial instruments are required to be carried at fair value under IFRS.

The financial information has been prepared on a going concern basis, as the directors consider that, taking into account the conditional placing announced on 25 August 2016, the Company has sufficient resources to continue operations for the foreseeable future.

The directors have identified development income of £64,103 recognised as revenue in the six months ending 30 June 2015 that should have been restated as other operating income and have therefore adjusted the comparative results accordingly. There was no change to the total comprehensive loss for the period as a result of the restatement.

4. Loss per share

	6 months to 30 June 2016 Unaudited	6 months to 30 June 2015 Unaudited
Comprehensive loss attributable to equity shareholders	(1,697,836)	(1,663,616)
Weighted average number of 0.25p ordinary shares for the purpose of basic and diluted loss per share	73,365,146	63,382,459
Basic and diluted loss per share	(2.31)p	(2.62)p

Potential ordinary shares are not treated as dilutive as the Company is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share are the same.

5. Segmental reporting

Throughout the period the Company operated in one business segment, that of research, development and commercialisation of scientific instruments. All of the Company's assets are held in the UK and all of its capital expenditure arises in the UK. The geographical analysis of revenue was as follows:

	6 months to 30 June 2016 Unaudited £	6 months to 30 June 2015 Unaudited Restated £
UK	7,412	28,494
Non-UK	464,660	199,151
	472,072	227,036

A further breakdown of the non-UK revenue is not possible due to the nature of the sales via OEM's which are then distributed globally.

One customer represented 50% of total revenue in the period (H1 2015: 53%).