



**Spectra Systems**  
CORPORATION

# H1 2024 Results

October 1, 2024

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# Financial highlights

(including the consolidation of a foreign subsidiary acquired in December 2023)

- Revenue of \$22,739k (2023: \$11,621k) up 96%
- Adjusted EBITDA<sup>1</sup> up 33% at \$7,847k (2023: \$5,903k)
- Adjusted PBTA<sup>1</sup> up 6% to \$6,225k (2023: \$5,873k)
- Adjusted earnings<sup>2</sup> per share up 4% to US \$11.2 cents (2023: US \$10.8 cents)
- Cash provided from operations of \$262k (2023: \$4,418k)
- Cash<sup>3</sup> of \$4,444k (2023: \$16,582k) and debt<sup>4</sup> of \$4,803k (2023 \$0k) at 30 June 2024

Remember, we are comparing Spectra Systems H1 prior to Cartor Security Printers acquisition to the combined entity

# Financial Statement Forensics: general

- **Cartor Security Printers (CSP) was purchased for one primary reason:**
  - **Develop a strong and growing polymer substrate business where there are only two suppliers, and one is struggling**
    - Requires \$14MM gravure press, and
    - trained staff to run it
- CSP staff is world class security printers and G7 central bank validated this level of expertise specifically regarding the quality of registration
  - Makes perfect sense as they register on the scale of postage and tax stamps (1cm-3cm) while banknotes are 15+ centimeters long
- CSP also brings a business development pipeline for spectra through its long-standing relationships with commercial entities

**Spectra is not interested in being a “holding company” and hence shareholders should expect that we will alter their business to achieve success with polymer and increase profits as needed**

# Financial Statement Forensics: Revenue

- CSP did not contribute to H1 last year
  - They were on a September year end prior to acquisition
- During the same Jan-June period prior to acquisition CSP had a revenue of \$10.3M and in H1 and this year they contributed ~\$7.8M
  - Over order by Royal Mail in 2023 of the core products and loss of a contract with South Korea for postage
  - H2 is expected to recover to ~\$9M from CSP
- Spectra H1 **without** Sensor Contract revenue recognition (\$5.3M) and **without** CSP contribution was ~\$9.6M
  - This reflects a negative difference of \$2.0M
    - This difference is related to a shifted to H2 revenue of \$4.8M
    - \$2M of development contract revenue shifted by a milestone shift
    - \$2.8M related to the manner in which the sensor customer pays us in large number units of a purchased subsystem
      - We only get paid when we reach a certain number received but we have to pay as we receive the units

# Financial Statement Forensics: sensor contract revenue and profit recognition

- Auditors required us to use a cost accounting revenue and profit recognition methodology
  - Sensor manufacturing cost: C
  - Sensor Revenue total: \$39.6M
  - Amount spent: S
- Revenue recognized is  $\sim 39\text{M} \times (S/C)$
- Profit is Revenue recognized  $\times$  margin ( $> 60\%$ )

# Financial Statement Forensics: PBT

- PBT in 2023 was ~\$5.9M in H1....before acquisition
- CSP profit was (\$460k) in H1 2024
  - Drop in Royal Mail revenue due to overbuy in 2023, and
  - ~\$300k in Spectra driven polymer samples for marketing
- Spectra alone H1 PBT had \$2.9M shifted to H2
  - \$2M of development payments
  - \$0.9M of subsystem payments due to payment after a set number have been purchased and tested
- Spectra contribution without shift to H2 would have been ~\$9.1M
- \$2.9M will appear in H2

# Financial Statement Forensics: cash from operations

- Spectra has historically been a strong cash generating company
- Cash from operations is temporarily stunted by (\$4.2M):
  - Advance purchases of sensor equipment
  - Delayed payment on purchases due to customer bulk payment policy
- Cash of \$0.262M plus \$4.2M gets us to a more familiar number of ~\$4.45M



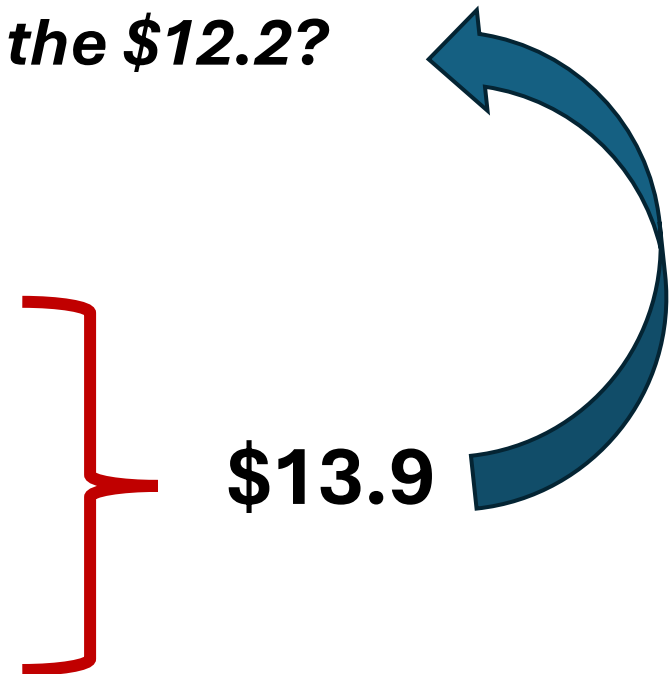
# Financial Statement Forensics: cash

- H1 2023 was ~\$16.6M
- H1 2024 is \$4.44M unrestricted (\$2M restricted)

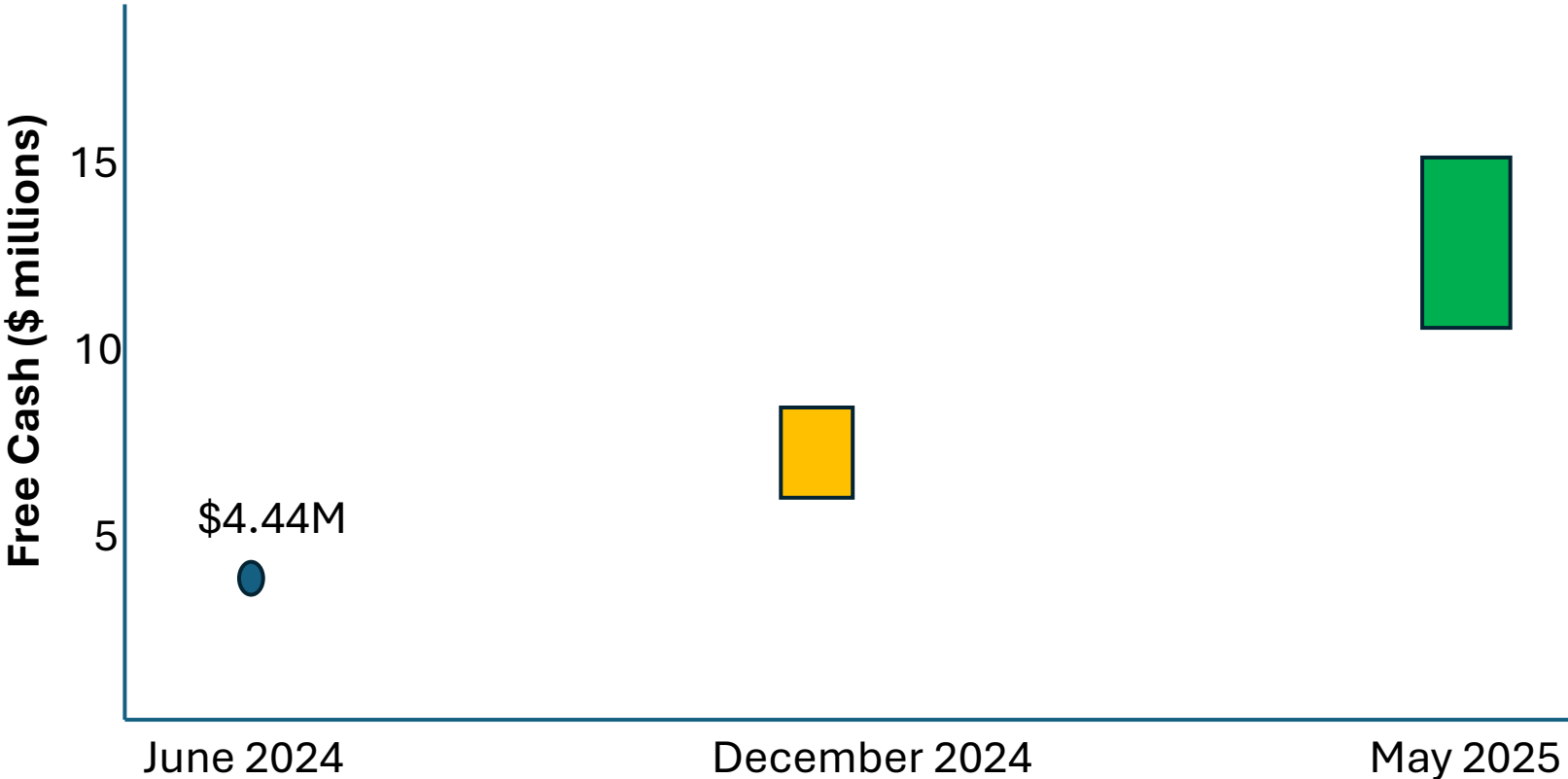
*where is the \$12.2?*

***Acquisition cash component: \$7M***  
***Legal, accounting, valuation fees : ~\$0.6M***  
***Delayed cash from sensor : \$4.8M***  
***Increase in restricted cash of \$1.5M***

**\$13.9**



# Cash: *is there going to be enough free cash to pay my dividend?*



Accounts for central bank restricted cash of \$3.5MM throughout manufacturing

# Staffing

- Two new software engineers
  - Sensor program
  - Smartphone authentication

## Total Staffing at H1: 139

- 73 Wolverhampton, UK
- 30 Mauce, France
- 14 Vancouver, Canada
- 22 Rhode Island



**Estimated 8 additional contract employees from March 2025- December 2027 to support sensor manufacturing**

# Covert Material Sales

- On target to complete balance of large central bank order placed on October 2024
- Anticipated central bank order at the higher end of average volumes
- Increased ordering from licensee

# Authentication hardware and systems

- Sensors are in “pre-factory acceptance” testing stage
  - Factory acceptance
  - Product acceptance
  - Documentation
- Production expected to deliver systems beginning June 2025
  - Margins significantly higher than previously expected
- Quality control units scheduled for delivery August 2026

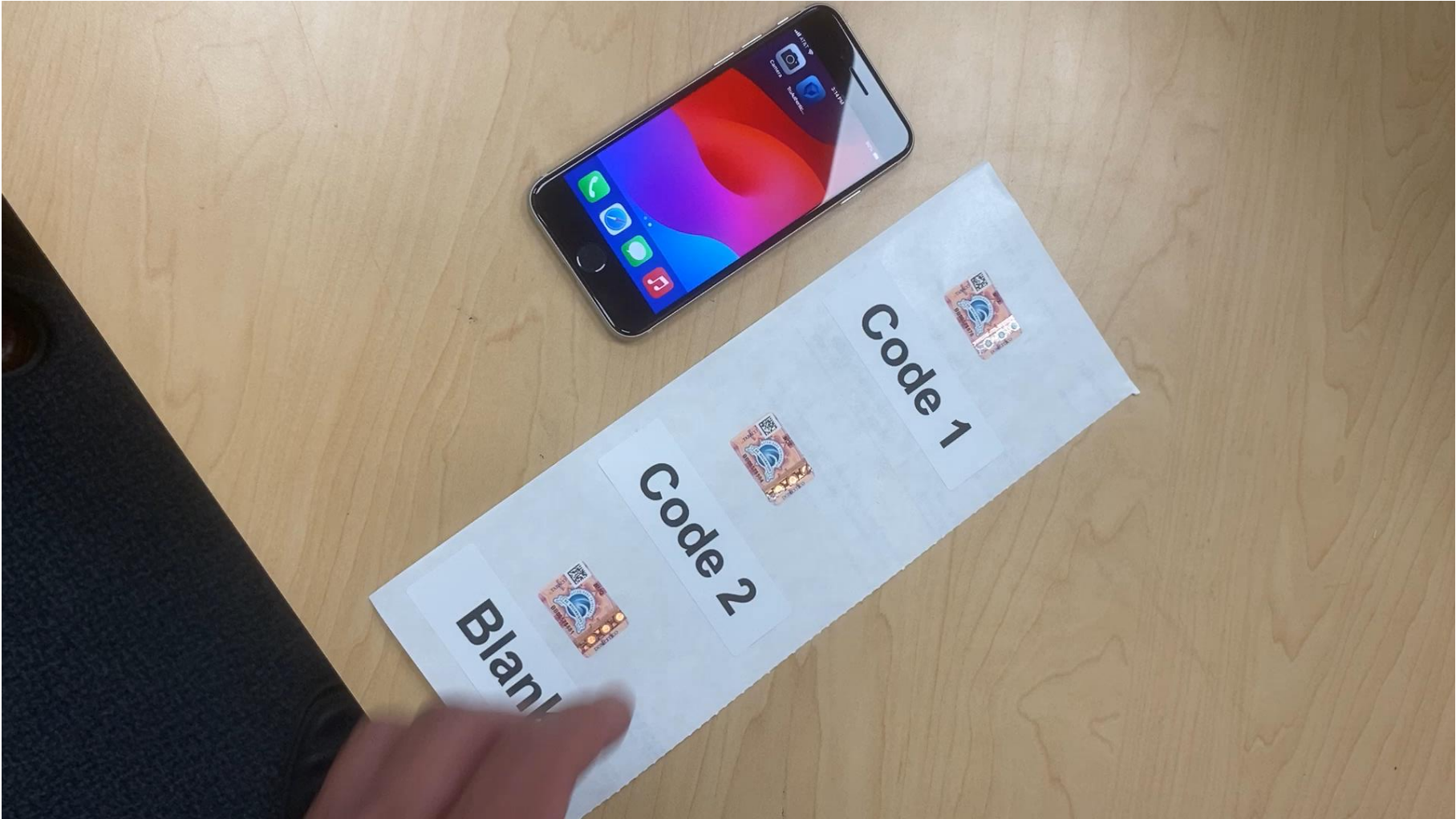


# Non-banknote authentication update

- New K-cup printer ordering regularly since December 2023
- New smartphone technology with broad device compatibility and faster easier user experience developed and being *evaluated by customers* for:
  - Tax stamps
  - Postage stamps (Royal Mail)
  - Passports (Spectra, Thales, Security Papers, Portals)

**Customer evaluations resulted through  
the established Cartor sales pipeline**

# Second generation smartphone technology



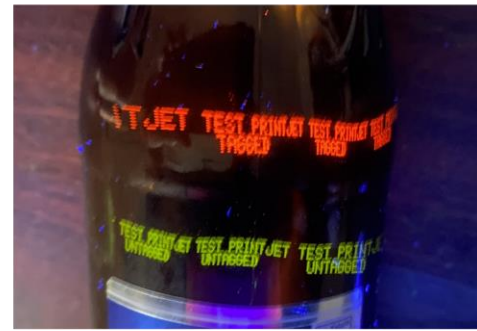


# Multi-level authentication continuous inkjet Inks: *under evaluation by a major track and trace supplier*

Proven with CIJ cartridge  
on bottles, caps, cans

Highly visible fluorescent response

no solids = no clogging



+ covert signature



# Strong pipeline in security printing with in-house optical materials

Significant opportunities with tenders submitted ( £ 1.6M/per annum)

- Philippines Post
- German Ministry of Justice Certificates
- Irish Disability Permits

High value planned tender submissions (~ £ 1.5M/per annum)

- Swiss Post
- New India Passport



# Polymer substrate traction

- Highly successful presentation and presence at Banknote 2024



- Substantive discussions with Central Bank traction:

- Brazil\*
- Philippines
- Cayman Islands
- Haiti
- Malaysia

- Substantive discussions with printers:

- PWPW\*
- Bundesdruckeri\*
- Orell Fussli
- Franciose Oberthur\*
- Casa de Moneta (Chile)\*

\* **print trial underway or in planning stage**

# Middle-eastern central bank partner and potential customer

- We have successfully passed all print and substrate trials:
- Offset
- Intaglio
- Window design
- Abrasion
- Crumpling
- Mechanical tensile strength
- Chemical hazard tests



**A final test including holographic foil is expected in the November/December time frame**

**Another tender is expected in January 2025**

# New middle-eastern central bank engagement

- We had an unsolicited approach from another middle eastern central bank to help and guide them through the conversion to polymer.
  - opportunity to write the specification!
- This central bank is also very interested in machine-readable substrate
- This presents another highly collaborative interaction which we hope will turn into a customer

# Potential News Float

- Sensor maintenance contract
- License and support agreement for smartphone authentication
- Certification as a qualified supplier with middle eastern central bank
- Qualification of new covert passport feature with major integrator
- Order/agreement for new smartphone technology (TruStamp™) for postal and or tax stamp applications

# H 1 Results

JOB  
DONE!



THANK YOU!