**7am, 5 June 2018**

# discoverIE Group plc

## Preliminary results for the year ended 31 March 2018

## Strong growth in sales, earnings and order book

discoverIE Group plc (LSE: DSCV, "discoverIE", the "Group" or the "Company"), a leading international designer, manufacturer and supplier of customised electronics to industry, today announces its results for the year ended 31 March 2018.

| | **FY 2017/18** | FY 2016/17 | Growth% | CER[2] Growth% |
|---|---|---|---|---|
| Revenue | **£387.9m** | £338.2m | +15% | +11% |
| Underlying operating profit[1] | **£24.5m** | £20.0m | +23% | +18% |
| Underlying profit before tax[1] | **£21.9m** | £17.2m | +27% | |
| Underlying EPS[1] | **22.3p** | 19.2p | +16% | |
| Reported profit before tax | **£15.8m** | £4.8m | +229% | |
| Reported fully diluted EPS | **15.8p** | 5.1p | +210% | |
| Full year dividend per share | **9.0p** | 8.5p | +6% | |

### Highlights

- Strong growth in sales, orders, profits and earnings
  - Sales up 15% (+11% CER[2]) and orders up 14% (+11% CER)
  - Underlying operating profit up 23% (+18% CER)
  - Underlying earnings per share up 16%

- Organic growth driven by strong performance from the D&M division
  - D&M organic sales up 11% - now 59% of annualised[4] Group sales (FY 2016/17: 52%)
  - Group organic sales[3] up 6%

- Good progress on key strategic and performance targets
  - Underlying operating margin increased to 6.3% (FY 2016/17: 5.9%)
  - Annualised international sales up to 23% (FY 2016/17: 19%)
  - Cross-selling revenue of £8.8m, nearly double last year (FY 2016/17: £4.6m)
  - ROCE[5] of 15.5% (FY 2016/17: 13.0%)
  - Operating cash flow[6] of £20.9m, in line with our conversion target
  - Full year dividend increased by 6%

- Santon acquired on 1 February 2018 and settling in well

- Group well positioned for further growth
  - Record year end order book of £122m (+12% CER)
  - Strong growth in number and value of new project design wins
  - Further acquisition opportunities developing

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

"As expected, this has been a year of good progress. The Design & Manufacturing division has delivered strong organic growth in revenue and profits and in Custom Supply, the efficiency programme of last year has delivered much improved profitability.

The Group order book grew by 12% CER to reach a new record level of £122m and the value of new projects won during the year continued to grow well, particularly in our target markets; both are important for building organic growth. To support this, we have invested in additional production capacity at three sites with one more underway in the coming year.

We have a healthy pipeline of acquisition opportunities with a number being developed in line with our stated objectives.

Trading in the new year has started well with continuing growth in orders and sales and the Group is well positioned to continue benefiting from the technology changes that are underway in our target markets. We look forward to making further progress in the year ahead."

For further information, please contact:

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***Notes:***

(1) 'Underlying Operating Profit', 'Underlying EBITDA', 'Underlying Operating Costs', 'Underlying Profit before Tax' and 'Underlying EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude acquisition related costs (including earnouts and integration costs of £0.8m, amortisation of acquired intangible assets of £4.9m and the IAS19 pension charge relating to a legacy defined benefit scheme of £0.4m) totalling £6.1m for FY 2017/18. Equivalent adjustments, also including exceptional items within the FY 2016/17 underlying results totalled £12.4m. For further information, see note 5 of the attached summary financial statements.

(2) Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange for the year weakened 5% against the Euro compared with the average rate for last year, strengthened 1% against the US Dollar and weakened 2% on average against the three Nordic currencies. See Finance Review section for reconciliation of CER sales and operating costs to reported numbers.

(3) Organic growth for the Group is calculated at CER including the equivalent pre-acquisition period of Variohm which was acquired last financial year (on 20 January 2017) and excluding the sales from Acal BFi Spain which was closed during December 2016 and the Santon Group ("Santon") which was acquired on 1 February 2018.

(4) Annualised sales factors in the estimated full year impact of Santon, acquired on 1 February 2018.

(5) Return on capital employed ("ROCE") is defined as underlying operating profit as a percentage of net assets (including goodwill) plus net debt. ROCE of 15.5% excludes the recent Santon acquisition as it had only been owned for 2 months. Including Santon for those 2 months, ROCE was 13.5%.

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

(7) The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulation, Article 7 of EU Regulation 596/2014. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain.

***Notes to Editors:***

**About discoverIE Group plc**

discoverIE Group plc (previously Acal plc) is an international group of businesses that designs, manufactures and supplies innovative components for electronic applications.

The Group provides application-specific components to original equipment manufacturers ("OEMs") internationally. With in-house engineering capability, we are able to design components to meet customer requirements, which are then manufactured and supplied, usually on a repeating basis, for their ongoing production needs. This generates a high level of repeating revenue and long term customer relationships.

By focusing on key markets which are driven by structural growth and increasing electronic content, namely renewable energy, transportation, medical and industrial connectivity, the Group aims to achieve organic growth that is well ahead of GDP and to supplement that with targeted complementary acquisitions.

The Group employs c.4,000 people and its principal operating units are located in Continental Europe, the UK, China, Sri Lanka, India and North America.

The Group is listed on the Main Market of the London Stock Exchange and is a member of the FTSE Small Cap Index, classified within the Electrical Components and Equipment subsector, and has revenue of £0.4bn. Over the last five years, revenue and underlying earnings per share have doubled.

## CHAIRMAN'S STATEMENT

I am pleased to report that the Group has made significant progress again this year. Along with an excellent set of results that have delivered good levels of growth and operating efficiency, discoverIE has clearly repositioned itself, and been fully recognised as a designer and manufacturer of specialist components for electronics. Progress has been made on all the Group's strategic and operational objectives towards the targets which were increased last year.

Acquisitions continue to play an important role in building discoverIE and I am pleased to report that they are performing well. The most recent acquisition of Santon, based in the Netherlands, is settling in well. Santon expands the Group's international presence in the solar energy market, a focus market for us, and one that we believe will continue to grow significantly in the coming years.

### Strategy

The Group is an international leader in customised electronics, focusing on markets with sustained growth prospects and increasing electronic content, where there is an essential need for our products. The Group's product range is highly differentiated with the majority being either partly or fully customised for specific customer applications.

With our key markets being worldwide, management continues to see the opportunity to expand beyond Europe, as well as within Europe, as we continue our strategy of evolving into a highly differentiated, global electronics design and manufacturing group.

### Group Results

Group sales for the year increased by 15% to £387.9m and by 11% at constant exchange rates ("CER"), the difference reflecting the translation benefit of Sterling weakness during the year.

Underlying operating profit, which excludes acquisition-related costs, increased by £4.5m to £24.5m (up 23% and up 18% CER) with underlying profit before tax increasing by £4.7m to £21.9m (up 27%).

Underlying earnings per share for the year increased by 16% to 22.3p (up 3.1p from 19.2p last year). The difference between the growth of underlying profit before tax and underlying earnings per share mainly relates to the impact of the equity placing in January 2017 which funded the Variohm acquisition.

After underlying adjustments totalling £6.1m for acquisition-related costs, profit before tax for the year on a reported basis was £15.8m, a significant increase from last year (FY 2016/17: £4.8m), with fully diluted earnings per share also increasing strongly by 10.7p to 15.8p (FY 2016/17: 5.1p).

Cash generation was again healthy with operational cash flow of £20.9m; at 85% of underlying operating profit, this was in line with our conversion target. Net debt at the year end was £52.4m, resulting in a Group gearing ratio of 1.5 times, within our target gearing range of 1.5 to 2.0 times.

### Acquisition

On 1 February this year, the Group acquired the Santon Group ("Santon"), a Dutch based designer and manufacturer of custom switches for electronic applications, for an initial consideration of €27.0m (£23.7m) on a debt free, cash free basis, and contingent consideration of up to €22.5m (£19.7m) payable over the next 3 years, subject to Santon achieving certain, high growth targets.

Santon has significant alignment with our core technologies, market and sector focus and is settling in well. We are delighted to welcome their employees into the Group.

**Name and Sector Change**

In November 2017, the company changed its name from Acal plc to discoverIE Group plc. This change reflects the transformation of the Group over recent years into a design and manufacturing focused, higher margin business and the future ambitions of the Board in this direction.

The Group was established in 1986 as a distributor of electronic and IT products. Since 2011, the Group has disposed of its IT products business and built a successful and growing electronics Design & Manufacturing division ("D&M") through the acquisition of high quality businesses and subsequent organic growth. Today that division accounts for 76% of the Group's profit contribution.

discoverIE, or 'discover innovative electronics', emphasises the Group's focus on being a highly differentiated, customised business that enables customer solutions. The Group's operating business names, which customers know and rely on, remain unchanged, preserving trusted brands.

As a consequence of the transformation of the Group into a design and manufacturing business, the Group's FTSE sector classification changed from Support Services to Electronic and Electrical Equipment with effect from 18 September 2017.

**New Non-Executive Director**

In February 2018, Bruce Thompson joined the Board as a Non-Executive Director. Bruce has recently stepped down as Chief Executive Officer ("CEO") of Diploma PLC ("Diploma"), the FTSE 250 specialised technical products and services business, a role he has held since 1996. During his 22 years as CEO Bruce led the transformation of Diploma, growing the business, both organically and through targeted acquisition, into a market-leading, international business operating across Europe, North America and Australasia, experience which will be invaluable in helping the Group to achieve its growth plans. We are delighted to welcome Bruce to the Group.

**Dividend**

The Board is recommending an increase in the final dividend per share of 0.30 pence to 6.35 pence per share, giving a full year dividend per share of 9.0 pence, representing an increase of 6% for the year and a cover against underlying earnings of 2.5 times (FY 2016/17: 2.3 times). The final dividend is payable on 31 July 2018 to shareholders registered on 15 June 2018. Since 2010, the annual dividend per share has risen by 77% and the total dividend payment by over 300%.

The Board aims to maintain a progressive dividend policy, together with a long term dividend cover of between 2 and 3 times underlying earnings.

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board is confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of shareholders and a circular in respect of this will be issued.

**Employees**

The Group consists of c.4,000 employees in 23 countries around the world. The Board believes that by adopting an entrepreneurial and decentralised operating environment, together with rigorous planning, review, support and investment, the Group is able to continue to foster an ambitious and successful culture.

During my visits to the businesses, I meet committed, enthusiastic employees and the highest quality local management leadership. On behalf of the Board, I would like to thank everybody at discoverIE for their commitment and hard work. Their dedication remains essential in helping us to achieve our goals.

**Summary**

This has been a year of significant progress for the Group during which it has further re-positioned itself.

There is much more to do. The pace of technology change is again moving quickly and presents many opportunities in what is a highly fragmented market.

The Board and Management continue to be excited by the opportunities ahead to create a more international business, adding value for our customers and for our shareholders.

**Malcolm Diamond MBE**
**Chairman**
**5 June 2018**

## OPERATING REVIEW

### Overview

The Group has invested over recent years in initiatives that enhance design and manufacturing sales opportunities in our key customers and markets. The results are evident with strong levels of organic revenue growth across the business units within our D&M division. In our Custom Supply division, the focus has been on improving efficiency and increasing profitability which has resulted in a 44% increase in the division's underlying operating profits.

Organic sales in the year grew by 6% driven by 11% organic growth in the D&M division. Together with a 5% contribution from the acquisitions of Variohm Holdings Limited ("Variohm") in January 2017, and Santon in February 2018, Group sales increased by 11% CER; including translation benefits from a weaker Sterling on average since last year, reported Group revenues were up 15%.

Orders also performed well, growing by 5% organically to £401m and by 11% CER, when including acquisitions, leading to another record year-end order book at 31 March 2018 of £122m (up 12% CER year-on-year).

Project design wins, a proxy measurement for new business creation, grew strongly during the year. The estimated lifetime sales value of design wins during the year was £190m, an increase of 50% compared with last year, with 75% of these wins in our target markets.

Strong revenue growth has driven a 23% increase in underlying operating profit, rising by £4.5m to £24.5m, (18% CER), with Underlying EPS increasing by 16% to 22.3p.

### Group Strategy

The Group designs, manufactures and supplies highly differentiated, innovative components for electronic applications.

Core to our value proposition is the understanding of our customers' design challenges and how to design and manufacture engineered products that meet their needs, which we then supply over the life of the customer's production, typically five to seven years.

In a fragmented market, there exists an opportunity to consolidate manufacturers which offer a product range that is tailored to meet the needs of the Group's common customer base, ranging from mid-sized OEMs (original equipment manufacturers) to multinational companies operating across multiple sites and regions. Our four target markets (renewable energy, transportation, medical, and industrial connectivity), are long term, international growth markets driven by excellent fundamentals where our customers depend upon the Group's products.

Our strategy comprises four elements:

1. Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets;

2. Move up the value chain by continuing to build revenues in the higher margin D&M division;

3. Acquire businesses with attractive growth prospects;

4. Internationalise the business by developing sales in North America and Asia.

The Group's progress with its strategic objectives is measured through key strategic indicators ("KSIs"), while progress with its financial performance is measured through key performance indicators ("KPIs"). Our KSIs are mid-term targets over a 3 to 5 year period from November 2016 while our KPIs are 3 year targets starting in March 2017.

*Key Strategic Indicators*

| | FY14 | FY15 | FY 16 | FY 17 | FY 18 | Mid term Target[2] |
|---|---|---|---|---|---|---|
| 1. Increase share of Group revenue from D&M[1] | 18% | 37% | 48% | 52% | 59%[3] | 75% |
| 2. Increase underlying operating margin | 3.4% | 4.9% | 5.7% | 5.9% | 6.3% | 8.5% |
| 3. Build sales beyond Europe[1] | 5% | 12% | 17% | 19% | 23%[3] | 30% |

*(1) As a proportion of Group revenue*
*(2) Mid-term is a 3 to 5 year period starting in Nov 16*
*(3) Includes the annualised impact of Santon, acquired in February 2018*

The Group made good progress towards its strategic objectives during the year:

- The higher margin D&M division delivered 57% of Group sales (FY 2016/17: 52%), generating 76% of the Group's underlying profit contribution. Annualised for the Santon acquisition in February 2018, D&M sales represent 59% of Group sales. Importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales;

- The operating leverage delivered on our organic sales growth combined with the benefits of restructuring last year led to a reduction in operating costs as a percentage of sales, reducing by 0.5ppts to 26.4%; this has helped to improve the Group operating margin by 0.4ppts since last year to 6.3% (FY 2016/17: 5.9%);

- Sales beyond Europe for the year were 19% of Group sales (in line with last year) with very strong organic growth in D&M in North America and Asia (combined growth of 27%) being offset by the acquisition of Variohm whose revenue is in Europe. Annualised for the Santon acquisition, this ratio increases to 23%. We continue to seek acquisitions with revenues beyond Europe.

Our long term ambition is to increase the share of Group revenue from D&M to 85% with an operating margin of 10% and sales beyond Europe of 40%.

*Key Performance Indicators*

| | FY14 | FY15 | FY 16 | FY 17 | FY 18 | 3 yr target (FY20) |
|---|---|---|---|---|---|---|
| 1. Sales growth | | | | | | |
| CER | 17% | 36% | 14% | 6% | 11% | |
| Organic | 2% | 3% | 3% | (1%) | 6% | Well ahead of GDP |
| 2. Increase cross-selling | £0.3m | £0.9m | £3.0m | £4.6m | £8.8m | £10m p.a. |
| 3. Underlying EPS growth | 20% | 31% | 10% | 13% | 16% | >10% |
| 4. Dividend growth | 10% | 11% | 6% | 6% | 6% | Progressive |
| 5. ROCE[1] | 15.2% | 12.0% | 11.6% | 13.0% | 15.5%[2] | >15% |
| 6. Operating cash flow[1] | 100% | 104% | 100% | 136% | 85% | >85% of underlying operating profit |

*1) Defined in Note 5 of the attached summary financial statements*
*2) Excludes the impact of the Santon acquisition*

The Group also made good progress towards its operational objectives during the year:

- Organic sales growth for the period of 6% was well ahead of GDP, with strong organic growth in our higher margin D&M division, increasing organically by 11% as earlier design wins and order book converted into revenue;

- Cross-selling, which generated £8.8m of Group sales (nearly double the £4.6m of last year), is closing in on our 3 year target of £10m p.a.; as with organic growth in D&M, cross-selling revenue accelerated following the conversion of earlier design wins and order book into revenue;

- Underlying EPS growth for the period was 16%, comfortably ahead of our target for the year of exceeding 10% and reflecting the strong continuing performance of acquisitions together with broad-based organic growth;

- Strong growth in underlying operating profit has driven a 2.5ppts increase in return on capital employed to 15.5% compared with 13.0% in FY 2016/17, on the organic business, ahead of our 3 year target of exceeding 15%. ROCE including Santon (which factors in only 2 months of its operating profit but all of its assets) increased by 0.5ppts to 13.5%;

- Operating cash flow was 85% of underlying operating profit, in line with our target; while a lower percentage than in previous years, this reflects investment in working capital to meet organic growth requirements, with sales growing by 6% organically this year compared with a reduction of 1% last year.

**Divisional Results**

Divisional and Group performances for the year ended 31 March 2018 are set out and reviewed below.

| | **FY 2017/18** | | | FY 2016/17 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Revenue £m** | **Underlying operating profit [(1)] £m** | **Margin** | Revenue £m | Underlying operating profit [(1)] £m | Margin | Revenue growth | CER revenue growth | Organic revenue growth |
| Design & Manufacturing | **222.6** | **24.2** | **10.9%** | 175.6 | 20.2 | 11.5% | 27% | 24% | 11% |
| Custom Supply | **165.3** | **7.5** | **4.5%** | 162.6 | 5.2 | 3.2% | 2% | (2%) | 0% |
| Unallocated costs [(2)] | | **(7.2)** | | | (5.4) | | | | |
| Total | **387.9** | **24.5** | **6.3%** | 338.2 | 20.0 | 5.9% | 15% | 11% | 6% |

*(1) Underlying operating profit excludes acquisition-related costs in both years and exceptional costs in FY 2016/17.*
*(2) £1.4m of the £1.8m increase in unallocated costs relates to the accrual for employer's national insurance on LTIPs following an 85% increase in the share price during the year.*

With over 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has benefited from Sterling weakness on average against Euro and Nordic currencies, increasing Group revenue growth from 11% CER to 15% on a reported basis. Conversely, weaker Sterling put pressure on our UK import costs in the final quarter of last year and the first half of this year, impacting UK gross margins where approximately 90% of the cost of goods are non-Sterling. During the second half, we mitigated much of these effects through a combination of manufacturing and purchasing efficiencies, and in some cases, price increases to customers, such that the second half gross margin increased by nearly 1ppt over first half margins.

**Order Book**

Orders have continued to grow well and at the year end the order book reached a record high of £122m, an increase of 12% CER over last year. On an organic basis, the order book increased by 7%.

The order book is driven by repeating revenues from existing customer projects and the conversion of customer design wins from new projects into orders.

Over 80% of the order book is for delivery within twelve months from the time of order, and it is this conversion into sales which is driving the continued momentum in sales into FY2018/19.

By working with high quality customers in our focus markets, we aim to build an order book that leads to long term and repeating revenues.

**Design wins**

Project design wins are a proxy measurement for new business creation and are a key driver of organic sales growth. By working with customers at an early stage in their project design cycle we identify opportunities to create custom products to meet specific needs.

Design opportunities take on average eighteen months to develop to conclusion, at which point they become a design win. Once in production, the design win will create a recurring revenue stream over a number of years.

This year design wins grew very strongly driven by a clear focus on our part and a strong growth in investment on the part of our customers. The estimated lifetime sales value of design wins during the period was £190m, an increase of 50% over the prior year (FY 2016/17: £127m). A portion of design wins are to replace existing projects as they become end-of-life.

**Design & Manufacturing ("D&M") Division**

The D&M division designs, manufactures and supplies highly differentiated, innovative components for electronic applications. Over 80% of the products are manufactured in-house, the balance being manufactured by approved third party contractors. The division's principal manufacturing facilities are in China, India, the Netherlands, Poland, Sri Lanka and Thailand.

A number of operational investments were made during the year which included a new magnetics production facility in Bangalore, India, close to some of our larger customers; expanding fibre optic production capacity with a new factory in Slovakia; and expanding our electromagnetic shielding production capacity in South Korea. During the year ahead, we are planning to expand our magnetics production capacity in China. Additionally, as part of the acquisition of Santon in February 2018, investment is being made to expand capacity and automate production at their factory in Rotterdam.

Trading in the year was strong, generating 11% organic sales growth and continuing the momentum started in the second half of last year. This growth was driven by new project wins, mostly in our target markets, and product cross-selling, supported by favourable market conditions. Strong growth was seen in the Nordic region, Germany, Asia and the US. Orders for the division increased by 10% organically year-on-year, and the divisional order book was up by 12% organically.

Organic sales growth of 11%, combined with 13% sales growth contribution from the acquisitions of Variohm in January 2017 and Santon in February 2018, resulted in overall sales increasing by 24% CER. Including the benefit of translation gains, reported divisional revenue increased by 27% to £222.6m (FY 2016/17: £175.6m).

Divisional revenue was 57% of Group revenue (59% annualised for acquisitions; FY 2016/17: 52%) and generated 76% of the Group's underlying profit contribution. This represents further good progress towards our mid-term target for D&M to account for 75% of Group revenue, with our long term ambition being 85%.

Underlying operating profit of £24.2m was £4.0m (+20%) higher than last year (FY 2016/17: £20.2m) and up £3.5m CER (+17%). The underlying operating margin of 10.9% remained consistent through the year and in line with the second half of last year. The modest reduction in operating margin on an annual basis reflects the impact of Sterling weakness on UK import pricing which was evident from the end of the first half last year.

Variohm

Variohm was acquired in January 2017 and has since been integrated into the D&M division. It performed strongly during the year, with good organic growth in both orders and sales driving a 14% increase in its profitability. As with previous acquisitions, Variohm is expected to benefit from the access it has to the Group's wider customer base and international reach, creating new revenue opportunities from cross-selling within the Group. Variohm has a strong pipeline of cross-selling projects and a number of design wins and pre-production orders already secured.

Santon

In February 2018, the Group acquired the Santon Group, a Dutch based designer and manufacturer of highly differentiated, patented, direct current ("DC") switches for use in solar, industrial and transportation markets. The acquisition was consistent with the Group's strategy of targeting structural growth markets, in this case renewable energy and transportation, internationalising sales and building on its position in niche components for solar power and its established position in wind power. The acquisition is expected to nearly double the Group's sales into the renewable energy sector and increase the level of Group sales into Asia from 8% to 13%.

Santon was acquired for an initial consideration of €27.0m (£23.7m) on a debt free, cash free basis and generated revenue for its year ended 31 December 2016 of €24.4m (£20.0m) with a normalised operating profit of €3.2m (£2.6m). In addition, contingent consideration of up to €22.5m (£19.7m) will be payable over the next 3 years subject to Santon achieving certain high growth targets.

Since acquisition, Santon is settling in well. In addition to its strong solar business, a number of new opportunities have arisen in the transportation and industrial sectors, some with customers that are common to the Group.

As with Variohm, we expect the business to benefit from access to discoverIE's broader, international customer base, to create new revenue opportunities from cross-selling across the Group.

**Custom Supply Division**

During the year, the Custom Distribution division was renamed Custom Supply. With continuing focus on designing customised solutions for customers with our third party suppliers, and the growth in cross-selling of complementary products from our D&M division, the new name more accurately reflects the nature of business in this division.

The division provides customised electronic, photonic and medical products for technically demanding applications in industrial, medical and healthcare markets. The business operates similarly to the D&M division, but mostly with third party suppliers rather than with products manufactured in-house. As such, operating margins are lower than in D&M. A key element of the division's strategy is to grow the proportion of cross-sales from manufactured products from the D&M division in a manner that complements, but does not compete with or limit growth of our highly valued third party suppliers, thereby enhancing the Group's overall value proposition to customers and suppliers.

A high degree of technical knowledge is required during the sales process, with the division's in house engineers helping customers to solve their design challenges. The Group 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 Supply revenue. It supplies products from a selected group of manufacturers (including the Group's D&M businesses) to customers in five technology areas: Communications & Sensors, Power & Magnetics, Electromechanical & Cabling, Microsystems, and Imaging & Photonics. 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.

The division's overall trading performance in the year was steady with organic sales in line with last year. First half sales grew by 7% organically whilst second half sales were 6% lower following strong prior year comparators. Strong growth was delivered in Germany and Italy offset by softness in domestic UK demand. Orders for the division were also in line with last year organically with a book to bill ratio of 1.02.

The division's focus on high value-add sales saw divisional gross margins increase by 0.7ppts. This, together with the benefits from last year's efficiency programme, resulted in much improved profitability. Underlying operating profit rose by 44% to £7.5m (up 36% CER), with an underlying operating margin of 4.5%, 1.3ppts higher than last year (FY 2016/17: 3.2%). This is excellent progress towards achieving our target margin for this division of 5%.

The Spanish business was closed during December 2016 as part of the efficiency and cost reduction programme. This closure impacted sales this year by 2%, resulting in overall divisional sales being below last year by 2% CER. Including the benefit of translation gains from weaker Sterling since last year, reported divisional revenue increased by 2% to £165.3m (FY 2016/17: £162.6m).

**Target Markets**

The Group focuses on four target markets, which account for around half of Group turnover: transportation, medical, renewable energy and industrial connectivity. These are expected to drive the Group's organic revenue well ahead of GDP over the economic cycle and create acquisition opportunities. Growth in these markets is driven by the increasing electronic content in products, and by global macro trends such as a growing middle class population, an ageing affluent population, an expanding transport infrastructure, and the increasing need for renewable sources of energy. In FY 2017/18, organic revenue growth in these target markets was 9%, compared with 2% in other markets and 6% for the Group as a whole.

i) Transportation

Transport markets continue to grow around the world, driven by increasing demand and falling costs, whether it be rail, air or automotive. The electronics content is rising, for instance to add convenience features, or for safety or security. IC Insights, an electronics market research company, expects integrated circuit sales, a proxy for electronic content, into the automotive market to rise by a CAGR of 13.4% between 2016 and 2021.

ii) Medical

This market is driven by the increasing use of technology in diagnosing, monitoring and controlling medical conditions, as well as an increasingly affluent and ageing global population which now accounts for the majority of healthcare spending in developed economies. A report by Research+Markets forecasts the global sales of medical electronics to grow by a CAGR of 6.8% between 2017 and 2022.

iii) Renewable Energy

The combination of increased need for electricity, reducing acceptance of nuclear and coal as sources, and falling costs all favour the demand for renewable energy. So much so, that according to the World Energy Outlook 2017, two thirds of global investment in power generation up to 2040 will be into renewable energy, primarily wind and solar.

iv) Industrial Connectivity

Technology is creating opportunities for connectivity everywhere, which is becoming increasingly important in industry. A report by the research firm Markets-and-Markets, expects the overall market size for global machine-to-machine connections to rise by 13.2% CAGR between 2016 and 2021**.**

**Cross-selling**

For acquired businesses, cross-selling through our Custom Supply division or between other D&M businesses provides new customer and geographic growth opportunities.

It takes typically three years for cross-selling to become established within a business unit, due to project lead-in cycles, but then develops into a significant additional source of revenue, as evidenced by the Group's longer standing acquisitions of MTC and Myrra, which both now count intra-Group cross-selling as one of their largest customers. This year, a significant step forward was achieved with revenues nearly doubling to £8.8m from the previous year (FY 2016/17: £4.6m). Cross-selling now accounts for 2.3% of Group revenue, and we are well on our way to achieving our 3-year cross-selling target (set in March 2017) of £10m per annum.

**Acquisitions**

There are numerous opportunities to acquire businesses that will enhance, strengthen and build the Group. Good acquisitions, at the right price, which build complementary product and/or geographic capability and supply common markets and customers, create future organic growth opportunities and build value for shareholders.

We acquire businesses that are successful, profitable and growing in our existing and adjacent technology areas, with good growth prospects and long term growth drivers similar to the Group's target markets.

Typically, the businesses we acquire are led by entrepreneurial managers who wish to remain following acquisition. We encourage this, as it helps to retain a decentralised, entrepreneurial culture.

Our primary acquisition focus is to invest for growth, with operational improvement. As such, the D&M division operates a decentralised structure with business units operating to pre-agreed business plans. We support growth investment requirements and develop operational performance according to the requirements of each business unit. Depending upon the circumstances, we add value in some or all of the following areas:

- Internationalising sales channels and expanding the customer base, including via Group cross-selling initiatives (see above);
- Developing and expanding the product range;
- Investing in management capability ('scaling up') and succession planning;
- Capital investment in manufacturing & infrastructure;
- Improving manufacturing efficiency;
- Enabling growth with larger customers as a consequence of the stronger Group balance sheet;
- Infrastructure efficiencies, such as warehousing and freight;
- Finance and administrative support, such as treasury, banking, legal, pension, tax & insurance, risk & control; and
- Expanding the business through further acquisitions.

<u>Acquisition performance</u>

Over the last seven years, eleven businesses have been acquired in the D&M division at a cost of £153m. On a weighted average basis, revenues of the acquired businesses have grown by 5% per annum (organically at CER) and operating profits by 7% per annum since acquisition. We measure acquisition return on investment ("ROI") using the current year operating profit attributable to each business over the acquisition costs (including earn outs, expenses of acquisition and integration costs).

The Group, which has a weighted average cost of capital of c.9%, targets an acquisition EBIT ROI of 15% within two years. Overall, the weighted average ROI of our acquired businesses for the year was 17%, ahead of the target. During the year, six businesses exceeded target ROI with a range of 19% to 77%, mostly the result of several years' profitable growth from businesses acquired in earlier years. Two were broadly on target while two smaller businesses performed below the target level, and following changes that were made during the year, are expected to improve in the year ahead.

<u>Acquisition case study – Hectronic</u>

Hectronic, based in Stockholm in Sweden and acquired in June 2011, is a provider of customised embedded computing technology for industrial applications and is a good example of how we develop and invest in businesses following acquisition.

Since acquisition, organic revenue has doubled, and operating profits have grown tenfold. Furthermore, the following have been achieved:

- Focussed core product offering;
- Developed higher value-add sales focus;
- Focus on key markets with strong success in transportation and medical;
- Invested in new sales resources and territories;
- Established cross-selling with Acal BFi;
- Moved main production to Taiwan;
- Enabled growth with larger customers as a consequence of a strong Group balance sheet;
- Shared management, resources and facility between Hectronic and Acal BFi Nordic.

The strong, local management team have embraced the market opportunity and the investment capability that the Group brought to the business to deliver strong results. The business has excellent growth prospects ahead.

**Group Priorities for the Year Ahead**

Our priority for the year ahead is to deliver further good growth in earnings and operating margins, through:

1. Organic sales growth including:
    - Continued growth in cross-selling
2. Developing new and expanded production facilities
3. Integrating the Santon acquisition:
    - Organic growth
    - Complete automation project
    - Establish cross-selling
4. Further value enhancing acquisitions.

**Summary and Outlook**

As expected, this has been a year of good progress. The Design & Manufacturing division has delivered strong organic growth in revenue and profits and in Custom Supply, the efficiency programme of last year has delivered much improved profitability.

The Group order book grew by 12% CER to reach a new record level of £122m and the value of new projects won during the year continued to grow well, particularly in our target markets; both are important for building organic growth. To support this, we have invested in additional production capacity at three sites with one more underway in the coming year.

We have a healthy pipeline of acquisition opportunities with a number being developed in line with our stated objectives.

Trading in the new year has started well with continuing growth in orders and sales and the Group is well positioned to continue benefiting from the technology changes that are underway in our target markets. We look forward to making further progress in the year ahead.

**Nick Jefferies**
**Group Chief Executive**
**5 June 2018**

## FINANCE REVIEW

### Orders and Revenue

Group revenue for the year increased by 15% over last year to £387.9m, and by 11% CER, the difference reflecting the translation benefit of Sterling weakness since last year. Organic revenue increased by 6%, while the acquisitions of Variohm last year, and Santon this year, less last year's closure of the Spanish distribution business, contributed an additional 5% growth in revenues.

| £m | FY 2017/18 | FY 2016/17 | % |
|---|---|---|---|
| Reported revenue | 387.9 | 338.2 | 15% |
| FX translation impact | | 10.7 | |
| Underlying revenue (CER) | 387.9 | 348.9 | 11% |
| Acquisitions/closures | (3.7) | 13.3 | |
| **Organic revenue** | 384.2 | 362.2 | 6% |

Group orders increased by 11% CER with a book to bill ratio of 1.03 (H1: 1.02, H2: 1.04). Organically, orders were up 5% for the year.

With approximately 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has benefited from its weakness since last year. Sterling declined by 5% against the Euro in the year compared with last year, and by 2% against Nordic currencies.

### Gross Profit and Margin

Gross profit for the year of £126.7m increased by 14% over last year. Gross margins in the second half increased during the year to 33.1% compared with 32.2% in the first half, to give a full year gross margin of 32.7%, broadly in line with last year.

The second half improvement reflects the benefit of some increased pricing to pass on the impact of adverse foreign exchange movements on UK import costs, as well as the benefit of higher margin acquisitions.

Despite currency pressures over the last two years, the second half gross margin is the Group's highest half yearly gross margin, which has increased by around 7ppts in the last nine years, a reflection of the differentiated nature of our products.

### Underlying Operating Costs

Overall reported costs were up 5% as detailed below. Excluding underlying adjustments, Group underlying operating costs increased by 9% CER. Adjusting for the pre-acquisition costs of Variohm and Santon, underlying operating costs increased by 4% organically reflecting investment in D&M businesses to support strong revenue growth. The increase is related mainly to organic sales growth of £22m and the higher cost accrual for UK national insurance on share based payments of £1.4m following an 85% increase in the share price during the year, partially offset by restructuring savings from last year's efficiency and cost reduction programme of £2.3m.

As a percentage of sales, underlying operating costs for the year reduced by 0.5ppts to 26.4%, or 26.0% excluding the UK national insurance on share based payments, the Group's lowest percentage since the outset of the current strategy in 2009, as the business continues to invest for growth and improve its efficiency.

| £m | FY 2017/18 | FY 2016/17 | % |
|---|---|---|---|
| Organic operating costs | 101.1 | 97.3 | 4% |
| Acquisitions/closure operating costs | 1.1 | (3.7) | |
| Underlying operating costs (CER) | 102.2 | 93.6 | 9% |
| FX translation | | (2.6) | |
| Underlying adjustments | | | |
| Acquisition-related costs | 0.8 | 1.7 | |
| Amortisation of acquired intangibles | 4.9 | 3.9 | |
| Exceptional restructuring costs | - | 6.4 | |
| IAS 19 pension administration cost | 0.3 | 0.3 | |
| **Reported operating costs** | 108.2 | 103.3 | 5% |

| £m | FY 2017/18 | FY 2016/17 |
|---|---|---|
| Selling and distribution costs | 54.5 | 49.4 |
| Administrative expenses | 53.7 | 53.9 |
| **Reported operating costs** | 108.2 | 103.3 |

Selling and distribution costs, and administrative expenses both include the additional operating costs of the recently acquired businesses. Underlying adjustments, which are included in the financial statements within administrative expenses, are discussed below.

**Group Operating Profit and Margin**

Group underlying operating profit for the year was £24.5m, up £4.5m (+23%) on last year, and up 18% CER, delivering a Group underlying operating margin of 6.3%, up 0.4ppts on last year.

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £18.5m, an increase of £10.8m compared with £7.7m last year. Last year was impacted by exceptional restructuring costs of £6.4m, of which there are none this year. Excluding those exceptional costs from last year, reported Group operating profit increased by £4.4m (+31%).

| £m | FY 2017/18 | | | FY 2016/17 | | |
|---|---|---|---|---|---|---|
| | **Operating profit** | **Finance cost** | **Profit before tax** | Operating profit | Finance cost | Profit before tax |
| **Underlying** | 24.5 | (2.6) | 21.9 | 20.0 | (2.8) | 17.2 |
| Underlying adjustments | | | | | | |
| Acquisition-related costs | (0.8) | - | (0.8) | (1.7) | - | (1.7) |
| Amortisation of acquired intangibles | (4.9) | - | (4.9) | (3.9) | - | (3.9) |
| Exceptional restructuring costs | - | - | - | (6.4) | - | (6.4) |
| IAS 19 pension cost | (0.3) | (0.1) | (0.4) | (0.3) | (0.1) | (0.4) |
| **Reported** | 18.5 | (2.7) | 15.8 | 7.7 | (2.9) | 4.8 |

**Underlying Adjustments**

Underlying adjustments for the year comprise acquisition-related costs of £0.8m (FY 2016/17: £1.7m), the amortisation of acquired intangibles of £4.9m (FY 2016/17: £3.9m) and the IAS19 legacy pension cost of £0.4m (FY 2016/17: £0.4m). There were no exceptional costs (FY 2016/17: £6.4m).

Acquisition-related costs of £0.8m comprised expenses related to the acquisition of Santon in February 2018 of £1.2m, integration costs of £0.3m and earnout net credit adjustments of £0.7m.

The £1.0m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Variohm last year and Santon this year. The total annualised amortisation cost for next year is expected to be around £6.0m.

Additionally, last year there was £6.4m of exceptional costs related to the Group's efficiency and cost reduction programme which delivered £4.0m of savings, of which £1.7m arose last year with the additional £2.3m arising this year. There were no exceptional costs this year.

**Financing Costs**

Group finance costs of £2.7m (FY 2016/17: £2.9m), comprised underlying finance costs (being interest and facility fees arising from the Group's banking and pooling facilities), together with an IAS19 pension finance charge.

Underlying finance costs for the year were £2.6m, a reduction of £0.2m from last year (FY 2016/17: £2.8m) due to lower average debt balances during the year. Included within finance costs is the amortisation of the upfront arrangement fees associated with the Group's syndicated banking facility of approximately £0.3m per annum.

The IAS19 pension finance cost for the year was £0.1m, in line with last year.

**Underlying Tax Rate**

The underlying effective tax rate for the year was 24%. This was in line with last year.

The overall effective tax rate of 25% was slightly higher than the underlying effective tax rate of 24% mainly due to lower tax relief available on the amortisation of acquired intangibles.

**Profit Before Tax and EPS**

Underlying profit before tax for the year was £21.9m, an increase of £4.7m (27%) compared with last year. This increase, offset partly by the increased equity base following the equity placing in January 2017, resulted in underlying diluted earnings per share for the year of 22.3p, up 16% on last year.

After the underlying adjustments discussed above, reported profit before tax was £15.8m, £11.0m higher than last year, with reported fully diluted earnings per share of 15.8p, an increase of 10.7p from last year.

| **£m** | **FY 2017/18** | | **FY 2016/17** | |
|---|---|---|---|---|
| | **PBT** | **EPS** | **PBT** | **EPS** |
| **Underlying** | 21.9 | 22.3p | 17.2 | 19.2p |
| Underlying adjustments | | | | |
| Acquisition-related costs | (0.8) | | (1.7) | |
| Amortisation of acquired intangibles | (4.9) | | (3.9) | |
| Exceptional restructuring costs | - | | (6.4) | |
| IAS 19 pension cost | (0.4) | | (0.4) | |
| **Reported** | 15.8 | 15.8p | 4.8 | 5.1p |

**Working Capital**

Working capital at 31 March 2018 was £61.8m, equivalent to 15% of annualised final quarter sales at CER. This compares with working capital of £55.1m at 31 March 2017, also at 15% of last year's annualised final quarter sales at CER. Continued tight management of working capital has kept this ratio similar with last year, despite increased sales in the D&M division, which as a manufacturer, holds raw material and more finished goods than in Custom Supply, and hence has lower stock turns (3.5 times in D&M compared with 9.5 times in Custom Supply). This in turn, results in higher working capital as a percentage of sales in the D&M division (21% in D&M compared with 10% in Custom Supply).

Group stock turns were 4.9, 0.8 turns lower than last year as a result of the increasing percentage of D&M sales. Group trade debtor days and trade creditor days outstanding at 31 March 2018 were higher than

last year at 55 days (up 4 days) and 63 days (up 6 days) respectively, again largely linked to the increased percentage of sales in D&M for which both ratios are higher than in Custom Supply.

ROCE for the year (return on capital employed, as defined in note 5 to the attached summary financial statements) on our organic business was 15.5%, up 2.5ppts on last year driven by increased profitability and operating efficiency. This is ahead of our target to achieve a ROCE of at least 15%. Including our recent Santon acquisition, ROCE (which factors in only 2 months of Santon's operating profit but all of its assets) was still up 0.5ppts to 13.5%.

**Cash Flow**

Net debt at 31 March 2018 was £52.4m, compared with £30.0m at 31 March 2017. The increase of £22.4m results mainly from the Santon acquisition in February 2018. Excluding the upfront costs and expenses related to acquisitions, net debt would have reduced by £3.0m to £27.0m.

| | FY 2017/18 | FY 2016/17 |
|---|---|---|
| Net debt at 1 April | (30.0) | (38.1) |
| Free cash flow (see table below) | 14.6 | 21.3 |
| Acquisition-related cash flow | (25.4) | (13.8) |
| Equity issuance | - | 13.6 |
| Net settlement expense | (1.5) | - |
| Exceptional payments | (1.8) | (6.4) |
| Legacy pension | (1.7) | (1.6) |
| Dividends | (6.2) | (5.2) |
| Foreign exchange impact | (0.4) | 0.2 |
| **Net debt at 31 March** | **(52.4)** | **(30.0)** |

Net acquisition cash flows of £25.4m comprise a £19.4m upfront cash payment for the acquisition of Santon in February 2018, £4.4m of acquired debt on acquisition, associated acquisition costs of £0.8m and the cash cost of earn-out payments made in the period of £0.8m. Cash payments of exceptional items for the year totalled £1.8m (being payments of prior year accruals for last year's efficiency and cost reduction programme). Additionally, £1.5m of tax was paid in respect of executive share options which were net settled on exercise.

Dividend payments increased by £1.0m (+19%) to £6.2m following the 6% increase of last year's dividend and the 10% increase in the number of shares following the equity placing in January 2017 which funded the Variohm acquisition. The Group will continue to review the level of future dividend growth in relation to its policy of long term dividend cover of 2 to 3 times underlying earnings per share.

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

| £m | FY 2017/18 | FY 2016/17 |
|---|---|---|
| **Underlying profit before tax** | **21.9** | **17.2** |
| Finance costs | 2.6 | 2.8 |
| Non-cash items* | 4.8 | 4.5 |
| **Underlying EBITDA** | **29.3** | **24.5** |
| Working capital | (4.1) | 5.9 |
| Capital expenditure | (4.3) | (3.3) |
| **Operating cash flow** | **20.9** | **27.1** |
| Finance costs | (2.6) | (2.8) |
| Taxation | (3.7) | (3.0) |
| **Free cash flow** | **14.6** | **21.3** |

* Non-cash items comprise depreciation (£3.5m), amortisation (£0.6m) and share based payments (£0.7m)

Underlying EBITDA of £29.3m was 20% higher than last year. £4.1m was invested into working capital, to support strong organic D&M sales growth of 11% (being additional organic D&M sales of £22.0m CER). This additional working capital equates to 19% of D&M sales, 2ppts below the 21% average for the D&M division.

Together with lower growth last year, strong year end cash collections in March 2017 allowed for working capital of £5.9m to be released. Across the two-year period, £1.8m has been released from Group working capital at a time when organic sales have grown by £20m, delivering an overall 1ppt reduction in working capital as a percentage of sales for the period FY 2016 to 2018.

Capital expenditure at £4.3m was £1.0m higher than last year with increased investment in the D&M division, in particular funding new facilities in Noratel India, Foss Slovakia and MTC Korea plus a full year's capital expenditure for Variohm which was acquired last year. Tax payments were £0.7m higher than last year due to increased profits in the Group.

Operating cash flow of £20.9m represents 85% of underlying operating profit, in line with our conversion target. Free cash flow (after finance costs and taxation) was £14.6m; at 88% of underlying profit after tax, this was broadly in line with our target of 90%.

**Banking Facilities**

The Group has a 5-year £120m syndicated banking facility which extends out to July 2021. In addition, the Group has a £30m accordion facility to extend the total facility up to £150m. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2018 of £52.4m, the Group's gearing ratio was 1.5 times (FY 2016/17: 1.2 times), being defined as net debt divided by underlying EBITDA (annualised for acquisitions). The gearing ratio has increased due to the acquisition of Santon in February 2018. Excluding the Santon acquisition, the gearing at 31 March 2018 would have been 1.1 times.

**Balance Sheet**

Net assets of £129.3m at 31 March 2018 were £5.5m higher than at the end of the last financial year (31 March 2017: £123.8m). The increase primarily relates to the net profit for the year partly offset by the payment of last year's final dividend. The movement in net assets is summarised below:

| **£m** | **FY 2017/18** |
|---|---|
| Net assets at 31 March 2017 | 123.8 |
| Net profit after tax | 11.8 |
| Dividend paid | (6.2) |
| Currency net assets – translation impact | (3.5) |
| Gain on defined benefit scheme | 1.8 |
| Equity issuance | 1.0 |
| Share based payments (inc tax) | 0.6 |
| **Net assets at 31 March 2018** | **129.3** |

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the period by £3.4m, from £6.4m at 31 March 2017 to £3.0m at 31 March 2018. This mainly follows increased gilt and corporate bond rates during the year, and reductions in market expectations for life expectancy improvements, which together have reduced the value of longer term pension liabilities by £1.8m (as shown in the reconciliation above). Additionally, there were payments to the pension fund in the year totalling £1.7m less interest payable of £0.1m. Annual payments of £1.7m remain payable (growing by 3% each year in accordance with the plan agreed with the pension trustees in 2009) until March 2022. The triennial valuation of the scheme will be undertaken as at 31 March 2018.

**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 impact arising from the UK's decision to leave the European Union; the performance of acquired companies; loss of major customers or suppliers; technological change; major business disruption; cyber security; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; and loss of key personnel.

The Group's risk management processes cover identification, impact assessment, likely occurrence and mitigation 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 £120m.

**Simon Gibbins**
**Group Finance Director**

**5 June 2018**

## Consolidated income statement

for the year ended 31 March 2018

| | notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Revenue** | 6 | **387.9** | 338.2 |
| Cost of sales | | **(261.2)** | (227.2) |
| **Gross profit** | | **126.7** | 111.0 |
| Selling and distribution costs | | **(54.5)** | (49.4) |
| Administrative expenses (including underlying adjustments) | | **(53.7)** | (53.9) |
| **Operating profit** | | **18.5** | 7.7 |
| Finance income | | **0.4** | 0.2 |
| Finance costs | | **(3.1)** | (3.1) |
| **Profit before tax** | | **15.8** | 4.8 |
| Tax expense | | **(4.0)** | (1.3) |
| **Profit for the year** | | **11.8** | 3.5 |
| | | | |
| **Earnings per share** | 9 | | |
| Basic | | **16.7p** | 5.3p |
| Diluted | | **15.8p** | 5.1p |

## Supplementary income statement information

| **Underlying Performance Measure** | | | 2018 £m | 2017 £m |
|---|---|---|---|---|
| Operating profit | | | **18.5** | 7.7 |
| Add back: | Exceptional items | | – | 6.4 |
| | Acquisition costs | | **0.8** | 1.7 |
| | Amortisation of acquired intangible assets | | **4.9** | 3.9 |
| | IAS 19 pension administrative charge | | **0.3** | 0.3 |
| **Underlying operating profit** | | 7 | **24.5** | 20.0 |
| Profit before tax | | | **15.8** | 4.8 |
| Add back: | Exceptional items | | **-** | 6.4 |
| | Acquisition costs | | **0.8** | 1.7 |
| | Amortisation of acquired intangible assets | | **4.9** | 3.9 |
| | Total IAS 19 pension charge | | **0.4** | 0.4 |
| **Underlying profit before tax** | | 7 | **21.9** | 17.2 |
| | | | | |
| **Underlying earnings per share** | | 9 | | |
| Basic | | | **23.4p** | 20.0p |
| Diluted | | | **22.3p** | 19.2p |

## Consolidated statement of comprehensive income

for the year ended 31 March 2018

| | 2018 £m | 2017 £m |
|---|---|---|
| **Profit for the year** | **11.8** | 3.5 |
| Other comprehensive income: | | |
| *Items that will not be subsequently reclassified to profit or loss:* | | |
| Actuarial gain/(loss) on defined benefit pension scheme | **2.1** | (2.0) |
| Deferred tax (charge)/credit relating to defined benefit pension scheme | **(0.3)** | 0.3 |
| | **1.8** | (1.7) |
| *Items that may be subsequently reclassified to profit or loss:* | | |
| Exchange differences on translation of foreign subsidiaries | **(3.5)** | 11.4 |
| | **(3.5)** | 11.4 |
| **Other comprehensive income for the year, net of tax** | **(1.7)** | 9.7 |
| **Total comprehensive income for the year, net of tax** | **10.1** | 13.2 |

## Consolidated statement of financial position

as at 31 March 2018

| | notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **23.4** | 16.0 |
| Intangible assets – goodwill | 13 | **81.9** | 72.6 |
| Intangible assets – other | | **33.1** | 28.1 |
| Deferred tax assets | | **5.8** | 5.5 |
| | | **144.2** | 122.2 |
| **Current assets** | | | |
| Inventories | | **60.6** | 50.1 |
| Trade and other receivables | | **82.4** | 77.3 |
| Current tax assets | | **1.3** | - |
| Cash and cash equivalents[2] | | **21.9** | 21.0 |
| | | **166.2** | 148.4 |
| **Total assets** | | **310.4** | 270.6 |
| **Current liabilities** | | | |
| Trade and other payables[1] | | **(81.2)** | (72.3) |
| Other financial liabilities | | **(6.4)** | (1.0) |
| Current tax liabilities | | **(4.9)** | (2.6) |
| Provisions[1] | | **(0.9)** | (2.2) |
| | | **(93.4)** | (78.1) |
| **Non-current liabilities** | | | |
| Trade and other payables[1] | | **(6.2)** | (3.3) |
| Other financial liabilities | | **(67.9)** | (50.0) |
| Pension liability | 15 | **(3.0)** | (6.4) |
| Provisions[1] | | **(2.8)** | (2.5) |
| Deferred tax liabilities | | **(7.8)** | (6.5) |
| | | **(87.7)** | (68.7) |
| **Total liabilities** | | **(181.1)** | (146.8) |
| **Net assets** | | **129.3** | 123.8 |
| **Equity** | | | |
| Share capital | 14 | **3.6** | 3.5 |
| Share premium[3] | | **106.9** | 106.0 |
| Merger reserve[3] | | **2.9** | 2.9 |
| Currency translation reserve | | **3.5** | 7.0 |
| Retained earnings[3] | | **12.4** | 4.4 |
| **Total equity** | | **129.3** | 123.8 |

These financial statements were approved by the Board of Directors on 5 June 2018 and signed on its behalf by:

**Nick Jefferies** — Group Chief Executive

**Simon Gibbins** — Group Finance Director

Prior Year (2017) Reclassifications

1 Contingent consideration payable relating to acquisitions has been reclassified from provisions to trade and other payables

2 £1.2m of debt costs have been reclassified from cash and cash equivalents to other financial liabilities (£0.3m in current liabilities and £0.9m in non-current liabilities)

3 Refer to the consolidated statement of changes in equity for reclassification changes

## Consolidated statement of changes in equity

for the year ended 31 March 2018

| | 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 2016** | **3.2** | **95.6** | **3.0** | **(4.4)** | **4.5** | **101.9** |
| Profit for the year | – | – | – | – | 3.5 | 3.5 |
| Other comprehensive income | – | – | – | 11.4 | (1.7) | 9.7 |
| Total comprehensive income | – | – | – | 11.4 | 1.8 | 13.2 |
| Transfers (to)/from merger reserve | – | (2.9) | (0.1) | – | 3.0 | – |
| Shares issued | 0.3 | 13.3 | – | – | – | 13.6 |
| Share-based payments including tax | – | – | – | – | 0.3 | 0.3 |
| Dividends (note 8) | – | – | – | – | (5.2) | (5.2) |
| **At 31 March 2017** | **3.5** | **106.0** | **2.9** | **7.0** | **4.4** | **123.8** |
| Profit for the year | – | – | – | – | 11.8 | 11.8 |
| Other comprehensive loss | – | – | – | (3.5) | 1.8 | (1.7) |
| Total comprehensive income | – | – | – | (3.5) | 13.6 | 10.1 |
| Shares issued (note 14) | 0.1 | 0.9 | – | – | – | 1.0 |
| Notional repurchase of share options | – | – | – | – | (1.5) | (1.5) |
| Share-based payments including tax | – | – | – | – | 2.1 | 2.1 |
| Dividends (note 8) | – | – | – | – | (6.2) | (6.2) |
| **At 31 March 2018** | **3.6** | **106.9** | **2.9** | **3.5** | **12.4** | **129.3** |

On 1 February 2018, the Company issued 223,648 shares ("Consideration Shares") to the shareholders of EWAC Holding B.V. in connection with the acquisition of Santon. The fair value of the shares issued was £1.0m. The difference between the nominal value of the shares issued and the gross proceeds was credited to the share premium account.

The new shares issued rank pari-passu in all respects with the existing shares issued, including the right to receive all dividends and other distributions declared, made or paid on the existing Ordinary shares.

*Prior year (2017) reclassification*

£3m has been transferred from the merger reserve to the profit and loss account as the business acquisition that gave rise to the merger relief has been sold subsequently and therefore qualifies for transfer to the profit and loss account.

£2.9m has been transferred from share premium to the merger reserve, this amount reflects the share consideration in relation to the acquisition of Contour Holdings Limited in the year ended 31 March 2016. The fair value of shares issued over and above the par value qualifies for merger relief under section 612 of the Companies Act 2006.

## Consolidated statement of cash flows

for the year ended 31 March 2018

| | notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Net cash flow from operating activities** | 12 | **15.0** | 14.5 |
| | | | |
| **Investing activities** | | | |
| Acquisition of shares in subsidiaries (net of cash/(debt) acquired) | | **(24.6)** | (11.6) |
| Acquisition related contingent consideration | | **(0.8)** | (0.3) |
| Purchase of property, plant and equipment | | **(3.7)** | (2.8) |
| Purchase of intangible assets – software | | **(0.6)** | (0.6) |
| Proceeds from disposal of property, plant and equipment | | **–** | 0.1 |
| Interest received | | **0.4** | 0.2 |
| **Net cash used in investing activities** | | **(29.3)** | (15.0) |
| | | | |
| **Financing activities** | 14 | | |
| Net proceeds from the issue of shares | | **–** | 13.6 |
| Proceeds from borrowings | | **20.4** | – |
| Repayment of borrowings | | **(1.5)** | (9.2) |
| Dividends paid | | **(6.2)** | (5.2) |
| Notional repurchase of share options | | **(1.5)** | – |
| **Net cash generated from/(used in) financing activities** | | **11.2** | (0.8) |
| | | | |
| **Net decrease in cash and cash equivalents**[1] | | **(3.1)** | (1.3) |
| Cash and cash equivalents at 1 April | | **19.8** | 18.0 |
| Effect of exchange rate fluctuations | | **(0.5)** | 3.1 |
| **Cash and cash equivalents at 31 March** | | **16.2** | 19.8 |
| | | | |
| **Reconciliation to cash and cash equivalents in the consolidated statement of financial position** | | | |
| Net cash and cash equivalents shown above | | **16.2** | 19.8 |
| Add back: bank overdrafts | | **5.7** | 1.2 |
| Cash and cash equivalents presented in current assets in the consolidated statement of financial position | | **21.9** | 21.0 |

1 Further information on the consolidated statement of cash flows is provided in notes 11 and 12.

## 1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 5 June 2018. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies whereas those for 2018 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 Operating 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

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

Alternative performance measures are presented in these financial statements as management believe they provide investors with a means of evaluating performance of the Group on a consistent basis, similar to the way in which management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain strategic non-recurring, infrequent or non-cash items that management does not believe are indicative of the underlying operating performance of the Group are included when preparing financial measures under IFRS. The Directors consider there to be the following alternative performance measures:

**Underlying operating profit**

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

Acquisition costs comprise all attributable costs in connection with business acquisitions and related integration into the Group, they include contingent consideration where it is treated as an expense and movement in contingent consideration where it is treated as purchase price.

**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 acquisition costs, 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.

**Operational cash flow**

"Operational cash flow" is defined as Underlying EBITDA adjusted for the investment in, or release of, working capital and less the cash cost of capital expenditure.

**Free cash flow**

"Free cash flow" is defined as net cash flow before 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 Capital Employed ("ROCE")**

"ROCE" is defined as underlying operating profit as a percentage of net assets (including goodwill) plus net debt.

**Organic basis**

Reference to 'organic' basis included in the Chairman's statement, Operating Review and Finance Review of the Strategic Report means at constant exchange rates ("CER"), including the equivalent pre-acquisition period of Variohm, which was acquired last year, and excluding the sales of Acal BFi Spain, which was closed in December 2016, and Santon, which was acquired on 1 February 2018.

## 6. Operating segment information

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

- 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 some cases, by third party contractors.

- The Custom Supply 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 discoverIE'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**

| 2018 | Design & Manufacturing £m | Custom Supply £m | Unallocated £m | Total £m |
|---|---|---|---|---|
| **Revenue** | **222.6** | **165.3** | **–** | **387.9** |
| **Result** | | | | |
| Underlying operating profit/(loss) | 24.2 | 7.5 | (7.2) | 24.5 |
| Acquisition costs | (0.8) | – | – | (0.8) |
| Amortisation of acquired intangible assets | (4.9) | – | – | (4.9) |
| IAS 19 pension charge | – | – | (0.3) | (0.3) |
| **Operating profit/(loss)** | **18.5** | **7.5** | **(7.5)** | **18.5** |

| 2017 | Design & Manufacturing £m | Custom Supply £m | Unallocated £m | Total £m |
|---|---|---|---|---|
| **Revenue** | 175.6 | 162.6 | – | 338.2 |
| **Result** | | | | |
| Underlying operating profit/(loss) | 20.2 | 5.2 | (5.4) | 20.0 |
| Exceptional items | (1.6) | (4.8) | – | (6.4) |
| Acquisition costs | (1.7) | – | – | (1.7) |
| Amortisation of acquired intangible assets | (3.9) | – | – | (3.9) |
| IAS 19 pension charge | – | – | (0.3) | (0.3) |
| **Operating profit/(loss)** | 13.0 | 0.4 | (5.7) | 7.7 |

## 7. Underlying profit before tax

| | | | 2018 £m | 2017 £m |
|---|---|---|---|---|
| Profit before tax | | | **15.8** | 4.8 |
| Add back | Exceptional Items | (a) | **–** | 6.4 |
| | Acquisition Costs | (b) | **0.8** | 1.7 |
| | Amortisation of acquired intangible assets | (c) | **4.9** | 3.9 |
| | Total IAS 19 pension charge | (d) | **0.4** | 0.4 |
| Underlying profit before tax | | | **21.9** | 17.2 |

The tax impact of the underlying profit adjustments above is a credit of £1.3m (2017: £2.8m).

a. In the prior year, restructuring costs relating to Acal BFi totalling £4.8m, included the closure of the Spanish business, management headcount reduction and integration of the purchasing department. Restructuring in the Noratel Group totalling £1.6m included closure of three smaller Noratel production sites, with the production being transferred to other existing production facilities.

b. In the year, there were £1.2m acquisition costs relating primarily to the acquisition of Santon, and £0.3m of acquisition integration cost relating to the manufacturing integration between the Plitron and Noratel business. These costs are partially offset by a £0.7m net credit adjustment to contingent consideration for acquired businesses.

   In the prior year, £0.3m costs were incurred in relation to the acquisition of Variohm. A £0.9m charge was provided for contingent consideration relating to the acquisitions of the Noratel Group, Foss and Contour. £0.5m relates to acquisition related integration in Flux.

c. Amortisation charge for intangible assets recognised on acquisition (see note 10).

d. Pension costs related to the Group's legacy defined benefit pension scheme (see note 15).

## 8. Dividends

| Dividends recognised in equity as distributions to equity holders in the year: | 2018 £m | 2017 £m |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| Final dividend for the year ended 31 March 2017 of 6.05p (2016: 5.72p) | **4.3** | 3.7 |
| Interim dividend for the year ended 31 March 2018 of 2.65p (2017: 2.45p) | **1.9** | 1.5 |
| **Total amounts recognised as equity distributions during the year** | **6.2** | 5.2 |

| Proposed for approval at AGM: | 2018 £m | 2017 £m |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| Final dividend for the year ended 31 March 2018 of 6.35p (2017: 6.05p) | **4.5** | 4.3 |

| **Summary** | | |
|---|---|---|
| Dividends per share declared in respect of the year | **9.0p** | 8.50p |
| Dividends per share paid in the year | **8.7p** | 8.17p |
| Dividends paid in the year | **£6.2m** | £5.2m |

## 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:

| | 2018 £m | 2017 £m |
|---|---|---|
| **Profit for the year attributable to equity holders of the parent:** | **11.8** | 3.5 |

| | Number | Number |
|---|---|---|
| Weighted average number of shares for basic earnings per share | **70,797,217** | 65,427,064 |
| Effect of dilution – share options | **3,666,253** | 2,790,308 |
| **Adjusted weighted average number of shares for diluted earnings per share** | **74,463,470** | 68,217,372 |
| Basic earnings per share | **16.7p** | 5.3p |
| Diluted earnings per share | **15.8p** | 5.1p |

Underlying earnings per share is calculated as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| **Net profit for the year** | **11.8** | 3.5 |
| Exceptional items | **-** | 6.4 |
| Acquisition costs | **0.8** | 1.7 |
| Amortisation of acquired intangible assets | **4.9** | 3.9 |
| IAS 19 pension charge | **0.4** | 0.4 |
| Tax effect of the above | **(1.3)** | (2.8) |
| **Underlying earnings** | **16.6** | 13.1 |

| | Number | Number |
|---|---|---|
| Weighted average number of shares for basic earnings per share | **70,797,217** | 65,427,064 |
| Effect of dilution – share options | **3,666,253** | 2,790,308 |
| **Adjusted weighted average number of shares for diluted earnings per share** | **74,463,470** | 68,217,372 |
| Underlying basic earnings per share | **23.4p** | 20.0p |
| **Underlying diluted earnings per share** | **22.3p** | 19.2p |

At the year end, there were 4,580,130 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 3,666,253 are currently dilutive (2017: 4,847,184 in issue and 2,790,308 dilutive).

## 10. Business combinations

On 1 February 2018, the Group announced the acquisition of Santon Group ("Santon") via the purchase of 100% of the share capital and voting equity interests of its holding company EWAC Holdings BV.

The initial consideration comprises a payment of £19.4m in cash, funded from the Group's existing debt facilities, and the issue to the vendor of new ordinary shares of 5p each in discoverIE (the "New Ordinary Shares") to the value of £0.9m. In addition, contingent consideration of up to £19.7m will be payable over the next 3 years subject to Santon achieving certain growth targets. The fair value of the contingent consideration at the acquisition date was estimated to be £5.5m.

Santon is a Dutch based designer and manufacturer of highly differentiated, patented direct current ("DC") switches for use in solar, industrial and transportation markets. Santon operates from Rotterdam in the Netherlands, with sales offices in the UK and Germany. Santon will operate within the Group's Design & Manufacturing division.

The fair value of the identifiable assets and liabilities of Santon at the date of acquisition were as follows.

| | **Provisional fair value recognised at acquisition £m** |
|---|---|
| Property, plant and equipment | 7.3 |
| Intangible assets – customer relationships and patents | 10.5 |
| Inventories | 4.5 |
| Trade and other receivables | 5.2 |
| Net debt | (4.4) |
| Trade and other payables | (3.7) |
| Current tax liabilities | (1.0) |
| Deferred tax liabilities (non-current) | (2.5) |
| **Total identifiable net assets** | **15.9** |
| **Goodwill arising on acquisition** | **9.9** |
| **Total investment** | **25.8** |
| | |
| *Discharged by* | |
| Cash | 19.4 |
| Shares issued | 0.9 |
| Contingent consideration | 5.5 |
| | **25.8** |

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.

The goodwill of £9.9 million arising from the acquisition is attributable to the cross-selling synergies and international expansion expected to arise from operating as part of the Group. 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 | 19.4 |
| Acquisition costs (included in cash flows from operating activities)[1] | 1.2 |
| Net debt acquired | 4.4 |
| | 25.0 |

1 Acquisition costs of £1.2m were expensed as incurred in the year ended 31 March 2018 and were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £19.4m, the net debt acquired of £4.4m and debt like items of £0.8m.

## 11. Movements in cash and net debt

| Year to 31 March 2018 | 1 April 2017 £m | Cash flow £m | Non cash changes £m | **31 March 2018 £m** |
|---|---|---|---|---|
| Cash at bank and in hand | 21.0 | 1.9 | (1.0) | 21.9 |
| Bank overdrafts | (1.2) | (5.0) | 0.5 | (5.7) |
| Cash and cash equivalents | 19.8 | (3.1) | (0.5) | 16.2 |
| Bank loans under one year | (0.1) | (0.9) | - | (1.0) |
| Bank loans over one year | (50.9) | (18.0) | 0.4 | (68.5) |
| Capitalised debt cost | 1.2 | - | (0.3) | 0.9 |
| Total loan capital | (49.8) | (18.9) | 0.1 | (68.6) |
| **Net debt** | (30.0) | (22.0) | (0.4) | (52.4) |

Bank loans over one year above include £68.3m (2017: £50.8m) drawn down against the Group's revolving credit facility.

| Year to 31 March 2017 | 1 April 2016 £m | Cash flow £m | Non cash changes £m | 31 March 2017 £m |
|---|---|---|---|---|
| Cash at bank and in hand | 18.7 | (1.2) | 3.5 | 21.0 |
| Bank overdrafts | (0.7) | (0.1) | (0.4) | (1.2) |
| Cash and cash equivalents | 18.0 | (1.3) | 3.1 | 19.8 |
| Bank loans under one year | (0.1) | 0.4 | (0.4) | (0.1) |
| Bank loans over one year | (57.2) | 8.8 | (2.5) | (50.9) |
| Capitalised debt cost | 1.2 | - | - | 1.2 |
| Total loan capital | (56.1) | 9.2 | (2.9) | (49.8) |
| Net debt | (38.1) | 7.9 | 0.2 | (30.0) |

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

| Underlying Performance Measure Continuing operations | **2018 £m** | 2017 £m |
|---|---|---|
| (Decrease)/increase in net cash | (22.0) | 7.9 |
| Add: Business combinations | 25.4 | 13.8 |
| Exceptional cash flow | 1.8 | 6.4 |
| Legacy pension scheme funding | 1.7 | 1.6 |
| Dividends paid | 6.2 | 5.2 |
| Notional repurchase of share options | 1.5 | - |
| Less: Net proceeds from share issue | - | (13.6) |
| **Free cash flow** | 14.6 | 21.3 |
| Net finance costs | 2.6 | 2.8 |
| Taxation | 3.7 | 3.0 |
| **Operating cash flow** | 20.9 | 27.1 |

## 12. Reconciliation of cash flows from operating activities

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Profit for the year** | **11.8** | 3.5 |
| Tax expense | **4.0** | 1.3 |
| Net finance costs | **2.7** | 2.9 |
| Depreciation of property, plant and equipment | **3.5** | 3.0 |
| Amortisation of intangible assets – other | **5.5** | 4.6 |
| Loss on disposal of property, plant and equipment | **–** | 0.2 |
| Acquisition related contingent consideration | **–** | (1.6) |
| Change in provisions | **(3.5)** | 1.4 |
| Pension scheme funding | **(1.7)** | (1.6) |
| IAS 19 pension administration charge | **0.3** | 0.3 |
| Equity-settled share-based payment expense | **0.7** | 0.6 |
| **Operating cash flows before changes in working capital** | **23.3** | 14.6 |
| Increase in inventories | **(7.7)** | (0.1) |
| Increase in trade and other receivables | **(0.6)** | (3.8) |
| Increase in trade and other payables | **6.7** | 9.8 |
| (Increase)/decrease in working capital | **(1.6)** | 5.9 |
| **Cash generated from operations** | **21.7** | 20.5 |
| Interest paid | **(3.0)** | (3.0) |
| Income taxes paid | **(3.7)** | (3.0) |
| **Net cash flow from operating activities** | **15.0** | 14.5 |

## 13. Intangible assets - goodwill

| **Cost** | £m |
|---|---|
| At 1 April 2016 | 100.4 |
| Arising from business combinations | 4.3 |
| Exchange adjustments | 4.7 |
| At 31 March 2017 | 109.4 |
| Arising from business combinations | 10.2 |
| Exchange adjustments | (0.9) |
| **At 31 March 2018** | 118.7 |

| **Impairment** | £m |
|---|---|
| **At 31 March 2017 and 31 March 2018** | **(36.8)** |
| **Net book value at 31 March 2018** | 81.9 |
| Net book value at 31 March 2017 | 72.6 |

The carrying value of goodwill is analysed as follows:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Custom Supply | | |
| Acal BFi UK | **3.3** | 3.3 |
| Compotron | **5.2** | 5.1 |
| Medical | **0.6** | 0.6 |
| Design & Manufacturing | | |
| Stortech | **3.6** | 3.6 |
| Hectronic | **0.6** | 0.6 |
| MTC | **2.0** | 2.0 |
| Myrra | **5.2** | 5.1 |
| RSG | **1.3** | 1.2 |
| Noratel | **29.2** | 30.1 |
| Foss | **5.6** | 5.7 |
| Flux | **0.6** | 0.6 |
| Contour | **7.7** | 7.7 |
| Plitron | **1.1** | 1.2 |
| Variohm | **6.0** | 5.8 |
| Santon | **9.9** | - |
| | **81.9** | 72.6 |

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Santon which was acquired in the year and Variohm where the provisional fair value of acquired net assets was finalised during the year.

## 14. Share capital

| **Allotted, called up and fully paid** | **2018 Number** | **2018 £m** | 2017 Number | 2017 £m |
|---|---|---|---|---|
| Ordinary shares of 5p each | 71,417,857 | 3.6 | 70,680,974 | 3.5 |

On 1 February 2018 the Company issued 223,648 new ordinary shares ("Consideration Shares") to the shareholders of the Santon Group ("Santon") in connection with the acquisition of Santon. The fair value of the shares issued was £0.9m.

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

The new shares issued rank pari passu in all respects with the existing shares issued, including the right to receive all dividends and other distributions declared, made or paid on the existing ordinary shares.

During the year to 31 March 2018, employees exercised 513,235 share options under the terms of the various share option schemes (2017: 50,098).

## 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 £1.7m 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 2018 was £3.0m (2016: £6.0m) and the total pension charge was £0.4m (2016: £0.4m). Additionally, a related deferred tax liability of £nil (2016: £0.4m) is included in the pension liability, resulting in total liability of £3.0m (2015: £6.4m).

## 16. Events after the reporting date

**Dividend**
A final dividend of 6.35p per share (2017: 6.05p), amounting to a dividend of £4.5m (2017: £4.3m) and bringing the total dividend for the year to 9.0p (2017: 8.50p), was declared by the Board on 29 May 2018. The discoverIE Group plc financial statements do not reflect this dividend.

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board are confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of shareholders and a circular in respect of this will be issued.

## 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 2018** | | Year to 31 March 2017 | |
|---|---|---|---|---|
| | **Closing rate** | **Average rate** | Closing rate | Average rate |
| US Dollar | 1.4083 | 1.3261 | 1.2496 | 1.3096 |
| Euro | 1.1430 | 1.1345 | 1.1689 | 1.1921 |