

23 NOVEMBER 2022

discoverIE Group plc

Interim results for the six months ended 30 September 2022

Strong growth in sales, operating margin & earnings; net zero commitment announced

discoverIE Group plc (LSE: DSCV, “discoverIE” or “the Group”), a leading international designer and manufacturer of customised electronics to industry, today announces its interim results for the six month period ended 30 September 2022 (“H1 2022/23” or the “Period”).

	H1 2022/23	H1 2021/22	Growth %	CER ⁽²⁾ growth %
Revenue	£219.7m	£174.3m	+26%	+23%
Underlying operating profit ⁽¹⁾	£25.6m	£18.0m	+42%	+37%
Underlying operating margin ⁽¹⁾	11.7%	10.3%	+1.4ppts	+1.2ppts
Underlying profit before tax ⁽¹⁾	£23.5m	£16.1m	+46%	
Underlying EPS ⁽¹⁾	17.8p	13.0p	+37%	
Reported profit before tax	£14.8m	£6.4m	+131%	
Reported fully diluted EPS	10.9p	6.6p	+65%	
Interim dividend per share	3.55p	3.35p	+6%	

Highlights

- **Sales growth with efficiencies driving strong financial performance**
 - Group sales up 23% CER with a book-to-bill of 1.08
 - Group organic⁽³⁾ sales up 14% with growth across both divisions (M&C: +17%; S&C: +11%)
 - Organic gross margins stable despite inflation headwinds
 - Underlying operating profit up 42%
 - Underlying EPS up 37%
- **Further progress made towards key targets**
 - Underlying operating margin increased by 1.4ppts to 11.7%
 - Sales beyond Europe increased to 41% of total sales (FY 2021/22: 40%)
 - Sales into target markets⁽⁴⁾ of 77% (FY 2021/22: 76%)
 - Free cash conversion⁽⁵⁾ of 72% of underlying earnings reflecting strong sales growth
 - Carbon emissions reduced further, by c. 40% (like-for-like) since CY 2019⁽⁶⁾
- **New net zero commitment**
 - Group announces SBTi aligned net zero carbon emissions commitment by 2030⁽⁷⁾
- **Group well positioned for further growth**
 - Record order book of £257m (organic: +21% v Sep 2021)
 - Strong pipeline of acquisition opportunities in development
 - Period-end gearing⁽⁸⁾ of 0.8x, well below our target of 1.5x to 2.0x; good funding headroom available

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Nick Jefferies, Group Chief Executive, commented:

“DiscoverIE performed well in the first half, with further strong growth in sales and order book along with good operating efficiencies, leading to 37% growth in underlying earnings per share.

We continue to focus on generating organic growth in sustainable markets, enhanced by earnings accretive acquisitions. Alongside this, good progress is being made in reducing our carbon emissions and today we have announced our commitment to reach net zero scope 1 & 2 emissions by 2030 and scope 3 by 2040.

The second half has started well with continued organic sales growth over last year and a record order book level, which we expect to begin to normalise as it converts into sales through the second half of the year. The Group is on track to deliver full year underlying earnings in line with the Board's expectations.

We are well positioned in a changing world. Our products are essential in customers' applications and amount to a small proportion of their spend, providing us with revenue visibility and stable margins. Additionally, our broad international footprint enables us to respond quickly to production movements.

The discoverIE business model has proven resilient through differing market conditions and with a pipeline of acquisition opportunities and a strong balance sheet, the Group is well positioned to make further progress.”

Analyst and investor presentation:

A results briefing for sell side analysts and investors will be held today at 9.30am (UK time) at the offices of Peel Hunt. If you would like to join in person or via the live webinar, please contact Buchanan at discoverie@buchanan.uk.com.

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Notes:

- (1) 'Underlying Operating Profit', 'Underlying Operating Margin', 'Underlying EBITDA', 'Underlying Profit before Tax' and 'Underlying EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude acquisition-related costs (amortisation of acquired intangible assets of £7.8m and acquisition & disposal expenses of £0.9m) totalling £8.7m. Equivalent underlying adjustments within the H1 2021/22 underlying results totalled £9.7m. For further information, see notes 2 and 7 of the attached condensed consolidated interim financial statements.
- (2) Growth rates at constant exchange rates ("CER"). The average Sterling rate of exchange strengthened 1% against the Euro compared with the average rate for the same period last year and strengthened 2% on average against the three Nordic currencies while weakening by 12% against the US Dollar.
- (3) Organic growth for the Group compared with last year is calculated at CER and is shown excluding the first 12 months of acquisitions post completion (CPI was acquired in May 2021, Antenova in August 2021, Beacon in September 2021 and CDT in June 2022).
- (4) Target markets are renewable energy, medical, transportation, industrial & connectivity.
- (5) Free cash flow is cash flow before dividends, acquisitions and equity fund raising.

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- (6) Original target was to reduce scope 1 & 2 carbon emissions in CY 2019 by 50% on a like-for-like basis by CY 2025. Target increased this Period to an absolute carbon emissions reduction of 65% since CY 2021.
- (7) Net Zero carbon emissions by 2030 defined as Net Zero Scope 1 & 2 emissions as defined by SBTi along with a commitment to achieve net zero scope 3 emissions by 2040
- (8) Gearing ratio is defined as net debt divided by underlying EBITDA (excluding IFRS 16; annualised for acquisitions).
- (9) Unless stated, growth rates refer to the comparable prior year period.
- (10) The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulation, Article 7 of EU Regulation 596/2014. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain.

Notes to Editors:

About discoverIE Group plc

discoverIE Group plc is an international group of businesses that designs and manufactures innovative electronic components for industrial applications.

The Group provides application-specific components to original equipment manufacturers (“OEMs”) internationally through its two divisions, Magnetics & Controls, and Sensing & Connectivity. By designing components that meet customers’ unique requirements, which are then manufactured and supplied throughout the life of their production, a high level of repeating revenue is generated with long term customer relationships.

With a focus on sustainable key markets driven by structural growth and increasing electronic content, namely renewable energy, medical, electrification of transportation and industrial automation & connectivity, the Group aims to achieve organic growth that is well ahead of GDP and to supplement that with complementary acquisitions. The Group has an ongoing commitment to reducing the impact of its operations on the environment and with its key markets aligned with a sustainable future, MSCI has awarded the Group an ESG “A” rating.

The Group employs c.5,000 people across 20 countries with its principal operating units located in Continental Europe, the UK, China, Sri Lanka, India and North America.

discoverIE is listed on the Main Market of the London Stock Exchange and is a member of the FTSE250, classified within the Electrical Components and Equipment subsector.

Strategic, Operational and Financial Review

Overview

The Group is focused on the design and manufacture of customised and niche, innovative electronics. We have made further strong progress this Period towards our medium-term goals of becoming a higher operating margin Group, supplying UN SDG-aligned target markets, internationally, and generating strong cash flow. Our low gearing leaves good headroom for further earnings accretive acquisitions and to take advantage of opportunities presented by the current market backdrop.

The first half saw strong organic sales growth of 14%, underlying operating profit growth of 42% and underlying EPS growth of 37%. This continued the good progress of the previous four years which saw compound annualised growth in the ongoing Group of 10% in organic sales, 34% in underlying operating profit and 26% in underlying EPS.

First half Group sales increased by 26% overall, with performance in our target markets (which now account for 77% of Group sales) continuing to be strong. This growth supported delivery of an underlying operating margin of 11.7%, up 1.4ppts year-on-year and well on track to achieving our 13.5% target by FY 2024/25. Organic sales growth was widespread, with the UK increasing by 11%, Germany by 18%, Nordics by 16%, other European countries by 28%, US by 10% and India by 53%. Following several years of strong growth, China reduced by 3%. Expansion of production capacity was commenced during the Period in India, Germany and the UK, all of which are expected to be operational next financial year.

Orders continued at a high level and ahead of sales with a book-to-bill ratio of 1.08 resulting in a record order book at the Period end of £257m, 21% ahead organically compared with 12 months ago. As previously stated, the order book level is expected to begin normalising as it starts to convert into sales during the second half of this financial year.

The Group continues to manage widespread supply chain and inflationary headwinds actively and effectively with organic gross margins in the Period maintained at the same level as last year.

Positioned well in a changing world

The Group is well positioned in an environment of rapidly changing global conditions, proving both resilient and flexible.

- *Essential products:* the Group's products are essential for customers' applications to function and amount to a small proportion of their overall system cost.
- *Broad footprint:* 30 manufacturing sites and operations around the world, able to support customers operating internationally and respond quickly to production movements.
- *Efficient supply chains:* our manufacturing uses a low proportion of bought-in components, the majority being manufactured in-house from raw materials and base components, reducing our exposure to external supply chain disruptions.
- *Low energy intensity operations:* the large majority of the Group's energy exposure is electricity and with operations mainly being manual or semi-automated, energy costs represent less than 1% of Group revenues, limiting the Group's exposure to current energy price rises.

With a capital light business model, a diversified technology and product portfolio and a broad customer base (the Group's largest customer is c.7% of Group sales), the Group has grown strongly over a sustained period and was resilient during the pandemic. We expect it to continue to do so in a changing world.

Group Results Summary

Group sales for the first half increased by 26% to £219.7m (+23% CER), with first half underlying operating profit, which excludes acquisition & disposal-related costs, increasing by 37% CER to £25.6m. Underlying profit before tax increased by 46% to £23.5m, with underlying earnings per share for the period increasing by 37% to 17.8p (H1 2021/22: 13.0p).

After underlying adjustments for acquisition & disposal-related costs, profit before tax for the Period on a reported basis increased by 131% to £14.8m (H1 2021/22: £6.4m) with fully diluted earnings per share increasing by 65% to 10.9p (H1 2021/22: 6.6p).

Free cash flow of £24.3m was generated over the last 12 months, being 11% higher than last financial year and representing 72% of underlying earnings. While this conversion rate is below our 85% target, it follows strong organic growth in the Period along with additional inventory to support expected second half growth, and an additional £6m inventory to secure supply of certain materials. Net debt at 30 September 2022 was £45.2m (30 September 2021: £75.6m) with a gearing ratio of 0.8x. This is well below our target range of 1.5x to 2.0x and leaves good headroom for further accretive acquisitions.

Increased Dividend

The Board is pleased to declare an increase in the interim dividend of 6% to 3.55p per share (H1 2021/22: 3.35p per share). Since 2010, the annual dividend per share has more than doubled.

The Board believes in maintaining a progressive dividend policy along with a long-term dividend cover of over three times earnings on an underlying basis. This approach along with the continued growth of the Group will enable funding of both dividend growth and a higher level of investment in acquisitions from internally generated resources.

The interim dividend is payable on 13 January 2023 to shareholders registered on 16 December 2022.

New Chairman and Senior Independent Director

As previously announced, Bruce Thompson became Chairman of the Group on 1 November 2022 with Malcolm Diamond retiring from the Board. We extend our sincere thanks to Malcolm for his guidance and support in leading the Group into the next stage of its development and wish him a very happy retirement.

Bruce has been a Non-Executive Director of the Group since February 2018, and the Group's Senior Independent Director since March 2019. Tracey Graham, a member of the Board since November 2015 and Chair of the Remuneration Committee, succeeded Bruce as Senior Independent Director from the same date.

Sustainability and Social Responsibility

The Group provides innovative electronics that help customers create new technologies for a sustainable world. Applications which use our products help to reduce power consumption and increase efficiency, such as wind turbines for renewable energy, charging infrastructure for electric vehicles and wireless and fibre optic communications. This focus on sustainability forms the core of our target markets where, through focused initiatives, we aim to grow our revenues organically. These trends are reported in our key strategic indicators as target market sales. Additionally, the Group has reduced focus on market areas that are inconsistent with a long-term sustainability agenda.

Our target markets are aligned to the UN Sustainable Development Goals with our aim being to achieve 85% of sales from those target markets by the end of FY 2024/25. During the Period, sales from target markets were 77% of Group sales. We also aim to increase the proportion of the Group's operations covered by ISO14001, the international standard for environmental management, from 31% in FY

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2020/21 to 80% by CY 2025. Please refer to the Group's Impact Report which is available on the Group's website and illustrates how we are helping to meet the global sustainability agenda.

During the Period a number of initiatives were undertaken to improve our sustainability and diversity including:

i) Environmental

- Finalised and announced SBTi aligned plan to achieve net zero for Scope 1 and 2 carbon emissions by 2030 and for Scope 3 by 2040;
- Further adoption of sustainable electricity sources resulting in carbon emissions reducing on a like-for-like basis by an estimated 40% since CY 2019 (CY 2021: 33% reduction);
- Accelerated Sri Lanka solar panel installation project, with both phases 2 and 3 expected to complete early in 2023 – once complete, we anticipate the three phases will reduce scope 1 & 2 Group emissions by 15%;
- Plans to commence installation of solar panels at the manufacturing facility in Thailand, which will meet the majority of the power requirement of the facility by the time of completion in mid-2023;
- Initiated programme for quantifying full Scope 3 carbon emissions;
- Continued energy audit roll-outs with an aim to complete by the end of 2023;
- Initiated ISO14001 Environmental Management Systems accreditation process at five Group sites.

ii) Social

- Initiated ISO45001 Occupational Health and Safety Management Systems accreditation process at seven Group sites;
- Provided assistance and cost of living support to employees in Sri Lanka site during the political crisis;
- Commenced review of CSR Policy.

iii) Governance

- Established Sustainability Committee of the Board, effective 1 April 2022;
- Introduced ESG objectives and targets into bonus schemes for each Group Executive Committee member and into the management incentive schemes for each operating business;
- Updated Board Diversity Policy in June 2022;
- Commenced study on detailed scenario analysis to quantify the potential financial impact of climate change as required by TCFD reporting;
- Disclosed environmental data through Carbon Disclosure Project for the first time, improving data transparency and benchmarking progress against global standards.

Group Strategy

The Group designs and manufactures customised and niche electronic components, operating internationally and focusing on structurally growing markets that are driven by increasing electronic content and where there is an essential need for our products. With our target markets and global

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customer base, the business is expanding internationally (41% of Group sales now being outside Europe) as we build a geographically diverse electronics group.

The Group has been built through organic growth with operational efficiency and 20 carefully selected and integrated acquisitions over the past 12 years to create a specialist, growth-oriented, higher margin design and manufacturing business. We have a well-developed approach to acquisitions and the use of capital, and see significant scope for the further expansion with a number of opportunities in development.

The Group's strategy comprises four elements:

1. Grow sales well ahead of GDP over the economic cycle by focussing on the structural growth markets that form our sustainable target markets;
2. Improve operating margins by moving up the value chain into higher margin products;
3. Acquire businesses with attractive growth prospects and strong operating margins;
4. Further internationalise the business by developing operations in North America and Asia.

These elements are underpinned by core objectives of generating strong cash flows from a capital-light business model and delivering long-term sustainable returns while progressing towards net zero carbon emissions and reducing our impact on the environment.

Target Markets

Our four target markets of renewable energy, medical, electrification of transportation, and industrial automation & connectivity account for 77% of Group sales. These markets are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities. For the Group, these markets deliver above average revenue growth and resilience: over the last six years, target market sales grew organically by 12% CAGR while non-target markets grew by 7% CAGR and were more resilient during FY 2020/21 (the Covid year) when target market sales declined by only 3% compared with a 9% decline in non-target markets.

Growth in these target markets is being driven by increasing electronic content and by global mega trends such as the accelerating need for renewable sources of energy, an ageing affluent population, vehicle electrification and industrial automation and connectivity.

During the Period, target market sales grew organically by 14%, comprising slower renewable energy demand (-6%) against strong prior year demand and being offset by growth of 20% in the other target markets. Over the same period, non-target markets, which accounted for 23% of Group revenues, grew by 17% organically, recovering strongly from a much lower level following the pandemic and reflecting their greater cyclicity.

Key Strategic and Performance Indicators

Since 2014, the Group's progress with its strategic objectives and its financial performance has been measured through key strategic indicators ("KSIs") and key performance indicators ("KPIs"). The KSI targets have been raised each time they have been achieved, and in November 2021 the targets were increased again at the time the exit from the business of distribution was announced. For tracking purposes, the KSIs and KPIs in the tables below remain as reported at the time rather than adjusted for disposals. This Period's growth relative to last year is discussed below.

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Key Strategic Indicators

	FY14	FY18	FY19	FY20	FY22 ⁽¹⁾	H1 23	FY25 Targets
1. Increase underlying operating margin	3.4%	6.3%	7.0%	8.0%	10.9%	11.7%	13.5%
2. Build sales beyond Europe ⁽²⁾	5%	19%	21%	27%	40%	41%	45%
3. Increase target market sales ⁽²⁾		62%	66%	68%	76%	77%	85%
4. Carbon emissions reduction ⁽³⁾				6%	33%	c.40%	65% (was 50%)

(1) FY 2021/22 shown as performance over the pre-Covid period FY 2019/20 as this reflects the actual ongoing development of the business. FY 2013/14 to FY 2019/20 are for total operations before disposals, as reported at the time.

(2) As a percentage of Group revenue.

(3) First test was CY 2020 compared to CY 2019. Target year is CY 2025. Upgraded target is an absolute carbon emissions reduction from CY 2021.

The Group made further significant progress with its KSI's during the Period:

- Underlying operating margin was 11.7%, an increase of 1.4ppts on the first half last year (H1 2021/22: 10.3%) and 0.8ppts higher than last year in total (FY 2021/22: 10.9%). The Group benefited from strong organic sales growth during the Period with operating leverage through efficiency gains and stable gross margins, and remains on track to achieve its 13.5% target in FY 2024/25.
- Sales beyond Europe for the Period increased by 3ppts to 41% of Group revenue compared with a year ago and by 1ppt compared with FY 2021/22, mainly linked to the sales annualisation of the US acquisition of Beacon in September 2021. The target for FY 2024/25 is 45%.
- Target market sales in the Period increased by 1ppt to 77% of Group revenue compared with FY 2021/22 target market sales of 76%. The target for FY 2024/25 is 85% subject to acquisitions during this time frame.
- Carbon emissions reduced during the Period and are now an estimated 40% lower on a like-for-like basis than in 2019; good progress towards our target of 50% by CY 2025. Following this, we have today announced our commitment to achieve net zero emissions by 2030 for Scope 1 & 2 (SBTi aligned) and by 2040 for Scope 3. Accordingly, we are upgrading our existing target for CY 2025 from a reduction of 50% from a base in CY 2019 (on a like-for-like intensity basis) to an absolute reduction of 65% from a base in CY 2021, on the path to achieving net zero by 2030. This upgrade would be approximately equivalent to increasing the level of reduction since CY 2019 from 50% to 75%.

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Key Performance Indicators

	FY14	FY18	FY19	FY20	FY22 ⁽¹⁾	H1 23	Target
1. Sales growth							
CER	17%	11%	14%	8%	27%	23%	Well ahead of GDP
Organic	3%	11%	10%	5%	14%	14%	
2. Underlying EPS growth	20%	16%	22%	11%	20%	37%	>10%
3. Dividend growth	10%	6%	6%	6% ⁽²⁾	6%	6%	Progressive
4. ROCE ⁽³⁾	15.2%	13.7%	15.4%	16.0%	14.7%	15.2%	>15%
5. Operating profit conversion ⁽³⁾	100%	85%	93%	106%	101%	75%	>85% of underlying operating profit
6. Free cash conversion ⁽³⁾			94%	104%	102%	72%	>85% of underlying earnings

(1) FY 2021/22 shown as growth over the pre-Covid period FY 2019/20 as this reflects the actual ongoing growth of the business. FY 2013/14 to FY 2019/20 are for total operations before disposals as reported at the time.

(2) 6% increase in the H1 2019/20 interim dividend; a final dividend was not proposed for FY 2019/20 due to Covid.

(3) Defined in note 2 of the attached summary financial statements.

The Group also made further significant progress with its KPIs during the Period. This Period's growth relative to last year is discussed below.

- Organic sales increased by 14% this Period of which approximately 8% was related to volume and mix effects and 6% to price. Since FY 2017/18, organic sales have grown by 10% per annum on average, illustrating the strong through-cycle organic growth of the business.
- Underlying EPS increased by 37% compared with last year.
- The interim dividend is being increased by 6%, continuing our progressive policy whilst providing for a higher proportion of investment in acquisitions from internally generated resources. This progressive policy has seen a doubling of the dividend per share since 2010, whilst dividend cover on an underlying basis increased to 2.7x for the last financial year.
- ROCE for the year was 15.2%, 0.5ppts higher than last year (FY 2021/22: 14.7%). The increase follows strong growth in profitability during the Period.
- Operating cash flow for the last 12 months increased by 11% compared with last financial year with operating profit conversion into cash of 75% and free cash conversion of 72%. These were lower than our 85% targets resulting from a combination of strong organic sales growth and £6m increase in inventory to secure supply of certain materials. Over the last ten years, both operating cash conversion and free cash conversion have been consistently strong at well over 90% reflecting the tight management of working capital and expenditure through the economic cycle.

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Divisional Results

The divisional results for the Group for the six months ended 30 September 2022 are set out and reviewed below.

	H1 2022/23			H1 2021/22			Reported revenue growth	CER revenue growth	Organic revenue Growth
	Revenue £m	Underlying operating profit ⁽¹⁾ £m	Margin	Revenue £m	Underlying operating profit ⁽¹⁾ £m	Margin			
M&C	136.5	18.0	13.2%	105.4	12.8	12.1%	30%	26%	17%
S&C	83.2	13.6	16.3%	68.9	11.1	16.1%	21%	19%	11%
Unallocated		(6.0)			(5.9)				
Total	219.7	25.6	11.7%	174.3	18.0	10.3%	26%	23%	14%

(1) Underlying operating profit excludes acquisition-related costs

Magnetics & Controls Division ("M&C")

The M&C division designs, manufactures and supplies highly differentiated magnetic and power components, embedded computing and interface controls, all for industrial applications through eight businesses operating across 17 countries. The large majority of the products are manufactured in-house at one of the division's 20 manufacturing facilities, with its principal ones being in China, India, Mexico, Poland, Sri Lanka and Thailand. Geographically, 5% of sales are in the UK by destination, 50% in the rest of Europe, 20% in North America and 25% in Asia.

Despite ongoing economic challenges in Sri Lanka, our facility there, which accounts for around 6% of Group sales, has continued to operate at expected output levels throughout the Period and the Group continues to provide support to local employees. Construction has also commenced in Kerala, India, of a new larger production facility which will supersede our existing plant there next year. Capacity is also being expanded in the UK to support future growth.

Orders increased by 3% CER to £144.8m and organically reduced by 3% on the back of very strong prior year comparators. The rate of orders remained high and ahead of sales with a book-to-bill ratio of 1.06:1. Together with a record order book, this resulted in sales growing by 17% organically, with strong organic growth across all regions except China: Europe & UK growing organically by 24%, North America by 11% and Asia by 5% where strong growth in India offset a reduction in China.

Combined with a 9% sales increase from acquisitions, overall sales increased by 26% CER. Including the impact of translation from a weaker Sterling on average, reported divisional revenue increased by 30% to £136.5m (H1 2021/22: £105.4m). This was achieved despite ongoing supply chain headwinds, in particular semiconductor shortages which have delayed sales in two businesses within the division.

Underlying operating profit of £18.0m was £4.7m (+35%) higher than last year at CER and £5.2m (+41%) higher on a reported basis (H1 2021/22: £12.8m). The underlying operating margin of 13.2% was 1.1ppts higher than last year (H1 2021/22: 12.1%), reflecting the positive effect of organic growth, stable gross margins and strong operating efficiencies.

Sensing & Connectivity Division ("S&C")

The S&C division designs, manufactures and supplies highly differentiated sensing and connectivity components for industrial applications through 13 businesses operating across nine countries. The majority of the products are manufactured in-house at one of the division's 10 manufacturing facilities, with its principal ones being in Hungary, the Netherlands, Norway, Slovakia, the UK and the US. Geographically, 19% of sales are in the UK by destination, 47% in the rest of Europe, 15% in North America and 19% in Asia. Further capacity is being built in Germany.

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As with the M&C division, orders remained at high levels increasing by 8% CER to £92.1m and by 3% organically despite the very strong comparators of last year, with a book-to-bill ratio of 1.11:1. Together with a record order book, this resulted in sales growing by 11% organically, with 7% organic growth across Europe & UK, 11% in North America and 28% growth in Asia including 31% in China.

Combined with an 8% sales increase from acquisitions, overall sales increased by 19% CER. Including the impact of translation from a weaker Sterling on average, reported divisional revenue increased by 21% to £83.2m (H1 2021/22: £68.9m).

Underlying operating profit of £13.6m was £2.3m (+20%) higher than last year at CER and £2.5m (+23%) higher on a reported basis (H1 2021/22: £11.1m). The underlying operating margin of 16.3% was 0.2ppts higher than last year (H1 2021/22: 16.1%), which, as with M&C division, reflects the positive effect of organic growth, stable gross margins and operating efficiencies.

Design Wins

Project design wins are a measure of new business creation. By working with customers at an early stage in their project design cycle, opportunities are identified for our products to be specified into their designs, in turn leading to future recurring revenue streams.

The Group has a strong bank of design wins built up over numerous years, creating the basis for the Group's organic growth in orders and sales. During the Period, Design wins increased by 6% over last year with 85% of design wins being in the Group's target markets. This was achieved despite some customers' diversion of their engineering resources to improve supply chain availability.

Additionally, new project design activity remains at a high level, being broad-based across all target markets and the total pipeline of ongoing projects continues at a very high level.

Acquisitions

The businesses we acquire are typically led by entrepreneurs who wish to remain for a period following acquisition which we encourage as it helps retain a decentralised, entrepreneurial and dynamic culture. The market remains highly fragmented with many opportunities to acquire and consolidate.

We acquire businesses that are successful and profitable with good growth prospects and where we invest for growth and operational performance development. According to the circumstances, we add value in some of or all of the following areas:

Strategy, sales and products:

- Developing the longer-term strategy of the business;
- Internationalising sales channels and expanding the customer base, including via cross-selling initiatives and focusing sales development onto target market areas;
- Increasing focus on opportunity generation;
- Developing and expanding the product range;
- Developing and implementing sustainability initiatives.

People management:

- Investing in management capability ('scaling up');
- Peer networking and collaboration;
- Succession planning and management transition.

Investment:

- Capital investment in manufacturing and infrastructure;
- Improving manufacturing efficiency;
- Infrastructure efficiencies, such as warehousing and freight;
- Expansion through further acquisitions.

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Controls and support:

- Implementing robust financial controls;
- Finance and related support, such as treasury, banking, legal, tax and insurance;
- Risk management and internal audit;
- Sustainability initiatives such as energy audits, carbon emission reductions and ISO standards accreditation.

The Group has acquired 20 design and manufacturing businesses over the last 12 years, supporting the increase in continuing Group revenues to £379m in FY 2021/22 from £10m in FY 2009/10. During the Period, the Group completed its latest acquisition: CDT, a UK-based designer and manufacturer of customised plastic enclosures for circuit boards, membrane keypads and associated electronics components for £5.0m on a debt free, cash free basis.

Acquisition spend was lower during the Period reflecting the Group's disciplined returns criteria in an environment of increased volatility and where vendor expectations remain elevated. As private company valuations become more realistic and forecast visibility improves, we expect the pace of transaction activity to increase. The Group looks to acquire high quality businesses with long term growth prospects and to pay a price that reflects this quality whilst generating good returns for shareholders.

The Group's operating model is well established and has facilitated the smooth integration of acquired businesses. Through a combination of investment in efficiency and leveraging of the broader Group's commercial infrastructure, the businesses acquired since 2011 and owned for at least two years delivered a return on investment of 21% this Period, an increase of 2.2ppts over last year.

Group Financial Results

Revenue and Orders

Group sales of £219.7m were 14% higher organically than last year (H1 2021/22: £174.3m) and with acquisitions (CPI, Antenova and Beacon acquired last year, and CDT this year) adding 9%, Group sales increased by 23% CER. A weaker Sterling on average during the Period, particularly compared with the US Dollar, increased sales by 3% on translation for a total growth in reported Group sales of 26%.

Revenue (£m)	H1 2022/23	H1 2021/22	%
Reported	219.7	174.3	26%
FX translation impact		3.8	
Underlying (CER)	219.7	178.1	23%
Acquisitions / disposals	(12.4)	3.0	
Organic	207.3	181.1	14%

Sales this Period were driven by ongoing strong order rates, building on a record year-end order book at 31 March 2022. Group orders this Period increased by 5% CER to £236.9m, reducing by 1% organically against very strong prior year comparators (last year orders grew by 64% organically and by 34% organically compared with the pre-Covid period H1 2019/20) as customers extended their order book periods in response to the tight global supply conditions.

The book-to-bill ratio for the Period was 1.08:1 and accordingly the order book continued to increase to a new record level of £257m at 30 September 2022, growing by 21% organically from a year ago and by 26% CER.

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Group Operating Profit and Margin

Group underlying operating profit for the Period was £25.6m, a 42% increase on last year (H1 2021/22: £18.0m), and 37% higher at CER, delivering an underlying operating margin of 11.7%, 1.4ppts higher than last year (H1 2021/22: 10.3%).

Reported Group operating profit for the Period (after accounting for the underlying adjustments discussed below) was £16.9m, 104% higher than last year (H1 2021/22: £8.3m), linked to higher underlying operating profits and lower spend on acquisitions & disposals during the Period.

£m	H1 2022/23			H1 2021/22		
	Operating profit	Finance Cost	Profit before tax	Operating profit	Finance cost	Profit before tax
Underlying	25.6	(2.1)	23.5	18.0	(1.9)	16.1
<u>Underlying adjustments</u>						
Acquisition & disposal expenses	(0.9)	–	(0.9)	(3.3)	–	(3.3)
Amortisation of acquired intangibles	(7.8)	–	(7.8)	(6.4)	–	(6.4)
Reported	16.9	(2.1)	14.8	8.3	(1.9)	6.4

Underlying operating profit growth has been achieved through a combination of organic growth, efficient operational execution and acquisitions.

£m	Underlying Operating Profit
H1 2021/22	18.0
Gross profit on organic sales growth	9.5
Organic gross margin	(0.4)
Investment in opex	(4.1)
Organic profit growth - operations	5.0
Profit from acquired companies	1.9
Foreign exchange impact	0.7
H1 2022/23	25.6

Operationally, two thirds (£5.0m) of the incremental profits in the Period were generated from organic sales growth of £26.2m, being a strong drop through ratio of 19% (being organic profit growth as a percentage of organic sales growth), and deriving largely from internal efficiencies and scale. During the Period, there was further investment in operating expenditure of 9% across both divisions to support future organic growth. Gross margins remained stable being broadly at the same level organically as last year. This is despite ongoing inflationary supply chain headwinds.

Acquisitions contributed £1.9m of underlying operating profit comprising CPI, Antenova and Beacon acquired last year and CDT acquired this year.

While Sterling has been slightly stronger this Period versus 12 months ago, compared with the Euro (+1%) and Nordic currencies (+2%), it has weakened significantly compared to the US Dollar (-12%). This gave rise to an increase in underlying operating profits on translation of £0.7m.

Underlying Adjustments

Underlying adjustments for the Period comprise acquisition & disposal expenses of £0.9m (H1 2021/22: £3.3m), and the amortisation of acquired intangibles of £7.8m (H1 2020/21: £6.4m).

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Acquisition & disposal expenses of £0.9m are the costs associated with the acquisition during the Period of CDT in June 2022 and accrued contingent consideration cost relating to the acquisitions of Litor, Phoenix and CPI. The £1.4m increase in the amortisation charge since last year to £7.8m primarily relates to the amortisation of the intangibles for Beacon and Antenova which were acquired towards the end of the first half last year. The annualised amortisation charge for next year is approximately £16m.

Financing Costs

Net finance costs for the Period were £2.1m (H1 2021/22: £1.9m) and include a £0.4m charge for leased assets under IFRS 16 (H1 2021/22: £0.3m) and £0.4m charge for amortised upfront facility costs (H1 2021/22: £0.2m). Finance costs related to our banking facilities of £1.3m (H1 2021/22: £1.4m) reflect marginally lower average net borrowing during the Period.

Financing costs are expected to increase in the second half with rising base rates for Sterling, US Dollars and Euros. On average, base rates are expected to increase by 2.5ppts over the first half average with every 1ppt increase in base rates increasing financing costs by c.£0.6m per annum.

Underlying Tax Rate

The underlying effective tax rate ("ETR") in the first half was 26%, marginally higher than last year's rate (H1 2021/22: 25%) due to profit mix towards higher tax territories.

The overall ETR was 28% (H1 2021/22: 54%). This was higher than the underlying ETR due to there being no tax relief on acquisition-related expenses (within underlying adjustments above). The overall ETR was much higher last year due to the ETR on intangibles being impacted by the planned increase in the UK corporate tax rate from 19% to 25% from 1 April 2023, resulting in a one-off increase in the deferred tax liability (a non-cash item).

£m	H1 2022/23		H1 2021/22	
	PBT	ETR	PBT	ETR
Group underlying	23.5	26%	16.1	25%
Acquisition & disposal expenses	(0.9)	0%	(3.3)	4%
Amortisation of acquired intangibles	(7.8)	24%	(6.4)	7%
Total reported	14.8	28%	6.4	54%

Profit Before Tax and EPS

Underlying profit before tax for the Period of £23.5m was £7.4m higher (+46%) than last year (H1 2020/21: £16.1m), with underlying EPS for the Period increasing by 37% to 17.8p (H1 2021/22: 13.0p). The increase in underlying EPS was lower than the increase in underlying profit before tax due to the issuance of new equity in September 2021 increasing the number of fully diluted shares by 6% to 98.6m shares (H1 2021/22: 93.3m shares) and a marginally higher tax rate.

£m	H1 2022/23		H1 2021/22	
	PBT	EPS	PBT	EPS
Underlying	23.5	17.8p	16.1	13.0p
<u>Underlying adjustments</u>				
Acquisition & disposal expenses	(0.9)		(3.3)	
Amortisation of acquired intangibles	(7.8)		(6.4)	
Reported	14.8	10.9p	6.4	3.2p

After the underlying adjustments above, reported profit before tax for continuing operations was £14.8m, an increase of £8.4m (+131%) compared with last year (H1 2021/22: £6.4m). With the reported effective tax rate for the Period of 28% being much lower than last year's rate of 5% (for the reasons mentioned

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above), the resulting reported fully diluted earnings per share for continuing operations was 10.9p, 7.7p higher than last year (H1 2021/22: 3.2p).

Last Year's Disposals

Last year, the Group disposed of the Acal BFi and Vertex SA distribution businesses which together were treated for accounting purposes as a discontinued operation. In accordance with IFRS 5, net profits of the discontinued operation last year were shown separately to the results of the continuing operations.

£m	H1 2022/23		H1 2021/22	
	PAT	EPS	PAT	EPS
Continuing operations	10.8	10.9p	3.0	3.2p
Discontinued operations			3.2	3.4p
Total operations	10.8	10.9p	6.2	6.6p

Working Capital

Working capital at 30 September 2022 was £74.7m, equivalent to 16.5% of first half annualised sales at CER. This is 1.0ppt higher than last year when working capital was £54.8m (excluding acquisition and LTIP related costs of £2.7m) or 15.5% of first half annualised sales. Absolute working capital has increased by £11m to support the strong organic growth in sales, by £6m invested in inventories to secure supply and by £3m on translation due to net weakness in Sterling. Excluding the additional inventory of £6m, working capital would have reduced by 0.3ppts of first half annualised sales.

Working capital KPIs have remained robust with debtors days of 49 (in line with last year), creditor days of 78 (4 days higher than last year) and stock turns of 3.0 (0.1 turn lower than last year).

Cash Flow

Net debt at 30 September 2022 was £45.2m compared with £30.2m at 31 March 2022 and £75.6m at 30 September 2021.

£m	H1 2022/23	H1 2021/22	Last 12 Months
Opening net debt	(30.2)	(47.2)	(75.6)
Free cash flow (see table below)	10.6	8.1	24.3
Acquisition & disposals	(13.2)	(84.2)	21.8
Equity issuance (net of taxes)	(0.6)	53.4	(1.4)
Dividends	(7.1)	(6.2)	(10.3)
Foreign exchange impact	(4.7)	0.5	(4.0)
Net debt at 30 Sept	(45.2)	(75.6)	(45.2)

Net acquisition/disposal-related costs of £13.2m in the Period comprised £5.0m for the acquisition of CDT in June 2022 (on debt free, cash free basis) and £6.3m on earnout payments in respect of Cursor and CPI. Additionally, there were £1.9m of expenses associated with acquisitions and disposals during the Period.

The final dividend for last financial year of £7.1m, which was paid in July 2022, was 15% higher than that paid in the previous year following a 6% increase in the final dividend declared last year and a 6% increase in equity following the share issuance in September 2021 at the time of the Beacon acquisition.

Sterling significantly weakened during the Period in particular compared to the US Dollar. Based on the closing rates at 30 September 2022 compared with the rates at 30 September 2021, Sterling fell 18% compared to the US Dollar and also reduced by 3% against the Euro. With the Group's policy being to

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hold net debt in currencies linked to the currency of its cash flows, currency held debt increased on translation partially matching the increase in underlying EBITDA that arises, in order to protect the gearing of the Group.

Operating cash flow and free cash flow (see definitions in note 2 to the interim financial statements) for the Period, compared with the first half of last year, and for the last 12 months, are shown below:

£m	H1 2022/23	H1 2021/22	Last 12 Months
Underlying Profit before tax	23.5	16.1	45.0
Net finance costs	2.1	1.9	4.0
Non-cash items	6.9	6.1	13.3
Underlying EBITDA	32.5	24.1	62.3
IFRS 16	(2.8)	(2.4)	(5.5)
EBITDA (pre IFRS16)	29.7	21.7	56.8
Changes in working capital	(10.3)	(6.0)	(14.5)
Capital expenditure	(2.6)	(2.4)	(5.7)
Operating cash flow	16.8	13.3	36.6
Finance costs	(2.0)	(1.7)	(3.5)
Taxation	(3.2)	(2.6)	(6.8)
Legacy pensions	(1.0)	(0.9)	(2.0)
Free cash flow	10.6	8.1	24.3

Underlying EBITDA of £32.5m was 35% higher than last year (H1 2021/22: £24.1m) reflecting strong organic sales growth combined with contributions from the four acquisitions made since the first half of last year.

During the Period, the Group invested £10.3m in working capital to support strong organic sales growth this Period and to secure inventory supply where necessary. In total, a net £14.5m has been invested in working capital over the last 12 months of which £6m is to support inventory supply, which should reduce when markets normalise.

Capital expenditure of £2.6m was invested during the Period, slightly ahead of last year (H1 2021/22: £2.4m) including various new production line extensions, ERP upgrades and ESG initiatives e.g. additional solar panels in Sri Lanka, the largest Group facility. Capital expenditure levels are expected to increase in the second half to around £9m for the full year as we continue to invest in additional capacity and roll out of our ESG initiatives.

£16.8m of operating cash was generated in the first half up 26% on last year (H1 2021/22: £13.3m). Together with £19.8m generated in the second half of last year, a total of £36.6m of operating cash was generated over the last 12 months representing 75% of underlying operating profit. While this is below our 85% target, we expect to see a return to achieving or exceeding target once markets normalise. Over the last nine years, the Group has consistently achieved high levels of cash conversion, averaging in excess of 100%.

Finance cash costs of £2.0m were ahead of last year on the back of higher average interest rates, while corporate income tax payments of £3.2m were £0.6m ahead of last year reflecting higher profitability. Further payment of taxes in the second half of c.£6m are expected.

Free cash flow (being cash flow before dividends, acquisitions and equity) of £10.6m was generated in the first half up 31% on last year (H1 2021/22: £8.1m). Together with £13.7m generated in the second half last year, a total of £24.3m of free cash flow was generated over the last 12 months being a free cash conversion of 72% of underlying earnings; again we expect this to increase to at or above our 85% target once markets normalise.

Banking Facilities

The Group has a £240m syndicated banking facility which extends to June 2026, with an option exercisable by the Group to extend the facility by a further year to June 2027. In addition, the Group has an £80m accordion facility which it can use to extend the total facility up to £320m. The syndicated facility is available both for acquisitions and for working capital purposes, and comprises seven lending banks.

With net debt at 30 September 2022 of £45.2m, the Group's gearing ratio at the end of the Period (being net debt divided by underlying EBITDA as annualised for acquisitions) was 0.8x. With our target gearing range being between 1.5x and 2.0x, there is good funding capacity for future acquisitions.

Balance Sheet

Net assets of £313.1m at 30 September 2022 were £22.7m higher than at the end of the last financial year (31 March 2022: £290.4m). The increase primarily relates to the net profit after tax for the Period of £10.7m together with the balance sheet translation increase following Sterling weakness during the Period of £18.1m partially offset by last year's final dividend of £7.1m paid during this Period. The movement in net assets is summarised below:

£m	H1 2022/23
Net assets at 31 March 2022	290.4
Net profit after tax	10.7
Dividend paid	(7.1)
Currency net assets – translation impact	18.1
Gain on defined benefit scheme	0.6
Share based payments (inc tax)	0.4
Net assets at 30 September 2022	313.1

Defined Benefit Pension Scheme

The Group's IAS 19 pension asset, associated with its legacy defined benefit pension scheme, increased during the last 12 months by £4.2m from £0.1m at 30 September 2021, to £4.3m at 30 September 2022 (31 March 2022: £2.7m). The key drivers were the increase in corporate bond yields together with the annual payment made during the year of £1.9m, partly offset by increases in future inflation expectations.

An annual payment of £1.9m is currently payable, growing by 3% each year until April 2024 in accordance with the plan agreed with the pension trustee as part of the last agreed triennial valuation dated 31 March 2021.

Risks and Uncertainties

The principal risks faced by the Group are set out on pages 54 to 59 of the Group's Annual Report for year ended 31 March 2022, a copy of which is available on the Group's website: www.discoverieplc.com. These risks comprise: the economic environment, particularly linked to the geo-political issues arising from the ongoing Ukraine conflict and also from Covid; the performance of acquired companies; climate-related risks; loss of major customers or suppliers; technological changes; major business disruption; cyber security; loss of key personnel; inventory obsolescence; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; and non-compliance with legal and regulatory requirements.

During the Period, the Board has continued to review the Group's existing and emerging risks and the mitigating actions and processes in place. Following this review, the Board believes there has been no

material change to the relative importance or quantum of the Group's principal risks for the remaining six months of the current financial year.

The risk assessment and review are an ongoing process, and the Board will continue to monitor risks and the mitigating actions in place. The Group's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions where practicable. Some level of risk, however, will always be present. The Group is well positioned to manage such risks and uncertainties, if they arise, given its strong balance sheet, committed banking facility of £240m and the adaptability we have as an organisation.

Summary and Outlook

DiscoverIE performed well in the first half, with further strong growth in sales and order book along with good operating efficiencies, leading to 37% growth in underlying earnings per share.

We continue to focus on generating organic growth in sustainable markets, enhanced by earnings accretive acquisitions. Alongside this, good progress is being made in reducing our carbon emissions and today we have announced our commitment to reach net zero scope 1 & 2 emissions by 2030 and scope 3 by 2040.

The second half has started well with continued organic sales growth over last year and a record order book level, which we expect to begin to normalise as it converts into sales through the second half of the year. The Group is on track to deliver full year underlying earnings in line with the Board's expectations.

We are well positioned in a changing world. Our products are essential in customers' applications and amount to a small proportion of their spend, providing us with revenue visibility and stable margins. Additionally, our broad international footprint enables us to respond quickly to production movements.

The discoverIE business model has proven resilient through differing market conditions and with a pipeline of acquisition opportunities and a strong balance sheet, the Group is well positioned to make further progress.

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

23 November 2022

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The maintenance and integrity of the discoverIE Group plc website is the responsibility of the directors.

The directors of discoverIE Group plc are listed in the discoverIE Group plc annual report for 31 March 2022, with the exception of the following changes in the period: Malcolm Diamond resigned on 1 November 2022. A list of current directors is maintained on the discoverIE Group Plc website: www.discoverieplc.com.

By order of the board

Nick Jefferies
Group Chief Executive

S M Gibbins
Group Finance Director

23 November 2022

Independent review report to discoverIE Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed discoverIE Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim statement of discoverIE Group plc for the 6-month period ended 30 September 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 September 2022;
- the condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim statement of discoverIE Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim statement, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim statement in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the interim statement, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the interim statement based on our review. Our conclusion, including our conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules

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sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
23 November 2022

Condensed consolidated statement of profit or loss

	Notes	Unaudited Six months ended 30 Sept 2022 £m	Restated ¹ Unaudited Six months ended 30 Sept 2021 £m	Audited Year ended 31 Mar 2022 £m
Continuing operations				
Revenue	5	219.7	174.3	379.2
Operating costs		(202.8)	(166.0)	(358.3)
Operating profit		16.9	8.3	20.9
Finance income		0.3	0.2	0.4
Finance costs		(2.4)	(2.1)	(4.2)
Profit before tax		14.8	6.4	17.1
Tax expense	8	(4.1)	(3.4)	(7.4)
Profit for the period from continuing operations		10.7	3.0	9.7
Discontinued operations				
Profit for the period from discontinued operations		–	3.2	15.5
Profit for the period		10.7	6.2	25.2
Earnings per share				
Basic, profit from continuing operations	10	11.2p	3.3p	10.4p
Diluted, profit from continuing operations	10	10.9p	3.2p	10.1p
Basic, profit for the year	10	11.2p	6.9p	27.1p
Diluted, profit for the year	10	10.9p	6.6p	26.3p

Supplementary statement of profit or loss information

Underlying Performance Measure	Notes	Unaudited Six months ended 30 Sept 2022 £m	Unaudited Six months ended 30 Sept 2021 £m	Audited Year ended 31 Mar 2022 £m
Operating profit		16.9	8.3	20.9
Add: Acquisition and disposal expenses		0.9	3.3	6.5
Amortisation of acquired intangible assets		7.8	6.4	14.0
Underlying operating profit		25.6	18.0	41.4
Profit before tax	7	14.8	6.4	17.1
Add: Acquisition and disposal expenses	7	0.9	3.3	6.5
Amortisation of acquired intangible assets	7	7.8	6.4	14.0
Underlying profit before tax	7	23.5	16.1	37.6
Underlying earnings per share - diluted	10	17.8p	13.0p	29.4p

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

¹ Presentation of the consolidated statement of profit or loss for the period ending 30 September 2021 restated. Refer to note 2 for details.

Condensed consolidated statement of comprehensive income

	Unaudited Six months ended 30 Sept 2022 £m	Unaudited Six months ended 30 Sept 2021 £m	Audited Year ended 31 Mar 2022 £m
Profit for the period	10.7	6.2	25.2
Other comprehensive income/(loss):			
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Actuarial gain on defined benefit pension scheme	0.8	0.4	2.2
Deferred tax charge relating to defined benefit pension scheme	(0.2)	(0.1)	(0.5)
	0.6	0.3	1.7
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange gain on translation of foreign subsidiaries	18.1	2.7	9.6
Reclassification of exchange differences on disposal of businesses	–	–	(2.0)
	18.1	2.7	7.6
Other comprehensive income for the period, net of tax	18.7	3.0	9.3
Total comprehensive income for the period, net of tax	29.4	9.2	34.5

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated statement of financial position

	Notes	Unaudited at 30 Sept 2022 £m	Restated Unaudited at 30 Sept 2021 ² £m	Audited at 31 March 2022 £m
Non-current assets				
Property, plant and equipment		24.6	22.8	23.5
Intangible assets – goodwill		190.0	172.7	175.7
Intangible assets – other		90.1	96.6	87.6
Right of use assets		22.5	22.5	21.9
Pension asset	16	4.3	0.1	2.7
Other receivables		6.0	–	5.9
Deferred tax assets		8.7	11.0	9.2
		346.2	325.7	326.5
Current assets				
Inventories		92.8	70.1	77.8
Trade and other receivables		82.2	63.9	78.0
Current tax assets		1.3	1.8	1.6
Cash and cash equivalents	14	34.2	19.9	39.4
		210.5	155.7	196.8
Assets in a disposal group classified as held for sale		–	91.2	–
Total assets		556.7	572.6	523.3
Current liabilities				
Trade and other payables		(100.3)	(88.1)	(104.8)
Other financial liabilities		(5.1)	(2.1)	(2.0)
Lease liabilities		(5.3)	(4.6)	(4.7)
Current tax liabilities		(10.2)	(8.0)	(7.7)
Provisions		(1.6)	(2.0)	(1.7)
		(122.5)	(104.8)	(120.9)
Non-current liabilities				
Trade and other payables		(3.7)	(1.4)	(2.7)
Other financial liabilities		(74.3)	(119.6)	(67.6)
Lease liabilities		(16.8)	(17.0)	(16.4)
Provisions		(4.5)	(4.5)	(4.2)
Deferred tax liabilities		(21.8)	(21.0)	(21.1)
		(121.1)	(163.5)	(112.0)
Liabilities in a disposal group classified as held for sale		–	(35.4)	–
Total liabilities		(243.6)	(303.7)	(232.9)
Net assets		313.1	268.9	290.4
Equity				
Share capital		4.7	4.7	4.7
Share premium account		192.0	192.0	192.0
Merger reserve		3.4	13.7	10.5
Currency translation reserve		23.0	–	4.9
Retained earnings		90.0	58.5	78.3
Total equity		313.1	268.9	290.4

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

² See note 2 for details of the SaaS-related prior period restatement.

Condensed consolidated statement of changes in equity

	Attributable to equity holders of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2022	4.7	192.0	10.5	4.9	78.3	290.4
Profit for the period	–	–	–	–	10.7	10.7
Other comprehensive income	–	–	–	18.1	0.6	18.7
Total comprehensive income	–	–	–	18.1	11.3	29.4
Share-based payments including tax	–	–	–	–	0.4	0.4
Transfer to retained earnings	–	–	(7.1)	–	7.1	–
Dividends	–	–	–	–	(7.1)	(7.1)
At 30 September 2022 - unaudited	4.7	192.0	3.4	23.0	90.0	313.1
At 1 April 2021	4.4	138.8	19.9	(2.7)	48.4	208.8
Prior period restatement (note 2)	–	–	–	–	(0.4)	(0.4)
At 1 April 2021 (restated)	4.4	138.8	19.9	(2.7)	48.0	208.4
Profit for the period	–	–	–	–	6.2	6.2
Other comprehensive income	–	–	–	2.7	0.3	3.0
Total comprehensive income	–	–	–	2.7	6.5	9.2
Shares issued	0.3	53.2	–	–	–	53.5
Share-based payments including tax	–	–	–	–	4.0	4.0
Transfer to retained earnings	–	–	(6.2)	–	6.2	–
Dividends	–	–	–	–	(6.2)	(6.2)
At 30 September 2021 – unaudited (restated)³	4.7	192.0	13.7	–	58.5	268.9

As at 30 September 2022, the Company's issued share capital consisted of 95,456,109 ordinary shares of 5p each (31 March 2022: 95,456,109 ordinary shares of 5p each).

As at 30 September 2022, the Employee Share Trust held 81,001 shares (31 March 2022: 168,425). During the six-months period to 30 September 2022, employees exercised 87,424 (year ended 31 March 2022: 1,170,882) share options under the terms of the various share option schemes.

On 2 September 2021, 5,350,194 shares were issued for a gross consideration of £55.0m before costs and £53.5m after costs. The shares were issued at 1,028 pence per share, which is equal to the mid-market closing price on 2 September 2021. £0.3m was share capital with the balance of £53.2m being allocated to share premium account.

At 30 September 2022, an amount of £0.5m out of total £3.4m in the merger reserve is available for distribution.

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

³ See note 2 for details of the SaaS-related prior period restatement.

Condensed consolidated statement of cash flows

	Notes	Unaudited Six months ended 30 Sept 2022 £m	Unaudited Six months ended 30 Sept 2021 £m	Audited Year ended 31 Mar 2022 £m
Net cash inflow from operating activities	13	8.5	13.5	30.9
Investing activities				
Acquisitions of businesses (net of cash acquired)		(7.0)	(83.9)	(84.5)
Business disposal proceeds		–	–	37.3
Purchase of property, plant and equipment		(2.4)	(2.6)	(5.4)
Purchase of intangible assets - software		(0.2)	(0.2)	(0.8)
Proceeds from disposal of property, plant and equipment		–	–	0.4
Interest received		0.3	0.2	0.4
Net cash used in investing activities		(9.3)	(86.5)	(52.6)
Financing activities				
Net proceeds from the issue of shares		–	53.4	53.4
Proceeds from borrowings		11.0	100.0	94.1
Repayment of borrowings		(9.7)	(56.5)	(102.3)
Payment of lease liabilities		(2.4)	(3.1)	(6.4)
Cash-settled share-based payments		–	–	(0.1)
Dividends paid		(7.1)	(6.2)	(9.4)
Net cash (used in)/generated from financing activities		(8.2)	87.6	29.3
Net (decrease)/increase in cash and cash equivalents		(9.0)	14.6	7.6
Cash and cash equivalents at beginning of period		36.9	28.2	28.2
Net foreign exchange differences		0.6	1.0	1.1
Cash and cash equivalents at end of period		28.5	43.8	36.9
Reconciliation to cash and cash equivalents in the condensed consolidated statement of financial position				
Cash and cash equivalents shown above		28.5	43.8	36.9
Less cash within assets held for sale		–	(26.2)	–
Add bank overdrafts		5.7	2.3	2.5
Cash and cash equivalents in the condensed consolidated statement of financial position		34.2	19.9	39.4

Further information on the condensed consolidated statement of cash flows is provided in note 13.

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated interim financial statements

1. General information

discoverIE Group plc ("the Company") is incorporated and domiciled in England, UK. The Company's shares are traded on the London Stock Exchange. The interim condensed consolidated financial statements consolidate the financial statements of discoverIE Group plc and entities controlled by the Company (collectively referred to as "the Group").

The condensed consolidated interim financial statements for the six months period ended 30 September 2022 were authorised for issue by the Board of Directors on 23 November 2022.

The condensed consolidated interim financial statements for the six-month period ended 30 September 2022 are unaudited but have been subject to an independent review by the auditors. These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2022 were approved by the board of directors on 14 June 2022 and delivered to the registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

2. Basis of preparation and accounting policies

This condensed consolidated interim financial report for the six months period ended 30 September 2022 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules (DTR) sourcebook of the United Kingdom's Financial Conduct Authority.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2022, which has been prepared in accordance with UK-adopted international accounting standards and with requirements of the Companies Act 2006, and any public announcements made by discoverIE Group plc during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New standards and interpretations applied for the first time

There were no standards, amendments or interpretations applied for the first time that had a material impact for the Group.

Going Concern

As at 30 September 2022 the Group's financial position remains robust with a £240m syndicated banking facility committed to the end of June 2026, with an option exercisable by the Group to extend the facility by a further year to June 2027. In addition, the Group has a £80m accordion facility which it can use to extend the total facility to £320m. The syndicated facility is available both for acquisitions and working capital purposes. Net debt as at 30 September 2022 was £45.2m compared with £30.2m at the year end. The Group's gearing ratio at the end of the period (being net debt divided by underlying EBITDA as annualised for acquisitions) was 0.8x compared with 0.6x at 31 March 2022. This compares with a financial covenant of less than 3.0x.

The Directors have reviewed the latest available forecasts to assess the cash requirements of the Group to continue in operational existence for a minimum period of 12 months from the date of approval of these interim financial statements. The Directors have also reviewed the downside scenarios to the forecasts taking into account the principal risks and uncertainties as set out in the annual report and accounts for the year ended 31 March 2022. None of the scenarios result in a breach of the Group's available debt facility or covenants and accordingly the Directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

Prior period restatement

Change in accounting policy – Software as a Service ('SaaS') arrangement

As disclosed in the annual report for the year ended 31 March 2022, the Group changed its accounting policy relating to the capitalisation of certain software costs. This change follows the IFRIC Interpretation Committee's agenda decision published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under 'Software as a Service' ('SaaS') arrangements. The change in accounting policy led to adjustments amounting to a £0.4m reduction in intangible assets and a £0.4m reduction in retained earnings at the beginning of the earliest period presented at 1 April which resulted in the 30 September 2021 consolidated statement of financial position to be restated. The 30 September 2021 consolidated statement of profit or loss and statement of other comprehensive income have not been restated, as the impact on them is immaterial. Refer to the annual report for the year ended 31 March 2022 for details of the new accounting policy applied and the transitional method adopted.

Presentation of the consolidated statement of profit or loss

The Group has changed the presentation of the consolidated statement of profit and loss for the period ending 30 September 2021 to align to changes made for the year ended 31 March 2022, by amalgamating cost of sales, selling and distribution costs, and administrative expenses into one line item namely operating costs. There is no change to operating profit, profit before tax and profit for the period ending 30 September 2021 as a result of these presentational changes as demonstrated in the table below:

As per 30 September 2021 accounts

	Six months ended 30 Sept 2021 £m
Revenue	174.3
Cost of Sales	(107.1)
Gross profit	67.2
Selling and distribution costs	(18.0)
Administrative expenses	(40.9)
Operating profit	8.3

As per 30 September 2022 accounts (with changes in presentation)

	Six months ended 30 Sept 2021 £m
Revenue	174.3
Operating costs	(166.0)
Operating profit	8.3

Underlying Performance Measures

These condensed interim financial statements include alternative performance measures that are not prepared in accordance with IFRS. These alternative performance measures have been selected by management to assist them in making operating decisions as they represent the underlying operating performance of the Group and facilitate internal comparisons of performance over time.

Alternative performance measures are presented in these condensed interim financial statements as management believe they provide investors with a means of evaluating performance of the Group on a consistent basis, similar to the way in which management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain strategic non-recurring and acquisition related items that management does not believe are indicative of the underlying operating performance of the Group are included when preparing financial measures under IFRS. The trading results of acquired businesses are included in underlying performance.

Notes to the condensed consolidated interim financial statements

The Directors consider there to be the following alternative performance measures:

Underlying operating profit

“Underlying operating profit” is defined as operating profit from continuing operations excluding acquisition related costs (namely amortisation of acquired intangible assets and acquisition and disposal expenses).

Acquisition and disposal expenses comprise transaction costs, contingent consideration relating to the retention of former owners of acquired businesses, adjustments to previously estimated contingent consideration, and costs related to integration of acquired businesses into the Group.

Underlying EBITDA

“Underlying EBITDA” is defined as underlying operating profit with depreciation, amortisation and equity settled share-based payment expense added back.

Underlying profit before tax

“Underlying profit before tax” is defined as profit before tax from continuing operations excluding acquisition related costs (namely amortisation of acquired intangible assets and acquisition and disposal expenses).

Underlying effective tax rate

“Underlying effective tax rate” is defined as the effective tax rate on underlying profit before tax.

Underlying earnings per share

“Underlying earnings per share” is calculated as underlying profit before tax reduced by the underlying effective tax rate, divided by the weighted average number of ordinary shares (for diluted earnings per share purposes) in issue during the period.

Operating cash flow

“Operating cash flow” is defined as underlying EBITDA adjusted for the investment in, or release of, working capital and less the cash cost of capital expenditure.

Free cash flow

“Free cash flow” is defined as net cash flow from continuing operations before dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

Return On Capital Employed (“ROCE”)

“ROCE” is defined as underlying operating profit from continuing operations including the annualisation for acquisitions as a percentage of net assets excluding net debt, deferred consideration related to discontinued operations and legacy defined benefit pension asset/(liability).

3. New accounting standards and financial reporting requirements

New standards not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the period covered in these condensed consolidated interim financial statements and have not been early adopted by the Group. None of these are expected to have a material impact on the Group’s financial results in the current or future reporting periods.

Notes to the condensed consolidated interim financial statements

4. Critical estimates and critical judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results might differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2022.

5. Revenue

Group revenue is analysed below:

	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
Sale of goods	216.6	169.6	370.0
Rendering of services	3.1	4.7	9.2
Total revenue from continuing operations	219.7	174.3	379.2

The Group's revenue from external customers by geographical location is detailed below:

	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
UK	22.7	19.4	41.8
Rest of Europe	107.4	88.5	181.2
Rest of the World	89.6	66.4	156.2
Total revenue from continuing operations	219.7	174.3	379.2

6. Segmental reporting

The Reportable Operating Segments of the Group includes two distinct divisions, Magnetism & Controls ("M&C") and Sensing & Connectivity ("S&C"). Within each of these reportable operating segments are aggregated business units with similar characteristics such as the nature of customers, products, risk profile and economic characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is reported and evaluated on operating profit or loss earned by each segment.

Six months ended 30 September 2022

	Magnetism & Controls £m	Sensing & Connectivity £m	Unallocated costs £m	Total continuing operations £m
Revenue	136.5	83.2	–	219.7
Underlying operating profit/(loss)	18.0	13.6	(6.0)	25.6
Acquisition and disposal expenses	–	(1.2)	0.3	(0.9)
Amortisation of acquired intangible assets	(3.1)	(4.7)	–	(7.8)
Operating profit/(loss)	14.9	7.7	(5.7)	16.9

Notes to the condensed consolidated interim financial statements

6. Segmental reporting (continued)

Six months ended 30 September 2021

	Magnetics & Controls £m	Sensing & Connectivity £m	Unallocated costs £m	Total continuing operations £m
Revenue	105.4	68.9	–	174.3
Underlying operating profit/(loss)	12.8	11.1	(5.9)	18.0
Acquisition and disposal expenses	(2.0)	(1.3)	–	(3.3)
Amortisation of acquired intangible assets	(1.9)	(4.5)	–	(6.4)
Operating profit/(loss)	8.9	5.3	(5.9)	8.3

Year ended 31 March 2022

	Magnetics & Controls £m	Sensing & Connectivity £m	Unallocated costs £m	Total continuing operations £m
Revenue	234.7	144.5	–	379.2
Underlying operating profit/(loss)	29.8	23.3	(11.7)	41.4
Acquisition and disposal expenses	(1.4)	(5.1)	–	(6.5)
Amortisation of acquired intangible assets	(4.8)	(9.2)	–	(14.0)
Operating profit/(loss)	23.6	9.0	(11.7)	20.9

For the purposes of monitoring segment performance and allocating resources between segments, the directors monitor the net assets attributable to each segment. Assets and liabilities are allocated to reportable segments, with the exception of the pension liability, tax assets and liabilities, cash and all borrowings, central assets (Head Office assets) and central liabilities (Head Office liabilities), as demonstrated below:

Segment assets and liabilities

at 30 Sept 2022	Magnetics & Controls £m	Sensing & Connectivity £m	Unallocated £m	Total £m
Assets and liabilities				
Segment assets (excluding goodwill and other intangible assets)	141.9	76.9		218.8
Goodwill and other intangible assets	135.9	144.2		280.1
	277.8	221.1		498.9
Central assets			9.3	9.3
Cash and cash equivalents			34.2	34.2
Pension asset			4.3	4.3
Current and deferred tax assets			10.0	10.0
Total assets	277.8	221.1	57.8	556.7
Segment liabilities	(80.8)	(43.8)		(124.6)
Central liabilities			(7.6)	(7.6)
Other financial liabilities			(79.4)	(79.4)
Current and deferred tax liabilities			(32.0)	(32.0)
Total liabilities	(80.8)	(43.8)	(119.0)	(243.6)
Net assets	197.0	177.3	(61.2)	313.1

Notes to the condensed consolidated interim financial statements

6. Segmental reporting (continued)

at 30 Sept 2021 Assets and liabilities	Magnetics & Controls £m	Sensing & Connectivity £m	Unallocated £m	Total £m
Segment assets (excluding goodwill and other intangible assets)	113.2	62.7		175.9
Goodwill and other intangible assets	129.9	139.4		269.3
	243.1	202.1		445.2
Central assets			3.4	3.4
Cash and cash equivalents			19.9	19.9
Pension asset			0.1	0.1
Current and deferred tax assets			12.8	12.8
Assets in a disposal group classified as held for sale			91.2	91.2
Total assets	243.1	202.1	127.4	572.6
Segment liabilities	(69.2)	(34.3)		(103.5)
Central liabilities			(14.1)	(14.1)
Other financial liabilities			(121.7)	(121.7)
Current and deferred tax liabilities			(29.0)	(29.0)
Liabilities in a disposal group classified as held for sale			(35.4)	(35.4)
Total liabilities	(69.2)	(34.3)	(200.2)	(303.7)
Net assets	173.9	167.8	(72.8)	268.9

at 31 March 2022 Assets and liabilities	Magnetics & Controls £m	Sensing & Connectivity £m	Unallocated £m	Total £m
Segment assets (excluding goodwill and other intangible assets)	126.3	69.4		195.7
Goodwill and other intangible assets	126.7	136.6		263.3
	253.0	206.0		459.0
Central assets			11.4	11.4
Cash and cash equivalents			39.4	39.4
Pension asset			2.7	2.7
Current and deferred tax assets			10.8	10.8
Total assets	253.0	206.0	64.3	523.3
Segment liabilities	(77.5)	(41.9)		(119.4)
Central liabilities			(15.1)	(15.1)
Other financial liabilities			(69.6)	(69.6)
Current and deferred tax liabilities			(28.8)	(28.8)
Total liabilities	(77.5)	(41.9)	(113.5)	(232.9)
Net assets	175.5	164.1	(49.2)	290.4

7. Underlying profit before tax

		Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
Profit before tax		14.8	6.4	17.1
Add back: Acquisition and disposal expenses	(a)	0.9	3.3	6.5
Amortisation of acquired intangibles	(b)	7.8	6.4	14.0
Underlying profit before tax		23.5	16.1	37.6

The tax impact of the underlying profit adjustments above is a credit of £1.9m (H1 2021/22: £0.6m).

- a) Acquisition and disposal expenses of £0.9m comprise £0.5m of transaction costs in relation to the acquisition of CDT and ongoing transactions; £0.7m of charge relating to the movement in fair value of contingent consideration on past acquisitions; and £0.3m credit relating to disposal costs in connection with the Acal BFi disposal in the prior year.

Notes to the condensed consolidated interim financial statements

7. Underlying profit before tax (continued)

During the prior year the acquisition and disposal expenses of £3.3m comprised £1.6m of transaction costs in relation to the acquisition of CPI, Antenova, Beacon and ongoing transactions; £1.3m of charge relating to the movement in fair value of contingent consideration on past acquisitions; and £0.4m charge in relation to the integration of acquired businesses in North America.

- b) Amortisation charge relates to intangible assets recognised as part of business combinations. The increase in the charge to the corresponding period in the prior year reflects the impact of acquisitions in the prior year, the acquisition of CDT in the current financial year and movement in foreign exchange.

8. Taxation

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year, in accordance with IAS 34 'Interim financial reporting'.

The underlying tax charge for the period was £6.0m (H1 2021/22: £4.0m) giving an underlying effective tax rate on underlying profit before tax of 25.5% (H1 2021/22: 25.0%), 0.4% higher than the rate for FY 2021/22 of 25.1%.

The tax credit in respect of the underlying profit adjustments was £1.9m (H1 2021/22: £0.6m). This gives an overall tax charge for the period of £4.1m (H1 2021/22: £3.4m) on profit before tax of £14.8m (H1 2021/22: £6.4m) which is an effective tax rate of 27.7% (H1 2021/22: 54.0%). The higher effective rate is partly due to limited tax relief available on acquisition and disposal expenses. In addition, the prior period tax credit on amortisation of acquired intangibles was impacted by the increase in the UK corporation tax rate from 19% to 25% with effect from FY 2023/24 onwards, which was substantively enacted in May 2021.

9. Dividends

The Directors have declared an interim dividend of 3.55 pence per share (H1 2021/22: 3.35 pence) payable on 13 January 2023 to shareholders on the register at 16 December 2022.

In accordance with IAS 10, this dividend has not been reflected in the interim results. The cash cost of the interim dividend will be £3.4m (H1 2021/22: £3.2m).

The final dividend of £7.1m for the year ended 31 March 2022 was paid on 2 August 2022.

Notes to the condensed consolidated interim financial statements

10. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
Continuing operations	10.7	3.0	9.7
Discontinued operations	–	3.2	15.5
Profit for the period	10.7	6.2	25.2
	Number	Number	Number
Weighted average number of shares for basic earnings per share	95,375,108	89,606,780	93,015,684
Effect of dilution - share options	3,201,151	3,701,699	2,783,673
Adjusted weighted average number of shares for diluted earnings per share	98,576,259	93,308,479	95,799,357
Earnings per share from continuing operations – basic	11.2p	3.3p	10.4p
Earnings per share from continuing operations – diluted	10.9p	3.2p	10.1p
Earnings per share – basic	11.2p	6.9p	27.1p
Earnings per share – diluted	10.9p	6.6p	26.3p

At the period end, there were 4.1 million ordinary share options in issue that could potentially dilute earnings per share in the future, of which 3.2 million are currently dilutive (30 September 2021: 4.1 million in issue and 3.7 million dilutive, 31 March 2022: 3.0 million in issue and 2.8 million dilutive).

Underlying earnings per share

Underlying earnings per share are calculated as follows:

	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
Profit for the period from continuing operations	10.7	3.0	9.7
Acquisition and disposal expenses	0.9	3.3	6.5
Amortisation of acquired intangible assets	7.8	6.4	14.0
Tax effects of acquisition expenses and amortisation of acquired intangible assets	(1.9)	(0.6)	(2.0)
Underlying profit for the period	17.5	12.1	28.2
	Number	Number	Number
Weighted average number of shares for basic earnings per share	95,375,108	89,606,780	93,015,684
Effect of dilution – share options	3,201,151	3,701,699	2,783,673
Adjusted weighted average number of shares for diluted earnings per share	98,576,259	93,308,479	95,799,357
Underlying earnings per share - diluted	17.8p	13.0p	29.4p

Notes to the condensed consolidated interim financial statements

11. Business combinations

Acquisitions in the period ended 30 September 2022

Acquisition of CDT

On 30th June 2022, the Group completed the acquisition of CDT 123 Limited and CustomDesignTechnologies Ltd ("CDT") via the purchase of 100% of the share capital and voting equity interests of CDT 123 Limited which is a company incorporated in the United Kingdom.

CDT was acquired for an initial cash consideration of £4.9m, before expenses, funded from the Group's existing debt facilities.

The provisional fair value of the identifiable assets and liabilities of CDT at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Intangible assets – other (<i>customer relationships</i>)	2.0
Right of use assets	0.3
Inventories	0.9
Trade and other receivables	0.3
Net cash	0.3
Trade and other payables	(0.3)
Current tax liabilities	(0.3)
Deferred tax liabilities	(0.5)
Lease liabilities	(0.3)
Total identifiable net assets	2.4
Provisional goodwill arising on acquisition	2.5
Total investment	4.9
<i>Discharged by</i>	
Cash	4.9

Included in the £2.5m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits. All the acquired receivables are expected to be collected.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	4.9
Transaction costs of the acquisition (included in operating cash flows) ¹	0.2
Net cash acquired	(0.3)
	4.8

1) Acquisition costs of £0.2m were expensed as incurred in the six months period to 30 September 2022. These were included within administrative expenses.

Included in cash flow from investing activities is the cash consideration of £4.9m and the net cash acquired of £0.3m.

Acquisition in the year ended 31 March 2022

On 13 May 2021, 25 August 2021 and 2 September 2021, the Group completed the acquisition of Control Products Inc ('CPI'), Antenova Limited ('Antenova') and Beacon EmbeddedWorks ('Beacon'), respectively. Details of these business combinations were disclosed in note 11 of the Group's annual financial statements for the year ended 31 March 2022. Since 31 March 2022, there were no material changes to the fair value of assets and liabilities acquired.

Notes to the condensed consolidated interim financial statements

12. Goodwill

Cost	£m
At 1 April 2021	164.7
Arising from business combinations	53.7
Business disposed	(46.2)
Exchange adjustments	3.5
At 31 March 2022	175.7
Arising from business combinations	2.5
Exchange adjustments	11.8
At 30 September 2022	190.0
Impairment	
At 1 April 2021	(36.8)
Business disposed	36.8
At 31 March 2022 and 30 September 2022	-
Net book value at 30 September 2022	190.0
Net book value at 31 March 2022	175.7

Impairment testing of goodwill

Following the under-performance of a CGU within the Sensing & Connectivity division, which represents 3% of the total carrying amount of goodwill in the Group as at 30 September 2022, management recalculated the recoverable amount of the CGU as at 30 September 2022. The recoverable amount of the CGU was determined based on value-in-use calculations, consistent with the methods used as at 31 March 2022. For details, see note 18 of the Group's annual report.

The key assumptions made in estimating the value of the future cash flow are a long-term growth rate of 2%, a pre-tax discount rate of 11.9% and a 4 Year Sales CAGR of 6.25%. The headroom for this CGU is £8m at the date of the assessment, therefore, no impairment was recognised as at 30 September 2022.

The table below shows the reduction in headroom created by a change in assumptions:

	Reduction in headroom £m
Long-term growth rate – 1% decrease	2.3
Pre-tax discount rate – 1% increase	3.0
Sales CAGR – 1% decrease	2.8

None of the changes to individual assumptions above would lead to the carrying amount of the CGU exceeding its recoverable amount.

The assumptions that would result in the recoverable amount equalling the carrying amount are 4 years sales CAGR of 5% (a reduction of 1.25 percentage points), reduction in long term growth by 0.5ppts reduction in operating margin of 23%, and a pre-tax discount rate of 12.8% (an increase of 0.9 percentage points).

Notes to the condensed consolidated interim financial statements

13. Reconciliation of cash flow from operating activities

	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
Profit for the period	10.7	6.2	25.2
Taxation expense	4.1	4.8	10.7
Net finance costs	2.1	2.0	4.1
Depreciation of property, plant and equipment	2.4	2.4	4.7
Depreciation of right of use assets	3.0	3.4	6.1
Amortisation of intangible assets	8.1	6.7	14.5
Gain on business disposal	–	–	(6.6)
Gain/(loss) on disposal of property, plant and equipment	–	0.1	(0.1)
Change in provisions	(0.3)	0.6	(0.3)
Pension scheme funding	(1.0)	(0.9)	(1.9)
IAS 19 pension charge	0.3	0.2	0.6
Contingent consideration related to business acquisitions	(4.2)	–	–
Business disposal costs	(1.2)	–	–
Equity-settled share-based payment expense and associated taxes	0.6	1.4	1.3
Operating cash flows before changes in working capital	24.6	26.9	58.3
Increase in inventories	(9.1)	(11.8)	(17.7)
Increase in trade and other receivables	(0.8)	(6.9)	(24.9)
(Decrease)/Increase in trade and other payables	(0.6)	10.5	26.8
Decrease in working capital	(10.5)	(8.2)	(15.8)
Cash generated from operations	14.1	18.7	42.5
Interest paid	(2.0)	(1.8)	(3.7)
Interest paid on lease liabilities ⁴	(0.4)	(0.4)	(0.8)
Net income taxes paid	(3.2)	(3.0)	(7.1)
Net cash inflow from operating activities	8.5	13.5	30.9

14. Closing net debt

	At 30 Sept 2022 £m	At 30 Sept 2021 £m	At 31 Mar 2022 £m
Bank overdrafts	(5.7)	(2.3)	(2.5)
Bank loans under one year	–	(0.2)	–
Bank loans over one year	(75.8)	(120.1)	(67.8)
Capitalised debt cost	2.1	0.9	0.7
Cash and cash equivalents	34.2	19.9	39.4
Cash and cash equivalents in assets held for sale	–	26.2	–
Closing net debt	(45.2)	(75.6)	(30.2)

Bank overdrafts are repayable on demand with interest based on floating rates linked to SONIA.

Included in bank loans over one year are USD-denominated loans of £2.6m (31 March 2022: £2.2m) carrying floating interest rates linked to LIBOR, £73.1m (31 March 2022: £65.5m) of RCF drawdowns denominated in Sterling, US Dollars and Euros which bear interest based on SONIA, SOFR and EURIBOR, plus a facility margin, and Euro-denominated loans of £0.1m (31 March 2022: £0.1m) carrying fixed interest rates.

Cash and cash equivalent earns interest at floating rates on daily bank deposit rates.

⁴ In the prior year interim financial statements, interest paid on lease liabilities were presented under Financing activities.

Notes to the condensed consolidated interim financial statements

14. Closing net debt (continued)

Lease liabilities of £22.1m (31 March 2022: £21.1m) has been presented separately in the consolidated statement of financial position. The increase of £1m during the six-month period to 30 September 2022 consisted of additions/modifications of £2.6m, interest accruals of £0.4m and translation differences of £1m, offset by lease payment of £3m. Certain businesses in the Group participate in supply chain finance arrangements whereby suppliers may elect to receive early payment of their invoices from a bank by factoring their receivable from discoverIE entities. Included within trade payables is £2.5m (31 March 2022: £0.9m) subject to such an arrangement.

During May 2022, the Group increased its syndicated banking facility from £180m to £240m and extended the remaining term of the facility by two years out to four years ending in June 2026, with an option exercisable by the Group to extend the facility by a further year to June 2027. In addition, the Group has an £80m accordion facility which it can use to extend the total facility up to £320m. The increase and extension in the facility has been accounted for as a modification, in accordance with IFRS 9 'Financial Instruments', with no impact in the consolidated statement of profit or loss as a result of the increase and extension of the facility.

Reconciliation of movement in cash and net debt

	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 £m	Year ended 31 Mar 2022 £m
Net (decrease)/increase in cash and cash equivalents	(9.0)	14.6	7.6
Proceeds from borrowings	(11.0)	(100.0)	(94.1)
Repayment of borrowings	9.7	56.5	102.3
(Decrease)/increase in net cash before translation differences	(10.3)	(28.9)	15.8
Translation and other non-cash changes	(4.7)	0.5	1.2
(Decrease)/increase in net cash	(15.0)	(28.4)	17.0
Net debt at beginning of the period	(30.2)	(47.2)	(47.2)
Net debt at end of the period	(45.2)	(75.6)	(30.2)

Supplementary information to the statement of cash flows

Underlying Performance Measure	Six months ended 30 Sept 2022 £m	Six months ended 30 Sept 2021 restated ⁵ £m	Year ended 31 Mar 2022 £m
(Decrease)/increase in net cash before translation differences	(10.3)	(28.9)	15.8
Add: Business acquisitions and disposals	13.2	86.7	87.6
Dividends paid	7.1	6.2	9.4
Less: Net proceeds from share issue (and related taxes)	0.6	(53.4)	(52.6)
Discontinued operations	—	(2.5)	(38.4)
Free cash flow	10.6	8.1	21.8
Legacy pension scheme funding	1.0	0.9	1.9
Net finance costs	2.0	1.7	3.2
Taxation	3.2	2.6	6.2
Operating cash flow	16.8	13.3	33.1

15. Fair value measurement of financial instruments

The Group's principal non-derivative financial instruments comprise bank loans and overdrafts, cash and short term borrowings. The Group also holds other financial instruments such trade receivables and trade payables that arise directly from the Group's trading operations.

Derivative financial instruments are represented by short-term foreign currency forward contracts placed by the Group with external banks as part of the Group's cash management and foreign currency risk management activities.

⁵ Restated to exclude cash flows for discontinued operations.

Notes to the condensed consolidated interim financial statements

15. Fair value measurement of financial instruments (continued)

The fair value of derivative foreign exchange instruments is determined on initial recognition at forward market exchange rates at inception of the contract and subsequently remeasured based on forward market exchange rates at the balance sheet date. As at 30 September 2022, the fair value of derivatives was £0.5m (31 March 2022: £nil).

The carrying value of the Group's trade and other receivables and trade and other payables approximates their book value due to the short maturity of these instruments. The carrying value of the Group's other financial assets and financial liabilities at 30 September 2022 are set out below by category. Carrying values for these financial assets and liabilities are equivalent to fair values.

	Carrying amount £m	Fair value £m
Financial assets		
Cash and cash equivalent	34.2	34.2
Financial liabilities at amortised cost		
Bank overdrafts and short-term borrowings	(5.7)	(5.7)
Non-current interest-bearing loans and borrowings:		
Fixed and floating rate borrowings	(75.8)	(75.8)
Derivative liability	(0.5)	(0.5)
Lease liabilities	(22.1)	(22.1)
Contingent consideration	(6.0)	(6.0)

The methods and assumptions used to determine the fair value of financial assets and liabilities are set out below.

All material changes in fair value of financial instruments as at the balance sheet date have been taken to the condensed consolidated statement of profit or loss. Impairment reviews did not identify any material impairment of financial assets from carrying values as reported at the balance sheet date and, as such, no material impairments are included in the condensed consolidated statement of profit or loss.

Fair Value Methods and Assumptions

Forward foreign exchange contracts (forwards) - the fair value of forward foreign currency contracts is determined with reference to observable yield curves and foreign exchange rates at the reporting date. The FX contracts outstanding with banks at the year-end had a maturity of two years or less.

Loans and borrowings - the fair value of loans and borrowings has been calculated by discounting future cash flows, where material, at prevailing market interest rates.

Fair Value Hierarchy

For financial assets and financial liabilities measured at fair value, as set out in the tables above, the fair value measurement techniques are based upon applying unadjusted, quoted market rates or prices or inputs other than quoted prices that are observable for the assets or liability either directly or indirectly.

IFRS 13 'Financial Instruments: Disclosures' requires financial instruments measured at fair value to be analysed into a fair value hierarchy based upon the valuation technique used to determine fair value. The highest level in this hierarchy is Level 3 within which inputs that are not based on observable market data for the asset or liability are applied.

The valuation techniques used by the Group for the measurement of derivative financial instruments and loans are considered to be within Level 2, which includes inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. Contingent consideration is included in Level 3 of the fair value hierarchy. The fair value is determined considering the expected payment, discounted to present value using a risk adjusted discount rate. The expected payment is determined separately in respect of each individual earn-out agreement taking into consideration the expected level of profitability of each acquisition.

Notes to the condensed consolidated interim financial statements

16. Pension

The acquisition of the Sedgemoor Group in June 1999 included a defined benefit pension scheme, the Sedgemoor Group Pension Fund ("the Sedgemoor Scheme"). The Sedgemoor Scheme, which is funded by the Company, provides retirement benefits based on final pensionable salary. Its assets are held in a separate trustee-administered fund. Following the acquisition of the Sedgemoor Group, the Sedgemoor Scheme was closed to new members. Shortly thereafter, employees were given the opportunity to join the discoverIE pension scheme and future service benefits ceased to accrue to members under the Sedgemoor Scheme. Contributions to the Sedgemoor Scheme are determined in accordance with the advice of independent, professionally qualified actuaries.

During the period, the financial position of the Sedgemoor Scheme has been updated in line with changes in actuarial assumptions and cash contributions made to the Scheme. The valuation used for IAS 19 disclosures has been based on the most recent valuation as at 31 March 2021 updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at 30 September 2022.

The IAS 19 defined benefit pension scheme asset as at 30 September 2022 was £4.3m (31 March 2022: £2.7m). The movement principally relates to increase in corporate bond yields together with the annual payment made during the year of £1.9m. These are partly offset by increases in future inflation expectations. An annual payment of £1.9m is currently payable, growing by 3% each year until April 2024 in accordance with the plan agreed with the pension trustee as part of the last agreed triennial valuation dated 31 March 2021.

17. Exchange rates

The principal exchange rates used to translate the results of overseas businesses are as follows:

	Six months ended 30 Sept 2022		Six months ended 30 Sept 2021		Year ended 31 March 2022	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.1040	1.2189	1.3456	1.3883	1.3123	1.3668
Euro	1.1325	1.1744	1.1621	1.1650	1.1821	1.1761
Norwegian Krone	11.9862	11.7728	11.8125	11.8918	11.479	11.856

18. Events occurring after the reporting period

There were no matters arising, between the statement of financial position date and the date on which these consolidated interim financial statements were approved by the Board of Directors, requiring adjustment in accordance with IAS 34 'Interim financial reporting'.

19. Interim report

A copy of the interim report will be available for inspection at the Company's registered office:
2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, GU2 7AH.

Current regulations permit the Company not to send copies of its interim results to shareholders. Accordingly, the 2022 interim results published on 23 November 2022 will not be sent to shareholders. The 2022 interim results and other information about discoverIE Group plc are available on the Company's website at www.discoverieplc.com.