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Pace Micro Technology plc results for the seven month period ended 31 December 2007

29 January 2008

Saltaire, UK, 29 January 2008, Pace Micro Technology, the leading independent developer of digital TV technologies for the global payTV industry, announces its audited financial results for the seven month period ended 31 December 2007.

Operating Highlights

- Exceptional performance during the period, in line with increased expectations
- Solid underlying business trends, platform for growth now embedded
- Good balance of business across the group and broadened product range
- Volume shipments of 2.4m set-top boxes (year ended 2 June 2007: 3.9m)

Financial Highlights

- Revenues of £249.9m (year ended 2 June 2007: £386.5m)
- Gross margin improvement to 20.3% (year ended 2 June 2007: 15.9%)
- Profit before tax £15.4m (year ended 2 June 2007: £4.9m)
- Earnings per share of 6.1p (year ended 2 June 2007: 3.0p)

Outlook

- Board continues to be confident that Pace will meet its expectations for the 2008 financial year

Commenting on the results, Neil Gaydon, Chief Executive Officer, said:

“I am pleased to report exceptional results for the shortened financial year, which met our increased expectations. We strengthened our position as the leading digital TV technology company with both new and existing customers, delivered new products and technologies and increased market share in key areas such as high definition and PVR. We continue to focus on delivering profitable products on time, closely managing our business and investing in the right key technologies for the future. At the end of 2007 we announced we intend to acquire the set-top box and connectivity solutions business of Royal Philips Electronics. This deal would make Pace the world leading set-top box technology company with an unmatched global customer portfolio.”

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Results Overview

Pace is the leading company in digital TV technology and creates products for many of the world's most successful digital payTV operators. The Company has delivered exceptional performance during the period, meeting its increased expectations, due to ongoing action to improve business efficiencies and exceptional performance in North America, principally in satellite. At the same time, the organisational changes which are now complete have structured Pace's business around the technologies and needs of its customers, and provided Pace with a solid and sustainable platform for growth.

Product margins, execution and quality all continued to improve throughout the period and Pace has increased profit before tax to £15.4m (year ended 2 June 2007: £4.9m) on revenues of £249.9m (year ended 2 June 2007: £386.5m).

Pace's revenues remain well balanced between its markets in North America (58% of total) and European and Australasian markets (42%). Pace has continued to win new customers in both market groups while also growing market share from existing customers.

North America, the world's largest market for digital television technology, has performed strongly with shipments of 0.9m set-top boxes in the seven month period (year ended 2 June 2007: 1.2m). Strengthening its US market position by investing early in next generation products, Pace has been quick to market with its new OCAP-ready CableCARD™ range to meet new US regulatory requirements for separable security in cable set-top boxes. Orders of CableCARD products have begun to increase, while demand for satellite products remained strong. Pace continued to develop and deepen its customer relationships in North America in the period and now supplies over 40 operators, including the two largest payTV organisations, DirecTV and Comcast, where Pace has order coverage through 2008.

Pace performed strongly in the EMEA and APAC markets, achieving a level of shipments into the EMEA region of 1.3m set-top boxes (year ended 2 June 2007: 2.2m), and shipments into the APAC region of 0.2m (year ended 2 June 2007: 0.4m). Demand for HD PVR has grown and Digiturk has recently launched a HD PVR service using Pace set-top boxes, which is also the first implementation of Pace's new Irdeto conditional access / OpenTV middleware platform. As expected this platform is enabling Pace to win further new customers in these regions and in September Pace announced a business win with Multichoice in South Africa. Multichoice is typical of the customers Pace aims to work with: the leading payTV operator in a region with rights to the best content, strong engineering and a customer base receptive to the latest developments in digital TV technology. Most recently Pace was chosen by existing customer Viasat to launch HD PVR in the Nordic countries.

Multichoice and Digiturk have extended Pace's customer-base of leading payTV operators that also includes BSkyB, Sky Italia, and UPC in EMEA. In Australia and New Zealand Pace has continued to ship products to Foxtel, Optus and Sky New Zealand.

Looking further ahead, Pace is building on its leadership and skills in digital TV technology to develop in new markets. Key initiatives include Pace Networks, a new business unit to target opportunities further up the digital delivery chain, and a re-entry into retail markets with an advanced hybrid product. The first Networks product will be MultiDweller™, a network class of product that converts existing wiring in apartment blocks into high-speed triple-play bi-directional networks, without the need for any modification or additional cabling.

Financial Review

The Pace Board resolved on 23 July 2007 to change its Accounting Reference Date from 31 May to 31 December. Accordingly the results reported are for the 7 month period to 31 December 2007 with comparatives for the year ended 2 June 2007.

In the seven month period Pace shipped 2.4m set-top boxes (year ended 2 June 2007: 3.9m) with revenues of £249.9m (year ended 2 June 2007: £386.5m). Average selling prices rose from £100 to £102, reflecting the ongoing trend in demand for higher specification products such as HD PVR, a demand Pace has been able to meet due to its ongoing early investment in new technology. Gross margin of 20.3% shows a significant improvement from the previous year (year ended 2 June 2007: 15.9%) through thorough and close management of the business.

Overheads, excluding the impact of IAS38, were £37.2m (year ended 2 June 2007: £55.7m, excluding restructuring costs). R&D spend before capitalisation of development expenditure in line with IAS38 was £21.5m (year ended 2 June 2007: £31.3m) as Pace continued to invest in higher specification products such as HD PVR and new technologies. The IAS38 adjustment was a net credit of £2.2m (year ended 2 June 2007: net credit £2.4m) principally as a result of the investment in Multi-Dweller and retail products that are scheduled to be launched during 2008.

Profit before tax was £15.4m (year ended 2 June 2007: £4.9m). The interest charge was £0.5m (year ended 2 June 2007: £2.2m) the reduced level of charges reflecting higher levels of cash held during the period. A tax charge of £0.9m (year ended 2 June 2007: credit £1.8m) reflects overseas tax charges of £0.4m and deferred tax movements of £0.5m (relating to change in UK Corporation tax rate from 30% to 28%). Retained profit for the period was £14.4m (year ended 2 June 2007: £6.8m). The Board does not recommend the payment of a dividend, but is keeping the position under review.

The net working capital position at 31 December 2007 was £58.4m (2 June 2007: £30.5m). This change was due to an inventory increase of £3.4m (in line with normal working capital requirements), debtor increase of £49.8m and creditor increase of £13.3m. Debtors increased due to the exceptional sales performance and debtor days increased to 52 days (year ended 2 June 2007: 46 days) due to customer mix. Creditor days of 64 days remained in line with the prior year of 65 days.

Due to the increase in the level of working capital at the period end, the Group finished the period with a net borrowings position of £12.1m (2 June 2007: net cash £11.9m).

Philips STB and CS business Proposed Acquisition

On 19 December 2007 Pace announced that it had entered into a conditional agreement to acquire the set-top box and connectivity solutions business of Royal Philips Electronics. The Philips STB and CS Business employs approximately 335 staff predominantly based in France and is a leading designer and supplier of a range of digital TV products including satellite, cable, terrestrial and IPTV set-top box products. While the Board is confident in the organic growth prospects for Pace, the proposed acquisition would provide complementary product ranges, customers and geographical reach to Pace’s existing business.

The acquisition is classified as a 'reverse takeover' under the Listing Rules by virtue of its size and is as a result conditional, inter alia, on the approval of Pace shareholders which will be sought at a General Meeting of Pace expected to take place in March 2008 following posting of the circular and publication of the prospectus. As the acquisition is classified as a 'reverse takeover', the ordinary shares of Pace have been suspended from trading since 19 December 2007 and will re-commence trading on the posting of the circular to shareholders and publication of the prospectus, expected to be in early March.

Outlook

The Board is pleased with progress and the benefits the organisation is delivering in the form of a solid, sustainable platform for growth that has been embedded across the group.

Demand is being driven by increasing competition between payTV providers, new entrants, new content delivery systems and analogue switch off in many markets, and these fundamental trends are expected to stimulate growth for the foreseeable future. For example, according to market analysts, by the end of 2007 it is expected that only 4% (just over 2m) of digital set-top boxes shipped into Europe, the Middle East and Africa (EMEA) will be HD, while during the same period 16m new HD-ready TV panels will have been shipped.

While the market remains difficult to predict and Pace's performance is largely predicated on the performance of its customers, the Board is confident that Pace is investing in the right products and technologies to meet the demands of its growing customer base.

Following the exceptional sales performance and improvements made across the Group in 2007 the Board is confident it is on track to meet its expectations for the 2008 financial year.

Neil Gaydon

Chief Executive Officer

29 January 2008

CONSOLIDATED INCOME STATEMENT
FOR THE 7 MONTHS ENDED 31 DECEMBER 2007

	Note	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Revenue	2	249,875	386,513
Cost of sales		(199,040)	(324,865)
Gross profit		50,835	61,648
Administrative expenses:			
Research and Development expenditure		(19,293)	(28,949)
Other administrative expenses:			
Before exceptional items		(15,656)	(24,379)
Exceptional items	3	-	(1,208)
Total Administrative expenses		(34,949)	(54,536)
Operating profit		15,886	7,112
Finance income		53	138
Finance expenses		(589)	(2,325)
Profit before tax		15,350	4,925
Tax (charge)/credit	4	(935)	1,841
Profit after tax		14,415	6,766
Attributable to:			
Equity holders of the Company		14,415	6,766
Basic earnings per ordinary share	5	6.3p	3.0p
Diluted earnings per ordinary share	5	6.1p	3.0p

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2007

	Note	31 Dec 2007 £000	2 June 2007 £000
ASSETS			
Non Current Assets			
Property, plant and equipment		8,621	6,508
Intangible assets – goodwill		9,436	9,436
Intangible assets – development expenditure		15,882	13,670
Available for sale financial assets		349	349
Deferred tax assets		5,059	4,968
Total Non Current Assets		39,347	34,931
Current Assets			
Inventories		28,668	25,268
Trade and other receivables		102,382	52,563
Cash and cash equivalents		-	12,049
Total Current Assets		131,050	89,880
Total Assets		170,397	124,811
EQUITY			
Issued capital		11,684	11,659
Share premium		36,885	36,751
Translation reserve		425	227
Retained earnings		18,608	2,300
Total Equity		67,602	50,937
LIABILITIES			
Non Current Liabilities			
Interest bearing loans and borrowings		-	99
Provisions	6	12,487	9,646
Total Non Current Liabilities		12,487	9,745
Current Liabilities			
Trade and other payables		72,625	59,368
Current tax liabilities		460	282
Interest bearing loans and borrowings		12,094	60
Provisions	6	5,129	4,419
Total Current Liabilities		90,308	64,129
Total Liabilities		102,795	73,874
Total Equity and Liabilities		170,397	124,811

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Balance at 3 June 2006	11,576	36,246	240	(5,595)	42,467
Profit for the period	-	-	-	6,766	6,766
Currency translation adjustments	-	-	(13)	-	(13)
Total income and expense for the period	-	-	(13)	6,766	6,753
Employee share incentive charges	-	-	-	684	684
Movement in employee share trusts	-	-	-	445	445
Issue of shares	83	505	-	-	588
Balance at 2 June 2007	11,659	36,751	227	2,300	50,937
Profit for the period	-	-	-	14,415	14,415
Currency translation adjustments	-	-	198	-	198
Total income and expense for the period	-	-	198	14,415	14,613
Deferred tax adjustments	-	-	-	606	606
Employee share incentive charges	-	-	-	570	570
Movement in employee share trusts	-	-	-	717	717
Issue of shares	25	134	-	-	159
Balance at 31 December 2007	11,684	36,885	425	18,608	67,602

CONSOLIDATED CASH FLOW STATEMENT
FOR THE SEVEN MONTHS ENDED 31 DECEMBER 2007

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Cash flows from operating activities		
Profit before tax	15,350	4,925
Adjustments for:		
Share based payments charge	570	684
Depreciation of property, plant and equipment	2,483	4,277
Amortisation of development expenditure	9,958	14,172
Loss on sale of property, plant and equipment	136	90
Net financial charge	536	2,187
Movement in trade and other receivables	(49,874)	(9,966)
Movement in trade and other payables	12,828	13,794
Movement in inventories	(3,400)	9,524
Movement in provisions	3,551	(826)
Cash (used in)/generated from operations	(7,862)	38,861
Interest paid	(468)	(2,361)
Tax paid	(242)	(124)
Net cash (used in)/generated from operating activities	(8,572)	36,376
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,258)	(3,256)
Development expenditure	(12,170)	(16,556)
Interest received	53	138
Net cash used in investing activities	(16,375)	(19,674)
Cash flows from financing activities		
Proceeds from issue of share capital	159	588
Proceeds from exercise of employee share options	717	445
Repayment of loans	(159)	(55)
Net cash generated from financing activities	717	978
Net change in cash and cash equivalents	(24,230)	17,680
Cash and cash equivalents at start of period	12,049	(5,880)
Effect of exchange rate fluctuations on cash held	87	249
Cash and cash equivalents at end of period	(12,094)	12,049

NOTES

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of derivative instruments.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATION UNCERTAINTY

The Group's main accounting policies affecting its results of operations and financial condition are set out in the Group's financial statements. Judgements and assumptions have been required by management in applying the Group's accounting policies in many areas. Actual results may differ from the estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Warranties

Pace provides product warranties for its set-top boxes. It is difficult to make accurate predictions of potential failure rates or the possibility of an epidemic failure, as a warranty estimate must be calculated at the outset of a product before field deployment data is available. These estimates improve during the lifetime of the product in the field.

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The level of warranty provision required is reviewed on a product by product basis and provisions adjusted accordingly in the light of actual performance.

Royalties

Pace's products incorporate third party technology, usually under licence. Inadvertent actions may expose Pace to the risk of infringing third party intellectual property rights. Potential claims can still be submitted many years after a product has been deployed. Any such claims are always vigorously defended.

A provision for royalties is recognised where the owners of patents covering technology allegedly used by the Group have indicated claims for royalties relating to the Group's use (including past usage) of that technology. Having taken legal advice, the Board considers that there are defences available that should mitigate the amounts being sought. The Group will vigorously negotiate or defend all claims but, in the absence of agreement, the amounts provided may prove to be different from the amounts at which the potential liabilities are finally settled. The provision is based on the latest information available.

EU Import duty classification

Pace, along with other set top box manufacturers and broadcasters, continues to monitor the potential re-interpretation by European Union customs authorities of customs regulations that could result in the extension of import duties to interactive set-top boxes manufactured outside, but imported into, the EU. No final decision has been made so it remains impossible to quantify any potential impact. However, Pace has analysed its options against the range of possible outcomes and has plans in place to manage these outcomes.

Writ Issued against Company

A writ has been issued against the Company by a former customer relating to the supply of set top boxes in 2000/01. The amount claimed is circa $7.2m. The Directors believe that they have good defences to the claim and therefore, in the absence of any liability, no provision has been made. In addition on 15 July 2007 Pace filed a counterclaim for circa $10m against this former customer and a related third party.

Going concern

The Group has in place borrowing facilities to January 2010, based upon 85% of relevant trade debtors, as adjusted, up to a maximum of £35m. These facilities are subject to financial performance covenants.

The Board has prepared a working capital forecast based upon assumptions as to trading and has concluded that the Group has adequate working capital, will meet the financial performance covenants and that therefore it is appropriate to use the going concern basis of preparation for this financial information.

CHANGE OF YEAR END

The Pace Board resolved on 23 July 2007 that it has decided to change its Accounting Reference Date from 31 May to 31 December. This follows Pace's statement released on 23 March 2007 when it was announced that the change in Group Accounting Reference Date would be made in order to more closely align the Group's business reporting cycle with those of its principal customers and suppliers.

FINANCIAL INFORMATION

The financial information set out in this document does not constitute the company's statutory accounts for the 7 month period ended 31 December 2007, or the 52 week period ended 2 June 2007, but is derived from the 7 month period ended 31 December 2007 accounts. Statutory accounts for the 52 week period ended 2 June 2007 have been delivered to the Registrar of Companies, and those for the 7 month period ended 31 December 2007, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2 Revenue

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
The geographical analysis of revenue by destination is:		
United Kingdom	48,451	69,487
Continental Europe	41,107	62,693
Asia Pacific	15,586	30,888
North America	144,731	223,239
Rest of the World	-	206
	249,875	386,513

3 Exceptional items

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
Restructuring and reorganisation costs	-	1,208

The restructuring and reorganisation charges in the prior period related to a restructuring programme within the Group.

4 Tax (charge)/credit

	7 months ended 31 Dec 2007 £000	52 weeks ended 2 June 2007 £000
The tax (charge)/credit is based on the estimated effective rate of taxation on trading for the period and represents:		
Current tax:		
Overseas tax charge	(420)	(240)
Total current tax charge	(420)	(240)
Deferred tax:		
Origination and reversal of timing differences	(1,367)	2,081
Adjustment in respect of previous periods	1,169	-
Effect of change in tax rate	(317)	-
	(515)	2,081
Tax (charge)/credit	(935)	1,841

5 Earnings per ordinary share

Basic earnings per ordinary share have been calculated by reference to the profit after taxation, and the average number of qualifying ordinary shares of 5p in issue of 229,141,578 (year ended 2 June 2007: 225,501,387).

Diluted earnings per ordinary share vary from basic earnings per ordinary share due to the effect of the notional exercise of outstanding share options. The diluted earnings are the same as basic earnings. The diluted number of qualifying ordinary shares was 234,652,472 (year ended 2 June 2007: 226,873,420).

6 Provisions

	Royalties under negotiation £000	Warranties £000	Total £000
At 2 June 2007	7,473	6,592	14,065
Charge for the period	2,540	5,541	8,081
Utilised	(805)	(3,725)	(4,530)
At 31 December 2007	9,208	8,408	17,616
Due within one year	*-*	*5,129*	*5,129*
Due after more than one year	*9,208*	*3,279*	*12,487*

Circulation to shareholders

The Annual Report and Accounts will be made available in due course to Pace shareholders via Pace's website (www.pacemicro.com) unless a shareholder has requested to receive a printed copy. The Annual Report and Accounts will be available to the public from the Company's registered office at Pace Micro Technology plc, Victoria Road, Saltaire, West Yorkshire, BD18 3LF.