Avingtrans

PINPOINT-INVEST-EXIT

2021 Interim Report

About

Avingtrans plc has a proven strategy of “buy and build” in highly regulated engineering markets, a strategy it has named “Pinpoint-Invest-Exit”. Significant shareholder value is delivered through a clear strategy, a strong balance sheet and an agile and experienced management team.

www.avingtrans.plc.uk

Avingtrans plc

("Avingtrans" or the "Group")

Interim results for the six months ended 30 November 2020

Avingtrans PLC (AIM: AVG), the international engineering group which designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy and medical sectors, today announces its interim results for the six months ended 30 November 2020.

Financial Highlights

- Revenue was stable at £54.1m (2020 H1: £54.3m)
- Gross Margin improved to 30.9% (2020 H1: 25.6%)
- Adjusted* EBITDA increased by 36.6% to £6.3m (2020 H1: £4.6m)
- Profit before Tax was £1.4m (2020 H1 £0.4m)
  - Adjusted* Profit Before Tax increased to £3.5m (2020 H1: £1.8m)
- Adjusted* Diluted earnings per share almost doubled to 10.5p (2020 H1: 5.4p)
- Cash inflow from operating activities was £1.1m (2020 H1: £2.1m outflow)
- Net Debt (pre-IFRS16) increased slightly to £7.8m (31 May 2020: £7.4m)
- Dividend to be reinstated at Full Year (2020 H1: suspended)

** Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items*

Operational Highlights

Energy

- Energy revenues decreased by 1.3%, driven by Covid-19 delays
- Profits in the Energy divisions increased by 34.6%, driven by a recovery in EPM
- Aftermarket margin performance continuing to improve across all business units
- Sellafield 3M3 (three-metre-cubed box) steady – meeting customer expectations
- Expanding orders in nuclear sector in the UK, USA and Asia
- Ormandy Group performance steadily improving despite Covid-19 induced delays
- Hydrocarbons – sales impacted by Covid-19 and targeted restructuring implemented
- Booth and Energy Steel results are improved year on year and recovering as anticipated
- In the period, Booth secured a contract for safety doors for HS2, worth £36m and, post period end, secured an extension to another government contract, worth £2.9m
- The process to sell the HT Luton site has commenced

Medical

- Divisional revenues and margins were flat, as the planned transition to new markets continues
- Post period end, we completed the merger of SciMag and Tecmag with Magnetica of Australia
- Work on compact MRI systems is now expanding, with new investment planned
- In parallel, we are now planning to exit third-party MRI component manufacture at Metalcraft
- Composite Products performance improved in the period, with customers expanding

Commenting on the results, Roger McDowell, Chairman, said:

"Avingtrans continues to make good progress during the pandemic and has proven to be resilient. Following our PIE strategy, both Booth Industries and Energy Steel are continuing to improve since acquisition and the potentially transformational deal with Magnetica (post period end) is an exciting prospect for the medical division. The period result shows improving profits against stable revenues, once more demonstrating our agility, even in adversity."

"Although we face new challenges, we will also keep converting opportunities and we remain confident about our outlook in both the Energy and Medical sectors."

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About Avingtrans plc: Avingtrans designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy, medical and industrial markets worldwide.

Business units

Hayward Tyler – Luton & East Kilbride, UK and USA, China and India
Specialises in the design, manufacture and servicing of performance-critical motors and pumps for challenging environments.

Energy Steel, Inc - Lapeer, Michigan, USA
Provider of custom fabrications for the nuclear industry, specialising in: OEM parts obsolescence; custom fabrications; engineering design solutions; product refurbishment; on-site technical support.

Stainless Metalcraft Ltd – Chatteris, UK and Chengdu, China
Provider of safety-critical equipment for the energy, medical, science and research communities, worldwide, specialising in precision pressure and vacuum vessels and associated fabrications, sub-assemblies and systems.

Booth Industries - Bolton, UK
Designs, manufactures, installs and services doors and walls which can be tailored to be: blast &explosion proof; fireproof; acoustically shielded; high security/safety; or combinations of the above.

Ormandy Group, Bradford, UK
Design, manufacturers and servicing of off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products

Peter Brotherhood – Peterborough, UK
Specialises in the design, manufacture and servicing of performance-critical steam turbines, turbo gen-sets, compressors, gear boxes and combined heat and power systems.

Composite Products Ltd – Buckingham, UK
Centre for composite technology, parts and assemblies, serving customers in industrial markets.

Scientific Magnetics – Abingdon, UK
Designs and manufactures superconducting magnet systems and associated cryogenics for a variety of markets including MRI and provides services for Nuclear Magnetic Resonance instruments.

Tecmag Inc, Houston, USA
Designs, manufactures and installs instrumentation, including consoles, system upgrades, and probes, mainly for Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) systems.

Magnetica, Brisbane, Australia
Designs and manufactures compact, helium-free MRI systems, magnets and gradient and RF coils.

Chairman's Statement

They say that, if you are caught in an avalanche, you should "swim" with the current, create room to breathe and stay calm. Many of us will have felt the need to follow this advice over the last year, as the Covid-19 avalanche has engulfed us. However, despite the effects of Covid, Avingtrans has successfully created room to breathe in the first half of FY21 and produced a solid result in the circumstances. A creditable, stable revenue performance versus H1 FY20 has been enhanced by a much improved EBITDA result, thanks to steady recovery progress at Booth and Energy Steel (since acquisition in June 2019) and an improved margin mix, stemming from cost reductions and improving project margins. This is a pleasing outcome. Even with some Covid delay effects, new orders have continued to flow - and we were thrilled that Booth was chosen by HS2 to produce their cross-tunnel safety doors in a multi-year £36m contract win. A triumph for British manufacturing during the Brexit process.

Our proven Pinpoint-Invest-Exit ("PIE") strategy continues to deliver results, with Booth Industries in Bolton, and Energy Steel in Michigan both responding well to our "get fit" regime and driving improving results. Post period end, we were delighted to conclude the merger of our Scientific Magnetics and Tecmag businesses with Magnetica of Australia, giving Avingtrans shareholders an initial 58.1% interest in this new business. This accelerates our plans to become a leader in compact MRI niche products, in sectors like orthopaedics and veterinary MRI. The prospects for this new entity are exciting, so we plan to invest over £3m in the new venture over the next 12-18 months, to reach market launch. To focus on this new activity, a corollary is that we have commenced a phased exit from third-party MRI component manufacture. This process completes during 2022.

The divisional management teams have been further strengthened in the period and they have been resourceful in tackling the Covid effects. The crisis brought forward certain targeted changes, with the Crown site now fully exited and limited restructuring, mainly in Hayward Tyler and Peter Brotherhood (caused by the downturn in oil and gas capital expenditure).

Our game plan for aftermarket growth in EPM and PSRE remains intact as we seek to out-perform our competitors for a larger share of the installed base support business, both for our products and theirs. The improved end-user access model provides a predictable and repeatable pipeline, drives improved profitability and enhances products and services. We remain keen to maximise the revenue opportunities arising from the aftermarket access afforded by our own businesses and though partnership deals (eg with Shinhoo Pumps, China and Parker Hannefin, USA).

The Engineered Pumps and Motors (EPM) division delivered an improved half year result, despite Covid disruptions. The impacts included delayed orders, some residual supply chain delays and customer delivery issues, which resulted in some targeted restructuring, so this was a very good outcome. Energy Steel's improved performance, versus the corresponding period last year, has supported the profit enhancement. The award of outline planning permission for the HT Luton site was welcome news, providing us with the opportunity to optimise HT's UK operations, whilst potentially producing a net surplus for the Group when the site is exited in due course.

The Process Solutions and Rotating Equipment (PSRE) division saw a H1 revenue decline due to Covid delay effects, but profits were enhanced by an improved margin mix, stemming partly from a pleasing return to form for Booth, with a bulging order book being complemented by increasing revenues and consistent profits. Year on year profits were also up at Ormandy and Fluid Handling. The division has refined its offering to the UK nuclear market – especially to Sellafield for nuclear decommissioning – where divisional businesses working as a team (eg Fluid Handling and Metalcraft) have created new business wins. Conversely, Peter Brotherhood has seen OE order delays – especially in oil and gas – and has restructured as a consequence. We were concerned that Ormandy would suffer from on-going Covid friction, but a strengthened sales team has kept the order book afloat, with good prospects.

The post period end merger with Magnetica is a potentially transformational deal for the medical division. The combination of SciMag, Tecmag and Magnetica creates a business capable of designing and manufacturing entire MRI systems in-house, giving us the ability to enter and disrupt the MRI medical imaging market. With first products for clinical testing expected to be ready within 18 months, we will be able to target those applications which currently lack effective MRI solutions, such as orthopaedics, neonatal, neurology and veterinary. With this merger, the multi-year strategic pivot in this division is nearing completion. In parallel, Metalcraft has begun a phased exit from the third-party component manufacturing niche, leaving Magnetica free from undue external influence. Metalcraft will henceforth concentrate on its energy market portfolio, with an emphasis on nuclear life extension and decommissioning. Composite Products also had a good first half year and will transition into the PSRE division from FY22, to widen its scope of supply and potential target customers.

With the improving results and our demonstrable resilience, the Board intends to propose to reinstate a full year dividend, subject to final results. We expect that this dividend should incorporate a component for the half year, to restore our annual dividend position to "normal". Whilst the results for the Group were solid in the period, the context of the pandemic remains current, so we believe that it is still prudent to hold back any immediate dividend. All being well, we intend to return to our commitment to long term shareholder returns later this year. Our confident view of the prospects for the Group, underpinned by our prudent approach to debt and financial headroom, further support this decision.

We welcome the staff of Magnetica to Avingtrans and congratulate all Avingtrans employees for their dedication over recent, challenging months. We continue to look forward with tempered confidence and enthusiasm to the period ahead.

Roger McDowell
Chairman
9 February 2021

Strategy and business review

Group Performance

Avingtrans has a Pinpoint-Invest-Exit (PIE) business model, which drives improvements in design, original equipment manufacture (OEM) and associated aftermarket services, affording the Group an improving margin mix, both in the near and longer term. The Group has progressively shifted to an OEM based strategy over time, away from build to print. Our Energy divisions, comprising Engineered Pumps and Motors and Process Solutions and Rotating Equipment, form the bulk of Avingtrans' operations. Effective longer-term development of the Group's smaller Medical Imaging division is also a core focus for management, in creating shareholder value.

Strategy

Avingtrans is an international precision engineering group, operating in differentiated, specialist markets, within the supply chains of many of the world's best known engineering original equipment manufacturers (OEMs), as well as positioning itself as an OEM to end users. Our core strategy is to build market-leading niche positions in our chosen market sectors – currently focused on the Energy and Medical sectors. Over the longer term, our acquisition strategy has enabled our businesses to develop the critical mass necessary to achieve leadership in our chosen markets.

Our strategy remains consistent with previous statements. The Group's unrelenting objective is to continue the proven strategy of "buy and build" in regulated engineering markets, where we see consolidation opportunities, potentially leading to significantly increased shareholder returns over the medium to long term. At the appropriate time, we will seek to crystallise these gains with periodic sales of businesses at advantageous valuations and return the proceeds to shareholders. We call this strategy PIE – "Pinpoint-Invest-Exit". Previous deals – e.g. the disposal of Sigma Components – have clearly demonstrated the success of this approach, producing substantial increases in shareholder value. We have built strong brands and value from smaller constituent parts; we have demonstrated well-developed deal-making skills and prudence in the acquisition of new assets.

The Board continues to focus on improvements in HTG's operations, along with driving the performance of Booth and Energy Steel. This programme is progressing to plan. We now have the opportunity to transform the medical imaging division's performance, thanks to the merger with Magnetica. The objective for the Group is to become a leading supplier in targeted energy and medical markets, of operation critical products, with a reputation for high quality and delivery - on-time and on-budget. The Group has production facilities in its three key geographical markets (the Americas, Asia and Europe) with higher volume/lower cost facilities in Asia, and product development and realisation in the UK and the USA. The Group intends to invest in breakthrough and disruptive technologies in the energy and medical markets.

Avingtrans' primary focus in Energy is the nuclear sector – harvesting opportunities in decommissioning, life extension and next generation nuclear markets. We are also engaged with a variety of other niches in the renewable energy sector. In addition, the Directors will continue to build on our footprint in the wider power and energy sectors. In particular, the provision of traditional power generation, motor solutions, steam turbines, combined heat and power units and gas to power units, in various sectors, with a principal focus on the power, hydrocarbon, marine, water and industrial sectors.

After the HTG acquisition in 2017, to maximise long term shareholder value via our PIE strategy, we reorganised the Energy assets of the Group into two distinct divisions:

- Engineered Pumps and Motors (EPM) consisting of Hayward Tyler's units in the UK, USA, China and India and Energy Steel, acquired in June 2019.
- Process Solutions and Rotating Equipment (PSRE) consisting of Metalcraft's energy assets, Peter Brotherhood, Ormandy, the Fluid Handling business in Scotland and also Booth Industries, acquired in June 2019.

In parallel, the focus of the Group's Medical Imaging division (MII) – has now evolved to focus on becoming a market leader in the production of compact, superconducting, helium-free MRI systems, targeted at specific applications – including orthopaedic imaging and veterinary imaging. Whilst production of certain existing products will continue, to support the division overall, Metalcraft is now following a phased exit of third-party MRI component manufacture. This division consists of Metalcraft's medical assets in the UK and China, plus Scientific Magnetics and Tecmag in the USA, which have now both merged with Magnetica of Australia. From FY22, the medical division will consist only of the Magnetica business units, with Metalcraft now focusing on nuclear energy and Composite Products also moving into PSRE.

Our businesses have the capability to engineer products in developed markets and to produce those products partly, or wholly, in Asia, where appropriate. This allows us and our customers to access low-cost sourcing at minimum risk, as well as positioning us neatly in the development of the Chinese, Indian and other Asian markets for our products. We are very well established in China, providing integrated supply chain options for our blue-chip customers.

An overarching strategic theme for Avingtrans, is to proactively nurture and grow the proportion of our business stemming from aftersales. We are targeting both our own installed base and the wider competitive installed base of such equipment, in areas where we can offer an advantage to our end-user customers. This focus now applies mainly to our Energy businesses, with the Medical division now strategically pivoting to new products and services.

Energy - Engineered Pumps and Motors ("EPM")

For Hayward Tyler ("HT"), the main priorities remain to strengthen the aftermarket capabilities and to maximise opportunities in the nuclear life extension market. The division delivered a much improved first half performance, thanks to previously delayed orders coming through and curtailing the previous losses in Energy Steel.

At HT Luton, aftermarket activities continue to build, including the servicing of 3rd party equipment. The £10m contract in Sweden with Vattenfall for the Forsmark plant (for nuclear life extension) has progressed well, whilst further defence orders have been received and are being executed on target. However, hydrocarbon related orders were disrupted by Covid-19 and, thus, a targeted restructuring programme was completed in the period. We are progressing with the marketing of the Luton site and plans for a new site are now well developed.

HT Inc in Vermont (USA) suffered from some Covid-19 order delays, but it continues to see solid order intake in the nuclear life extension market in the USA - and again with KHNP, South Korea, where we booked new orders in the period. HT Inc's new R&D opportunities in next generation nuclear power have made good progress, with the TerraPower prototype product shipped post period end.

HT Kunshan (China) has been less affected by Covid-19 recently. The contract in China (worth £2.2m) for specialist pumps to be installed in a major new concentrated solar power plant in Dubai has completed successfully in the period. This was an important seeding of the renewables market and we expect more to follow in the coming years.

Meanwhile, in India, Covid-19 caused chaos in the period, with service operations severely interrupted. Fortunately, the overall financial impact was not material and operations have now resumed.

Energy Steel ('ES') in Michigan (USA), continues to recover steadily, with the ES and HT sales team now working as one unit, focused on expanding the sales footprint in nuclear aftermarket opportunities in north America and beyond. Post period end, we received notice from the landlord that the ES building is to be sold, so we plan to move to a new, smaller facility in mid-2021.

Energy – Process Solutions and Rotating Equipment ("PSRE")

PSRE is equally focused on aftermarket where feasible, which is gradually improving the margin mix, although the division has seen order delays caused by Covid-19, which meant a reduced revenue in the first half, caused by specific project timings. However, the underlying margin mix improved, so that the profit held up well.

Metalcraft's progress with the Sellafield 3M3 boxes continues to be steady and we are producing boxes consistently. The next 3M3 box contract tender, expected to be worth over £900m, will not be in 2021 now, having been delayed by Sellafield, as previously noted.

Peter Brotherhood suffered from a reduction in hydrocarbon related orders and OE order delays, due to Covid-19. This resulted in targeted restructuring, which was completed in the first half. Aftermarket orders were also disrupted by Covid-19, but have now recovered close to pre-Covid levels. Prospects remain strong, but we anticipate further order delays during the second half.

Ormandy's performance was temporarily blown off course by Covid-19 also, but order intake there has now largely recovered, and the business performance is steadily improving. The pandemic may provide opportunities for us to capitalise on Ormandy's position in the HVAC sector, and expand its pharma process equipment supply.

Booth Industries continues on a rapid recovery curve and has responded very well to the Avingtrans PIE treatment. A bumper crop of orders has materialised, including the £36m order for HS2 cross-tunnel doors. The business now has a record order book, extending over several years. Covid-19 caused us to temporarily suspend the new building extension in Bolton. This work has now resumed and we still expect to complete the extension this year, allowing us to eliminate a separate, leased site.

The Fluid Handling business in Scotland has been a consistently good performer since acquisition and has fitted well into our ambitions to build a wider nuclear capability. The business has continued to build a record order book and further nuclear life extension and decommissioning opportunities are being pursued.

Sadly, the decline in its legacy business and Covid-19 delays caused management to take the decision to exit Crown. We vacated the Portishead site fully in the period. Metalcraft is continuing with some Crown product sales from the Chatteris site.

Medical and Industrial Imaging ("MII")

The multi-year transition of the MII division is now nearing completion. The post period end merger of Scientific Magnetics (SciMag) and Tecmag with Magnetica effectively completes the puzzle, enabling us to produce compact, superconducting, helium-free MRI systems entirely in-house. The merger added complementary capabilities in system architecture, asymmetric magnet design and gradient and RF coil manufacture to our existing knowhow.

Our initial estimate of the addressable orthopaedic imaging market is circa £400m p.a. (Approximately 10% of the total MRI hardware and service market). However, our intended "pay per scan" business model could mean that the opportunity is significantly larger. It is more difficult to quantify other market segments (eg veterinary and neonatal imaging) at this stage, because there are no available equivalent, dedicated products. We plan to invest over £3m in the new business in the next 12-18 months, which we anticipate will result in Magnetica having orthopaedic and veterinary MRI products ready for clinical testing. We believe that by materially reducing the size and total costs of these dedicated MRI systems, coupled with them being much easier to set-up in a wider variety of locations, produces a compelling sales proposition. In addition, these dedicated systems will free-up capacity on the existing MRI system installed base, which should be a major benefit to healthcare organisations.

SciMag and Tecmag will rebrand to Magnetica in due course, to present a seamless image of the new entity. However, there is merit in continuing with various existing products and services at SciMag and Tecmag, so long as they do not distract from our core vision for MRI, which holds out the prospect of materially increasing the value of Magnetica over the coming years. From FY22, the Medical division will consist only of the new Magnetica business.

Metalcraft's UK and China business, with MRI component customers like Siemens and Alltech, performed well in the period. However, with the pivot towards sales of our own dedicated MRI products, we will now gradually exit from this component manufacturing niche – expected to be completed in 2022.

Finally, Composite Products had an improved first half, with deliveries to Rapiscan increasing and new customers, like Arrival (electric vehicles) coming onstream. Other smaller accounts supported revenues, with good prospects. Following the completion of the Magnetica merger, we plan to move Composites into the PSRE division from FY22.

Markets

Global demand for energy has been interrupted by the Covid pandemic, but this is expected to be temporary. However, it will likely accelerate the main global themes that continue to dominate the outlook for energy consumption:

- Energy transition – the continued shift in demand from the US and Europe to fast growing Asian markets.
- Fuel mix – the on-going shift in supply to lower carbon fuels and renewables.

Nuclear

The Group has positioned itself as a leading supplier across the nuclear life cycle. The UK continues to dominate global spend in decommissioning and reprocessing and the on-going progress made by Metalcraft on the strategic partnership for waste containers for Sellafield is a highlight, positioning the Group as a leader in the field. Given this solid platform, the Group is engaged with key stakeholders to expand its offering. We see on-going success in conducting engineering design and qualification studies for obsolete equipment on critical systems.

Governments are seeking to extend the life of nuclear assets through refurbishment programmes and the Group is ideally placed to benefit from this trend, as evidenced by recent contract wins in South Korea and the USA.

The development of Small Modular Reactor (SMR) technology remains a promising opportunity for the Group, albeit longer term. The Group has successfully positioned itself as a key player in this developing market and the recent contract wins for the likes of TerraPower and the ITER fusion project (by HT Inc) underlines this success.

Power Generation

The share of energy used for power generation remains a key Group focus.

- **Coal –** The Group maintains a stable position in the ongoing coal fired power market and has value-engineered its product line and localised it in China. Opportunities exist for new power plants across Asia in addition to retrofitting systems to existing plants to improve efficiency and reduce harmful emissions.
- **Gas –** The gas-fired power station market offers the Group opportunities across our pump, compressor and steam turbine product lines. The gas market is not yet dominated by Asian demand and Asian EPCs.

- **Renewables –** Most of the products for hydrocarbons have direct benefits to the Group product lines that can be deployed for concentrated solar power (CSP), biomass and waste to energy. Our development programmes for molten salt applications benefit both nuclear and CSP applications. The Chinese EPCs look set to dominate the CSP market, for example in Dubai, where we have now completed out first orders.

Hydrocarbons
At the start of FY20, we had begun to see relatively more orders in this sector, although our forecasts were cautious, given the recent years of weak prices, low capital expenditure, etc. Covid-19 has had a dramatic effect on oil and gas supply and demand. Although oil prices have seen some recovery recently, the result is that new capital expenditure in this sector has been materially reduced. Therefore, our forecasts must continue to be conservative, with some restructuring activity in EPM and at Peter Brotherhood being necessary, due to the time lag expected before any sector recovery.

Aftermarket – Energy
The drive for safety, efficiency and reliability is a consistent theme for end users. In Asia, pressure on operational expenditure is challenging preventative maintenance decisions and drives a purchase cost decision-making process. However, in Europe, Middle East and the Americas, operators focus on through-life cost. End users want fast, reliable responses and local solutions to keep plants operating and the Group continues to build upon its local presence through agents and strategic partnerships, albeit that the pandemic has disrupted service scheduling worldwide.

Companies across the energy market continue to invest in digital technologies to improve productivity, efficiency and predictability in the field. At the equipment level this translates to a series of devices, sensors and algorithms which can predict breakdowns before they occur and ensuring equipment is running at its optimum performance. The Group launched its first monitoring product, for Boiler Circulating Pumps over two years ago and is building on this success by adding this capability to both a wider set of original equipment and its aftermarket service offering.

Markets – Medical
The Diagnostic (medical) and molecular imaging markets are large global sectors, dominated by a few large systems manufacturers. The total Diagnostic Imaging Market is worth over $20bn, according to Grand View Research and is expected to continue to grow at over 4% per annum over the period 2020-2027. The largest market is the USA, followed by Europe and Japan. The fastest growing markets are China and India.

Following the merger with Magnetica, the Medical division is primarily targeting the Magnetic Resonance Imaging (MRI) sector. Market drivers for MRI include an ageing global population, a demand for earlier detection and prevention of medical conditions and the global pharmaceutical industry's research needs. MRI itself is approximately 18% by value of the total diagnostic Imaging market and is projected to grow at 6% p.a. (Grand View Research).

Aftermarket - Medical
The MRI market segment is dominated by a handful of manufacturers, including GE, Siemens and Philips, who account for circa 80% of revenue globally. These players also dominate the aftermarket, although there are a few independent MRI service businesses in existence. Avingtrans is not present in the MRI aftermarket at this time.
The NMR market is similar, currently dominated by Bruker and Jeol. Avingtrans is aligned with MR Resources Inc, a well-established US business, which services the NMR aftermarket. The Medical division is well positioned in this end-user market space and is winning service contracts with European NMR users, following our partnership agreement with MR Resources.

Security
High security and integrity doors were a new market for the Group, following the acquisition of Booth. Global safety and security concerns, as well as risk mitigation on large infrastructure projects, are key drivers for growth at Booth and we are cultivating these opportunities prudently. Thus far, most of Booth's sales are in the UK, but recent market research shows that there are untapped international opportunities, in certain compatible markets. We also believe that there is an aftermarket potential, which has yet to be fully developed.

Threat detection standards for baggage handling at airports and package scanning have been tightened everywhere around the world – especially in Europe and the USA. With many millions of bags and packages flowing across border crossings every day, screening devices have to comply with threat detection standards without impacting throughput. Rapiscan, the biggest customer for Composite Products, is a market leader in this sector, whose presence is increasing as new standards are rolled out.

Financial Performance

Key Performance Indicators
The Group uses a number of financial key performance indicators to monitor the business, as set out below. The Group publishes more detailed and operational KPIs in its annual report.

Revenue: stable, but a good outcome in the teeth of the pandemic
Overall Group revenue decreased by 0.4% to £54.1m (2020 H1: £54.3m). FY20 H1 was unaffected by Covid-19, but the pandemic has resulted in various order timing delays, which have flattened the revenue performance in the period.

Gross margin ('GM') leapt forward, as PIE initiatives drive performance
GM improved to 30.9% (2020 H1: 25.6%) driven by previous restructuring and completing historic, low margin orders from acquisitions.

Profit margin: a 36% increase, as Booth and ES improve and efficiencies are realised in other businesses
Adjusted EBITDA (note 4) increased to £6.3m (2020 H1: £4.6m). This was mainly due to the improved margin mix in both EPM and PSRE divisions, which, in turn, was caused by efficiency gains. In addition, Energy Steel and Booth produced a drag of £0.8m, last year which was not repeated in the reporting period.

Adjusted operating profit before tax (note 4) was £4.0m (2020 H1: £2.4m), as above, boosted by better aftermarket and OE project margins and improvements at Booth and Energy Steel.

Tax: future profits and cash protected by available losses
The effective rate of taxation at Group level was a 11.6% tax charge. A reduction from H1 FY20, primarily due to reduced US taxes following a change in tax treatment relating to FY20 which increased carry forward losses that can be utilised in current and future years, offset by a tax charge due to the utilisation of losses previously recognised as a deferred tax asset. A deferred tax credit from the amortisation of business intangibles has also further reduced the tax charge in the period. The Group tax position will continue to be aided in the coming years by the utilisation of losses available in the UK, US and China.

Adjusted Earnings per Share (EPS): significant further improvement – to almost double the previous result
Adjusted diluted earnings per share for continuing operations improved once again, to 10.5p (2020 H1:5.4p) as higher margin projects and acquisition improvements worked through to the bottom line.

Funding and Liquidity: net debt stays well under control
Net debt was £15.9m, but this includes £8.0m of IFRS16 debt. On a like for like basis, net debt has risen slightly to £7.8m (31 May 2020: £7.4m) following some on-going investment in both Booth and Energy Steel as well as preparatory investment in the medical division. Cash inflow from operating activities in the period was £1.1m (2020 H1: £2.1m outflow). During the period, £0.5m net was invested in capital expenditure and project development costs.

Dividend: full year dividend to be reinstated.
The Board proposes to reinstate our progressive dividend policy for the full year, following the suspension last year due to Covid-19. However, the pandemic remains a clear and present danger, although an escape route is now emerging. Therefore, we plan to reinstate the full year dividend, which will include an amount for the interim dividend this year. We intend to fully reinstate our progressive path in FY22, with a more normal interim and full year dividend split, subject to the outcome of acquisition activities in the coming years.

People

There was one change at divisional management level, post period end, being the appointment of Duncan Stovell as CEO of the enlarged Magnetica business, following the merger with SciMag and Tecmag. In addition, Steve McQuillan, Stephen King and Clint Gouveia (MD of SciMag), will join a reformatted Magnetica Board, alongside previous Magnetica directors, Duncan Stovell and Professor Stuart Crozier. There were no other Board changes.

At business unit level, Duncan Morgan joined PSRE, as MD of Peter Brotherhood and Drew Baker joined EPM as President of Energy Steel. Post period end, Ian Bannister was promoted to MD of Metalcraft and Will Goss was promoted to GM of Composite Products.

We continue to strengthen the management teams in the divisions, with further appointments being made in the period and with an emphasis on aftermarket opportunities. Skills availability is always challenging, but we do not expect to be hampered by any skills shortages. We continue to invest significant effort in developing skills and talent, both through structured apprenticeship programmes and graduate development plans across a number of business units. The Group continues to be recognised nationally for the strength of its apprenticeship training schemes.

Finally, we note with some sadness the death of our former Chairman, Ken Baker OBE, who passed away on 25th January 2021. Ken was responsible for the creation and the initial phase of development at Avingtrans until 2008.

Health, Safety and Environment (HSE)

The Group takes HSE matters and its related responsibilities very seriously.

As regular acquirers of businesses, we find different levels of capability and knowledge in different businesses. Often, a key investment need in smaller acquisitions is to spread HSE best practice from other Group businesses and bring local processes up to required standards. Larger acquisitions (eg HTG) generally have well developed HSE practices and we seek to learn from these in other business units. Health and Safety incident reporting has improved across the Group and incident trends have generally been improving over recent years. Near miss reporting and knowledge exchange is also positively encouraged, to facilitate learning and improvement. At Board level, Les Thomas has HSE oversight and he conducts inspections with local management as appropriate.

The Group's environmental policy is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report, the Group has not incurred any significant fines or penalties, nor been investigated for any significant breach of HSE regulations.

Covid-19 has become the biggest health and safety issue for the Group, along with everyone else. Fortunately, the nature of our products and the topography of our factories have given us a good base to work from, to make our workplaces Covid-19 safe. We have an overall set of guidelines to work to, derived from government policies around the world and local teams in each business adapt these to the specifics of their individual site. These measures include:

- Shielding of vulnerable employees
- Working from home where feasible
- Factory and office re-layouts to facilitate social-distancing
- Enhanced cleaning and site hygiene
- Additional use of PPE equipment where necessary
- Minimisation and careful management of third-party visitors to our sites

Where our employees have to visit other third-party sites, they have protocols from their business unit to follow and must also adhere to the policies and procedures of the site which they are visiting. Each business has a team responsible for ensuring that the Covid-19 plan is kept up to date and adapted, if required, as the circumstances of the pandemic evolve. Taken as a whole, these measures have allowed us to operate at a high level of effectiveness throughout the pandemic and ensured that we have minimised any loss of output, whilst keeping employees safe.

Social Responsibility

The Group maintains the highest ethical and professional standards across all of its activities and social responsibility is embedded in operations and decision making. We understand the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders. The impact is regularly reviewed to sustain improvements, which in turn support the long-term performance of the business. Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. The Group regularly reviews its employment policies. The Group is committed to a global policy of equality, providing a working environment that maintains a culture of respect and reflects the diversity of our employees. We are committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is, to an extent, beyond our control.

Ethical Policy

The Group complies with the Bribery Act 2010. We do not tolerate bribery, corruption or other unethical behaviour on the part of any of our businesses, or business partners in any part of the world. Employee training has been completed in all areas of the business to ensure that the Act is complied with.

Outlook

Avingtrans is a niche engineering market leader in selected Energy and Medical sectors, with a successful profitable growth record, underpinned by our successful ‘PIE’ strategy. Our acquisitions provide further opportunities for the Group to build enduring value for investors in resilient engineering market niches. We will remain frugal and seek to crystallise value and return capital when the timing is right, as part of the PIE strategy implementation. We believe that our PIE strategy has served us well in the Covid crisis and could result in further opportunities to grow shareholder value.

The Group continues to invest across its three divisions, with a focus on the global energy and medical markets, to position them for maximum shareholder value via eventual exits in the years to come. The integrations of Booth and Energy Steel are proceeding to plan, as demonstrated by the first half results. The medical division merger with Magnetica is expected to drive further value enhancement in the coming years. Our value creation targets continue to be accomplished as planned and are underpinned by a conservative approach to debt, which is important during the crisis.

The energy divisions have a strong emphasis on the thermal power, nuclear and hydrocarbon markets and aftermarkets. The medical division will now pivot to focus primarily on novel compact MRI systems for niche applications. To drive profitability and market engagement, each division has a clear strategy to support end-user aftermarket operations, servicing their own equipment and that of pertinent third parties, where appropriate, to capitalise on the continued customer demand for efficient, reliable and safe facilities.

The on-going disruption caused by the pandemic is still our biggest uncertainty. However, we have completed rapid and effective cost mitigation actions in the first half, in order to limit any disadvantage and we will continue to be on our guard. Brexit has not resulted in any material downside for the Group to date, but we will continue to be vigilant.

Our markets continue to develop, despite Covid-19 and strategic M&A opportunities remain a priority for us. Businesses like ours can command high valuations at the point of exit. The Board remains watchful, but confident about the current direction and potential future opportunities across our markets. We will continue to refine our strategy by pinpointing specific additional acquisitions as the opportunities arise, to build businesses which can create superior shareholder value, whilst maintaining a prudent level of financial headroom, to buffer us against any unforeseen headwinds, whether deriving from Covid-19, or elsewhere.

Roger McDowell	**Steve McQuillan**	**Stephen King**
Chairman	Chief Executive Officer	Chief Financial Officer
9 February 2021	9 February 2021	9 February 2021

Consolidated Income Statement (Unaudited)
for the six months ended 30 November 2020

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Revenue	**54,094**	54,349	113,913
Cost of sales	**(37,387)**	(40,439)	(82,284)
Gross profit	**16,707**	13,910	31,629
Distribution costs	**(2,164)**	(2,556)	(4,931)
Other administrative expenses	**(12,538)**	(10,385)	(22,557)
Operating profit before amortisation of acquired intangibles, other non-underlying items and exceptional items	**4,020**	2,358	7,051
Amortisation of intangibles from business combinations	**(629)**	(931)	(2,223)
Other non-underlying items	**(54)**	(60)	(112)
Acquisition costs	**-**	(282)	(294)
Restructuring costs	**(1,332)**	(116)	(281)
Operating profit	**2,005**	969	4,141
Finance income (Note 5)	**8**	76	38
Finance costs (Note 5)	**(590)**	(601)	(1,141)
Profit before taxation	**1,423**	444	3,038
Taxation (Note 3)	**(165)**	(67)	(634)
Profit after taxation from continuing operations	**1,258**	377	2,404
Loss after taxation from discontinuing operations	**-**	(91)	(1,018)
Profit for the financial period attributable to shareholders	**1,258**	286	1,386
Profit per share:			
From continuing operations			
- Basic (Note 6)	**4.0p**	1.2p	7.6p
- Diluted (Note 6)	**3.9p**	1.2p	7.5p
From continuing and discontinuing operations			
- Basic (Note 6)	**4.0p**	0.9p	4.4p
- Diluted (Note 6)	**3.9p**	0.9p	4.3p

Consolidated statement of comprehensive income (Unaudited)
for the six months ended 30 November 2020

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Profit for the period	**1,258**	286	1,386
Items that will not be subsequently be reclassified to profit or loss			
Remeasurement of net defined benefit liability	-	-	58
Income tax relating to items not reclassified	-	-	(43)
Items that may/will subsequently be reclassified to profit or loss			
Exchange differences on translation of foreign operations	**(602)**	5	120
Total comprehensive profit for the period	**656**	291	1,521

Summarised consolidated balance sheet (Unaudited)
at 30 November 2020

	30 Nov 2020 £'000	30 Nov 2019 £'000	31 May 2020 £'000
Non current assets			
Goodwill	**23,459**	23,604	23,459
Other intangible assets	**13,239**	15,455	13,834
Property, plant and equipment	**32,330**	35,624	34,445
Deferred tax asset	**1,262**	1,109	1,241
Pension and other employee obligations	**1,782**	1,427	1,646
	72,072	77,219	74,625
Current assets			
Inventories	**15,326**	13,817	13,390
Trade and other receivables	**41,220**	35,150	36,910
Current tax asset	**522**	796	1,221
Derivatives	**-**	29	-
Cash and cash equivalents	**7,277**	4,579	5,088
	64,345	54,371	56,609
Total assets	**136,417**	131,590	131,234
Current liabilities			
Trade and other payables	**(33,376)**	(30,242)	(30,308)
Lease liabilities	**(1,775)**	(1,977)	(2,125)
Borrowings	**(9,271)**	(5,259)	(6,005)
Current tax liabilities	**(48)**	(644)	(70)
Provisions	**(5,254)**	(5,965)	(5,514)
Derivatives	**(105)**	-	(36)
Total current liabilities	**(49,829)**	(44,087)	(44,058)
Non-current liabilities			
Borrowings	**(3,707)**	(4,294)	(3,965)
Lease liabilities	**(8,386)**	(10,731)	(9,340)
Deferred tax	**(2,224)**	(1,729)	(2,460)
Contingent consideration	**(256)**	(256)	(256)
Other creditors	**(1,245)**	(1,259)	(1,247)
Total non-current liabilities	**(15,818)**	(18,269)	(17,268)
Total liabilities	**(65,647)**	(62,356)	(61,326)
Net assets	**70,770**	69,234	69,908
Equity			
Share capital	**1,593**	1,576	1,588
Share premium account	**15,117**	14,038	14,970
Capital redemption reserve	**1,299**	1,299	1,299
Translation reserve	**(172)**	315	430
Merger reserve	**28,949**	28,949	28,949
Other reserves	**180**	180	180
Investment in own shares	**(4,235)**	(3,435)	(4,235)
Retained earnings	**28,039**	26,312	26,727
Total equity attributable to equity owners of the parent	**70,770**	69,234	69,908

Consolidated statement of changes in equity (Unaudited)
at 30 November 2020

	Share capital account £'000	Share premium account £'000	Capital redemp-tion reserve £'000	Merger reserve £'000	Trans-lation reserve £'000	Other Reserves £'000	Investment in own shares £'000	Retained Earnings £'000	Total £'000
At 1 June 2019	1,568	14,018	1,299	28,949	310	180	(3,435)	26,405	69,294
Shares issued	8	20	-	-	-	-	-	-	28
Dividend paid	-	-	-	-	-	-	-	(439)	(439)
Share-based payments	-	-	-	-	-	-	-	60	60
Transactions with owners	8	20	-	-	-	-	-	(379)	(351)
Profit for the period	-	-	-	-	-	-	-	286	286
Other comprehensive income									
Exchange rate gain	-	-	-	-	5	-	-	-	5
Total comprehensive income for the period	-	-	-	-	5	-	-	286	291
At 30 Nov 2019	**1,576**	**14,038**	**1,299**	**28,949**	**315**	**180**	**(3,435)**	**26,312**	**69,234**
At 1 Dec 2019	1,576	14,038	1,299	28,949	315	180	(3,435)	26,312	69,234
Shares issued	12	932	-	-	-	-	-	-	944
Dividend paid	-	-	-	-	-	-	-	(752)	(752)
Investment in own shares	-	-	-	-	-	-	(800)	-	(800)
Share-based payments	-	-	-	-	-	-	-	52	52
Transactions with owners	12	932	-	-	-	-	(800)	(700)	(556)
Profit for the period	-	-	-	-	-	-	-	1,100	1,100
Other comprehensive income:									
Actuarial gains on pension scheme	-	-	-	-	-	-	-	58	58
Deferred tax on actuarial gains from pension scheme	-	-	-	-	-	-	-	(43)	(43)
Exchange rate gain	-	-	-	-	115	-	-	-	115
Total comprehensive income for the period	-	-	-	-	115	-	-	1,115	1,230
At 31 May 2020	**1,588**	**14,970**	**1,299**	**28,949**	**430**	**180**	**(4,235)**	**26,727**	**69,908**
At 1 June 2020	1,588	14,970	1,299	28,949	430	180	(4,235)	26,727	69,908
Shares issued	5	148	-	-	-	-	-	-	153
Share-based payments	-	-	-	-	-	-	-	54	54
Transactions with owners	5	148	-	-	-	-	-	54	207
Profit for the period	-	-	-	-	-	-	-	1,258	1,258
Other comprehensive income									
Exchange rate loss	-	-	-	-	(602)	-	-	-	(602)
Total comprehensive income for the period	-	-	-	-	(602)	-	-	1,258	656
At 30 Nov 2020	**1,593**	**15,118**	**1,299**	**28,949**	**(172)**	**180**	**(4,235)**	**28,039**	**70,770**

Consolidated cash flow statement (Unaudited)
for the six months ended 30 November 2020

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Operating activities			
Cash flows from operating activities	**1,195**	(1,259)	2,919
Finance costs paid	**(543)**	(639)	(1,189)
Income tax repaid/(paid)	**573**	(76)	(1,527)
Contributions to defined benefit plan	**(136)**	(127)	(254)
Net cash inflow/(outflow) from operating activities	**1,089**	(2,101)	(51)
Investing activities			
Acquisition of subsidiary undertakings	**-**	720	720
Finance income	**15**	76	38
Purchase of intangible assets	**(335)**	(847)	(760)
Purchase of property, plant and equipment	**(224)**	(3,121)	(3,984)
Net cash used by investing activities	**(544)**	(3,172)	(3,986)
Financing activities			
Equity dividends paid	**-**	(439)	(1,191)
Repayments of bank loans	**(280)**	(312)	(675)
Repayments of leases	**(1,596)**	(854)	(2,200)
Proceeds from issue of ordinary shares	**154**	27	972
Borrowings raised	**3,448**	2,900	3,807
Net cash inflow from financing activities	**1,726**	1,322	713
Net increase/(decrease) in cash and cash equivalents	**2,271**	(3,951)	(3,324)
Cash and cash equivalents at beginning of period	**4,693**	8,053	8,053
Effect of foreign exchange rate changes	**(61)**	(24)	(36)
Cash and cash equivalents at end of period	**6,903**	4,078	4,693

Cashflows from operating activities (Unaudited)
for the six months ended 30 November 2020

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Profit before income tax from continuing operations	**1,423**	444	3,038
Loss before income tax from discontinuing operations	**-**	(104)	(1,218)
Adjustments for:			
Depreciation of property, plant and equipment	**2,067**	2,101	4,343
Amortisation of intangible assets	**260**	221	466
Amortisation of intangibles from business combinations	**629**	931	2,222
Loss on disposal of property, plant and equipment	**8**	-	119
Finance income	**(8)**	(76)	(38)
Finance expense	**590**	601	1,141
Share based payment charge	**54**	60	112
Changes in working capital			
(Increase)/Decrease in inventories	**(2,262)**	1,791	2,157
Increase in trade and other receivables	**(5,311)**	(2,911)	(5,010)
Increase/(decrease) in trade and other payables	**3,778**	(3,802)	(3,565)
Decrease in provisions	**(1)**	(450)	(824)
Other non cash changes	**(32)**	(65)	(24)
Cash inflow/(outflow) from operating activities	**1,195**	(1,259)	2,919

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Cash and cash equivalents			
Cash	**7,277**	4,579	5,088
Overdrafts	**(374)**	(501)	(395)
	6,903	4,078	4,693

Notes to the half year statement
30 November 2020

1. Basis of preparation

The Group's interim results for the six month period ended 30 November 2020 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU and effective, or expected to be adopted and effective, at 31 May 2021. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim financial reporting'.

These interim results do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 9 February 2021 and will shortly be available on the Group's website at www.avingtrans.plc.uk.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's annual report and financial statements for the year ended 31 May 2021.

The statutory accounts for the year ended 31 May 2020, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditor's Report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
6 months to 30 November 2020					
Original equipment	**7,528**	**15,779**	**5,982**	**-**	**29,289**
Aftermarket	**18,469**	**6,311**	**25**	**-**	**24,805**
Revenue	**25,997**	**22,090**	**6,007**	**-**	**54,094**
Operating profit/(loss)	**1,307**	**1,130**	**84**	**(516)**	**2,005**
Net finance costs					**(582)**
Taxation					**(165)**
Profit after tax from continuing operations					**1,258**

Notes to the half year statement
30 November 2020

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
Year ended 31 May 2020					
Original equipment	12,780	38,366	11,879	-	63,025
Aftermarket	36,530	14,358	-	-	50,888
Revenue	49,310	52,724	11,879	-	113,913
Operating profit/(loss)	1,261	3,903	(326)	(697)	4,141
Net finance costs					(1,103)
Taxation					(634)
Profit after tax from continuing operations					2,404

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
6 months to 30 November 2019					
Original equipment	4,624	18,892	5,613	-	29,129
Aftermarket	17,651	7,569	-	-	25,220
Revenue	22,275	26,461	5,613	-	54,349
Operating (loss)/ profit	(301)	1,844	(6)	(568)	969
Net finance costs					(525)
Taxation					(67)
Profit after tax from continuing operations					377

3. Taxation

The taxation charge is based upon the expected effective rate for the year ended 31 May 2021.

Notes to the half year statement
30 November 2020

4. Adjusted Earnings before interest, tax, depreciation and amortisation

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Profit before tax from continuing operations	**1,423**	444	3,038
Share based payment expense	**54**	60	112
Acquisition costs	**-**	282	294
Restructuring costs	**1,332**	116	281
Loss/(gain) on derivatives	**70**	(74)	8
Unwinding of discounting on dilapidation provision	**35**	44	88
Amortisation of intangibles from business combinations	**629**	931	2,223
Adjusted profit before tax	**3,543**	1,803	6,044
Finance income	**(8)**	(76)	(38)
Finance cost	**590**	601	1,141
(Loss)/gain on derivatives/unwinding of discounting on dilapidation provision	**(105)**	30	(96)
Adjusted profit before interest, tax and amortisation from business combinations ('EBITA')	**4,020**	2,358	7,051
Depreciation	**2,065**	2,090	4,321
Amortisation of other intangible assets	**260**	198	403
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**6,345**	4,646	11,775

5. Finance income and costs

	6 months to 30 Nov 2020 £'000	6 months to 30 Nov 2019 £'000	Year to 31 May 2020 £'000
Finance income			
Bank balances and deposits	**-**	2	5
Interest from other	**8**	74	33
	8	76	38
Finance costs			
Interest on banking facilities and lease liabilities	**485**	557	1,045
Finance charges relating to the unwinding of provisions	**35**	44	88
Loss on the fair value of derivative contracts	**70**	-	8
	590	601	1,141

Notes to the half year statement
30 November 2020

6. Earnings per share

Basic earnings per share is based on the earnings attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the CSOP and ExSOP share options.

	6 months to 30 Nov 2020 No	6 months to 30 Nov 2019 No	Year to 31 May 2020 No
Weighted average number of shares – basic	**31,775,612**	31,364,098	31,531,278
Share Option adjustment	**471,896**	598,382	569,687
Weighted average number of shares – diluted	**32,247,508**	31,962,480	32,100,965
	£'000	£'000	£'000
Earnings from continuing operations	**1,258**	377	2,404
Share based payments	**54**	60	112
Acquisition costs	**-**	282	294
Restructuring costs	**1,332**	116	281
Loss/(gain) on derivatives	**70**	(74)	8
Unwinding of discounting on dilapidation provision	**35**	44	88
Amortisation of intangibles from business combinations	**629**	931	2,223
Adjusted earnings from continuing operations	**3,378**	1,736	5,410
From continuing operations:			
Basic earnings per share	**4.0p**	1.2p	7.6p
Adjusted basic earnings per share	**10.6p**	5.5p	17.2p
Diluted earnings per share	**3.9p**	1.2p	7.5p
Adjusted diluted earnings per share	**10.5p**	5.4p	16.9p
Loss from discontinuing operations	-	(91)	(1,018)
Adjusted loss from discontinuing operations	-	(91)	(211)
From discontinuing operations:			
Basic loss per share	-	(0.3)p	(3.2)p
Adjusted basic loss per share	-	(0.3)p	(0.7)p
Diluted loss per share	-	(0.3)p	(3.2)p
Adjusted diluted loss per share	-	(0.3)p	(0.7)p
Earnings attributable to shareholders	**1,258**	286	1,385
Adjusted earnings attributable to shareholders	**3,378**	1,645	5,199
From continuing operations:			
Basic earnings per share	**4.0p**	0.9p	4.4p
Adjusted basic earnings per share	**10.6p**	5.2p	16.5p
Diluted earnings per share	**3.9p**	0.9p	4.3p
Adjusted diluted earnings per share	**10.5p**	5.1p	16.2p

The Directors believe that the above adjusted earnings per share calculation from continuing operations is the most appropriate reflection of the Group performance.

Notes to the half year statement
30 November 2020

7. Net debt and gearing

The gearing ratio at the year-end is as follows:	**30 Nov 2020 £'000**	30 Nov 2019 £'000	31 May 2020 £'000
Cash	**7,277**	4,579	5,088
Loans	**(12,604)**	(9,052)	(9,575)
Lease liability – finance leases under IAS17	**(2,104)**	(3,295)	(2,503)
Lease liability – under IFRS 16	**(8,057)**	(9,414)	(8,962)
Overdrafts	**(374)**	(501)	(395)
Net debt	**(15,862)**	(17,683)	(16,347)
Equity	**70,770**	69,234	69,908
Net debt to equity ratio	**22.4%**	25.5%	23.4%
Net debt to equity ratio excluding IFRS16 debt	**11.0%**	11.9%	10.6%

8. Events after the balance sheet date

Business combination - Magnetica Limited

On 29 January 2021, the Group acquired 58.1 percent of the issued share capital of Magnetica Limited ('Magnetica') in exchange for its interest of 98.5 percent holding in SciMag (and its 100% subsidiary, Tecmag Inc.). Prior to completion, Avingtrans increased its holding in SciMag from 97.7% to 98.5% in exchange for 40,713 Avingtrans 5p Ordinary Shares.

Additionally, Avingtrans agreed to invest up to a further £3.2m for new shares in Magnetica, at 15 cents per share, to fund new MRI product development and commercialisation activities. This could increase Avingtrans' future interest to 61.2% in Magnetica.

In its previous financial year Magnetica Limited had turnover of AUD 751,000 and a trading loss before tax of AUD 881,000.