

Chairman's report

MOVING ALONG OUR TRANSFORMATION JOURNEY



We are excited about leading the digital transformation of printing in many industries around the world, applying our leading-edge inkjet technology.

Robin Williams
Chairman



2017 marked a year of progress for Xaar on many fronts.

The most significant development related to the diversification of our revenue streams which have transformed from being over-reliant on one product for the Ceramics market to a portfolio of products addressing multiple market sectors. 80% of our product revenue was derived from products launched in the last two years or from the EPS acquisition. With new printheads launched into sectors such as Graphic Arts and Textiles (a new sector for Xaar) our Ceramics market dependence is reduced, accounting in 2017 for 34% of our revenue (2016: 44%).

We made further progress in our Thin Film Technology. The product design of 5601, the result of significant R&D investment over the last eight years, was frozen and we successfully demonstrated four colour printing at the InPrint 2017 show. In addition, we shipped development kits to eight of our partners for analysis and early stage development work as they look to integrate the 5601 into their next generation printers. We have also seen great success with the 1201 in its first full year having re-established ourselves in the Graphic Arts market.

In December 2016 we announced additional investment in 3D Printing led by Professor Neil Hopkinson and during 2017 we strengthened our expertise in the area by adding a team in Copenhagen and opening our 3D centre of excellence in Nottingham. We have started to develop a 3D printer using High Speed Sintering (HSS) and successfully demonstrated this to a select group of potential customers and partners towards the end of the year. A relatively modest investment to date is generating an exciting business, potentially offering significant medium term returns to our shareholders.

In December 2017 we announced an agreement with Seiko Instruments Inc. (SII) to upgrade and replace their existing licence for JPY 2.98 billion (circa £20.0 million).

The Group achieved an adjusted operating profit margin of 18% and a very healthy cash balance of £45 million at 31 December 2017, with the final tranche of the SII royalty payment received in Q1 2018. This puts us in a good position to fund growth opportunities.

The Board remains focused in supporting the management team on delivering this challenging transformation, which now has a variety of products and end applications in the frame. Whilst we are disappointed with the slower than expected adoption of some of our new products we are confident that the transformation we are undergoing will lead us to become a more diversified and customer-centric organisation.

Important changes across the business continue and we appreciate the support of all staff in achieving our vision. Talent management is key to our strategy and we have implemented various leadership and continuous improvement training programmes. I would like to thank our employees for their hard work and dedication throughout 2017.

Changes to the Board since 1 January 2017, are set out below:

- On 2 May 2017, Lily Liu joined Xaar as Chief Financial Officer and Company Secretary; following the departure of Alex Bevis on 29 March 2017. I am pleased to see Lily successfully transition into Xaar
- On 9 August 2017, we announced that Ted Wiggans, our Chief Operations Officer, plans to retire from Xaar plc on 9 August 2018. I would like to thank Ted for his contribution to the business and the Board.

Robin Williams
Chairman

21 March 2018



Printing direct onto PET bottles using low migration LED-cured UV ink with the Xaar-enabled Direct Print powered by KHS system