Final Results

Released : 01 Jun 2016

RNS Number : 7928Z
Acal PLC
01 June 2016

1 June 2016

ACAL plc

Preliminary Results for the year ended 31 March 2016

Underlying earnings per share up 23% CER
Further growth in operating margins

Acal plc (LSE: ACL, "Acal" or "the Group"), a leading international supplier of customised electronics to industry, today reports strong full year results for the year ended 31 March 2016.

	FY 2015/16	FY 2014/15	Growth %	CER [2] Growth %
Revenue	**£287.7m**	£271.1m	+6%	+14%
Underlying operating profit[1]	**£16.3m**	£13.4m	+22%	+36%
Underlying operating margin [1]	**5.7%**	4.9%	+0.8ppts	+1.0ppt
Underlying profit before tax[1]	**£14.5m**	£11.8m	+23%	+37%
Underlying diluted EPS[1]	**17.0p**	15.4p	+10%	+23%
Reported profit before tax	**£9.4m**	£4.3m	+119%	
Reported fully diluted EPS	**10.9p**	4.8p	+127%	
Full year dividend per share	**8.05p**	7.60p	+6%	

Highlights

- Strong growth in profits and earnings per share
  - Sales up 14% CER[2] and gross profit up 18% CER
  - Ongoing sales[4] up 3%
  - Underlying profit before tax up 37% CER
  - Underlying earnings per share up 23% CER
- Excellent progress made towards our target key performance and strategic indicators
  - Underlying operating margin increased to 5.7% (2014/15: 4.9%)
  - Design & Manufacturing sales up to 51%[5] of Group sales (2014/15: 37%)
  - International sales[6] increased to 17% of Group sales (2014/15: 12%)
  - Cross-selling accounts for 5% of Group revenues
  - Operating cash flow[7] at 100% of underlying operating profit
- New customer contract wins support growth plans
- Acquisitions of Contour, Flux and Plitron further build capabilities and generate efficiencies
- Group well positioned for further growth
  - Highest ever order book at £85m
  - Developing acquisition opportunities

- Full year dividend up 6%

Nick Jefferies, Group Chief Executive, commented:

"This is a strong set of results with underlying operating profit increasing by 36% on sales growth of 14% at constant exchange rates. Underlying operating margins have almost doubled over the last two years. Over 50% of ongoing revenue is now from our higher margin Design & Manufacturing division, which is generating almost 80% of Group profits.

Whilst challenging trading conditions are likely to continue in the first half of the year, we expect an improvement in the second half in line with our expectations for the full year. We have £20m of funding available for acquisitions and will continue to take advantage of opportunities that will enhance growth and shareholder value.

We are building a highly differentiated, international electronics business, supplying essential technologies to growth markets, and are confident of making further progress in the year ahead."

Acal plc 01483 544 500
Nick Jefferies - Group Chief Executive
Simon Gibbins - Group Finance Director

Instinctif 020 7457 2020
Mark Garraway
Helen Tarbet
James Gray

Notes:

(1) 'Underlying Operating Profit', 'Underlying Operating Costs', 'Underlying Operating Margin', '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 provision for earn-out payments (included in exceptional items) of £0.6m, other exceptional items of £1.2m, amortisation of acquired intangible assets of £2.8m and the IAS19 pension charge relating to a legacy defined benefit scheme of £0.5m; totalling £5.1m for FY 2015/16. Equivalent exclusions within the FY 2014/15 underlying results totalled £7.5m. For further information see note 5 of the attached summary financial statements.

(2) Growth rates at constant exchange rates ("CER"). Unless stated, growth rates refer to the comparable prior year period. The average Sterling rate of exchange strengthened 7% against the Euro for the year ended 31 March 2016 compared with the average rate for last year (rising from 1.275 to 1.367) and strengthened 9% against Nordic currencies on average, together negatively affecting Group reported sales for this period by 6% and underlying operating profit by 8%.

(3) Organic growth for the Group of -2% is calculated at CER including the pre-acquisition periods of the Noratel Group and the Foss Group which were acquired during the last financial year (on 17 July 2014 and 7 January 2015 respectively) and of the Flux Group, Contour, and Plitron which were acquired this financial year (on 5 November 2015, 7 January 2016 and 1 February 2016 respectively).

(4) Ongoing sales growth for the Group of 3% excludes large, non-repeating orders from last year within Custom Distribution and sales of its final major non-specialist, low margin supplier, which was discontinued last year.

(5) Design & Manufacturing sales, annualised for acquisitions, expressed as a percentage of Group sales.

(6) International sales are sales outside the UK and Western Europe.

(7) Operating cash flow is net cash generated from operations before financing, taxation and dividends, payment of acquisition related costs, exceptional items, earn-out payments and legacy pension costs.

Notes to Editors:

Acal is a leading international supplier of customised electronics to industry. It designs, manufactures and distributes customer-specific electronic products and solutions to 25,000 industrial manufacturers and is listed on the London Stock Exchange (LSE: ACL).

Acal has two divisions: Design & Manufacturing and Custom Distribution. The majority of its sales comes from products and solutions which are created specifically for a customer. Acal works across a range of technologies, namely Communications & Sensors, Power & Magnetics, Electromechanical & Shielding, Embedded Systems, and Photonics & Imaging.

Acal operates through the following wholly-owned businesses: Acal BFi, Contour, Flux, Foss, Hectronic, MTC, Myrra, Noratel, Plitron, RSG, Stortech and Vertec. It has operating companies and manufacturing facilities in a number of markets, including the UK, Germany, France, the Nordic region, Benelux, Italy, Poland, Slovakia and Spain, as well as in Asia (China, India, South Korea, Sri Lanka and Thailand), North America (the US and Canada), and South Africa.

CHAIRMAN'S STATEMENT

The Group strategy, established in 2009, has created a highly differentiated, growth business in customised electronics that has delivered superior results and value for shareholders through the economic cycle. This year's strong results reflect this. With over 50% of revenues (annualised for acquisitions) and nearly 80% of profit contribution now being generated from the design and manufacture of own products, which generate much higher margins than distribution, operating margins have doubled over the last five years.

There are significant opportunities ahead which will enable the Group to continue this progress and further build a successful, differentiated business.

Strategy

The Group is creating a leader in custom electronics which will become increasingly global in nature. We are focusing on markets with long term fundamental growth drivers where technology is essential, such as transportation, medical, renewable energy and industrial device connectivity. These markets grow ahead of GDP, are stable and have excellent long term prospects.

Around half of revenues in our Design & Manufacturing division are generated in these higher growth markets. We are investing in these areas and will continue to grow this position.

Group Results

Group sales for the year increased by 6%, and by 14% at constant exchange rates ("CER"), to £287.7m driven by acquisitions made over the last 2 years in the Design & Manufacturing division.

Underlying operating profit, which excludes acquisition related costs, exceptionals and IAS19 pension cost, increased by £2.9m to £16.3m (up 22%) and by £4.3m CER (up 36%). Underlying profit before tax increased by £2.7m to £14.5m (up 23%) and by £3.9m CER (up 37%).

Underlying operating margin increased by 0.8ppts to 5.7%, reflecting our focus on higher margin products and solutions.

Underlying earnings per share for the year increased by 10% to 17.0p (up from 15.4p last year) and increased by 23% CER.

On a reported basis, profit before tax for the year was £9.4m, an increase of £5.1m over last year, with fully diluted earnings per share of 10.9p, 6.1p higher than last year.

Net debt at 31 March 2016 was £38.1m (FY 2014/15: £19.0m), with a Group gearing ratio of 1.7 times (defined as net debt divided by underlying EBITDA, adjusted for a full year's inclusion from acquisitions) compared with our target gearing range of 1.5 to 2.0 times. The increase in net debt over last year reflects the acquisitions made during the year.

Acquisitions

In the second half of the year, the Group made three acquisitions, Flux A/S ("Flux") based in Denmark, Contour Holdings Limited ("Contour") based in the UK and Plitron Manufacturing Inc ("Plitron") based in Canada. Flux and Plitron are both designers and manufacturers of customised magnetic components, while Contour is a designer and manufacturer of custom cabling assemblies and connectors. The total initial consideration for these three acquisitions of £22m was funded by the issue of £3.0m of new equity with the balance from our long term debt facility. All three businesses have performed well since joining the Group, in line with our expectations.

We are delighted to welcome their employees into the Group.

Dividend

The Board is recommending an increase in the final dividend per share of 6% to 5.72 pence per share, giving a full year dividend per share of 8.05 pence, representing an increase of 6% for the year and a cover against underlying earnings of 2.05 times. Since 2010, the annual dividend per share has risen by 58%. The final dividend is payable on 29 July 2016 to shareholders registered on 10 June 2016.

The Board's aim is to maintain a progressive dividend policy together with a long term dividend cover of between 2 to 3 times underlying earnings.

Board changes

On 1 November 2015, Tracey Graham and Malcolm Diamond MBE joined the Board as Non-Executive Directors. Both bring significant experience of international manufacturing businesses and we are delighted to welcome them to the Group.

Tracey is a Non-Executive Director of Ibstock plc, Royal London Mutual Building Society and Link Scheme Limited, and was previously the Chief Executive of Talaris Limited from 2008 to 2010 and Managing Director of De La Rue Cash Systems from 2005 to 2008.

Malcolm is Executive Chairman of Trifast Plc and Non-Executive Chairman of Flowtech Fluidpower PLC, and was previously the Managing Director of Trifast Plc from 1984 to 2002 and Senior Non-Executive Director of Dechra Pharmaceuticals Plc from 2000 to 2010.

Employees

The Group consists of 3,800 employees in 23 countries around the world. The Board believes that by adopting a decentralised operating environment within an established framework, supported by rigorous control and review processes, the Group is able to continue to foster an ambitious and entrepreneurial culture.

On behalf of the whole Board, I would like to thank all our employees for their commitment and hard work once again this year. Their dedication is critical in helping us achieve our goals.

Summary

Acal continues to build a business that is differentiated, successful and ambitious. The Group's focus on the design, manufacture and supply of differentiated electronics products and solutions will not only enable it to continue to increase operating margins, but also positions Acal as a leader and a consolidator in the fragmented customised electronics industry.

Richard Moon
Chairman

1 June 2016

CHIEF EXECUTIVE'S REVIEW

Overview

Group revenues increased by 14% CER to £287.7m, with ongoing sales growing by 3% CER organically. Gross profit was up 18% CER driven by stronger gross margins. Underlying operating profit increased to £16.3m (from £12.0m CER last year), representing a 5.7% operating margin, with underlying EPS increasing by 10% (and by 23% CER). At the year end, the Group order book was £85m, the highest level since the Group's strategy was launched in 2009.

Currency headwinds have been considerable this year, particularly from a net weakening of Euro and Nordic currencies, which had a 6% adverse translational impact on reported revenue and a 8% adverse impact on operating profits. Our active Group hedging policy has minimised transactional effects and contributed to the continuing stable development of Group profitability.

We made three further acquisitions during the year into our Design & Manufacturing division, which, together with our organic growth, has lifted annualised revenues in that division to over 50% of Group revenues, delivering nearly 80% of the Group's profit contribution.

Growth strategy

Acal supplies essential technologies to growth markets which are driven by the increasing requirement for electronics and technology. We estimate our market to be worth £12bn globally, of which Europe accounts for approximately £4bn, North America £6bn and Asia £2bn.

Our focus markets are ultimately driven by long term global trends such as a growing middle class population, a growing older affluent population, a growing need for green sources of energy and a reducing cost of technology through its widespread adoption. Influenced by global population growth, a United Nations study is predicting over 30% growth by 2050; and global GDP growth, the World Bank is forecasting 3% annual growth out to 2030 (4.5% in the developing world and 2% in the emerging world); such growth leads to four key macro trends that are the demand drivers for our business and underpin our 'GDP plus' organic growth rates:

1. Growth in travel

   Road, rail, air, automotive and electric vehicle transportation is expected to continue both its rapid growth in carrying capacity and its use of technology. As an example, in the automotive sector, electronics content is forecast to grow by 8% per annum to 2019 (source: Gartner, PWC).

2. Growth in medical spending

   Driven by the increasingly affluent ageing population which accounts for the majority of healthcare spending in developed economies, along with the increasing use of technology in diagnosing, monitoring and controlling medical conditions, the medical semiconductor market, a proxy for the medical electronics market, is forecast to grow by 12% per annum between 2012 and 2018 (Source: IC Insights).

3. A shift to renewable energy

   In 2015, the International Energy Authority predicted that renewable energy will be the largest source of global power generation by 2030, provided primarily by three technologies; hydro, wind and solar. Wind power generation is expected to account for 50% of the incremental power generated over this period.

4. Growth in device connectivity

   New technologies are creating new markets and applications. For example, the emergence of affordable wireless electronics has enabled the smart utility meter market to become a commercial reality and additionally, the internet of things is leading to a boom in the connectivity of devices across a wide range of applications. As an example, Gartner & PWC are forecasting demand for industrial semiconductors to grow by 9.7% CAGR 2014 - 2019.

By focussing on the above markets the Group will continue to build a high quality, differentiated business.

The Group's strategy can be summarised as follows:

1. Moving up the electronics value chain into the design and manufacture of our own products. This generates better returns, from higher margin products (see Key Strategic Indicator ('KSI') 1 below).

2. Growing sales organically and well ahead of GDP by focusing on higher growth markets with above average growth prospects (see KSI 2 below).

3. Acquiring high quality D&M businesses with attractive growth prospects. This will involve both larger 'platform' acquisitions that establish a position and smaller 'bolt-on' acquisitions that integrate into existing businesses (see KSI 1, 2 & 3 below).

4. Developing sales internationally by further expansion into North America, both by following existing customers' international needs and by developing local market sales (see KSI 3 below).

Performance

The Group's principal objective is to deliver consistent growth in total shareholder return (TSR), over the short and long term, driven by consistent growth in underlying earnings per share (EPS).

Over the last seven years, since the introduction of the current strategy, TSR growth has been 380%, well within the upper quartile when compared with the FTSE Small Cap Index. Similarly, over the last three years, TSR growth was 62%, again within the upper quartile compared to the FTSE Small Cap Index (see KSI 5 below).

The Group's aim is to continue this upper quartile performance through consistently delivering organic sales growth with robust margins, supplemented by the acquisition of high quality businesses with similar growth prospects.

Key Strategic and Performance indicators

Three Key Strategic Indicators measure the progress of the Group on achieving its key strategic objectives, while five Key Performance Indicators measure the financial performance of the business. The targets set out below were established in November 2014.

Key Strategic Indicators ('KSIs')

	FY 2010	FY 2014	FY 2015	FY 2016	Mid term Target*
1. Increase share of Group revenue from Design & Manufacturing (1)	5%	18%	37%	51%(2)	65%
2. Increase cross-selling (1)	0%	2.7%	4%	5%	4-5%
3. Build sales beyond Europe (1)	0%	5%	12%	17%	20%

(1) As a proportion of Group revenue
(2) Annualised for acquisitions

* Mid-term target refers to a three to five year period.

1. Revenues from the Design & Manufacturing division increased to 51% (annualised for acquisitions) as a proportion of total Group revenue, compared with 37% last year. This was achieved through the acquisitions of Noratel and Foss last year, the acquisitions of Contour, Flux and Plitron this year, together with organic sales growth of 3%. The mid-term target is 65%.

2. Cross-selling initiatives exist to accelerate organic sales growth and improve the efficiency of Group businesses. In the year, cross-selling generated £14.2m of business representing 4.9% of Group revenues. The mid-term target is for these initiatives to generate 4-5% of Group sales after factoring in the initial dilutive effect on this ratio of future acquisitions. Cross-selling revenue grew by £4.0m CER in the year.

3. Growth in sales beyond Europe was achieved this year, principally through organic growth, together with the full year impact of last year's Noratel acquisition. Overall, sales beyond Europe were £48.7m and represented 17% of Group sales (up from 12% last year). Key regions expressed as a percentage of Group sales are North America (4.5%), Asia (6%), Eastern Europe (5%) and Africa (1.5%). The mid-term target is 20%.

Key Performance Indicators ('KPIs')

	FY 2014	FY 2015	FY 2016	Average	3 yr target (H1 2018)
1. Organic sales growth	2%	3%	3%(1)	3%	Well ahead of GDP
2. Increase underlying operating margin	3.4%	4.9%	5.7%	n/a	7%
3. Attractive ROTCE (2)	24%	24%	23%	23.3%	> 25%
4. Generate strong free cash flow (2)	86%	76%	70%	77%	> 75% PBT
5. Generate long term value for shareholders: 3 year TSR (percentile vs FTSE Small Cap Index)	+5% (Top 71st)	+101% (Top 20th)	+62% (Top 22nd)	n/a	Upper Quartile

(1) Percentage of ongoing sales
(2) Defined in note 5 of the attached summary financial statements

1. Ongoing sales growth was 3% for the year, with similar growth rates delivered in both Design & Manufacturing and Custom Distribution (after excluding, as previously announced, two large one-off orders and a discontinued commodity supplier from last year in the Custom Distribution division). Weighted average GDP growth in the Eurozone and UK during the year was 1.6%. Our target is to achieve sales growth well ahead of GDP and we expect that, as economies pick up, our organic growth rates will pick up too, likely being a few percentage points ahead of GDP.

2. The underlying operating margin for the year increased to 5.7% (and was 5.9% for the second half), due to further operating efficiencies achieved from our increasing scale, as well as from the positive effect of acquisitions. We have increased our target from 6% to 7% and we'll keep this under review.

3. Return on trading capital employed ('ROTCE') was 23% for the year, compared with a three year target for ROTCE to be greater than 25%. Over the last three years, ROTCE has averaged 23.3%. This ratio is slightly lower than last year due to the initial impact of acquisitions, which we expect to drive ratio growth over the medium term.

4. Free cash flow as a percentage of underlying profit before tax ('PBT') was 70%, with a three year target being for free cash flow to exceed 75% of underlying PBT over that period. Over the last three years, the free cash flow ratio has averaged 77%. Operating cash flow for the year was £16.3m and 100% of operating profit compared to a 3 year target of 85%. Details of the free cash flow and operating cash flow calculations are given in the Cash Flow section within the Finance Review.

5. A core objective of the Group is long term growth in total shareholder return ('TSR') driven by consistent growth in underlying earnings per share ('EPS'). In the year, underlying EPS grew by 10% from 15.4p to 17.0p (and by 23% CER), while over a seven year period underlying EPS has risen by 19.8p from a loss per share of 2.8p in FY 2008/09. TSR has increased by 62% over the last three years. This was in the top 22nd percentile of FTSE Small Cap Index constituents and in line with our upper quartile target.

Divisional results

Divisional performances for the year ended 31 March 2016 are set out and reviewed below.

	FY 2015/16			FY 2014/15			CER	Organic	Ongoing[2]
	Revenue £m	**Underlying operating profit [1] £m**	**Margin**	Revenue £m	Underlying operating profit [1] £m	Margin			
Design & Manufacturing	**137.6**	**16.5**	**12.0%**	92.0	10.4	11.3%	50%	3%	3%
Custom Distribution	**150.1**	**4.7**	**3.1%**	160.9	6.3	3.9%	(7%)	(7%)	3%
Unallocated costs		**(4.9)**			(4.7)				
Total CER[3]	**287.7**	**16.3**	**5.7%**	252.9	12.0	4.7%	14%	(2%)	3%
Reported FX rate[4]				18.2	1.4	0.2%			
Total reported	**287.7**	**16.3**	**5.7%**	271.1	13.4	4.9%			

(1) Underlying operating profit excludes exceptional items, earn-out accruals, amortisation of acquired intangibles and IAS19 pension costs (see Finance Review).
(2) Ongoing sales exclude large, non-repeating orders from last year within Custom Distribution and sales of its final major non-specialist, low margin supplier, which was discontinued last year.
(3) Revenue and operating profit at CER with last year's results translated at this year's average exchange rate.
(4) The difference between the reported results last year and the results at CER.

For the last two years, Group results, while strong, were significantly impacted by the strength of Sterling. Some 72% of sales and 90% of underlying operating profit were generated in either Euro or Nordic currencies which have depreciated by 7% and 9% respectively against Sterling this year (and by 13% and 20% in the last two years).

Design & Manufacturing division

The Design & Manufacturing division ("D&M") manufactures custom electronic products that are uniquely designed or modified from a standard product for a specific customer requirement. The products are manufactured at one of Acal's in-house manufacturing facilities or, in a few cases, by third party contractors. The division now has ten businesses which are aligned with the Group's core technology areas, namely Flux, Myrra, Noratel, Plitron and RSG (within Power and Magnetics); Foss (within Communication and Sensors); Contour, MTC and Stortech (within Electromechanical and Shielding); and Hectronic (within Embedded Systems). The division's principal manufacturing facilities are in China, India, Poland and Sri Lanka.

Divisional revenue increased by 50% to £137.6m CER, driven by last year's acquisitions of Noratel and Foss, this year's acquisitions of Contour, Flux and Plitron, together with organic growth of 3%. Underlying operating profit of £16.5m was £6.1m higher than last year at CER (up 59%) with an underlying operating margin of 12.0%, up 0.7ppts over last year. Divisional revenue was 48% of Group revenue (51% when annualised for acquisitions) generating 78% of the Group's profit contribution, a strong increase on last year (37% of Group revenue generating 63% of Group profit contribution). This represents further good progress towards the mid-term divisional targets for Design & Manufacturing, being 65% of Group revenue with underlying operating margins in excess of 10%.

A number of new large customer contracts were won during the second half of the year, which are expected to support the Group's medium term growth plans with revenue starting as early as the end of FY 2016/17. Whilst absolute timing and demand volumes are generally linked to macro economic conditions, it is nevertheless encouraging to have secured these contracts, which will help drive longer term organic growth.

During the 2014/15 financial year, the Group made two important acquisitions: Noratel, a global designer and manufacturer of electromagnetic products, acquired in July 2014, and Foss, a designer and manufacturer of fibre optic cables and support products, acquired in January 2015. Both businesses have performed well since acquisition, generating good levels of organic sales and profit growth since last year. Noratel's North American business was returned to profitability in the second half of last year as planned and continued to deliver strong levels of organic growth this year. Foss has also performed well, with strong organic growth driven by demand for greater communication bandwidth in Norway and Eastern Europe.

During the second half of this year, the Group made three further acquisitions, Flux, Contour and Plitron, all of which were funded primarily from the Group's existing debt facilities. Each acquisition should benefit from the access they now have to Acal's broad customer base and international reach, creating new revenue opportunities from cross-selling across the Group. All three companies have performed well since joining Acal, in line with our expectations.

Flux

In November 2015, the Group acquired Flux, a Danish designer and manufacturer of customised magnetic components for use across a range of industrial, high reliability and space grade applications. Flux builds on Acal's growing custom magnetics capabilities following the previous acquisitions of Noratel and Myrra. It has manufacturing facilities in Denmark and Thailand, and is working closely with Myrra to achieve efficiencies in production.

Flux was acquired for a cash consideration of DKK 28m (£2.7m). Flux's revenue for its year ended 31 December 2014 (its final year before acquisition) was DKK 89m (£8.5m) generating a pre-tax profit of DKK 7.2m (£0.7m).

Contour

In January 2016, the Group acquired Contour, a UK based designer and manufacturer of custom cabling assemblies and connectors for use in industrial and medical applications. Engineering and low volume production is located at Contour's UK facility in Hampshire with higher volume production undertaken through partners in Asia. The addition of Contour to Acal's custom cabling capability more than doubled the Group's revenue in this technology area.

Contour was acquired for an initial consideration of £17.5m (£14.5m in cash and £3.0m in new ordinary shares). Additionally, contingent consideration of £1.0m is payable in April 2019, subject to certain conditions, and earn-out consideration of up to £6.0m will be payable after July 2019, subject to Contour achieving certain growth targets. Contour's revenue for its year ended 30 June 2015 was £10.7m, generating an

underlying profit before tax of £1.8m.

Plitron

In February 2016, the Group acquired Plitron, a Canadian designer and manufacturer of custom toroidal transformers for transportation, medical and industrial applications. Plitron has a well established track record of supplying high quality, custom-engineered magnetic products in North America.

Plitron was acquired for a cash consideration of C$4.0m (£1.8m). Plitron's revenue for its year ended 31 May 2015 was C$8.2m (£4.0m).

Custom Distribution division

The Custom Distribution division provides technically demanding customised electronic, photonic and medical products to the industrial, medical and healthcare markets, both from a range of high quality international suppliers (often on an exclusive basis) and from Acal's Design & Manufacturing division. A high degree of technical knowledge is required during the sales process, with Acal's engineers helping industrial manufacturers solve their design challenges. Acal is the only industrial electronics business which provides such a comprehensive range of customer-specific products and solutions across Europe. The division comprises two businesses, Acal BFi and Vertec.

Acal BFi supplies industrial markets and accounts for the majority of Custom Distribution revenue. It uses products from a range of complementary suppliers (including Acal's own Design & Manufacturing businesses) and supplies over 20,000 customers in five technology areas: Communications & Sensors, Power & Magnetics, Electromechanical & Shielding, Embedded Systems, and Photonics & Imaging. The business operates across Europe, with centralised warehousing, purchasing, finance, customer contact management and IT systems. Vertec supplies exclusively-sourced medical imaging and radiotherapy products into medical and healthcare markets in the UK and South Africa.

Divisional revenue of £150.1m (52% of Group revenue) was 7% below last year at CER. As expected, the organic growth rate was impacted by two large non-repeating orders from the prior year and the discontinuation from the end of the last financial year of Acal BFi's final major non-specialist, low margin supplier, in line with the Group's strategy. Excluding this revenue, ongoing divisional sales grew by 3% with continental Europe growing by 7% driven by strong growth in Germany and Italy.

In the UK, where market conditions continued to be soft, ongoing sales were down 8%. Following its restructure, sales in the UK business have now stabilised, with the priority being on growing and converting the pipeline of new projects into orders. The final element of this restructuring was the appointment of a new UK managing director at the end of this year. The UK electronics market was weaker than expected in both electronic distribution and manufacturing: the International Distribution of Electronics Association (IDEA) reported UK electronics distribution sales were down 6% at the end of 2015, while the Manufacturing of Computer, Electronic & Optical goods index declined overall by 7% in the same period.

Underlying operating profit of £4.7m was down £1.6m CER on last year reflecting the impact of the large orders and discontinued supplier mentioned above. Underlying operating margin was 3.1% compared with our mid-term target of 5%.

Cross-selling

Cross-selling initiatives are changing the nature of the Acal business, broadening the range of products which it sells to existing customers, developing more valuable customer relationships and achieving more efficient use of sales resources. This is achieved in two ways:-

i) D&M cross-selling: this is selling between Group (sister) companies. Programmes are underway to develop sales with the customers of other Group companies. This initiative, which started three years ago, generated sales of £3.0m this year, an increase of £2.0m year-on-year.

ii) Acal BFi cross-selling: this involves increasing the range of Acal BFi products from different technology areas being sold to existing Acal BFi customers. This initiative, launched five years ago, generated total sales of £11.2m this year, of which £2.8m were new sales in the year and £8.4m were recurring sales from projects designed in previous years. This compares with £10.2m last year.

In total, £14.2m of business was generated from these cross-selling initiatives. This represents 4.9% of Group revenue and is £3.0m higher than last year (£4.0m CER).

Acquisitions

The Group sees the opportunity for significant value creation by acquiring complementary, high quality Design & Manufacturing businesses. Customised electronics is a fragmented market in which Acal is seen by vendors as an attractive acquirer. The Group enables companies to further develop within the Acal network, providing them with new organic growth opportunities whilst retaining their entrepreneurial culture. There are broadly two categories of acquisition. A 'platform' acquisition is larger and creates a new position in a market technology and/or geography. A 'bolt-on' acquisition is smaller and expands the position of an existing business, by being integrated into it. Both categories are being developed.

Following acquisition, new Design & Manufacturing businesses operate to a pre-agreed business plan, supported by the Group's governance, controls and centralised treasury function, whilst retaining their commercial capability and branding. These businesses gain access to a much wider range of similar customers via both the Custom Distribution network and other Group Design & Manufacturing business. Financial incentives are in place internally which encourage cross-selling activities.

Newly acquired businesses can realise a number of benefits by being part of the Acal Group, becoming positively differentiated from their competitors, and generating new sales opportunities.

By joining Acal, being a much larger group, major customer exposure is diluted, often a limiting factor for major customers when engaging with smaller suppliers. Additionally, the secure financial position of Acal provides customers with greater comfort of supply.

Outlook

Acal has delivered another strong set of results this year demonstrating the strength of its well established growth strategy.

Whilst challenging trading conditions are likely to continue in the first half of the year, we expect an improvement in the second half in line with our expectations for the full year. We have £20m of funding available for acquisitions and will continue to take advantage of opportunities that will enhance growth and shareholder value.

We are building a highly differentiated, international electronics business, supplying essential technologies to growth markets, and are confident of making further progress in the year ahead.

Nick Jefferies
Group Chief Executive

1 June 2016

FINANCE REVIEW

Revenue

Group revenue for the year increased by 14% CER and by 6% at reported rates (the difference reflecting the impact of Sterling strength since last year). While organic revenue reduced by 2%, ongoing sales (sales excluding two large, non-repeating orders from last year in Custom Distribution and sales from its final major non-specialist, low margin supplier discontinued last year) increased by 3%.

Gross profit

Gross profit for the year increased by 18% CER over last year. This growth rate is higher than the corresponding revenue growth rate of 14%, reflecting further improvements in gross margin which increased by 1.1ppts to 32.2%. Growth has been achieved both organically and through acquisition. This is the Group's highest annual gross margin since our strategy was introduced in 2009. The strategy has delivered an increase of 6.3ppts in the last seven years, and is a key indicator of the increasingly differentiated nature of the business.

Underlying operating costs

Group underlying operating costs were up 15% CER reflecting the inclusion of the cost bases of companies acquired since last year, as well as the annualisation effect of last year's acquisitions. Organic underlying operating costs for the Group were at the same level as last year with increased investment in the Design & Manufacturing division and related central costs being offset by a 5% reduction in operating costs in Custom Distribution, mainly due to the restructuring of the UK business.

Group operating profit and margin

Group underlying operating profit for the year was £16.3m, an increase of £2.9m (+22%) on last year, delivering a Group underlying operating margin of 5.7%, up 0.8ppts on last year. At CER, the increase in underlying operating profit was £4.3m (+36%), with the underlying operating margin up 1.0ppt.

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £11.4m, an increase of £5.3m on last year.

	FY 2015/16			FY 2014/15		
£m	**Operating Profit**	**Finance cost**	**Profit before tax**	**Operating profit**	**Finance cost**	**Profit before tax**
Underlying	16.3	(1.8)	14.5	13.4	(1.6)	11.8
Underlying adjustments						
Exceptional items	(1.2)	-	(1.2)	(4.2)	-	(4.2)
Earn-out accruals	(0.6)	-	(0.6)	(0.8)	-	(0.8)
Amortisation of acquired intangibles	(2.8)	-	(2.8)	(2.1)	-	(2.1)
IAS 19 pension cost	(0.3)	(0.2)	(0.5)	(0.2)	(0.2)	(0.4)
Reported	11.4	(2.0)	9.4	6.1	(1.8)	4.3

Translation impact of foreign exchange

During the year, over 80% of revenues were generated in non-Sterling currencies of which around 50% were in Euro and 22% in Nordic currencies. 90% of underlying operating profit was generated in Euro and Nordic currencies. The average Sterling rate of exchange for the year strengthened 7% against the Euro compared with the average rate for last year (rising from 1.275 to 1.367) and strengthened 9% against Nordic currencies on average; together, this negatively affected reported sales for this year by around 6% and underlying operating profit by around 8%. As the following table illustrates, had this year's exchange rates been the same as the average rates in the prior year, revenue would have been higher by £17.2m and underlying operating profit higher by £1.3m.

	FY 2015/16	
£m	**Revenue £m**	**Underlying operating profit £m**
Revenue (FY 15 rates)	304.9	17.6
Translation impact	(17.2)	(1.3)
Reported revenue (FY 16 rates)	287.7	16.3
Translation impact %	(6%)	(8%)

Conversely, the prior year's revenue and underlying operating profit, restated at this year's average exchange rates, would have been lower by £18.2m and £1.4m respectively (see the divisional results table in the Chief Executive's Review).

Through its centralised treasury function, the Group continues to hedge its material transactional exposures from the time of order through to payment using forward contracts, thereby minimising the impact of exchange rates on gross margin.

Underlying adjustments

Underlying adjustments for the period comprise earn-out accruals of £0.6m (FY 2014/15: £0.8m), other exceptional items of £1.2m (FY 2014/15: £4.2m), the amortisation of acquired intangibles of £2.8m (FY 2014/15: £2.1m) and IAS19 legacy pension costs of £0.5m (FY 2014/15: £0.4m).

Exceptional items (excluding earn-outs) for the year were £1.2m. Of this, £1.0m were costs related to the acquisition and integration of Flux, Contour and Plitron during the year and £0.2m were costs relating to the finalisation of the restructure of Acal BFi UK.

The £0.7m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Noratel and Foss last year and the acquisitions of Flux, Contour and Plitron this year.

The IAS 19 pension administration cost increased by £0.1m in the year following an increase in the Pension Protection Fund levy payable to the Pensions Regulator.

Net financing costs

Net financing costs for the year were £2.0m (FY 2014/15: £1.8m), being an underlying finance cost of £1.8m and an IAS 19 pension finance cost of £0.2m relating to the Group's legacy defined benefit pension scheme.

Underlying finance costs consist of interest and facility fees arising from the Group's banking facilities during the year. Finance costs for the year were up £0.2m to £1.8m due to the debt funding of acquisitions this year, together with a full year's finance charge in respect of last year's acquisitions.

The IAS19 pension finance cost of £0.2m was in line with last year's charge.

Underlying tax rate

The underlying effective tax rate for the year of 22% was 2ppts higher than last year (FY 2014/15: 20%), principally because the underlying tax rates of the businesses acquired in the last two years are higher than that of the Acal Group prior to the acquisitions. Some growth in future rates is expected as the full effects of acquisitions annualise and existing tax losses are utilised.

The overall tax rate was 1ppts higher at 23%, reflecting the impact of non-tax deductibility of exceptional acquisition costs.

Profit before tax and earnings per share

Underlying profit before tax for the year was £14.5m, an increase of £2.7m (+23%) compared with last year and an increase of 37% CER. With the higher underlying tax rate and the increased weighted average number of shares (up 10% on last year following the full annualised effect of the rights issue in July 2014 and the issue of 1.08 million shares (valued at £3.0m) forming part of the consideration for the acquisition of Contour), underlying diluted earnings per share for the year was 17.0 pence, up 10% on last year and up 23% CER.

After the underlying adjustments discussed above, reported profit before tax was £9.4m, up £5.1m from last year, with reported fully diluted earnings per share of 10.9 pence, up 6.1 pence on last year.

£m/p	**FY 2015/16**		**FY 2014/15**	
	PBT	**EPS**	**PBT**	**EPS**
Underlying	14.5	17.0p	11.8	15.4p
Underlying adjustments				
Exceptional items	(1.2)		(4.2)	
Earn-out accruals	(0.6)		(0.8)	
Amortisation of acquired intangibles	(2.8)		(2.1)	
IAS 19 pension cost	(0.5)		(0.4)	
Reported	9.4	10.9p	4.3	4.8p

Working capital and ROTCE

Working capital of £53.2m at 31 March 2016 (FY 2014/15: £43.8m) was 17% of final quarter annualised sales (FY 2014/15: 14%). This ratio is higher than last year due to the increasing size of the more profitable Design & Manufacturing division (with working capital of 21% as a percentage of sales, compared to 12% in Custom Distribution, primarily because of higher inventory requirements). In the year, Design & Manufacturing accounted for 48% of sales (51% when annualised for acquisitions), compared with 37% last year. The increase in working capital of £9.4m (+21%) over last year relates mainly to acquisitions in the year and movements in exchange rates, with organic growth in working capital limited to 3%.

Group trade debtors and trade creditors outstanding at 31 March 2016 were both slightly higher than last year at 56 days (up 3 days) and 62 days (up 2 days) respectively, mainly due to the impact of acquisitions during the year (Flux, Contour and Plitron). Group inventory turns were lower at 5.4 times (down 0.5 turns) due to the acquired businesses being manufacturers, which carry higher levels of inventory than Custom Distribution.

ROTCE (return on trading capital employed, as defined in note 5 to the attached summary financial statements) for the year was 23%. This ratio is slightly lower than last year (FY 2014/15: 24%) due to the initial impact of acquisitions, which should help drive ratio growth over the

medium term. Our three year target is to achieve a ROTCE of at least 25%.

Cash flow

The Group had net debt of £38.1m at 31 March 2016 compared with £19.0m at the end of last year. The movement primarily relates to the debt funding of acquisitions during the year, partially offset by strong free cash flow.

£m	FY 2015/16	FY 2014/15
Net (debt)/cash at 1 April	(19.0)	2.3
Free cash flow (table below)	10.2	9.0
Acquisitions/disposals (inc earn-outs/costs)	(20.8)	(74.2)
Exceptional payments	(1.4)	(2.1)
Customer prepayment	-	(3.2)
Net equity proceeds	-	52.7
Legacy pension	(1.6)	(1.6)
Dividends	(4.9)	(3.6)
Cash flow from discontinued operations	-	(0.2)
Foreign exchange impact	(0.6)	1.9
Net debt at 31 March	**(38.1)**	**(19.0)**

Acquisition costs of £20.8m include the cost of acquiring Flux in November 2015 for £2.7m, Contour in January 2016 for a £14.5m initial cash payment and Plitron in February 2016 for £1.8m, together with related acquisition costs.

Exceptional cash payments in the year totalled £1.4m and related mainly to the cash cost of Acal BFi restructuring costs which were accrued for last year. Last year saw the reversal of a significant customer prepayment of £3.2m which had been received in two instalments (FY 2012/13: £2.6m and FY 2013/14: £0.6m) but was only invoiced last year.

The increase in the dividend cash payment by £1.3m to £4.9m reflects the increase in dividend per share (increased by 12% last year) and the increased number of shares following the rights issue in July 2014. The Group will continue to review the level of future dividend increases in relation to its policy of long term dividend cover of 2 to 3 times.

Operating cash flow and free cash flow for the year (see definitions in note 5 to the financial statements), compared with last year, are shown below.

£m	FY 2015/16	FY 2014/15
Underlying profit before tax	**14.5**	**11.8**
Finance cost	1.8	1.6
Non cash items[1]	3.5	3.4
Underlying EBITDA	**19.8**	**16.8**
Working capital	(1.2)	(0.5)
Capital expenditure	(2.3)	(2.4)
Operating cash flow	**16.3**	**13.9**
Interest	(1.8)	(1.6)
Taxation	(4.3)	(3.3)
Free cash flow	**10.2**	**9.0**
Free Cash Flow %	**70%**	**76%**

(1) Key non-cash items are depreciation, amortisation and share-based payments

Underlying EBITDA of £19.8m was 18% higher than last year. £1.2m was invested into working capital, principally to support growth in the Design & Manufacturing division during the year. Capital expenditure of £2.3m was similar to last year.

Operating cash flow of £16.3m was £2.4m higher than last year and represents 100% of underlying operating profit. This compares favourably to our three year average target of 85%.

The increase in tax cash payments by £1.0m to £4.3m reflects the higher profitability of the Group.
Free cash flow for the year (after finance costs and taxation) of £10.2m was £1.2m higher than last year and represented 70% of underlying profit before tax.

Banking facilities

During the second half of the year, the Group extended its five year syndicated banking facility to £90m through the exercise of its £20m accordion facility. The syndicated facility was set up in June 2014 and is available both for acquisitions and for working capital purposes. Average net debt was £43m across the final quarter of the year.

With net debt at 31 March 2016 of £38.1m, the Group's gearing ratio was 1.7 times (defined as net debt divided by underlying EBITDA, adjusted for a full year's inclusion from acquisitions) compared with our target gearing range of 1.5 to 2.0 times.

Balance sheet

Net assets of £101.9m at 31 March 2016 were £9.2m higher than at the end of the last financial year (31 March 2015: £92.7m). The increase primarily relates to the net profit after tax for the year of £7.2m, net equity funding of £3.0m and translation gains on currency net assets of

£3.4m, partly offset by dividends paid of £4.9m. The movement in net assets is summarised below:

£m	FY 2015/16
Net assets at 1 April 2015	92.7
Net profit after tax	7.2
Dividend paid	(4.9)
Net equity funding	3.0
Currency net assets - FX translation impact	3.4
Gain on defined benefit scheme	0.5
Changes in fair value of cash flow hedges	(0.7)
Share based payments (including tax)	0.7
Net assets at 31 March 2016	**101.9**

Risks and uncertainties

The principal risks faced by the Group will be covered in more detail in the Group's Annual Report, due to be published later this month. These risks include but are not limited to: the economic environment, particularly within Europe; the risk of the UK leaving Europe; the performance of acquired companies; major business disruption; exposure to adverse foreign currency movements; technological change; regulatory environment; cyber security; international trade risk; obligations in respect of a legacy defined benefit pension scheme; loss of key personnel; and operational risks.

Acal's risk management processes cover identification, impact assessment, likely occurrence and mitigating actions. 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 and committed banking facility of £90m at the end of the year.

Simon Gibbins
Group Finance Director

1 June 2016

Consolidated income statement
for the year ended 31 March 2016

	notes	2016 £m	2015 £m
Revenue	6	**287.7**	271.1
Cost of sales		**(195.1)**	(186.7)
Gross profit		**92.6**	84.4
Selling and distribution costs		**(43.4)**	(44.0)
Administrative expenses (including exceptional items)	7	**(37.8)**	(34.3)
Operating profit		**11.4**	6.1
Finance revenue		**0.3**	0.1
Finance costs		**(2.3)**	(1.9)
Profit before tax		**9.4**	4.3
Tax expense		**(2.2)**	(1.4)
Profit for the year		**7.2**	2.9
Earnings per share	9		
Basic		**11.4p**	5.0p
Diluted		**10.9p**	4.8p

Supplementary income statement information

Underlying Performance Measure		2016 £m	2015 £m
Operating profit		**11.4**	6.1
Add back: Exceptional items	7	**1.8**	5.0
Amortisation of acquired intangible assets		**2.8**	2.1
IAS 19 pension administrative charge		**0.3**	0.2
Underlying operating profit		**16.3**	13.4
Profit before tax		**9.4**	4.3
Add back: Exceptional items	7	**1.8**	5.0

Amortisation of acquired intangible assets		**2.8**	2.1
Total IAS 19 pension charge		**0.5**	0.4
Underlying profit before tax		**14.5**	11.8
Underlying earnings per share	9		
Basic		**17.9p**	16.3p
Diluted		**17.0p**	15.4p

Consolidated statement of comprehensive income
for the year ended 31 March 2016

	notes	**2016 £m**	2015 £m
Profit for the year		**7.2**	2.9
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme		**0.7**	(2.0)
Deferred tax (charge)/credit relating to defined benefit pension scheme		**(0.2)**	0.4
		0.5	(1.6)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries		**3.4**	(8.0)
Effective portion of changes in fair value of cash flow hedges		**(0.7)**	0.6
		2.7	(7.4)
Other comprehensive profit/(loss) for the year, net of tax		**3.2**	(9.0)
Total comprehensive profit/(loss) for the year, net of tax		**10.4**	(6.1)

Consolidated statement of financial position
at 31 March 2016

	notes	**2016 £m**	2015 £m
Non-current assets			
Property, plant and equipment		**14.7**	13.8
Intangible assets - goodwill	13	**63.6**	51.6
Intangible assets - other		**24.6**	18.3
Deferred tax assets		**5.5**	4.9
		108.4	88.6
Current assets			
Inventories		**42.9**	39.8
Trade and other receivables		**65.5**	60.2
Other financial assets		**-**	0.6
Cash and cash equivalents		**19.9**	26.7
		128.3	127.3
Total assets		**236.7**	215.9
Current liabilities			
Trade and other payables		**(55.2)**	(56.2)
Other financial liabilities		**(0.8)**	(0.2)
Current tax liabilities		**(2.7)**	(2.3)
Provisions		**(3.0)**	(3.4)
		(61.7)	(62.1)
Non-current liabilities			
Other financial liabilities		**(57.2)**	(45.5)
Pension liability	15	**(5.6)**	(7.4)
Provisions		**(3.5)**	(2.7)
Deferred tax liabilities		**(6.8)**	(5.5)
		(73.1)	(61.1)
Total liabilities		**(134.8)**	(123.2)
Net assets		**101.9**	92.7
Equity			
Share capital	14	**3.2**	3.1
Share premium		**95.6**	92.7
Merger reserve		**3.0**	3.0
Currency translation reserve		**(4.4)**	(7.8)
Retained earnings		**4.5**	1.7
Total equity		**101.9**	92.7

These financial statements were approved by the Board of Directors on 1 June 2016 and signed on its behalf by:

N J Jefferies
Chief Executive

S M Gibbins
Group Finance Director

Consolidated statement of changes in equity
for the year ended 31 March 2016

	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 2014	**1.6**	**40.7**	**3.0**	**0.2**	**3.0**	**48.5**
Profit for the year	-	-	-	-	2.9	2.9
Other comprehensive loss	-	-	-	(8.0)	(1.0)	(9.0)
Total comprehensive loss	-	-	-	(8.0)	1.9	(6.1)
Shares issued	1.5	54.4	-	-	-	55.9
Share issue costs	-	(2.4)	-	-	-	(2.4)
Share-based payments including tax	-	-	-	-	0.4	0.4
Dividends (note 8)	-	-	-	-	(3.6)	(3.6)
At 31 March 2015	**3.1**	**92.7**	**3.0**	**(7.8)**	**1.7**	**92.7**
Profit for the year	-	-	-	-	7.2	7.2
Other comprehensive income	-	-	-	3.4	(0.2)	3.2
Total comprehensive income	-	-	-	3.4	7.0	10.4
Shares issued (note 14)	0.1	2.9	-	-	-	3.0
Share-based payments including tax	-	-	-	-	0.7	0.7
Dividends (note 8)	-	-	-	-	(4.9)	(4.9)
At 31 March 2016	**3.2**	**95.6**	**3.0**	**(4.4)**	**4.5**	**101.9**

On 14 January 2016, the Company issued 1,080,420 shares ("Consideration Shares") to the shareholders of Contour Holdings Limited and its affiliate Contour Electronics Asia Limited (together defined as "Contour") in connection with the acquisition of Contour. The fair value of the shares issued was £3.0m.

The difference between the nominal value of the shares issued and the gross proceeds was credited to the share premium account.

During the year to 31 March 2016, 82,928 share options were exercised by employees under the terms of the various share option schemes (2015: nil).

Consolidated statement of cash flows
for the year ended 31 March 2016

	notes	**2016 £m**	2015 £m
Net cash flow from operating activities	12	**8.2**	1.6
Investing activities			
Acquisition of shares in subsidiaries (net of cash/(debt) acquired)	10	**(19.9)**	(42.7)
Proceeds from the disposal of business (net of disposal costs)		**-**	5.3
Purchase of property, plant and equipment		**(1.6)**	(2.2)
Purchase of intangible assets - software		**(0.7)**	(0.3)
Proceeds from disposal of property plant and equipment		**0.1**	0.1
Interest received		**0.3**	0.1
Net cash used in investing activities		**(21.8)**	(39.7)
Financing activities			
Net proceeds from the issue of shares	14	**-**	52.7
Proceeds from borrowings		**9.9**	56.2
Repayment of borrowings		**-**	(51.2)
Dividends paid	8	**(4.9)**	(3.6)
Net cash from financing activities		**5.0**	54.1
Net (decrease)/increase in cash and cash equivalents		**(8.6)**	16.0
Cash and cash equivalents at 1 April		**26.6**	11.9
Effect of exchange rate fluctuations		**1.2**	(1.3)
Cash and cash equivalents at 31 March		**19.2**	26.6
Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Cash and cash equivalents shown above		**19.2**	26.6
Add back: bank overdrafts		**0.7**	0.1
Cash and cash equivalents presented in current assets in the consolidated statement of financial position		**19.9**	26.7

1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 1 June 2016. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies whereas those for 2016 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 factors which may adversely impact 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 significant 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 principal risks and uncertainties successfully.

The Group's forecasts and projections, taking account of the sensitivity analysis of changes in trading performance, show that the Group is well placed to operate within the level of its current committed facilities for the foreseeable future.

After making due 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.

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 this Annual Report:

Underlying operating profit

"Underlying operating profit" is defined as operating profit excluding exceptional items, amortisation of acquired intangible assets and the IAS19 pension administration charge relating to the Group's legacy defined benefit pension scheme.

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 excluding exceptional items, amortisation of acquired intangible assets and the total IAS19 pension charge relating to the Group's legacy defined benefit pension scheme.

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.

Free cash flow

"Free cash flow" is defined as net cash flow before the payment/receipt of exceptional items, payments to the legacy defined benefit pension scheme, dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

Return On Trading Capital Employed ("ROTCE")

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

Organic basis

Reference to 'organic' basis included in the Chairman's statement, Chief Executive's Operating review and Finance review of the Strategic Report means at constant exchange rates ("CER"), including the matching pre-acquisition periods of the Noratel Group and Foss Group, which were acquired last year, and of Flux A/S, Contour and Plitron Inc, which were acquired this year.

6. Operating segment information

The Group organises its businesses into two divisions, Design & Manufacturing and Custom Distribution.

- The Design & Manufacturing division manufactures custom electronic products that are uniquely designed or modified from a standard product for a specific customer requirement. The products are manufactured at one of our in-house manufacturing facilities or, in a few cases, by third party contractors.
- The Custom Distribution division provides technically demanding, customised electronic, photonic and medical products to the industrial, medical and healthcare markets, both from a range of high-quality, international suppliers (often on an exclusive basis) and from Acal's Design & Manufacturing division.

These two divisions have been assessed as the reportable operating segments of the Group. Within each reportable operating segment are aggregated businesses units with similar characteristics such as the method of acquiring products for sale (manufacturing versus distribution), the nature of customers and 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 based on operating profit or loss earned by each segment without allocation of central administration costs including directors' salaries, investment revenue and finance costs, and income tax expense.

Segment revenue and results

2016	Design & Manufacturing £m	Custom Distribution £m	Unallocated £m	Total £m
Revenue	**137.6**	**150.1**	**-**	**287.7**
Result				
Underlying operating profit/(loss)	16.5	4.7	(4.9)	16.3
Exceptional items - Earn-outs	(0.6)	-	-	(0.6)
Exceptional items - acquisition and related integration costs	(1.0)	-	-	(1.0)
Exceptional items - restructuring	-	(0.2)	-	(0.2)
Amortisation of acquired intangible assets	(2.5)	(0.3)	-	(2.8)
IAS 19 pension charge	-	-	(0.3)	(0.3)
Operating profit/(loss)	**12.4**	**4.2**	**(5.2)**	**11.4**

2015	Design & Manufacturing £m	Custom Distribution £m	Unallocated £m	Total £m
Revenue	**101.3**	**169.8**	**-**	**271.1**
Result				
Underlying operating profit/(loss)	11.4	6.7	(4.7)	13.4
Exceptional items - Earn-outs	(0.8)	-	-	(0.8)
Exceptional items - acquisition and related integration costs	(2.1)	(0.4)	-	(2.5)
Exceptional items - restructuring	-	(1.7)	-	(1.7)
Amortisation of acquired intangible assets	(1.6)	(0.5)	-	(2.1)
IAS 19 pension charge	-	-	(0.2)	(0.2)
Operating profit/(loss)	**6.9**	**4.1**	**(4.9)**	**6.1**

The Group's revenue from external customers based on customer locations is detailed below:

	Revenue from external customers		Non current assets	
	2016 £m	2015 £m	**2016 £m**	2015 £m
UK	**52.9**	49.9	**21.7**	13.0
Europe	**197.5**	186.9	**79.6**	70.6
Rest of the World	**37.3**	34.3	**7.1**	5.0
	287.7	271.1	**108.4**	88.6

7. Exceptional items

		2016 £m	2015 £m
Earn-outs	(a)	**(0.6)**	(0.8)
Acquisition and related integration costs	(b)	**(1.0)**	(2.5)
Acal BFi restructuring costs	(c)	**(0.2)**	(1.7)

Net exceptional items (included within administrative expenses)	**(1.8)**	(5.0)
Tax impact of exceptional items above	**-**	0.1
Exceptional items after tax	**(1.8)**	(4.9)

a) A £0.6m charge was provided for the earn-outs relating to the acquisition of the Myrra Group and Contour.

b) Acquisition and related integration costs relate mainly to the acquisitions of Flux, Contour and Plitron.

Last year, the acquisition and related integration costs related mainly to the acquisitions of Noratel and Foss, and residual costs relating to the integration of YEG into Acal BFi .

c) Acal BFi restructuring costs were £0.2m, which relate to the termination of the UK Managing Director.

Last year, the Acal BFi business undertook a restructuring programme to improve organisational efficiency in the business, mainly in the UK. As a result, redundancy costs of £1.7m were incurred during the year, of which a £0.4m charge was incurred in respect of the termination of a major non-specialist supplier.

8. Dividends

Dividends recognised in equity as distributions to equity holders in the year:

	2016 £m	2015 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2015 of 5.4p (2014: 5.0p)	**3.4**	2.1
Interim dividend for the year ended 31 March 2016 of 2.33p (2015: 2.2p)	**1.5**	1.5
Total amounts recognised as equity distributions during the year	**4.9**	3.6

Proposed for approval at AGM:	**2016 £m**	2015 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2016 of 5.72p (2015: 5.4p)	**3.7**	3.4

Summary		
Dividends per share declared in respect of the year	**8.05p**	7.60p
Dividends per share paid in the year	**7.73p**	7.20p
Dividends paid in the year	**£4.9m**	£3.6m

9. Earnings 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:

	2016 £m	2015 £m
Profit for the year attributable to equity holders of the parent:	**7.2**	2.9

	No	No
Weighted average number of shares for basic earnings per share	63,304,752	57,631,407
Effect of dilution - share options	3,008,388	3,318,230
Adjusted weighted average number of shares for diluted earnings per share	**66,313,140**	60,949,637

Basic earnings per share	**11.4p**	5.0p
Diluted earnings per share	**10.9p**	4.8p

At the year end, there were 4,541,801 ordinary share options in issue that could potentially dilute earnings per share in the future, of which 3,008,388 are currently dilutive (2015: 4,194,192 in issue and 3,318,230 dilutive).
Underlying earnings per share is calculated as follows:

	2016 £m	2015 £m
Earnings for the year	**7.2**	2.9
Exceptional items	**1.8**	5.0
Amortisation of acquired intangible assets	**2.8**	2.1
IAS 19 pension charge	**0.5**	0.4
Tax effect of the above	**(1.0)**	(1.0)
Underlying earnings	**11.3**	9.4

	No	No
Weighted average number of shares for basic earnings per share	63,304,752	57,631,407
Effect of dilution - share options	3,008,388	3,318,230

Adjusted weighted average number of shares for diluted earnings per share	**66,313,140**	60,949,637
Underlying basic earnings per share	**17.9p**	16.3p
Underlying diluted earnings per share	**17.0p**	15.4p

At the year end, there were 4,541,801 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 3,008,388 are currently dilutive (2015: 4,194,192 in issue and 3,318,230 dilutive).

10. Business combinations

During the year, the Group completed the acquisitions of three businesses, namely: Flux A/S ("Flux"); Contour Holdings Limited and its affiliate Contour Electronics Asia Limited (together defined as "Contour") and Plitron Manufacturing Inc ("Plitron"). These acquisitions have expanded the Group's design and manufacturing capabilities.

The net cash flow on the acqusitions (including net cash/(debt) acquired and before transaction costs) during the year was £19.9m including £0.5m payments of working capital adjustment relating to Foss AS Fiberoptisk Systemsalg ("Foss") and £0.2m deferred consideration relating to RSG Electronic Components GmbH.

Acquisition of Flux

On 5 November 2015, the Group completed the acquisition of 100% of the share capital and voting equity interests of Flux A/S ("Flux"), for a cash consideration of £2.7m. Flux owns 100% of the share capital and voting equity interests of Flux International Limited based in Thailand. The cash consideration and related acquisition expenses were met from the Group's debt facility.

Flux, which is headquartered in Denmark and has a manufacturing facility in Thailand, is a designer and manufacturer of customised magnetic components for use across the range of industrial, high reliability and space grade applications. Flux has been acquired from Niels Overgaard Christensen Holdings A/S, a Danish company founded in 1980 and which is wholly owned by Mr Niels Overgaard Christensen.

The provisional fair value of the identifiable assets and liabilities of Flux at the date of acquisition were as follows. The Group is in the process of finalising the fair value of the acquired assets and liabilities.

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.5
Intangible assets - other	0.1
Intangible assets - customer relationships	0.4
Inventories	1.6
Trade and other receivables	2.2
Net debt	(1.3)
Trade and other payables	(1.0)
Current tax liabilities	(0.2)
Deferred tax liabilities (non-current)	(0.2)
Total identifiable net assets	**2.1**
Provisional goodwill arising on acquisition	**0.6**
Total investment	**2.7**
Discharged by	
Cash	**2.7**

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

Included in the £0.6m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	2.7
Transaction costs of the acquisition (included in cash flows from operating activities)*	0.2
Net debt acquired	1.3
	4.2

*Transaction costs of £0.2m were expensed as incurred in the year ending 31 March 2016 and were included as an exceptional item within administrative expenses (note 7).

Acquisition of Contour

On 7 January 2016, the Group completed the acquisition of 100% of the share capital and voting equity interests of Contour Holdings Limited and its affiliate Contour Electronics Asia Limited (together defined as "Contour"), for an initial consideration of £17.5m. The initial consideration comprises £14.5m in cash, funded from the Group's existing debt facilities, and the issue to the vendors of new ordinary shares of 5p each in Acal ("New Ordinary Shares") to the fair value of £3.0m. Contingent consideration of £1.0m is payable in April 2019, subject to certain conditions and an earn-out of up to £6.0m will be payable after July 2019, subject to Contour achieving agreed growth targets.

The fair value of the earn-out at acquisition was estimated to be £1.1m. There were no changes in the fair value between the acquisition date and 31 March 2016. The contingent consideration of £1.0m is linked to the continued employment of the management sellers and will be expensed on a straight line basis over the period from acquisition date to 31 March 2019.

Contour designs and manufactures custom cabling assemblies and connectors for use in industrial and medical applications. Engineering and low volume production is located at Contour's facility in Hampshire in the UK with higher volume production undertaken through partners in Asia. The addition of Contour to Acal's cabling capability will more than double the Group's revenues in this technology area.

The provisional fair value of the identifiable assets and liabilities of Contour at the date of acquisition were as follows. The Group is in the process of finalising the fair value of the acquired assets and liabilities.

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.4
Intangible assets - customer relationships	7.4
Inventories	1.0
Trade and other receivables	2.8
Cash and cash equivalents	1.3
Trade and other payables	(1.2)
Current tax liabilities	(0.5)
Provisions (current)	(0.1)
Deferred tax liabilities (non-current)	(1.5)
Total identifiable net assets	**9.6**
Provisional goodwill arising on acquisition	**9.0**
Total investment	**18.6**
Discharged by	
Cash	**14.5**
Shares	**3.0**
Contingent consideration	**1.1**
	18.6

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

Included in the £9.0m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	14.5
Transaction costs of the acquisition (included in cash flows from operating activities)*	0.3
Cash acquired	(1.3)
	13.5

*Transaction costs of £0.3m were expensed as incurred in the year ending 31 March 2016 and were included as an exceptional item within administrative expenses (note 7).

Acquisition of Plitron

On 1 February 2016, the Group completed the acquisition of 100% of the share capital and voting equity interests of Plitron manufacturing Inc. "Plitron" for a cash consideration of £1.8m. The acquisition was funded from Acal's existing debt facility.

Contingent consideration of £0.3m will be payable to the sellers upon receipt of certain trade receivables. The fair value of the contingent consideration at acquisition date and 31 March 2016 was nil.

An additional contingent consideration of up to £0.1m will be payable after March 2018, subject to Plitron achieving agreed customer revenue targets. The fair value of the additional contingent consideration at acquisition date and 31 March 2016 was nil.

Plitron, based in Toronto, Canada, is a designer and manufacturer of custom toroidal transformers for transportation, medical and industrial applications.

The provisional fair value of the identifiable assets and liabilities of Plitron at the date of acquisition were as follows. The Group is in the process of finalising the fair value of the acquired assets and liabilities.

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.2
Intangible assets - customer relationships	0.7

Inventories	0.5
Trade and other receivables	1.0
Cash and cash equivalents	(0.2)
Trade and other payables	(1.0)
Current tax liabilities	(0.1)
Deferred tax liabilities (non-current)	(0.3)
Total identifiable net assets	**0.8**
Provisional goodwill arising on acquisition	**1.0**
Total investment	**1.8**
Discharged by	
Cash	**1.8**

The fair value of the trade receivables is £0.3m lower than their gross amounts.

Included in the £1.0m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	1.8
Transaction costs of the acquisition (included in cash flows from operating activities)*	0.1
Net debt acquired	0.2
	2.1

*Transaction costs of £0.1m were expensed as incurred in the year ending 31 March 2016 and were included as an exceptional item within administrative expenses (note 7).

11. Movements in cash and net debt

Year to 31 March 2016

	31 March 2015 £m	Cash flow £m	Foreign exchange £m	**31 March 2016 £m**
Cash at bank and in hand	26.7	(8.4)	1.6	**19.9**
Bank overdrafts	(0.1)	(0.2)	(0.4)	**(0.7)**
Cash and cash equivalents	26.6	(8.6)	1.2	**19.2**
Bank loans under one year	(0.1)	0.2	(0.2)	**(0.1)**
Bank loans over one year	(45.5)	(10.1)	(1.6)	**(57.2)**
Total loan capital	(45.6)	(9.9)	(1.8)	**(57.3)**
Net debt	**(19.0)**	**(18.5)**	**(0.6)**	**(38.1)**

Bank loans over one year above include £56.8m (2015:£45.1m) drawn down against the Group's revolving credit facility.

Year to 31 March 2015

	31 March 2014 £m	Cash flow £m	Foreign exchange £m	31 March 2015 £m
Cash at bank and in hand	18.6	10.2	(2.1)	26.7
Overdrafts	(6.7)	5.8	0.8	(0.1)
Cash and cash equivalents	11.9	16.0	(1.3)	26.6
Bank loans under one year	(0.1)	(1.3)	1.3	(0.1)
Bank loans over one year	(9.5)	(37.9)	1.9	(45.5)
Total loan capital	(9.6)	(39.2)	3.2	(45.6)
Net cash/(debt)	2.3	(23.2)	1.9	(19.0)

Supplementary information to the statement of cash flows

Underlying Performance Measure

Continuing operations	**2016 £m**	2015 £m
Decrease in net cash	**(18.5)**	(23.2)
Add: Business combinations	**20.8**	79.5
Exceptional cash flow	**1.4**	2.1
Legacy pension scheme funding	**1.6**	1.6
Customer prepayment	**-**	3.2

Dividends paid	**4.9**	3.6
Less: Net proceeds from share issue	**-**	(52.7)
Net proceeds from disposal of business	**-**	(5.3)
Cash flows from discontinued operations	**-**	0.2
Free cash flow	**10.2**	9.0

12. Reconciliation of cash flows from operating activities

	2016 £m	2015 £m
Profit for the year	**7.2**	2.9
Tax expense	**2.2**	1.4
Net finance costs	**2.0**	1.8
Depreciation of property, plant and equipment	**2.2**	2.1
Amortisation of intangible assets - other	**3.4**	2.6
Loss on disposal of intangible assets	**-**	0.1
Change in provisions	**(0.5)**	0.3
Loss on disposal of business	**-**	0.1
Pension scheme funding	**(1.6)**	(1.6)
IAS 19 pension administration charge	**0.3**	0.2
Equity-settled share-based payment expense	**0.7**	0.6
Operating cash flows before changes in working capital	**15.9**	10.5
Decrease/(increase) in inventories	**1.7**	(2.3)
Decrease in trade and other receivables	**3.4**	1.1
Decrease in trade and other payables	**(6.4)**	(2.7)
Increase in working capital	**(1.3)**	(3.9)
Cash generated from operations	**14.6**	6.6
Interest paid	**(2.1)**	(1.7)
Income taxes paid	**(4.3)**	(3.3)
Net cash flow from operating activities	**8.2**	1.6

13. Intangible assets - goodwill

Cost	£m
At 1 April 2014	58.0
Arising from business combinations	36.6
Exchange adjustments	(6.2)
At 31 March 2015	88.4
Arising from business combinations	10.6
Exchange adjustments	1.4
At 31 March 2016	**100.4**

Impairment	£m
At 31 March 2015 and 31 March 2016	**(36.8)**

Net book value at 31 March 2016	**63.6**

Net book value at 31 March 2015	51.6

The carrying value of goodwill is analysed as follows:

	2016 £m	2015 £m
Custom Distribution		
Acal BFi UK	**3.3**	3.3
Compotron	**4.7**	4.4
Medical	**0.6**	0.6
Design & Manufacturing		
Stortech	**3.6**	3.6
Hectronic	**0.6**	0.5
MTC	**2.0**	1.9
Myrra	**4.7**	4.3
RSG	**1.1**	1.0
Noratel	**27.1**	26.8
Foss	**5.2**	5.2
Flux	**0.6**	-
Contour	**9.0**	-
Plitron	**1.1**	-
	63.6	51.6

14. Share capital

Allotted, called up and fully paid	2016 Number	2016 £m	2015 Number	2015 £m
Ordinary shares of 5p each	**64,212,568**	**3.2**	63,049,220	3.1

On 14 January 2016, the Company issued 1,080,420 shares ("Consideration Shares") to the shareholders of Contour Holdings Limited and its affiliate Contour Electronics Asia Limited (together defined as "Contour") in connection with the acquisition of Contour. The fair value of the shares issued was £3.0m.

The difference between the nominal value of the shares issued and the gross proceeds was credited to the share premium account.

During the year to 31 March 2016, 82,928 share options were exercised by employees under the terms of the various share option schemes (2015: nil).

15. Pensions

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 upon the results of the triennial funding valuation at 31 March 2015, the Sedgemoor Scheme's Trustees agreed with Sedgemoor Limited on behalf of the participating employers to continue the participating employers' contributions under the deficit recovery plan agreed at the previous valuation at 31 March 2012. This required contributions of £1.6m p.a. increasing by 3% each April payable over the period to 31 March 2022.

The results of the triennial funding valuation as at 31 March 2015 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

The pension liability at 31 March 2016 was £4.9m (2015: £6.8m) and total pension charge was £0.4m (2015: £0.4m). Additionally, a related deferred tax liability of £0.7m (2015: £0.6m) is included in the pension liability resulting in total liability of £5.6m (2015: £7.4m)

16. Events after the reporting date

Dividend

A final dividend of 5.72p per share (2015: 5.4p), amounting to a dividend of £3.7m (2015: £3.4m) and bringing the total dividend for the year to 8.05p (2015: 7.6p), was declared by the Board on 23 May 2016. The Acal plc financial statements do not reflect this dividend.

17. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year and consolidated statement of financial positions are translated at year 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 2016		Year to 31 March 2015	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.4383**	**1.5081**	1.4793	1.6135
Euro	**1.2633**	**1.3665**	1.3750	1.2751

18. Annual Report and Accounts

The Annual Report and Accounts will be mailed to shareholders and made available on the company's website (www.acalplc.co.uk) on or before 17 June 2016. Copies will also be available at the company's registered office: 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, GU2 7AH.

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

END

FR UAVVRNOAVOAR