# Final Results

Released : 29 May 2012

RNS Number : 2699E
Acal PLC
29 May 2012

**FOR RELEASE, 7:00AM, 29 May 2012**

**ACAL plc**

**Preliminary Results for the year ended 31 March 2012**

**Profit growth and strong cash flow continues as gross margin target achieved**

Acal plc (LSE: ACL, "Acal" or "The Group"), Europe's leading specialist electronics supplier, today announces its preliminary results for the year ended 31 March 2012.

| | **FY 2011/12** | FY 2010/11 | |
|---|---|---|---|
| Revenue | **£257.8m** | £264.8m | -3% |
| Gross Profit | **£77.9m** | £75.2m | +4% |
| Underlying Operating Profit(1) | **£8.1m** | £7.4m | +9% |
| Underlying Profit before Tax(1) | **£7.2m** | £7.1m | +1% |
| Profit before Tax | **£2.7m** | £1.9m | + 42% |
| Underlying Diluted EPS(1) | **19.9p** | 18.6p | +7% |
| Fully Diluted EPS | **7.1p** | 5.7p | +25% |
| Dividend per Share | **8.0p** | 7.47p | +7% |

**Full year highlights**

- Underlying operating profit up 9% to £8.1m
- Gross Profit up 4% with gross margin up 1.8ppts to 30.2%
- Underlying diluted EPS up 7%
- Free cash flow (2) up 98% to £10.5m, being 130% of underlying operating profit
- Full year dividend increased by 7% to 8.0p

**3 year highlights**(3)

- Gross profit up 77% driven by gross margin up 3.7ppts
- Underlying operating margin up 3.0ppts to 3.1%
- Underlying diluted EPS up 23.7p to 19.9p
- Working capital ratio to sales reduced by 23%
- Free cash flow (2) generated of £22.4m
- Dividend increased by 14%
- 4 value enhancing acquisitions(4)

**Nick Jefferies, Group Chief Executive, commented:**

"The business has performed well during the year delivering a 9% growth in underlying operating profit and free cash flow of £10.5m, building upon the significant progress of the last two years. The Company has benefited from taking market share from smaller independent competitors who are unable to match the breadth and technical depth of our offer and has continued to attract new supply partners to our business.

The plan to become a fully specialist business is now largely complete and on schedule. The business is resourced to take benefit from the growing pipeline of new opportunities and is well positioned for further growth when economic conditions improve.

Given the continuing difficult economic conditions in Europe and the uncertainty of the timing and pace of a recovery, we remain cautious for the year ahead, but well positioned to accelerate growth as and when conditions improve."

For further information, please contact:-


**Acal plc** 01483 544500
Nick Jefferies - Group Chief Executive
Simon Gibbins - Group Finance Director

**Cubitt Consulting** 020 7367 5100
Nicholas Nelson
Madeline Douglas


***Notes***

(1) 'Underlying Operating Profit', 'Underlying Profit before Tax' and 'Underlying Diluted EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude exceptional costs, earn out remuneration, amortisation of acquired intangibles and IAS19 pension charge relating to a legacy defined benefit scheme. 'Underlying Operating Profit', 'Underlying Profit before Tax' and 'Underlying Diluted EPS' are not defined by or presented in accordance with IFRS and should not be considered as an alternative to Operating Profit, Profit before Tax, Fully Diluted EPS or any other IFRS performance measures. These non-IFRS performance measures are not intended to be a projection or forecast of future results. For further information see note 5 to the preliminary results.

(2) Free cash flow is defined as net cash flow before exceptionals, payments to the legacy pension fund, dividends, and the cost of acquisitions.

(3) 3 year highlights cover the period since the adoption of the specialisation strategy in 2009.

(4) Acquisitions are BFi Optilas in December 2009; Compotron GmbH "Compotron" in January 2011; Hectronic AB "Hectronic" in June 2011 and Microtech Components GmbH and its affiliate EMC Innovation Limited "MTC" in October 2011

(5) ROTCE (Return on Trading Capital Employed) is defined as underlying operating profit as a percentage of net operating assets. Net operating assets are defined as tangible and intangible assets excluding goodwill plus working capital.

(6) Like for like sales are at constant exchange rates, including acquisitions for the whole of the comparative period, except any acquired during the year. See note 5 to the preliminary results.

***Notes to Editors:***

Acal is a European specialist provider of technology products and services providing sales, marketing, engineering and other services through two divisions: Electronics and Supply Chain. The Electronics division is Europe's leading specialist supplier of electronic and photonic products to industrial manufacturing and design companies. The Supply Chain division provides inventory optimisation and outsource solutions to leading technology service providers. Acal has operating companies in the UK, Netherlands, Belgium, Germany, France, Italy, South Africa, Spain, the Nordic region and South Korea.

Chairman's Statement

This is the third full year since the Group changed its strategy to become a differentiated specialist electronics business, and I am pleased to report another year of progress with improvements in both operating performance and efficiency. The business model of focusing on the supply of technically demanding, bespoke electronics for industrial applications, is becoming established amongst our key trading partners, fulfilling a need not met by other channels.

During this three year period, the Group has returned to profitability, increased operating margins each year, and generated £22m of cumulative free cash flow. This has been achieved through a near doubling of Electronics sales as well as a sustained increase in gross margins. Over the same period, total shareholder return increased 130% up to 31 March 2012, and the annual dividend has returned to growth, up 14% in the last 2 years. All this against a backdrop of unparalleled economic uncertainty affecting markets globally.

In addition to developing the existing business during this three year period, the Group has invested £22m in acquiring four Electronics businesses, and disposed of two loss making Supply Chain operations, ATM Parts and Retail. The Board is pleased with the progress of each acquisition and looks forward to the benefits of accelerated growth as the acquired businesses gain access to our technical specialists and larger pan European customer base.

The European economic and Global electronics contraction during the year slowed our rate of progress, particularly in the second half, but improvements in the quality and efficiency of the core business continued to be made. Annualised operating costs were reduced by £6m during the year as the Group reacted quickly to the changing conditions as well as continuing the move away from lower margin, non specialist business in both the Electronics and Supply Chain divisions. We expect growth to accelerate when economic conditions improve. 90% of Acal's European business is conducted in stronger economies with limited exposure to higher risk areas.

The Group is well positioned, and the Board believes that there is significant opportunity to generate further long term value for shareholders by continuing to build its leading position in the specialist electronics marketplace, both organically and through acquisition.

**Results**

Underlying operating profitability for the year grew by 9% to £8.1m, and underlying operating margin increased by 0.3 percentage points to 3.1%, driven by efficiency improvements and gross margin growth.

Overall Group revenues declined by 3% to £258m, partly as a result of the discontinuation of non specialist Electronics products as the Group continues to re-align itself as a specialist supplier (£5m impact this year and a further £11m impact is expected for next year) and partly as a result of the market slowdown in the second half.

This reduction in revenues was offset by a significant increase in gross margins of 1.8 percentage points resulting in reported gross profits being up 4%.

Exceptional costs for the year totalled £3.4m (2010/11: £4.4m), of which £2.2m relate to the following restructuring initiatives: (i) the non-specialist discontinuations referred to above (£0.7m) and (ii) cost reductions in response to market conditions (£1.5m). Other exceptional costs comprised expenses of acquisition, disposal and integration, and the development cost of our new web marketing capability.

Operating cost reductions for the year totalled £6m on an annualised basis of which £1.4m arose in this financial year.

Including exceptional items, amortisation of acquired intangibles and IAS19 pension finance charges, reported profit before tax was £2.7m (2010/11: £1.9m).

Underlying diluted earnings per share were up 7% to 19.9 pence (2010/11: 18.6 pence). Including underlying adjustments, fully diluted earnings per share were up 25% to 7.1 pence (2010/11: 5.7 pence).

The balance sheet remains robust with net assets at the year end of £49.1m (2010/11: £51.3m), including net cash of £6.3m (2010/11: £6.7m). The year end net cash balance remained similar to the prior year as the generation of cash from profits and reductions in working capital were offset by the outflows due to the acquisitions of Hectronic and MTC, exceptional restructuring projects and dividend payments.

Committed banking facilities of £19m, plus £13m of uncommitted facilities leave the Group well positioned to capitalise on any new opportunities that may arise.

**Acquisitions**

Hectronic, based in Uppsala, Sweden, was acquired in June 2011 for £1.2m. The business supplies custom designed computers for industrial control applications.

MTC, based near Munich, Germany, was acquired in October 2011 for up to £3.3m including earn-out. The business supplies custom designed electromagnetic shielding products for industrial applications.

Both businesses supply own branded products, providing customised, individually designed solutions and have significantly enhanced opportunities for accelerated growth throughout the Acal network.

Compotron based in Munich and acquired in January 2011, has performed strongly since acquisition. The integration into the existing German business of Acal BFi is proceeding ahead of plan, and is forecast to complete in the autumn.

It remains part of the Board's strategy to accelerate growth through the acquisition of value enhancing specialist electronic businesses, complementing organic growth. The Group targets businesses where the opportunity exists to build our market position in either a specific technology or geography, and where the opportunity for above average growth exists.

**Dividends**

It is the Board's intention to maintain a progressive dividend policy wherever practical to do so, and as such the Board is recommending an increase to the final dividend of 7% to 5.5 pence per share, giving a full year dividend increase of 7% to 8 pence per share and with a cover of 2.5 times on an underlying basis. In total, the dividend has been increased by 14% over the last 2 years. Over the medium term, it is the Board's intention to maintain dividend coverage in the range of two to three times earnings.

The dividend is payable on 27 July 2012 to shareholders on the register as at 15 June 2012.

**Employees**

This year has presented many operational challenges as we integrated further acquisitions, exited the bulk of our remaining non-specialist products, reduced costs in response to market conditions, and embarked upon the journey to develop a new web marketing capability. As ever, our employees have responded to the challenges admirably, and on behalf of the Board I would like to thank them for their continued dedication and commitment.

I would also like to welcome those employees from Hectronic and MTC who have joined the Group this year through acquisition.

**The year ahead**

Economic conditions continue to be very challenging, with little forward visibility. Whilst the business will undoubtedly continue to feel the effects of such uncertainty, the Board believes that the focus on supplying highly differentiated electronics to industrial customers will continue to build long term value for shareholders.

**Richard Moon**
29th May 2012

Chief Executive's Review

Acal is the leading supplier of specialist Electronics in Europe and the only such specialist supplier offering a broad range of complementary technologies across Europe. Technologies include Communications, Electromagnetic Shielding, Imaging, Microsystems, Magnetics, Photonics, Power, Sensors and Specialist Semiconductors. The business operates in technically demanding market niches, supplying a range of industrial sectors, mostly in high technology manufacturing, where customers appreciate the added value that comes from high levels of technical support and customised solutions.

As well as being the market leader, Acal is the only specialist supplier in Europe to operate across multiple territories, technologies and industrial sectors. With an increasing focus on selling solutions rather than individual components, our customers appreciate the technical expertise that we are able to provide to their design and manufacturing challenges. Around three quarters of Electronics division sales come from products that are either uniquely created for one customer and/or exclusively sourced. With such a model, Acal's risk exposure to any one territory, technology or sector is greatly reduced. Our suppliers are now able to gain access to around 25,000 customers through Acal, rather than directly via multiple, country specific vendors.

**Group Objectives**

The Group has a number of key objectives for the short and medium term in order to build a high performance, growth oriented business. Significant progress has been made in the three years since the new strategy was implemented and these remain priorities.

Growth ahead of GDP over the business cycle. Organic growth will be further enhanced by acquisitions.

Electronics sales have nearly doubled over the last three years (CAGR 21%) and total Group sales are up 56% (CAGR 16%) over that period, resulting from a combination of organic and acquisitive growth. Excluding non specialist discontinuations, underlying specialist electronics sales grew by 27% CAGR.

Whilst short term sales will be subject to the influence of wider economic trends, both the rate of high technology innovation and the proliferation of high technology into every day applications is expected to continue at rates well in excess of GDP.

Develop and maintain attractive margins.

Over the last three years, the Group has moved from loss into profit, achieving an underlying operating margin of 3.1% in the reported year, with gross margins having risen by 3.7 percentage points over the same period.

Our target in the medium term remains to achieve 5% underlying operating margins through a combination of continuing robust gross margins, further improvements in operating efficiency and increasing volumes.

Enhance growth through selective, value enhancing acquisitions.

Acquisitions play an important part in developing the long term performance of the business. The Group's strategy is to acquire businesses that provide complementary products and or geographic coverage, enhancing the combined customer offer as well as enabling efficiency improvements through varying levels of operational integration.

Over the last three years, four businesses were acquired of which three were immediately earnings enhancing, whilst the fourth, Hectronic has performed in line with our expectations communicated at the time of acquisition (namely, earnings neutral for this year and expected to be earnings enhancing thereafter). The £22.6m invested in acquisitions generated a pre tax return on investment (including integration costs) of 26% this year.

We retain staff resources dedicated to delivering suitable acquisitions on an ongoing basis.

Develop healthy cash flow to fund future growth and dividends

The Group focuses on free cash flow generation in order to monitor its ability to convert underlying operating profits into cash and as such, targets free cash flow in excess of 60% of underlying operating profit, and dividend cover of between two and three times over the cycle.

Free cash flow for this year was £10.5m, (130% of underlying operating profit) and £22.4m for the last 3 years (151% of underlying operating profit for that 3 year period).

Create strong returns on trading capital employed ("ROTCE")

ROTCE was 21.7% for the current financial year. This is up 3.4 percentage points over last year and 20.8 percentage points over the year ended 31 March 2009. The Group targets to deliver ROTCE in excess of 25% in the medium term.

Deliver value growth for shareholders

Long term total shareholder return ("TSR") is targeted to be within the upper quartile. In the three year period to 31st March 2012, TSR grew by 130%, being in the top 27% performance ranking when compared to the FTSE Small Cap Index.

**Group Strategy**

The specialist Electronics market place is highly fragmented, characterised by many medium and smaller sized businesses throughout Europe.

It is three years since the implementation of the specialist approach, and the Group has made significant progress re-positioning the Electronics business, improving performance, improving the quality of earnings, reducing risk and enhancing future prospects. There are three key elements to the strategy;

1. Grow presence in key markets

2. Expand the specialist product offer

3. Increase operational efficiency

**Grow presence in key markets**

The Group has built its position in the key markets in Europe through organic growth with selective value enhancing acquisitions. Similar specialist markets exist internationally, and to the extent that they offer higher growth opportunities within a growth oriented economy, also offer scope for further geographic expansion.

Currently, 90% of the Group's European sales come from stronger economies. Within this, 63% comes from the UK & Germany. The Group has little exposure to the peripheral Eurozone countries. Organic growth is driven by the design and subsequent conversion into production, of electronic equipment that require specialist products. Production demand can be influenced by general economic factors, and as such, the manufacturing PMI index provides a useful indicator of macro-economic demand trends. However, customers' design activity is less influenced by such factors. Our design opportunities have continued to grow during the year.

Hectronic, acquired in June 2011, has strengthened our management capabilities in the Nordic region while MTC, acquired in October 2011, has further enhanced our capabilities in Germany. Both offer the opportunity to expand sales throughout the network of Acal companies.

**Expand the specialist product offer**

The Group continues to expand the range of specialist technologies and products on offer through the addition of complementary products to existing technology units, the appointment of new suppliers and the creation of additional technology units.

During the year thirteen new suppliers were engaged, expanding our technology offer in four technology units, and bringing the total number of new suppliers over the last two years to twenty four. Of these we expect around two thirds to grow into significant generators of revenue over a three year period. The nature of the business means that there will always be a degree of churn as established products become commoditised and replaced by new technologies. We continue to seek well established and differentiated suppliers that are looking to expand into a broader industrial customer base. With the rate of technology innovation and proliferation into a wider range of applications continuing apace, we remain optimistic of future opportunities.

The design cycle for new products takes between six months and two years to reach production. Once reached, demand may continue for several years, providing a degree of future visibility. Customer design and development activity has been less affected during the current economic slowdown, and is expected to help fuel sales growth as economic conditions improve and new projects are released into production.

The acquisition of Hectronic has expanded an existing technology area into the Nordic region. The business provides custom designed computers for challenging industrial control applications and complements the Group's similar existing Microsystems business in the UK. The business has sub contract manufacturing partners in Sweden, Germany and Taiwan.

The acquisition of MTC brought a new product technology capability to the Group. MTC supply custom and standard Electromagnetic shielding solutions to industrial customers. Their fast turnaround on custom designs enables them to offer a high level of service on medium and small production quantities that is typically not available elsewhere. The business owns a production facility in South Korea, and has manufacturing capability in Germany.

**Increase operational efficiency**

The Group continues to target improvements in its operational efficiency through increasing sales of highly differentiated, higher margin value-added products and solutions whilst maintaining tight control of operating expenses and working capital.

Higher margin products

Gross margins increased throughout the year, being 3.7 percentage points higher than three years ago.

This has been achieved through a change in the sales mix as the Group focuses on selling more highly differentiated products and solutions and through acquisitions of wholly specialist businesses as well as, to a lesser degree, the discontinuation of non specialist products.

Tight control of operating expenses

In response to weaker market conditions, operating expenses were reduced by an annualised total of £6m (9% of last year's underlying operational cost base) of which £1.4m was recognised this year. Of the total annualised savings, £4.7m came from Electronics, and £1.3m from Supply Chain.

There were three areas of cost reduction;

*1. General cost reductions, incorporating the integration of sales and marketing in preparation for a single brand Electronics web launch - £3.7m reduction*

The two formerly independent trading brands (Acal Technology & BFi Optilas) are being merged into one in preparation for the launch of the new web capability later this summer. This integration was brought forward by nine months in response to economic conditions.

The main cost reduction was in the Spanish business in response to a revenue decline of 35% in the year, as a result of the difficult economic environment. This cost reduction amounted to £1.5m or 42%.

In addition cost savings were generated from the consolidation of central administration and finance functions from two locations into one.

*2. Discontinuation of non specialist products - £1.0m reduction*

Sales of non specialist Electronics products were further reduced in line with our stated strategy. The discontinued products were multi

distributed and provided less differentiation for Acal in the eyes of our customers. With total revenues discontinued of £5m this year and £11m next year, 86% of ongoing Electronics sales now come from specialist products. Over time, this proportion is expected to further increase to in excess of 90%, mostly as a result of organic growth of existing specialist products, complemented by further acquisitions.

*3. Supply Chain division cost reductions - £1.3m reduction*

The loss making Retail sector operation was disposed of to a third party for a nominal consideration, including the transfer of 11 employees under TUPE. Additionally, reductions were made within the Division's low margin operations through the reduction of staff and certain unprofitable sales contracts. The cost savings are part of an ongoing transition of the business towards more highly differentiated customer contracts, reducing reliance on standard parts trading.

Tight control of working capital

Working capital remained low at 12.0% of sales (2010/11: 12.0%).

Significant gains in working capital efficiency have been achieved and sustained over the three years since the introduction of the new strategy. With the higher degree of customisation and specialisation, customers place orders in advance of requirements, reducing the need for the Group to hold uncommitted inventory.

Average debtor days improved to record low levels, being 50 days at the end of the year, 5 days better than prior year. As well as being a generally well capitalised customer base, the Group's customers are sourcing specialist and often single sourced products and are therefore more likely to pay on time so as to ensure timely delivery of future requirements.

**Operating Performance**

The year has seen further growth in operating performance and profitability. Underlying operating profits increased by 9% to £8.1m, and underlying operating margin increased by 0.3 percentage points to 3.1%.

Despite market conditions weakening during the year with a resulting flattening of sales growth (leading to reported Group revenues being down 3%), gross and operating margins continued to increase, as the benefits of the strategy continued to come through. Reported gross profits increased by 4%, as gross margins increased to 30.9% in H2, one year ahead of our target.

Like for like operating expenses excluding acquisitions were down 3% for the year, with the second half reduced by 7%, being a reflection of the cost saving initiatives taken. As reported above, actions were taken in response to weaker economic conditions, which resulted in the reduction of £1.4m of operating expenses during the year (£6.0m on an annualised basis). There was a one off exceptional charge of £2.2m, with a further £1.3m to come in the new year. In total, these one off costs represent a payback period of approximately 7 months.

**Divisional performance**

| £m | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Sales** | **Underlying Operating Profit** | **Underlying Operating Margin %** | **Sales** | **Underlying Operating Profit** | **Underlying Operating Margin %** |
| Electronics | **207.1** | **10.8** | **5.2%** | 210.5 | 10.3 | 4.9% |
| Supply Chain | **50.7** | **1.3** | **2.6%** | 54.3 | 1.2 | 2.2% |
| Unallocated (1) | | **-4.0** | **-1.6%** | | -4.1 | -1.5% |
| Total | **257.8** | **8.1** | **3.1%** | 264.8 | 7.4 | 2.8% |

(1) % of Total Sales

**Electronics division**

The Electronics division delivered underlying operating profits of £10.8m, up 5% over last year. Reported sales of £207.1m were down 2% year on year and down 9% on a like for like basis as the focus on specialisation continued. Excluding the discontinuations of the non specialist business, reported revenues grew by 1%. Underlying operating margins increased by 0.3 percentage points to 5.2%. The business profile has continued to evolve and improve. Three years ago, 55% of Electronics division sales were from specialist products. By the second half of the year, this had risen to 86% of ongoing sales. We expect this figure to continue to rise, albeit more slowly. Three years ago, the largest supplier represented approximately 7% of Group revenues. Today, the largest supplier accounts for less than 3% which is a reflection of the Group's move to build a lower risk, more diversified business model. Based on data provided by IDEA, the European electronics distribution industry association, our market share grew throughout the year.

During the period, the Group received two awards in recognition of business performance. In January, Honeywell Sensing and Control awarded Acal the Gold Partner Award, recognising outstanding organic sales growth in the calendar year 2011, and being their fastest growing distributor in Europe. In March, Avago awarded Acal the Partnership Excellence award, in recognition of three years of exceptionally high sales growth. Both awards represent significant market share gains.

By region, reported sales in Northern and Central Europe grew by 5% and 8% respectively, including the effect of recent acquisitions and excluding sales of terminated non-specialist products. In Southern Europe, comprising France, Italy and Spain, sales declined by 13% on the same basis. Within this, sales in Spain declined by 35% as a result of the cancellation of a number of public expenditure projects. Of the four

primary technology groups, three reported growth of between 2% and 8%, whilst the Light and Imaging unit reported a decline of 14% driven principally by the decline of Imaging projects in Spain.

Web development

During the year the development of a new Electronics web platform began, creating a marketing platform with which to reach new customers. The web platform will operate under one brand and provide much greater visibility of, and access to, the Electronic Division's wide range of specialist products and solutions, suppliers and technologies. The platform will create a unique capability in this sector of the market. Access will be provided via local language websites in each of the twelve countries that the Electronics Division operates in.

The new website is expected to be launched in the second half of the coming financial year.

Under IFRS, software and development expenditure does not qualify for capitalisation over its useful life. Therefore, a one-off charge of £0.3m has been taken in the year, with a further £1.0m to come in the year ahead. Beyond that, ongoing running costs will be included within underlying operating expenses.

**Supply Chain division**

The Supply Chain division provides service parts and inventory solutions to IT service providers, as well as aftermarket warranty services in the UK and Germany to original equipment manufacturers ("OEMs").

Underlying operating profits in the Supply Chain division increased by 8% to £1.3m (2010/11: £1.2m). The business continued to develop higher margin contract business, reducing dependence on lower margin traded products, and discontinuing sales of less differentiated products and services as described above. As a consequence, reported revenues for the year declined by 7% to £50.7m, with like for like sales down 4%. Underlying operating margin was up 0.4 percentage points on last year to 2.6%.

Roll out of the extension to an existing major contract, announced at the time of the interim results, has progressed well and is performing as expected. Additionally, a contract with a large multinational, market leading hardware and service provider was won in the fourth quarter, to manage the provision of certain spare parts throughout Europe. Revenues are expected to begin modestly.

**Summary and Outlook**

The business has performed well during the year delivering a 9% growth in underlying operating profit and free cash flow of £10.5m, building upon the significant progress of the last two years. The Company has benefited from taking market share from smaller independent competitors who are unable to match the breadth and technical depth of our offer and has continued to attract new supply partners to our business.

The plan to become a fully specialist business is now largely complete and on schedule. The business is resourced to take benefit from the growing pipeline of new opportunities and is well positioned for further growth when economic conditions improve.

Given the continuing difficult economic conditions in Europe and the uncertainty of the timing and pace of a recovery, we remain cautious for the year ahead, but well positioned to accelerate growth as and when conditions improve.

**Nick Jefferies**

29th May 2012

**Finance Review**

**Increase in gross margin more than offsets revenue reduction**

**a) Revenues**

Group revenue for the year reduced by 3% to £257.8m (2010/11: £264.8m) and down 8% on a like for like basis. This reduction reflects three key factors:-

i) The previously announced strategic move away from lower margin fulfilment Electronics products taking the level of specialist Electronics revenues to 86% on ongoing sales (up from 78% at the end of last year). This resulted in a sales reduction of £5.0m for this year and an additional £11m for next year.

ii) A tougher sales environment since last year. PMI manufacturing indices are a useful barometer for the industrial markets that Acal sells into. The average European manufacturing PMI is down from 57 in H2 2010/11 to 48 in H2 2011/12 (where above 50 is indicative of growth).

iii) Last year strong growth. First half like for like sales in 2010/11 in the Electronics division grew by over 30%.

As the business shifts to a higher margin, more specialist model, management view gross profit and operating profit as better indicators of growth in the business than revenues.

In the second half, Group revenues were £124.1m (H2 2010/11: £137.5m). Excluding the planned discontinuations, reported sales were 7% lower. The first half, which was largely before the market downturn, saw revenues up 5% to £133.7m (H1 2010/11: £127.3m).

**b) Gross margins**

The focus on specialisation saw gross margins improve significantly from 28.4% last year to 30.2%, a rise of 1.8 percentage points. This reflects the impact of three core initiatives during the year:-

i) Organic growth in both divisions. Through a series of initiatives focused on selling more highly differentiated, higher gross margin products, approximately 1.1 percentage points was added to the Group gross margin.

ii) The three recent businesses acquired namely Compotron (January 2011), Hectronic (June 2011) and MTC (October 2011), are wholly specialist businesses commanding attractive gross margins. In total, these acquisitions added approximately 0.5 percentage points to the Group gross margin.

iii) The active shift away from low margin non-specialist Electronics products as described above. In addition, Supply Chain disposed of its loss making, low margin retail operations in January 2012 and its loss making, low margin ATM business in September 2010. These initiatives added approximately 0.2 percentage points to the Group gross margin.

H2 gross margins were 30.9% up sequentially by 1.4 percentage points over H1 gross margins of 29.5%, and up 2.4 percentage points over last year's second half gross margin (H2 2010/11: 28.5%). Overall, the Group's change in strategy has driven gross margin up by 4.4 percentage points since 2009 from 26.5%.

**Gross profits continue to grow**

The Group's focus on specialisation and higher gross margins has resulted in gross profit growth to £77.9m for the year, up £2.7m or up 4% over last year's gross profit of £75.2m. This overall rise for the year comprises a reduction in like for like gross profits of 5% which was more than offset by the benefit of acquisitions +8% and foreign exchange rates +1%.

In H2, gross profit of £38.4m was down only 2% compared to last year (H2 2010/11: £39.2m) as the strong gross margin growth (up 2.5 percentage points on last year) offset the reduction in sales. H1 gross profit was £39.5m, which was an increase of 10% on last year (H1 2010/11: £36.0m), again driven by the strong gross margin growth (up 1.2 percentage points over the previous year).

**Maintaining a tight cost base**

Overall operating costs increased by 2% to £74.0m, up £1.3m from last year. These include exceptional costs of £3.4m (2010/11: £4.4m) and amortisation of acquired intangibles of £0.8m (2010/11: £0.3m). Excluding these items, underlying operating costs increased only 3% to £69.8m (2010/11: £68.0m). Excluding the impact of acquisitions/disposals and foreign exchange, operating costs were down 3% (or £1.9m).

Key to this reduction has been a continued tight control of the cost base together with the impact of restructuring initiatives taken during the year. These initiatives, the associate cost savings and one off exceptional costs are dealt with in the Chief Executive's Review.

For H2, underlying operating costs were £34.4m, £0.2m below H2 2010/11. Overall operating costs increased by 1% to £37.1m, up £0.5m from last year. These include exceptional costs of £2.3m (H2 2010/11: £1.5m) and amortisation of acquired intangibles of £0.4m (H2 2010/11: £0.3m). Excluding the impact of acquisitions/disposals and foreign exchange, operating costs were down 7% (or £2.3m) as the savings from the cost saving initiatives took effect.

**Exceptional items**

Exceptional items for the year totalled £3.4m (2010/11: £4.4m) of which £2.2m related to restructuring costs in both Electronics (£1.8m) and Supply Chain (£0.4m). Associated with these projects, additional restructuring costs of £1.3m are expected next year.

Other exceptional costs this year totalled £1.2m, comprising £0.7m for the acquisition of Hectronic and MTC (including related integration expenses), £0.2m related to the disposal of Supply Chain's Retail operation and £0.3m development costs related to the new web platform. Total development costs for the web platform are expected to be £1.3m (£1.0m in 2012/13) with a staggered launch date commencing in Q3 2012/13.

**Growing operational profitability**

Underlying operating profits for the year were £8.1m, up 9% on last year (2010/11: £7.4m), giving an underlying operating margin of 3.1% up from 2.8% from last year.

Second half underlying operating profits of £4.0m were down £0.6m on the strong second half comparative from last year and down £0.1m from H1. Operating margin for the second half was 3.2%, which was 0.1 percentage points ahead of the first half, continuing the drive towards our medium term target of 5%. Since H1 2010, operating margins have risen nearly 6 percentage points.

Reported operating profits for the year (including exceptional items of £3.4m and amortisation on acquired intangibles of £0.8m) were £3.9m up £1.4m compared with last year's operating profit of £2.5m.

**Increased finance costs reflecting investment in acquisitions and restructuring**

Net finance costs for the year of £1.2m (2010/11: £0.6m) comprised a net interest charge of £0.9m and an IAS 19 pension finance charge of £0.3m relating to a legacy defined benefit pension scheme.

Net interest charges of £0.9m were up £0.6m from last year and comprised interest and facility fees arising from the operation of the Group's committed and uncommitted facilities. The additional interest charge reflects the increased use of committed facilities during the year to fund investment in acquisitions and restructuring.

The IAS 19 charge was £0.3m for the year, in line with last year.

**Underlying tax rate remains low**

The underlying effective tax rate at 18% was lower than the UK tax rate of 26% mainly due to the utilisation of tax losses in certain territories which are now profitable. This compares favourably to an underlying effective rate in 2010/11 of 23% due to the increased use of unrecognised

tax losses. At the year end, the Group had approximately £17m of tax losses covering certain territories that it should have access to in future depending on the level of profitability in those territories.

The overall effective tax rate was 22% (2010/11:11%). This rate is higher than the underlying effective tax rate due to the lower rate of tax relief anticipated on exceptional costs.

Losses in Germany have now been fully utilised giving rise to an increase in the amount of tax paid in the period to £1.1m (2010/11: net tax recovered £0.6m).

**Continued earnings improvement**

Increased underlying profits and a better underlying tax rate combined to achieve underlying diluted earnings per share for the year of 19.9 pence, up 7% on last year (2010/11: 18.6 pence). Of this, underlying earnings per share of 10.2 pence was generated in the second half being marginally higher than the first half performance of 9.7 pence per share.

Including underlying adjustments, the fully diluted earnings per share for the year was 7.1 pence (2010/11: 5.7 pence), up 25%.

**Further dividend growth**

For the year ended 31 March 2012, the Board has recommended a final dividend of 5.5 pence per share (H2 2010/11: 5.14 pence per share), an increase of 7%. An interim dividend of 2.5 pence per share was paid in January 2012 (H1 2010/11: 2.33 pence per share), making the total dividend for the year 8.0 pence per share (2010/11: 7.47 pence per share), an increase of 7%.

The dividend is payable on 27 July 2012 to shareholders on the register as at 15 June 2012.

**Continuing acquisition strategy**

On 1 June 2011 Acal acquired 100% of Hectronic, for a cash consideration of SEK12m (£1.2m). At the date of acquisition, Hectronic had an overdraft of SEK 5m (£0.5m) giving a total cost on a debt free basis of SEK 17m (£1.7m).

On 5 October 2011, Acal acquired 100% of MTC for an upfront cash consideration of €2.6m (£2.3m). Additionally, deferred contingent cash consideration of up to €1.1m (£1.0m) will be payable in January 2013 subject to the business achieving agreed growth targets over the period to 31 December 2012. At the date of acquisition MTC had cash of £0.5m, giving a total cost on a debt free basis of €2.0m (£1.8m).

Expenses for the two acquisitions totalled £0.4m and have been included in exceptional items.

**Disposal of non core assets**

On 31 January 2012, the Group sold its loss-making Retail spare parts operation (part of the Supply Chain division) for nominal consideration. Costs of disposal were £0.2m and have been treated as an exceptional item.

**Working capital remains low**

Working capital remains low at 12.0% of second half sales (2010/11: 12.0%) with working capital reducing by £3.3m to £29.7m. This was achieved primarily through the improvement in trade debtors which at the year end reduced to 50 days (31 March 2011: 55 days), reflecting higher German sales (with lower debtor days, following the acquisitions of Compotron and MTC) and lower Spanish sales (with higher debtor days) and improved collection processes. Trade capital creditors outstanding at the year end reduced to 49 days (31 March 2011: 52 days).

Inventory performance continued to be strong, with turns of 7.6 at the year end (2010/11: 7.9), within which the Electronics division achieved turns of 9.8 (FY 2010/11: 9.8)

**Strong free cash flow generation**

Underlying operating cash flow generated in the year was £10.2m being underlying operating profit of £8.1m adjusted for key non-cash items of £2.1m comprising depreciation of £1.2m, amortisation (excluding amortisation on acquired intangibles) of £0.3m, and share based payments of £0.6m. Underlying operating cash was up 12% compared to last year (2010/11: £9.1m).

Working capital improvements noted above gave rise to £3.6m of cash inflow (2010/11: outflow of £2.7m). Capital expenditure totalled £1.3m and was in line with last year (2010/11: £1.3m). Net interest payments increased from £0.3m last year to £0.9m reflecting utilisation of resources to fund acquisitions and restructuring costs. Tax payments totalled £1.1m as the Group started paying tax in Germany (following the utilisation of brought forward losses) and South Africa. This compares to a net tax receipt last year of £0.5m when the Group benefited from the carry back of losses against previously taxed profits.

Taking into account the cash impact of working capital, interest and tax, free cash flow totalled £10.5m and represented 130% of underlying operating profit. This is up 98% on last year (2010/11: £5.3m).

Exceptional cash payments in the period totalled £3.9m (2010/11: £5.1m) and related mainly to the BFI integration booked last year, and the 2012 restructuring initiatives. A further £2.5m of exceptional cash payments are due next year in relation to this year's restructuring initiatives. Payments made to the legacy defined benefit scheme totalled £0.7m (2010/11: £0.7m). For the year ended 31 March 2013, this payment will increase to £1.45m in line with the current funding plan agreed with the trustees.

This resulted in free cash flow after exceptionals and legacy pension fund payments, of £5.9m (2010/11: cash outflow of £0.5m).

The Group invested £4.0m of this free cash flow into acquisitions during the year (2010/11: £4.4m). This comprised £1.2m for Hectronic paid in June 2011, £0.5m paid as a final working capital settlement for Compotron and £2.3m for MTC in October 2011. An earn out of £1.4m will be payable to Compotron management in January 2013, with the company already hitting its required earn out performance criteria. Up to £1.0m of earn-out will be payable to MTC management, also in January 2013, subject to MTC achieving specific performance criteria.

The dividend paid for the year totalled £2.2m (2010/11: £2.0m). Overall net cash outflow for the year was £0.3m (2010/11 net cash out flow:

£6.9m) Together with a small foreign exchange loss on translation of £0.1m, the Group's net cash balance reduced by £0.4m from £6.7m at 31 March 2011 to £6.3m at 31 March 2012.

**Committed funding remains strong**

In addition to the year end net cash balance of £6.3m, the Group also had access to committed working capital facilities of £19m which it requires from time to time to fund inter-month outflows of working capital. Such inter-month outflows resulted in a net average cash across the final quarter of the year of £1.0m. In addition to its committed facilities, the Group also had access at the year end to uncommitted working capital facilities of £13m.

**Pension deficit**

The Group has a legacy defined benefit scheme that relates to the acquisition of Sedgemoor Limited in 1999. The scheme has been closed to both new entrants and new contributions since 2000.

Assets of the defined benefit scheme were valued at £29.8m at 31 March 2012 (31 March 2011: £29.1m). Scheme liabilities under IAS19 were valued by the actuaries at £36.3m (31 March 2011: £34.6m). The increase of £1.7m relates to the reduction in yields on long term corporate bonds during the year. The net deficit at 31 March 2012 is £6.5m (31 March 2011: £5.5m). Further details are given in Note 15 to the preliminary results.

For existing and new Acal employees, the Group operates a defined contribution scheme.

**Net assets**

Net assets at 31 March 2012 of £49.1m were £2.2m below net assets at the end of last year (£51.3m) with net after tax profits for the year of £2.1m and shares based payments of £0.6m being offset by the cost of dividends in the period of £2.2m, the increased IAS 19 liability on the legacy pension fund of £1.0m and translational movements on currency net assets of £1.6m.

**Risks and uncertainties**

The global economy remains vulnerable to major shocks such as a further banking crisis or sovereign debt defaults. As a result, the Group's sales and profits could be exposed to worsening global economic conditions and a loss of wider economic business confidence.

The other risks and uncertainties which may have the largest impact on performance are:

- Commercial risks - product demand, loss of major suppliers or customers, technological change, competition, product liability, loss of contracts, supply chain disruption, major damage to premises, loss of IT systems and loss of key personnel.

- Financial risks - liquidity, foreign currency, interest rates and credit risks, retirement benefits funding and acquisitions.

The Group is well positioned to manage such risks and uncertainties if they arise with its strong balance sheet and combined net cash and committed facilities of over £25m at the end of the period.

Acal's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions. Some level of risk, however, will always be present.

**Simon Gibbins**
Group Finance Director
29th May 2012

**Consolidated income statement**
Year ended 31 March 2012

| | notes | **2012 £m** | 2011 £m |
|---|---|---|---|
| **Revenue** | 6 | **257.8** | 264.8 |
| Cost of sales | | **(179.9)** | (189.6) |
| **Gross profit** | | **77.9** | 75.2 |
| Selling and distribution costs | | **(41.1)** | (39.1) |
| Administrative expenses (including exceptional items) | | **(32.9)** | (33.2) |
| Other operating expenses | | **-** | (0.4) |
| **Operating profit** | 6 | **3.9** | 2.5 |
| Finance revenue | | **0.2** | 0.3 |
| Finance costs | | **(1.4)** | (0.9) |
| **Profit before tax** | | **2.7** | 1.9 |
| Tax expense | | **(0.6)** | (0.2) |
| **Profit for the year** | | **2.1** | 1.7 |
| | | | |
| **Earnings per share** | 9 | | |
| Basic | | **7.4p** | 6.0p |

| | | | |
|---|---|---|---|
| Diluted | | **7.1p** | 5.7p |

**Supplementary income statement information**

**Underlying Performance Measure**

| **Continuing operations** | | **2012 £m** | 2011 £m |
|---|---|---|---|
| Operating profit | | **3.9** | 2.5 |
| Add: Exceptional items | 7 | **3.4** | 4.4 |
| Earn out remuneration | | **-** | 0.2 |
| Amortisation of acquired intangible assets | | **0.8** | 0.3 |
| **Underlying operating profit** | | **8.1** | 7.4 |
| Profit before tax | | **2.7** | 1.9 |
| Add: Exceptional items | 7 | **3.4** | 4.4 |
| Earn out remuneration | | **-** | 0.2 |
| Amortisation of acquired intangible assets | | **0.8** | 0.3 |
| IAS 19 charge for pension finance cost | | **0.3** | 0.3 |
| **Underlying profit before tax** | | **7.2** | 7.1 |
| **Underlying earnings per share** | 9 | | |
| Basic | | **20.7p** | 19.3p |
| Diluted | | **19.9p** | 18.6p |

The results for the period and prior periods relate wholly to continuing operations.

**Consolidated statement of comprehensive income**
for the year ended 31 March 2012

| | notes | **2012 £m** | 2011 £m |
|---|---|---|---|
| **Profit for the year** | | **2.1** | 1.7 |
| Actuarial loss on defined benefit pension scheme | | **(1.3)** | (0.4) |
| Deferred tax relating to the defined benefit pension scheme | | **0.2** | (0.2) |
| Exchange differences on retranslation of foreign subsidiaries | | **(1.6)** | (0.1) |
| **Other comprehensive loss for the year net of tax** | | **(2.7)** | (0.7) |
| **Total comprehensive (loss)/profit for the year net of tax** | | **(0.6)** | 1.0 |

**Consolidated statement of financial position**
at 31 March 2012

| | notes | **2012 £m** | 2011 £m |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **3.5** | 3.8 |
| Intangible assets - goodwill | 13 | **21.6** | 17.4 |
| Intangible assets - other | | **4.1** | 3.7 |
| Deferred tax assets | | **3.3** | 2.8 |
| | | **32.5** | 27.7 |
| **Current assets** | | | |
| Inventories | | **25.7** | 25.3 |
| Trade and other receivables | | **49.4** | 59.3 |
| Current tax assets | | **-** | 0.1 |
| Cash and cash equivalents | | **12.3** | 13.6 |
| | | **87.4** | 98.3 |
| **Total assets** | | **119.9** | 126.0 |
| **Current liabilities** | | | |
| Trade and other payables | | **(45.4)** | (51.6) |
| Other financial liabilities | | **(5.2)** | (5.1) |
| Current tax liabilities | | **(4.2)** | (4.3) |
| Provisions | | **(4.6)** | (2.9) |
| | | **(59.4)** | (63.9) |
| **Non-current liabilities** | | | |
| Other financial liabilities | | **(0.8)** | (1.8) |
| Pension liability | 14 | **(6.5)** | (5.5) |
| Deferred tax liabilities | | **(1.0)** | (0.2) |
| Provisions | | **(3.1)** | (3.3) |
| | | **(11.4)** | (10.8) |
| **Total liabilities** | | **(70.8)** | (74.7) |
| **Net assets** | | **49.1** | 51.3 |
| **Equity** | | | |
| Share capital | | **1.4** | 1.4 |
| Share premium | | **40.7** | 40.7 |
| Merger reserve | | **3.0** | 3.0 |
| Currency translation reserve | | **1.2** | 2.8 |
| Retained earnings | | **2.8** | 3.4 |
| **Total equity** | | **49.1** | 51.3 |

These financial statements were approved by the Board of Directors on 29th May 2012 and signed on its behalf by:

N J Jefferies
Chief Executive

S M Gibbins
Finance Director

**Consolidated statement of changes in equity**
for the year ended 31 March 2012

| | Share capital | Share premium | Merger reserve | Currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | £m | £m | £m | | £m | £m |
| **At 1 April 2010** | **1.4** | **40.6** | **3.0** | **2.9** | **4.0** | **51.9** |
| Profit for the year | - | - | - | - | 1.7 | 1.7 |
| Other comprehensive income | - | - | - | (0.1) | (0.6) | (0.7) |
| Total comprehensive income | - | - | - | (0.1) | 1.1 | 1.0 |
| Share based payment transactions | - | - | - | - | 0.3 | 0.3 |
| Issue of share capital | - | 0.1 | - | - | - | 0.1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Equity dividends | - | - | - | - | (2.0) | (2.0) |
| **At 31 March 2011** | **1.4** | **40.7** | **3.0** | **2.8** | **3.4** | **51.3** |
| Profit for the year | - | - | - | - | 2.1 | 2.1 |
| Other comprehensive income | - | - | - | (1.6) | (1.1) | (2.7) |
| Total comprehensive income | - | - | - | (1.6) | 1.0 | (0.6) |
| Share based payment transactions | - | - | - | - | 0.6 | 0.6 |
| Equity dividends | - | - | - | - | (2.2) | (2.2) |
| **At 31 March 2012** | **1.4** | **40.7** | **3.0** | **1.2** | **2.8** | **49.1** |

**Consolidated statement of cash flows**
for the year ended 31 March 2012

| | notes | **2012 £m** | 2011 £m |
|---|---|---|---|
| **Net cash flow from operating activities** | 11 | **6.9** | 0.4 |
| **Cash flows from investing activities** | | | |
| Acquisition of shares in subsidiaries | 10 | **(4.0)** | (5.2) |
| Net cash acquired with subsidiaries | 10 | **-** | 0.9 |
| Proceeds from the disposal of shares in subsidiaries (net of disposal costs) | | **-** | 0.6 |
| Revision to proceeds from sale of business | | **-** | (0.7) |
| Purchase of property, plant and equipment | | **(1.0)** | (1.1) |
| Proceeds from disposal of property, plant and equipment and intangible assets | | **0.1** | - |
| Purchase of intangible assets - software | | **(0.3)** | (0.2) |
| Interest received | | **0.2** | 0.3 |
| **Net cash used in investing activities** | | **(5.0)** | (5.4) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of shares | | **-** | 0.1 |
| Net (repayment of)/proceeds from borrowings | | **(0.9)** | 2.6 |
| Dividends paid | | **(2.2)** | (2.0) |
| **Net cash (used in)/from financing activities** | | **(3.1)** | 0.7 |
| **Net decrease in cash and cash equivalents** | | **(1.2)** | (4.3) |
| Cash and cash equivalents at 1 April | | **9.4** | 13.9 |
| Effect of exchange rate fluctuations | | **(0.3)** | (0.2) |
| **Cash and cash equivalents at 31 March** | | **7.9** | 9.4 |
| **Reconciliation to cash and cash equivalents in the consolidated statement of financial position** | | | |
| Cash and cash equivalents shown above | | **7.9** | 9.4 |
| Add back overdrafts | | **4.4** | 4.2 |
| Cash and cash equivalents presented in current assets in the consolidated statement of financial position | | **12.3** | 13.6 |

**Notes to the preliminary statement**
for the year ended 31 March 2012

## 1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 29 May 2012. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2012 or 2011, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies whereas those for 2012 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 2006.

## 2. Basis of preparation

The financial information in this statement is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006.

## 3. Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review.

The Group has appropriate financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## 4. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2011. They are not relevant or do not have a material effect on the group's financial statements and are as follows:

| **International Accounting Standards (IAS/IFRS/IFRIC)** | | Effective date |
|---|---|---|
| IFRIC 19 | Extinguishing financial liabilities with equity instruments | 1 July 2010 |
| IFRS 1 | Amendment - Limited exemption from comparative IFRS 7 disclosures | 1 July 2010 |
| IAS 24 | Amendment - Related party disclosures | 1 January 2011 |
| IFRIC 14 | Amendment - prepayments of minimum funding requirement | 1 January 2011 |
| | Improvements to IFRS (issued May 2010) | Various |

## 5. Underlying Performance Measures

The Group uses a number of alternative (non Generally Accepted Accounting Practice ("non - GAAP") financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures. The following non - GAAP measures are referred to in these interim condensed consolidated financial statements.

**Underlying operating profit**

"Underlying operating profit" is defined as operating profit/(loss) excluding exceptional items, earn out remuneration and amortisation of acquired intangible assets.

**Underlying operating expenses**

"Underlying operating expenses" is defined as operating expenses excluding exceptional items, earn out remuneration and amortisation of acquired intangible assets.

**Underlying profit before tax**

"Underlying profit before tax" is defined as profit before tax excluding exceptional items, earn out remuneration, amortisation of acquired intangible assets and IAS 19 pension finance charge.

**Underlying Effective Tax Rate**

"Underlying effective tax rate" is defined as the effective tax rate on profit before tax excluding the impact of tax on exceptional items, earn out remuneration, amortisation of acquired intangible assets and IAS 19 pension finance charge.

**Underlying earnings per share**

"Underlying earnings per share" is calculated as the total of 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.

**Free cash flow**

"Free cash flow" is defined as net cash flow before exceptionals, payments to legacy pension fund, dividends and the cost of acquisitions.

**Return On Trading Capital employed ("ROTCE")**

"ROTCE" is defined as underlying operating profit as a percentage of net operating assets. Net operating assets are defined as tangible and intangible assets excluding goodwill plus working capital.

**Like for like basis**

Reference to the 'like for like' basis included in the Chairman's Statement and Chief Executive's Review, means including acquisitions for the whole of each comparative period, but excluding those acquired in the year and the ATM Parts business (disposal effective 30 September 2010), and at constant exchange rates.

**Significant accounting policies**

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2012.

## 6. Segmental reporting

Segmental information is presented in respect of the Group's business segments, which are the primary basis of segmental reporting. This format reflects the Group's management and internal reporting structures. Inter-segment revenue is insignificant.

During the year the Group changed the composition of its reportable segments. The previously reported Medical segment has been amalgamated into the Electronics segment. Comparative figures have been restated accordingly.

| 2012 | Electronics £m | Supply Chain £m | Unallocated £m | Total £m |
|---|---|---|---|---|
| **Revenue** | **207.1** | **50.7** | **-** | **257.8** |
| **Result** | | | | |
| Underlying operating profit/(loss) | 10.8 | 1.3 | (4.0) | 8.1 |
| Exceptional items - restructuring | (1.8) | (0.4) | - | (2.2) |
| Exceptional items - acquisition and related integration costs | (0.7) | - | - | (0.7) |
| Exceptional items - disposal costs | - | (0.2) | - | (0.2) |
| Exceptional items - web development costs | (0.3) | - | - | (0.3) |
| Amortisation of acquired intangible assets | (0.7) | (0.1) | - | (0.8) |
| **Operating profit/(loss)** | **7.3** | **0.6** | **(4.0)** | **3.9** |

| 2011 | Electronics £m | Supply Chain £m | Unallocated £m | Total £m |
|---|---|---|---|---|
| **Revenue** | **210.5** | **54.3** | **-** | **264.8** |
| **Result** | | | | |
| Underlying operating profit/(loss) | 10.3 | 1.2 | (4.1) | 7.4 |
| Exceptional items - restructuring | (3.6) | (0.6) | (0.2) | (4.4) |
| Exceptional items - acquisition and related integration costs | (0.2) | | | (0.2) |
| Exceptional items - write back of unutilised provisions for retained obligations | - | - | 0.6 | 0.6 |
| Exceptional items - asset impairment | - | (0.4) | - | (0.4) |
| Earn out remuneration | (0.2) | - | - | (0.2) |
| Amortisation of acquired intangible assets | (0.2) | (0.1) | - | (0.3) |
| **Operating profit/(loss)** | **6.1** | **0.1** | **(3.7)** | **2.5** |

**Geographical analysis of revenue by destination**

| | **2012 £m** | 2011 £m |
|---|---|---|
| UK | **72.5** | 79.9 |
| Europe | **174.9** | 175.3 |
| Rest of the World | **10.4** | 9.6 |
| | **257.8** | 264.8 |

## 7. Exceptional items

| | | 2012 £m | 2011 £m |
|---|---|---|---|
| Administrative expenses: | | | |
| Electronics restructuring costs | (a) | **(1.8)** | (3.6) |
| Supply Chain and other restructuring costs | (b) | **(0.4)** | (0.8) |
| Acquisition and related integration restructuring costs | (c) | **(0.7)** | (0.2) |
| Disposal costs | (d) | **(0.2)** | - |
| Web development | (e) | **(0.3)** | - |
| Write back of unutilised provisions for retained obligations | | **-** | (0.6) |
| Net operating exceptional costs | | **(3.4)** | (4.0) |
| Non operating costs: | | | |
| Impairment of net assets | | **-** | (0.4) |
| Total exceptional items | | **(3.4)** | (4.4) |

a) Electronics restructuring comprises (i) the redundancy costs arising from the termination of certain non-specialist products of £0.7m and (ii) the costs associated with integrating sales and marketing teams in preparation for the launch of a single brand web marketing platform of £1.1m.

b) Supply Chain restructuring costs arose on the reduction of staff within low margin operations and exit from certain unprofitable sales contracts.

c) On 1 June 2011 the Group acquired 100% of the voting shares of Hectronic AB (see note 10 for full details). Acquisition costs were £0.1m and have been expensed. In addition restructuring costs of £0.3m relating to the merger of the Nordic activities have been expensed. On 4 October 2011 the Group acquired 100% of the voting shares of MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited (see note 10 for full details). Acquisition costs were £0.3m and have been expensed.

d) Disposal costs relate to the sale of the loss making Retail sector operation in the Supply Chain division to a third party for a nominal consideration.

e) Software and development expenditure in relation to a new web platform for the Electronics division have been expensed.

## 8. Dividends

**Amounts recognised in equity as distributions to equity holders in the year:**

| | 2012 £m | 2011 £m |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| Final dividend for the year ended 31 March 2011 of 5.14p (2010: 4.67p) | **1.5** | 1.3 |
| Interim dividend for the year ended 31 March 2012 of 2.5p (2011: 2.33p) | **0.7** | 0.7 |
| **Total amounts recognised as equity distributions during the year** | **2.2** | 2.0 |

| **Proposed for approval at AGM:** | 2012 £m | 2011 £m |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| Final dividend for the year ended 31 March 2012 of 5.50p (2011: 5.14p) | **1.6** | 1.5 |
| **Summary** | | |
| Dividends per share declared in respect of year | **8.00p** | 7.47p |
| Dividends per share paid in year | **7.64p** | 7.00p |
| Dividends paid in year | **£2.2m** | £2.0m |

## 9. Earnings/(loss) per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the year.

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

| | 2012 £m | 2011 £m |
|---|---|---|
| **Earnings for the year attributable to equity holders of the parent** | **2.1** | 1.7 |
| | **No** | No |
| Weighted average number of shares for basic earnings per share | 28,479,804 | 28,431,486 |
| Effect of dilution - share options | 1,169,748 | 1,214,467 |
| **Adjusted weighted average number of shares for diluted earnings per share** | **29,649,552** | **29,645,953** |
| Basic earnings per share | **7.4p** | 6.0p |
| Diluted earnings per share | **7.1p** | 5.7p |

At the year end there were 2,203,282 ordinary share options in issue that could potentially dilute earnings per share in the future of which 1,169,748 are currently dilutive (2011: 1,778,754 in issue and 1,214,467 dilutive).

Underlying earnings per share is calculated as follows:

| | **2012** | 2011 |
|---|---|---|
| | **£m** | £m |
| **Earnings for the year attributable to equity holders of the parent** | **2.1** | 1.7 |
| Exceptional items | **3.4** | 4.4 |
| Earn out remuneration | **-** | 0.2 |
| Amortisation of acquired intangible assets | **0.8** | 0.3 |
| IAS 19 charge for pension finance cost | **0.3** | 0.3 |
| Tax effects on exceptional items, earn out remuneration, amortisation of acquired intangibles and IAS 19 charge for pension finance cost | **(0.7)** | (1.4) |
| Underlying earnings | **5.9** | 5.5 |

| | **No** | No |
|---|---|---|
| Weighted average number of shares for basic earnings per share | 28,479,804 | 28,431,486 |
| Effect of dilution - share options | 1,169,748 | 1,214,467 |
| **Adjusted weighted average number of shares for diluted earnings per share** | **29,649,552** | **29,645,953** |
| | | |
| Underlying basic earnings per share | 20.7p | 19.3p |
| Underlying diluted earnings per share | 19.9p | 18.6p |

## 10. Business combinations

*Acquisition of Hectronic AB ("Hectronic")*

On 1 June 2011, the Group announced the acquisition of 100% of Hectronic AB ("Hectronic"), for a cash consideration of £1.2m (sek12m) before expenses and net debt acquired. Hectronic was acquired from the majority shareholder, Verdane Capital III AS, a private equity company in the Nordic region. The cash consideration was paid from the Group's existing cash resources.

Hectronic is a specialist provider of embedded computing technology to industrial electronic markets. Based in Sweden, Hectronic employs 28 staff and generates revenues across the Nordic region. The company is now a separate technology area within Acal's Electronics division. The acquisition is expected to be earnings neutral for this year and earnings enhancing from then on.

The provisional fair values of the identifiable assets and liabilities of Hectronic at the date of acquisition were:

| | **Fair value recognised at acquisition £m** |
|---|---|
| Property, plant and equipment | 0.1 |
| Intangible assets - other | 0.4 |
| Inventories | 0.5 |
| Trade and other receivables | 1.4 |
| Short term borrowings | (0.5) |
| Trade and other payables | (1.2) |
| Current tax liabilities | (0.1) |
| Deferred tax liabilities | (0.1) |
| **Total identifiable net assets** | **0.5** |
| **Provisional goodwill arising on acquisition** | **0.7** |
| **Total investment** | **1.2** |

The investment was fully discharged in cash.

Fair value adjustments of £0.1m and £0.1m were recognised on trade receivables and inventory respectively. All other assets were recorded at book value. The fair values of trade receivables and inventories on acquisition are provisional due to the timing of the transaction and will be finalised in the 12 months following the acquisition.

Net cash outflows in respect of the acquisition comprise:

| | **Total £m** |
|---|---|
| Cash consideration | **1.2** |
| Transaction costs of the acquisition (included in cash flows from operating activities) | **0.1** |
| Net debt acquired (included in cash flows from investing activities) | **0.5** |
| | **1.8** |

Included in the £0.7m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies, the experience and skill of the management team and the value of customer relationships. Goodwill is allocated entirely to Hectronic AB.

Transaction costs of £0.1m have been expensed and are included as exceptional items in administrative expenses.

From the date of acquisition to 31 March 2012, Hectronic has contributed £5.5m to revenue and £(0.2m) to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £2.1m and revenue would have been £258.6m.

*Acquisition of MTC Micro Tech Components GmbH ("MTC")*

On 5 October 2011, the Group announced the acquisition of 100% of the share capital of MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited (together defined as "MTC"), for a cash consideration of £2.1m (€2.4m) before expenses. MTC has been acquired from Mr G Bacher. A further £0.2m (€0.2m) relating to working capital settlement was paid in November 2011.Additionally, up to £1.0m (€1.1m) will be payable in January 2013 subject to the business achieving agreed EBIT targets over the periods to 31 December 2011 and 31 December 2012. As at the acquisition date, the fair value of the contingent consideration was estimated at £0.8m. There has been no change in the estimate at 31 March 2012.

MTC is a specialist provider of electromagnetic shielding products to the European and Asian industrial electronic markets. Based in Germany, with a manufacturing operation in South Korea, MTC employs 20 staff.

The provisional fair values of the identifiable assets and liabilities of MTC at the date of acquisition were:

| | **Fair value recognised at acquisition £m** |
|---|---|
| Property, plant and equipment | 0.1 |
| Intangible assets - other | 0.4 |
| Inventories | 0.2 |
| Trade and other receivables | 0.4 |
| Cash | 0.5 |
| Trade and other payables | (0.1) |
| Current tax liabilities | (0.2) |
| Deferred tax liabilities | (0.1) |
| **Total identifiable net assets** | **1.2** |
| **Provisional goodwill arising on acquisition** | **1.9** |
| **Total investment** | **3.1** |
| Discharged by | |
| Cash | 2.3 |
| Contingent consideration | 0.8 |
| | **3.1** |

Net cash outflows in respect of the acquisition comprise:

| | **Total £m** |
|---|---|
| Cash consideration | **2.3** |
| Transaction costs of the acquisition (included in cash flows from operating activities) | **0.3** |
| Net cash acquired (included in cash flows from investing activities) | **(0.5)** |
| | **2.1** |

Included in the £1.9m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies, the experience and skill of the management team and the value of customer relationships. Goodwill is allocated entirely to MTC GmbH.

Transaction costs of £0.3m have been expensed and are included as exceptional items in administrative expenses.

From the date of acquisition to 31 March 2012, MTC has contributed £1.3m to revenue and £0.2m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £2.3m and revenue would have been £259.1m.

*Acquisition of Compotron GmbH ("Compotron") in the prior year*

On 12 January 2011, the Group acquired 100% of the voting shares of Compotron. In addition to the consideration of £5.7m, up to £1.4m earn out is potentially payable in January 2013 dependent on the business achieving agreed performance targets. The Group has reassessed the acquisition accounting and as a result recognised additional goodwill of £1.6m, additional intangible assets of £0.4m and a deferred tax liability of £0.6m. A liability of £1.4m for this earn out has been recognised in the balance sheet.

The total cash consideration of £4.0m in respect of business combinations comprises £1.2m for Hectronic paid in June 2011, £0.5m paid as a final working capital settlement for Compotron and £2.3m for MTC paid in October 2011.

## 11. Reconciliation of cash flow from operating activities

| | 2012 £m | 2011 £m |
|---|---|---|
| **Profit/loss for the year** | **2.1** | 1.7 |
| Taxation expense | **0.6** | 0.2 |
| Net finance costs | **1.2** | 0.6 |
| Depreciation of property, plant and equipment | **1.2** | 1.1 |
| Amortisation of intangible assets - other | **1.1** | 0.6 |
| Change in provisions | **(0.6)** | (1.1) |
| Loss on disposal of property, plant and equipment | **-** | 0.1 |
| Impairment of other assets | **-** | 0.4 |
| Pension scheme funding | **(0.7)** | (0.7) |
| Equity-settled share based payment expense | **0.6** | 0.3 |
| **Operating cash flows before changes in working capital** | **5.5** | 3.2 |
| (Increase)/decrease in inventories | **(0.3)** | (2.4) |
| (Increase)/decrease in trade and other receivables | **9.9** | (5.5) |
| (Decrease)/increase in trade and other payables | **(6.0)** | 5.2 |
| (Increase)/decrease in working capital | **3.6** | (2.7) |
| **Cash generated from operations** | **9.1** | 0.5 |
| Interest paid | **(1.1)** | (0.6) |
| Income taxes (paid)/ received | **(1.1)** | 0.5 |
| **Net cash flows from operating activities** | **6.9** | 0.4 |

## 12. Reconciliation of movement in cash and net debt

**Year to 31 March 2012**

| | 31 March 2011 £m | Cash flow £m | Foreign exchange £m | 31 March 2012 £m |
|---|---|---|---|---|
| Cash at bank and in hand | 13.6 | | | **12.3** |
| Overdrafts | (4.2) | | | **(4.4)** |
| Cash and cash equivalents | 9.4 | (1.2) | (0.3) | **7.9** |
| Bank loans under one year | (0.9) | | | **(0.8)** |
| Bank loans over one year | (1.8) | | | **(0.8)** |
| Total loan capital | (2.7) | 0.9 | 0.2 | **(1.6)** |
| **Net cash** | **6.7** | **(0.3)** | **(0.1)** | **6.3** |

**Year to 31 March 2011**

| | 31 March 2010 £m | Cash flow £m | Foreign exchange £m | 31 March 2011 £m |
|---|---|---|---|---|
| Cash at bank and in hand | 17.3 | | | 13.6 |
| Overdrafts | (3.4) | | | (4.2) |
| Cash and cash equivalents | 13.9 | (4.3) | (0.2) | 9.4 |
| Bank loans under one year | - | | | (0.9) |
| Bank loans over one year | - | | | (1.8) |
| Total loan capital | - | (2.6) | (0.1) | (2.7) |
| Net cash | 13.9 | (6.9) | (0.3) | 6.7 |

**Supplementary information to the statement of cash flows**

**Underlying Performance Measure**

| **Continuing operations** | 2012 £m | 2011 £m |
|---|---|---|
| Decrease in net cash | **(0.3)** | (6.9) |
| Add: Business acquisitions | **4.0** | 4.4 |
| Exceptional cash flow | **3.9** | 5.1 |
| Legacy pension scheme funding | **0.7** | 0.7 |
| Dividends paid | **2.2** | 2.0 |
| **Free cash flow** | **10.5** | 5.3 |

## 13. Intangible assets - goodwill

| Cost | £m |
|---|---|
| At 1 April 2010 | 56.0 |
| Exchange and other adjustments | 0.2 |
| Acquisition of shares in subsidiaries | 3.3 |
| At 31 March 2011 | 59.5 |
| Exchange and other adjustments | - |
| Acquisition of shares in subsidiaries | 4.2 |
| **At 31 March 2012** | **63.7** |

| Impairment | £m |
|---|---|
| **At 31 March 2011 and at 31 March 2012** | **(42.1)** |
| **Net book amount at 31 March 2012** | **21.6** |
| Net book amount at 31 March 2011 | 17.4 |

Goodwill is not amortised but is subject to annual impairment testing.
Goodwill arising in the year relates to business combinations (note 10).

The carrying amount of goodwill is analysed as follows:

| | **2012 £m** | 2011 £m |
|---|---|---|
| Supply Chain | | |
| Acal Supply Chain Limited | **6.5** | **6.5** |
| Electronics | | |
| UK electronics businesses | **6.9** | **6.8** |
| Compotron | **5.0** | **3.5** |
| Hectronic | **0.7** | **-** |
| MTC | **1.9** | **-** |
| Medical | **0.6** | **0.6** |
| | **21.6** | **17.4** |

Goodwill acquired through business combinations is allocated to cash generating units (CGUs).

The recoverable amount of each CGU is based upon value in use calculations and management's review of the recoverable amount. The key assumptions in these calculations relate to future revenue and gross margins. The calculation is most sensitive to revenue assumptions, however senior management believe that the assumptions used are reasonable. Cash flow forecasts for the 5 year period from the reporting date are based on 2013 budget and management projections thereon. Average annual revenue growth rates between 2% and 13% (2011: 2%) have been used depending on size and sector the CGU operates in. Annual growth rates beyond the five-year period are assumed to be not greater than 2% (2011: 2%) for all CGUs in line with the average long-term growth rate for the relevant markets. Discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry and then further adjusted to reflect the management's assessment of any risk specific to the Group. The pre tax discount rate applied to cash flow projections is between 15%-17% (2011: 16%-17%).

## 14. Pension liability

The pension liability relates to the Sedgemoor Group Pension Fund which was brought into the Group on the acquisition of the Sedgemoor Group in 1999. The fund, which is a defined benefit scheme, is operated as a 'paid up' pension scheme with only pensioners and deferred members.

Based on the funding valuation conducted at December 2009, the Fund's Trustees agreed a two year reduction in the funding contributions until 2012 to £0.7m per year (previously £1.3m), increasing by 3% per annum from a base of £1.5m in 2013 for a further 10 years.

The IAS 19 liability at 31 March 2012 was £6.5m (2011: £5.5m) and the IAS 19 pension finance cost for the year was £0.3m (2011: £0.3m).

## 15. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the period and consolidated statement of financial positions are translated at period end rates. The main currencies are the US dollar and the Euro. Details of the exchange rates used are as follows:

| | **Year to 31 March 2012** | | Year to 31 March 2011 | |
|---|---|---|---|---|
| | **2012 Closing rate** | **2012 Average rate** | 2011 Closing rate | 2011 Average rate |
| US dollar | **1.602** | **1.583** | 1.608 | 1.556 |
| Euro | **1.199** | **1.158** | 1.132 | 1.177 |

**16. Annual Report and Accounts**

The Annual Report and Accounts will be mailed to shareholders on or before 20 June 2012. Copies will also be available at the company's registered office: 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, GU2 7AH. In addition, this report will be available on the company's website: www.acalplc.co.uk.

This information is provided by RNS
The company news service from the London Stock Exchange

END

FR UWUWRUSAVUAR