11 December 2018

LightwaveRF plc
(AIM: LWRF)

Final Results for year ended 30 September 2018

LightwaveRF plc ("LightwaveRF", the "Company" or the “Group”), the leading smart home solutions provider, announces its audited final results for the year ended 30 September 2018.

HIGHLIGHTS

Financials
- Revenue of £2.81 million (2017: £3.03 million) due to weak first half performance.
- Strong last quarter with revenue run rate up 50% on previous three quarters.
- Gross profit £0.83 million (2017: £1.08 million).
- Gross margin 29.3% (2017: 35.5%).
- Underlying gross margin broadly maintained at 35.3% (2017: 35.8%).
- Loss before and after taxation £2.54 million (2017: £0.85 million).
- Investment in research and development £1.60 million (2017: £0.88 million).
- Post year end, £300,000 loan drawn down against R&D tax credit receivable.

Technology and Products
- The Lightwave Smart Series technology range launched, with further planned products to follow.
- Global installations and connected devices up by 55% and 53% respectively.
- European range launched.
- Further cloud control enhancements and integration with the key voice platforms of Google, Amazon and Apple.
- Manufacturing in Asia and mainland Europe now augmented with UK capability.

Marketing
- Significant marketing investment with an absolute focus on customer acquisition.
- Major improvements in eCommerce capability.
- Rebrand of Generation 1 to Connect Series and Generation 2 to Smart Series.

Sales and Distribution
- Further development of four primary sales channels: direct to consumer, premium retailers, online retailers and trade.
- Lightwave Euro dimmers on sale online and in selected Apple stores in Belgium, France, Germany, Holland and Sweden.

Outlook
- Revenue run rate for first two months of the 2019 financial year, up a further 25% on strong last quarter of 2018 financial year.

Jason Elliot, Chief Executive of LightwaveRF, commented:
“I have been greatly encouraged by the sales performance since I joined Lightwave in July 2018, with the monthly revenue run rate up significantly on where it was previously. This jump in sales has gone hand-in-hand with the improvements made to our marketing, customer engagement and distribution channels. With the business strengthened and our retail partner network expanded, I am excited by the very real opportunity for Lightwave to achieve significant UK and international scale, and the prospect of becoming a leading smart home brand in 2019.”

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About LightwaveRF

LightwaveRF plc is the UK's only fully integrated home automation company.

New customers typically buy a starter pack of Link Plus hub and smart dimmer which has Apple HomeKit compatibility, 2-way communication and built-in energy monitoring. Later adding other easy to install devices from the Lightwave range enables further in-home control, monitoring and automation of lighting, heating and power.

Devices may be operated manually, by smartphone or tablet-based apps and also through Google Assistant and Amazon Alexa voice control.

Leading tech industry publication 9to5 Mac described Lightwave as "the best UK HomeKit solution for smart lighting" and Trustpilot rates Lightwave 4 star.

Chairman's statement

Overview

Your Company continues to make considerable progress on a number of fronts. Excellent product endorsements, such as being described as "the best UK (Apple) Homekit solution for smart lighting", amply demonstrate our proven technology, even as the Company presses ahead with further developments and more international variants.

The lack of step change progress in revenue is disappointing but we have been prepared to examine what has needed to change and taken all necessary steps to raise the pace. Establishing the best distribution channels has taken longer than we expected and making the necessary changes needed has held back revenues. Achieving increased direct to consumer revenue has also required more meticulous attention to detail than was at first apparent.

Our technology launches have also taken longer and required more resources than had been anticipated. The commitment required to design and develop the Euro dimmers and sockets within some short timeframes should also not be underestimated but the Company is now meeting the exacting requirements. So, in short, while the Company has made lots of progress the issue has been one of pace. Taking too long to make changes to technology and sales related developments has delayed the pace of revenue growth.

Results

While revenue of £2.81 million is below that of last year (2017: £3.03 million), the quality has markedly improved, with almost all being directly to an end customer rather than distributor stocking. Direct to consumer revenue of £1.24 million (2017: £0.35 million) has provided some real mitigation to the effects of the disruptions in distributor channels. Following last year's fundraising, we have pressed on with the investment in technology, sales and marketing, which has resulted in the substantial increase in administrative expenses and related capital expenditure. Considerable resources have been invested to strengthen management throughout the business as the transition to real scalability continues. Although this has given rise to a substantial loss for the year, the Company is better positioned for the future through the investment which has been made.

Board
The decision to consider replacing the Company's Chief executive had to be weighed very carefully. The Board recognised that such disruptions have short term costs but have to look through to the longer-term sustainability. The July appointment of Jason Elliott as Chief executive has started to have a real impact across every aspect of the Company's operations from design, development, manufacturing, marketing, distribution and aspects of revenue generation; through to finance, corporate communication and messaging. Following a full review of the business, he has instigated a number of changes which we feel are starting to show evidence of the pace we are seeking to set.

Staff
During the year, we recruited a number of new employees to strengthen the existing team of staff and contractors. I would like to thank all staff, specialist contractors and our key suppliers for their continuing commitment to the success of the Company.

Outlook
Following on from the successful launch of Euro compatible dimmers online and in selected Apple stores in five countries, the Euro sockets are on schedule for release early in 2019. As well as a strong relationship with Apple, Lightwave has seen good take up with Amazon and Google as the market for Smart Home devices is better defined. Our improved marketing messaging, widespread product endorsements and direct to consumer sales underpin the reorganised channel distribution success we now anticipate. I am confident we have the team in place to deliver and realise the potential so now apparent in this market place.

Barry Gamble
Chairman
10 December 2018

Chief executive's report

Introduction
I joined as Chief executive on 2 July 2018, the start of the last quarter of the financial year. The Board agreed with my decision to undertake an immediate full review of the business and to instigate changes needed as soon as practicable. It was clear from my review that Lightwave's technology is very highly rated by consumers and industry commentators and is well positioned to exploit growing UK and European demand.

Technology and Products
We design and develop a range of smart home products and software applications to control lighting, heating, power and security devices through one App. The range is now maturing, with the completion of the development of our Smart Series products.

Manufacturing continues to be outsourced to Asia and mainland Europe. Following some initial problems with one UK manufacturer, we have recently established an alternative supplier to provide reliable UK based production for some components. Our technology team has been enhanced to enable us to successfully launch multiple products including the new range for the European market.

Consumer uptake and use of our integrations with partner products such as Apple HomeKit, Amazon Echo and Google Home has continued. A significant number of Lightwave customers now use voice control as their primary means of system access.

We have over 10 years of engineering knowhow providing us with an increasing amount of intellectual property. We also have 2 patents filed and 7 patents pending, to provide further protection to our technology.

Marketing

Lightwave has recruited its first Chief marketing officer, who is leading a small dedicated team fully focused on customer acquisition. Building on last year's launch of the Company's new website, we have recently upgraded the online ordering capability to enhance the overall customer eCommerce experience. In addition, we have implemented improved processes and tools to capture and process customer feedback and to make it easier to give direct reviews. Marketing led demand creation for our direct sales channels has recently become much more effective.

We are targeting an investment in digital marketing, to directly generate sales demand, with an emphasis on consumer messaging and education. This is supported by comprehensive media relations programmes.

Sales and Distribution

We have developed capability in four primary sales channels: direct to consumer through our online presence and telesales team; sales through premium retailers such as Apple, John Lewis and Selfridges; sales through online retailers such as Amazon, BT Shop, Dixons Carphone and screwfix.com; and trade sales focusing on supply to electrical contractors and installers.

Direct to consumer online and tele-sales are intended to be a significant contributor to total revenue. Retail and trade sales are facilitated through distribution partnerships such as Exertis. Building upon the success of our supply into Apple UK stores and Apple online, we have now commenced the sale of our Smart Series product via Apple online in 22 European countries and in selected Apple stores in Belgium, France, Germany, Holland and Sweden.

2018 Results

Revenue is marginally below last year at £2.81 million (2017: £3.03 million). Although weak first half sales performance was not fully addressed until the last quarter of the financial year, the revenue run rate for the last quarter was up 50% on that for the previous three quarters. Revenue growth in the last quarter benefitted from a combination of recent improvements made to retail distribution channels and, following a number of process improvements, from much stronger direct sales. For the full year 44.1% (2017: 11.6%) of total revenue came from these direct sales.

Gross profit was below last year at £0.83 million (2017: £1.08 million). Although stated gross margin was at 29.3% below the previous year (2017: 35.5%) underlying gross margin, before a provision movement of £0.17 million (2017: £0.01 million) taken on some aged stock, was broadly maintained at 35.3% (2017: 35.8%).

As part of the programme to further scale the business, the Group's administrative expenses increased substantially to £3.74 million (2017: £2.12 million) from further planned investment in technology, marketing and sales. Capitalised development costs under IAS38 increased to £1.47 million (2017: £0.69 million) driven mostly by the further development of the Smart Series technology specifically for the European market. The related amortisation of these intangible assets doubled to £0.61 million (2017: £0.30 million). We recognise this is a significant expense charge, but to amortise the platform over three years reflects a prudent view of forward revenues. However, we believe a much longer-term view could be taken as our position in the market becomes more established and our revenues become more predictable.

Research and development tax credits of £0.41 million (2017: £0.25 million) were recognised as other income before stated pre and post-tax losses of £2.54 million (2017: £0.85 million).

Cash absorbed by operations increased to £2.95 million (2017: £0.89 million) in line with both increased losses and increased working capital, particularly inventories, to enable us to better manage demand for direct sales. Cash invested, almost all in the development of our technology, doubled to £1.53 million (2017: £0.72 million). Cash balances at 30 September 2018 were £0.47 million (2017: £0.22 million).

Post year end, the Company has drawn down a £0.30 million loan from Finstock Capital Limited, secured against, and repayable from, Research and Development tax credits receivable.

Key Performance Indicators

The Group monitors revenue, gross margin, operating cash and also uses the following key indicators to measure the performance of the business in terms of progress against key strategic objectives:

	2018	*2017
Global installations	46,500	30,000
Connected devices	400,000	261,000
Monthly temperature and energy data points	61 million	41 million
Investment in research and development	£ million	£ million
• Expensed	0.13	0.19
• Capitalised	1.47	0.69
	1.60	0.88

*after removing third party server hosting connected customers in Europe

Principal risks and uncertainties
The Company is exposed to a variety of risks in the conduct of normal business operations. Whilst it is not possible to either completely record or to quantify every material risk, our aim is to continually improve the management of risks and reduce them to acceptable levels. The Company continues to develop and maintain management systems to enable the identification, assessment and management of risks and make decisions based on a comprehensive view of the reward-to-risk balance.

The level of risk control is balanced by the continued encouragement of enterprise and innovation.

Those risks that the Directors believe are most significant to the Group's business and could have a material impact on future performance, causing it to differ materially from expected or historic achieved results, are as follows:

Customer concentration and relationships
By increasing the number of distributors, the Group seeks to mitigate this risk. The increase in direct consumer sales also reduces reliance on distributors.

Technological risk
The Directors recognise that the technology in the Internet of Things field is evolving rapidly which could pose competitive and other risks to the Group. The Directors continue to evaluate competitors and changes in the industry to mitigate this risk where possible. The Directors also recognise that the Group faces cyber threat-based risks. We actively monitor and assess these risks and undertake a continuous investment programme to seek to prevent adverse events and to mitigate any unforeseen events.

Brexit
Brexit presents additional risks for the Group: the uncertain economic conditions impacting its ability to grow and the specific risks to tariffs, shipping delays and foreign currency fluctuations are all in consideration. The general uncertainty surrounding Brexit makes it difficult to take any mitigating steps currently, but the Group will work to mitigate the impact of trading issues arising from Brexit when these are known.

Strategy and business model
Our business model is based on developing innovative technology so as to generate revenue from making and selling devices operating on the platform and with other systems, corporate partnerships and data management. The key challenge remains the prioritisation of opportunities so that the management team operates within acceptable bandwidth.

I am excited by the very real opportunity for Lightwave to achieve significant UK and international scale, and the prospect of becoming a leading smart home brand. Lightwave is at the heart of the market where we are continuing to educate the consumer about the benefits of smart home products, with a unique capability that provides consumers with not only a world class smart lighting, power and heating control solution, but also the ability to get the most from their other smart home purchases by integrating them with Lightwave products.

Our plan now is to continue our drive into the smart home market by significantly increasing the resources deployed on our sales and marketing efforts. This will be undertaken whilst strengthening business processes to support the growth that we now anticipate.

The key elements of this plan are as follows:

Technology
- **Further develop our customer focused product strategy**, ensuring that our developments and product releases are aligned with customer needs.

Marketing
- **Invest heavily in our marketing and key campaign activity** increasing investment to build our brand, utilising product and customer focused approaches; and
- **Launch our international device range**, via well-established European distribution channels.

Sales
- **Expand our direct sales function**, focusing not only on inbound sales but outbound customer acquisition;
- **Invest in sales capability and expertise in key vertical markets** such as homebuilders and energy retailers;
- **Manage our distribution partners better** and ensure that we satisfy the needs of the end customer via retailers; and
- **Build on our new, enhanced eCommerce platform** ensuring that we give a world class online customer experience.

Business processes
- **Improve our business support systems** to enable seamless and sustainable business growth.

Outlook
Following the strengthening of our management team in all areas during the latter part of the 2018 financial year, we are now well positioned to execute in this rapidly developing market.

We continue to attract interest from the best premium retail partners and are now seeing the benefits of this through more predictable direct and indirect sales. I am encouraged that the revenue run rate for the first two months of the 2019 financial year is up a further 25% on a strong last quarter of the 2018 financial year.

Consumer awareness of the benefits of smart home technology continues to rise. Our relationship with Apple is a significant asset that supports our growth in all markets. In addition, further strategic relationships are starting to develop that should ensure Lightwave is well positioned to execute on a number of fronts.

Jason Elliott
Chief executive officer
10 December 2018

Consolidated statement of comprehensive income for the year ended 30 September 2018

	Notes	2018	2017
		£	£
REVENUE	2	2,813,997	3,032,268
Cost of sales		(1,988,426)	(1,954,942)
GROSS PROFIT		825,571	1,077,326
Other Income	3	410,848	248,000
Administrative expenses		(3,735,662)	(2,121,559)
OPERATING LOSS		(2,499,243)	(796,233)
Finance expense		(45,407)	(49,079)
LOSS BEFORE TAXATION		(2,544,650)	(845,312)
Taxation		-	-
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE PARENT		(2,544,650)	(845,312)
Other comprehensive income		-	-
LOSS AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE PARENT		(2,544,650)	(845,312)
Loss per share – basic	4	3.80p	2.39p
Loss per share - diluted	4	3.80p	2.39p

Group statement of financial position as at 30 September 2018

	2018	2017
	£	£
ASSETS		
Non-current assets		
Intangible assets	2,070,485	1,210,074
Property, plant and equipment	50,132	25,766
	2,120,617	1,235,837
Current assets		
Inventories	992,991	388,012
Trade and other receivables	677,887	468,697
Cash and cash equivalents	469,550	221,933
Corporate tax recoverable	410,848	248,000

	2,551,276	1,326,642
Total assets	4,671,893	2,562,479
Equity & liabilities		
Shareholders' equity		
Share capital	3,578,632	1,938,452
Share premium	8,726,774	5,462,804
Reverse acquisition reserve	(100,616)	(100,616)
Share based payment reserve	88,340	70,811
Profit and loss reserve	(8,694,549)	(6,149,899)
Total shareholders' equity	3,598,581	1,221,552
Current liabilities		
Trade and other payables	615,860	752,623
Loans and borrowings	423,892	588,304
Total current liabilities	1,039,752	1,340,927
Provisions		
Warranty provision	33,560	-
Total equity & liabilities	4,671,893	2,562,479

The Financial Statements were approved and authorised for issue by the Board of Directors on 10 December 2018 and were signed on its behalf by:

Jason Elliott

Chief executive officer

Kevin Edwards

Chief financial officer

Group statement of cashflows for the year ended 30 September 2018

	2018 £	**2017** £
Cash flow from operating activities		
Loss for the year	(2,544,650)	(845,312)
Adjusted for:		
Depreciation and amortisation	646,849	323,121

Finance expense		45,407	49,079
Share based payments		17,529	18,918
Other income	3	(412,794)	(248,000)
Foreign exchange loss/(profit) on convertible loan		14,019	(11,781)
Increase in inventories		(604,979)	(285,485)
Increase in trade and other receivables		(194,140)	(149,671)
(Decrease)/increase in trade and other payables		(118,253)	124,163
		(3,151,012)	(1,024,968)
Research and development tax credits received		249,946	189,000
Finance costs paid		(45,407)	(49,079)
Cash absorbed by operations		(2,946,473)	(885,047)
Cash flows from investing activities			
Purchase of property, plant and equipment		(59,905)	(28,533)
Development expenditure		(1,471,724)	(693,237)
		(1,531,629)	(721,770)
Cash flows from financing activities			
Proceeds from issue of shares		5,248,579	2,361,172
Costs associated with issue of shares		(344,429)	(141,655)
Invoice discounting repaid		(8,341)	(45,450)
Repayment of convertible loan note		(49,975)	(69,859)
Repayment of other loan		(120,115)	(277,574)
		4,725,719	1,826,634
Net increase in cash and cash equivalents		247,617	219,817
Cash and cash equivalents at 1 October 2017		221,933	2,116
Cash and cash equivalents at 30 September 2018		469,550	221,933

Group statement of changes in equity for the year ended 30 September 2018

	Issued Share Capital £	Share Premium £	Reverse Acquisition Reserve £	Share Based Payment Reserve £	Retained Earnings/ (Losses) £	Total Equity £
As at 1 October 2017	1,938,452	5,462,804	(100,616)	70,811	(6,149,899)	1,221,552

Loss for the year	-	-	-	-	(2,544,650)	(2,544,650)
Share based payments	-	-	-	17,529	-	17,529
Shares issued	1,640,180	3,608,399	-	-	-	5,248,579
Share issue costs	-	(344,429)	-	-	-	(344,429)
As at 30 September 2018	3,578,632	8,726,774	(100,616)	88,340	(8,694,549)	3,598,581

	Issued Share Capital £	**Share Premium £**	**Reverse Acquisition Reserve £**	**Share Based Payment Reserve £**	**Retained Earnings/ (Losses) £**	**Total Equity £**
As at 1 October 2016	1,028,737	4,153,002	(100,616)	51,893	(5,304,587)	171,571
Loss for the year	-	-	-	-	(845,312)	(845,312)
Share based payments	-	-	-	18,918	-	18,918
Shares issued	909,715	1,455,541	-	-	-	2,365,256
Share issue costs	-	(145,739)	-	-	-	(145,739)
As at 30 September 2017	1,938,452	5,462,804	(100,616)	70,811	(6,149,899)	1,221,552

1. ACCOUNTING POLICIES

Basis of preparation of the financial statements
The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These Financial Statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB), as adopted by the European Union ("adopted IFRSs"). The Financial Statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies preparing Financial Statements in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 September 2017 and 30 September 2018. Statutory accounts for the years ended 30 September 2017 and 30 September 2018 have been reported on by the Independent Auditor. The Independent Auditor's Report on the Annual Report and Financial Statements for 2018 and 2017 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. Statutory accounts for the year ended 30 September 2017 have been filed with the Registrar of Companies and will be filed in due course for the year ended 30 September 2018.

Going concern

The Directors, having made suitable enquiries, analysis and judgements, consider that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. In making this assessment, the board has considered the group budgets, routinely updated forward forecasts for revenue, costs and cashflow and applied sensitivities thereto. In addition, it has also considered the availability of, and access to, debt and equity finance. Committed Capital Ltd, which holds 23.99% of the Company's issued share capital, has also confirmed its continued willingness, if required, to invest further funds into the Company in support of its strategy.

2. REVENUE

Operating segments are identified in a manner consistent with the internal reporting provided to the Chief operating decision maker, identified as the Chief executive officer. The Directors consider that the Group has only one operating segment which is the one principal activity of the Group**.**

Geographical analysis of revenue is as follows:

	Group 2018 £	Group 2017 £
United Kingdom	2,764,612	3,011,352
Asia	-	2,396
Middle East	49,385	5,367
Rest of Europe	-	13,153
	2,813,997	3,032,268

Revenues of £625,922 related to one distributor customer (2017: £954,683).

3. OTHER INCOME

	Group 2018 £	Group 2017 £
Research and development tax credits receivable	410,848	248,000
	410,848	248,000

4. LOSS PER SHARE

The basic loss per share is calculated by dividing the loss for the financial year attributable to shareholders by the weighted average number of shares in issue. The remaining securities in issue are not dilutive as at 30 September 2018.

	2018	2017
Numerator		
Loss used for calculation of basic and diluted earnings per share	£2,544,650	£845,312
Denominator		
Weighted average number of ordinary shares used for the calculation of basic and diluted EPS	66,952,179	35,343,621

	pence	pence
Loss per share- basic	**3.80**	**2.39**
Loss per share- diluted	**3.80**	**2.39**

At 30 September 2018, there were 3,954,000 (2017: 2,310,000) of potentially issuable shares which are anti-dilutive; such shares may become dilutive in future periods.

5. POST BALANCE SHEET EVENT

Since the financial year end, the Company has drawn down a £300,000 loan secured against, and repayable from, research and development tax credits receivable.

6. ANNUAL REPORT

A copy of this announcement is available, and the Annual Report from which it is extracted will be available later today, on the Company's website www.lightwaveRF.com. The Annual Report will be posted to shareholders shortly.