Half-year Report

Released : 28 Nov 2019

RNS Number : 9116U
discoverIE Group plc
28 November 2019

28 NOVEMBER 2019

discoverIE Group plc

Interim results for the six months ended 30 September 2019

Strong growth in revenue, profits and earnings

discoverIE Group plc (LSE: DSCV, "discoverIE" or "the Group"), a leading international designer, manufacturer and supplier of customised electronics to industry, today announces its interim results for the six months ended 30 September 2019.

	H1 2019/20	H1 2018/19	Growth %	CER[2] Growth %
Revenue	**£232.0m**	£211.7m	+10%	+9%
Underlying operating profit[1]	**£17.7m**	£14.5m	+22%	+22%
Underlying profit before tax[1]	**£15.6m**	£12.9m	+21%	
Underlying EPS[1]	**14.4p**	13.0p	+11%	
Reported profit before tax	**£10.4m**	£7.8m[3]	+33%	
Reported fully diluted EPS	**9.1p**	7.1p[3]	+28%	
Interim dividend per share	**2.97p**	2.8p	+6%	

Highlights

- **Strong financial and operating performance**
  - Group sales increased by 10% and orders by 9%
  - Group organic[4] sales grew by 5% and organic orders by 4%
  - D&M[5] organic sales grew by 7% and now account for 63% of Group sales (H1 2018/19: 60%)
  - Underlying operating profit increased by 22%
  - Underlying earnings per share increased by 11%

- **Further progress towards key strategic and performance targets**
  - Underlying operating margin increased to 7.6% (H1 2018/19: 6.8%)
    - Proforma 8.4% with recent Sens-Tech acquisition
  - Sales beyond Europe increased to 24% of total sales (H1 2018/19: 20%)
  - ROCE[6] increased to 15.8% (H1 2018/19: 14.8%)
  - Excellent operating cash conversion[7] for the last 12 months of 101% of underlying operating profits.
  - Interim dividend increased by 6%

- **Three higher margin, international D&M acquisitions completed since last year end**
  - Hobart and Positek acquired in April 2019 for a combined £16m
  - Integration of both progressing well
  - Sens-Tech acquired in October 2019 for £58m

- **Group well positioned for further growth**
  - Our target markets represent 66% of sales with growth ahead of the wider market
  - 6% growth in new project design wins in the period
  - Record period end order book of £153m (+15% CER)

- Well supported equity placings in April and October 2019 raising a combined net £61m
- Further acquisition opportunities developing

Nick Jefferies, Group Chief Executive, commented:

"discoverIE's focus on growth markets and higher margin acquisitions has delivered strong first half results with a 22% increase in operating profits, excellent operating cash conversion and 7% organic sales growth in the higher margin D&M division, despite the varied market conditions.

Our target markets now generate two thirds of Group revenue, and in the D&M division over 90% of new design wins. Three years ago less than half our revenue was from these markets.

Since the period end, orders have continued ahead of sales, and with a record order book, a continuing high level of design wins and a pipeline of acquisition opportunities, the Group is on track to deliver full year earnings in line with our expectations."

Enquiries:

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

Instinctif Partners 020 7457 2020
Mark Garraway
James Gray

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 (amortisation of acquired intangible assets of £3.6m, acquisition costs of £1.4m, the IAS19 pension charge relating to a legacy defined benefit scheme of £0.2m) totalling £5.2m. Equivalent underlying adjustments within the H1 2018/19 underlying results totalled £5.1m. For further information, see notes 2 and 5 of the attached summary financial statements.

(2) Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange weakened 0.4% against the Euro compared with the average rate for last year, and weakened 6% against the US Dollar while strengthening by 2% on average against the three Nordic currencies.

(3) Last year's financial statements have been restated as set out in note 2 of the attached summary financial statements which has impacted reported profit before tax and reported fully diluted EPS.

(4) Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions (Cursor Controls was acquired last financial year on 16 October 2018; Hobart and Positek were both acquired on 15 April 2019). Sens-Tech was acquired after the period end so not included.

(5) D&M is the Group's Design & Manufacturing division.

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

(7) 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.

(8) Unless stated, growth rates refer to the comparable prior year period.

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

Notes to Editors:

About discoverIE Group plc

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

The Group provides application-specific components to original equipment manufacturers ("OEMs") internationally. By designing components that meet customers' unique requirements, which are then manufactured and supplied throughout the life of their production, a high level of repeating revenue is generated with long term customer relationships.

By focusing on key markets 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.4,500 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 in the top half of the FTSE Small Cap Index, classified within the Electrical Components and Equipment subsector, and has revenues of over £400m. Over the last five years, revenue and underlying earnings per share has more than doubled.

Chairman's Statement

I am pleased to report that the Group has delivered another strong set of results with further growth in sales, profits and earnings. Management continues to make good progress on the Group's strategic and operational objectives with further improvements towards our mid-term targets.

Strategy

The Group is an international leader in customised electronics, focusing on structurally growing markets which are driven by increasing electronic content and where there is an essential need for our products. The Group's product range is highly differentiated, being customised for specific customers.

With our key markets being worldwide, management sees the opportunity to continue expanding beyond Europe (currently 24% of Group sales), as well as within Europe, as we continue our strategy of building an international electronics group that is able to supply complex international customers.

Acquisitions continue to be important in building discoverIE. Since the beginning of the year, the Group has acquired, in the UK, Sens-Tech and Positek, and in the US, Hobart, all of which are high quality, higher margin D&M businesses, with characteristics and opportunities aligned with the rest of the Group. Each provides good scope for further development, both in our target markets and internationally, with 70% of sales from the three businesses being beyond Europe.

Group Results

Group sales for the first half increased by 10% to £232.0m and by 9% at constant exchange rates ("CER").

First half underlying operating profit, which excludes acquisition-related costs and exceptional items, increased by 22% to £17.7m (+22% at CER). Underlying profit before tax increased by 21% to £15.6m.

The underlying operating margin increased by 0.8ppts to 7.6% reflecting the ongoing focus on higher margin products and custom solutions. Following the period end, the Group completed the acquisition of Sens-Tech which on a pro-forma basis, raises the Group's underlying operating margin by 0.8ppts to 8.4%.

Underlying earnings per share for the period increased by 11% to 14.4p (H1 2018/19: 13.0p). The growth in underlying earnings per share of 11% is lower than the growth in underlying profit before tax of 21% mainly due to the equity fund raising in April 2019 which raised an additional 10% of equity share capital (£28.2m net of costs).

Net debt at 30 September 2019 was £55.4m (H1 2018/19: £62.6m), with a Group gearing ratio of 1.3x, being net debt divided by underlying EBITDA (annualised for acquisitions). On a proforma basis including our post period-end acquisition of Sens-Tech, gearing would have been 1.6x at the end of September. Our target gearing range is 1.5x to 2.0x. Excluding spend on acquisitions and excluding the equity fund raising in the last 12 months, net debt was £19m lower than last year, demonstrating strong free cash flow generation by the Group.

Alongside the acquisitions of Hobart and Positek in April 2019 and the acquisition of Sens-Tech in October 2019, we strengthened the balance sheet by way of two well-supported placings to raise combined net proceeds of £60.6m. Together with strong organic cash flows, these provide the Group with an excellent platform from which to continue to execute its growth strategy. On behalf of the Board, I would like to thank shareholders for their support.

Acquisitions

On 15 April 2019, the Group acquired Hobart Electronics, a designer and manufacturer of custom transformers, inductors and magnetic components, for an initial cash consideration of $15.2m (£11.5m) on a debt free, cash free basis and a contingent payment of up to $4.0m (£3.1m), subject to the achievement of certain growth targets over the three-year period ended 31 December 2021. Based in Hobart, Indiana, US with manufacturing in Mexico, Hobart reports to the Noratel Group where operations are being integrated.

Also on 15 April 2019, the Group acquired Positek, a designer and manufacturer of customised rugged, high accuracy sensors for an initial consideration of £4.2m on a debt free, cash free basis and a further contingent payment of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the next 18 months. Based in Cheltenham, UK and supplying international markets, operationally Positek reports to the Variohm Group.

Since the period end, on 16 October 2019, the Group acquired Sens-Tech, an Egham, UK-based designer, manufacturer and supplier of specialist sensing and data acquisition modules, for an initial cash consideration of £58.0m on a debt free, cash free basis with further contingent cash consideration of up to £12.0m, payable subject to the achievement of certain profit growth targets over a three year period.

All three businesses have significant alignment with our core technologies, market and sector focus and are settling in well. We are delighted to welcome their employees into the Group.

Board Changes

Richard Brooman and Henrietta Marsh retired as Non-Executive Directors at the Company's annual general meeting on 25 July 2019 after 6 years of service. We thank them for their significant contributions to the Company's development and wish them well.

Bruce Thompson succeeded Richard as Senior Independent Director of the Group.

Clive Watson, who joined the Board on 2 September 2019, succeeds as Chair of the Audit and Risk Committee. Clive retired from Spectris plc earlier this year after thirteen years as Group Finance Director and also from Spirax-Sarco Engineering plc where he was Senior Independent Non-Executive Director and Chair of the Audit and Risk Committee, having joined in 2009.

Dividend

The Board is pleased to declare an increase in the interim dividend of 6% to 2.97p per share (H1 2018/19: 2.8p per share). Since 2010, the full year dividend per share has risen by 88%.

The Board believes that maintaining a progressive dividend policy with a long term dividend cover (over 3 times underlying earnings) is appropriate to enable both a higher level of investment from internally generated funds and a growing dividend.

The interim dividend is payable on 6 January 2020 to shareholders registered on 13 December 2019.

Summary

By focusing on structural growth markets and responding effectively to complex customer requirements, the Group is evolving into a higher quality business that is making very good progress towards its strategic goals.

The customised electronics market remains highly fragmented, offering scope to build the Group's technology capability and extend its geographic coverage through disciplined acquisitions. Combined with continued organic growth, the Board and management continue to be excited by the opportunities ahead to build a global business that attracts and retains high quality employees, delivers value to our customers, and grows returns for our shareholders.

Malcolm Diamond
Chairman
28 November 2019

Strategic, Operational and Financial Review

Overview

The Group is pursuing its clear and established strategy of focussing on growing opportunities for customised products in targeted growth markets, namely renewable energy, transportation, medical and industrial & connectivity. The benefits are evident with continuing strong levels of organic revenue growth in the D&M division driving a 22% increase in Group underlying operating profits to £17.7m, an 11% growth in underlying earnings per share to 14.4p and a 28% increase in reported EPS.

Group sales increased by 9% CER and 10% on a reported basis to £232.0m including the translation effect of a slightly weaker Sterling in the period. Organic sales grew by 7% in the D&M division and by 5% for the Group overall.

Group orders also performed well, growing organically by 8% in the D&M division and 4% organically for the Group overall to £236.1m. This resulted in another record period end order book at 30 September 2019 of £153m (up by 15% CER year-on-year, and up by 11% organically).

Project design wins, essential for future organic growth, continued at high levels, with an estimated lifetime revenue value of £134m, having increased by 6% over the previous year.

Group Strategy

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

Essentially, we do three things:-

- Engineering - by understanding our customers design challenges we design and create products that specifically addresses their needs.

- Manufacturing - we manufacture, on an ongoing basis, those individually designed products to a high and reliable standard at one or more of our production facilities internationally.

- Logistics - we supply the manufactured products on a repeating weekly or monthly basis to customers' production lines, internationally, over the life of the customer's demand, typically five to seven years.

Additionally, we acquire businesses with similar characteristics to our existing businesses, building our product capability and international presence. With many customers operating internationally, it is necessary for us to have a presence in major regions of the world. With the market being highly fragmented there exist numerous opportunities for us to acquire complementary businesses.

Our four target markets of renewable energy, transportation, medical and industrial & connectivity, are long term, international growth markets driven by structural growth factors, such as the need for clean energy, where customers depend on our products, and where there is a need for custom products.

Customers choose our products because they help them create differentiated, next generation 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 and strong operating margins;

4. Further internationalise the business by developing 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	FY 19	H1 20	Mid term Target[2]
1. Increase share of Group revenue from D&M[1]	18%	37%	48%	52%	57%	61%	63%	75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	7.6%	8.5%
3. Build sales beyond Europe[1]	5%	12%	17%	19%	19%	21%	24%	30%

(1) As a proportion of Group revenue
(2) Mid-term is a 3 to 5 year period starting in Nov 16

The Group has made further good progress with its KSIs during this period:

- The higher margin D&M division delivered 63% of Group sales, up 3ppts on the first half last year (H1 2018/19: 60%), generating 81% of the Group's underlying operating profit contribution (H1 2018/19: 78%); importantly, customer concentration remains low with no one customer accounting for more than 5% of Group sales;

- The increasing proportion of the D&M division has helped to improve the Group operating margin by 0.8ppts over H1 last year to 7.6% (H1 2018/19: 6.8%) and by 0.6ppts over the last financial year (FY 2018/19: 7.0%). On a proforma basis, the recent acquisition of Sens-Tech increases Group operating margin by 0.8ppts to 8.4%. We seek to acquire business with margins that are higher than our D&M division; and

- Sales beyond Europe in H1 represented 24% of Group revenue (from 20% for H1 2018/19) improving as a result of the acquisitions of Hobart and Positek (for which c.70% of combined sales in the period were outside Europe). On an annualised basis, including the recently acquired Sens-Tech business (also c.70% of sales outside Europe), this would rise to 26%. We continue to seek acquisitions with high quality international revenues.

Key Performance Indicators

	FY14	FY15	FY 16	FY 17	FY 18	FY19	H1 20	3 yr target (FY20)
1. Sales growth								
CER	17%	36%	14%	6%	11%	14%	9%	Well ahead of GDP
Organic	2%	3%	3%	(1)%	6%	8%	5%	
2. Increase cross-selling	£0.3m	£0.9m	£3.0m	£4.6m	£8.8m	£9.7m[2]	£10.8m[2]	£12m p.a. (was £10m)
3. Underlying EPS growth	20%	31%	10%	13%	16%	22%	11%	>10%
4. Dividend growth	10%	11%	6%	6%	6%	6%	6%	Progressive
5. ROCE[1]	15.2%	12.0%	11.6%	13.0%	13.5%	15.4%	15.8%	>15%
6. Operating cash conversion[1]	100%	104%	100%	136%	85%	93%	101%	>85% of underlying operating profit

(1) Defined in Note 2 of the attached summary financial statements; calculated based on last 12 months.
(2) Annualised sales (H1 20: £5.4m, H1 19: £4.8m CER)

The Group has also made good progress with its KPIs this period:

- Organic sales growth for the period of 5% was well ahead of GDP, driven by strong growth in the D&M division with organic sales

growth of 7% reflecting the sustained focus on higher growth target markets;

- Cross-selling generated £5.4m of Group sales, an increase of 13% over the prior year (H1 2018/19: £4.8m CER); on an annualised basis, cross-sales of £10.8m are tracking towards our target of £12m p.a., increased from £10m p.a. last year;

- Underlying EPS growth for the period was good at 11% (FY 2018/19: 24%), and is on track for our annual target of exceeding 10%. It reflects good organic growth in our target markets, the benefit of acquisitions and improved operating efficiency;

- Strong growth in underlying operating profit has driven a 1.0ppt increase in return on capital employed to 15.8% (including the acquisitions of Hobart and Positek in the period) compared with the return for H1 2018/19 of 14.8%, and 0.4ppts above the return for FY 2018/19. This is above our 3 year target of exceeding 15%;

- Over the last 12 month period, operating cash flow conversion was 101% of underlying operating profit; well above our 85% target, despite the working capital required to support strong organic sales growth in the Group of 7% in the last 12 months. Over the last seven years, operating cash flow has been consistently strong.

Divisional Results

Divisional and Group performances for the half year ended 30 September 2019 are set out and reviewed below.

	H1 2019/20			H1 2018/19			Revenue growth	CER revenue growth	Organic revenue growth
	Revenue £m	**Underlying operating profit (1) £m**	**Margin**	Revenue £m	Underlying operating profit (1) £m	Margin			
Design & Manufacturing	**146.6**	**17.6**	**12.0%**	127.8	14.2	11.1%	15%	14%	7%
Custom Supply	**85.4**	**4.1**	**4.8%**	83.9	3.9	4.6%	2%	2%	0%
Unallocated costs		**(4.0)**			(3.6)				
Total	**232.0**	**17.7**	**7.6%**	211.7	14.5	6.8%	10%	9%	5%

(1) Underlying operating profit excludes acquisition-related costs, and exceptional items (see below).

With approximately 87% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has been slightly impacted by slightly weaker Sterling on average year-on-year with Group revenue growth increasing from 9% CER to 10% on a reported basis.

Order Book

Orders have continued to grow well with the order book at 30 September 2019 reaching a record period-end high of £153m, an increase of 15% CER over last year. On an organic basis, the Group order book increased by 11%, with the D&M order book growing by 17% organically while the Custom Supply order book remained level with last year.

Order book growth is driven by repeating revenues from existing customer projects as well as the conversion of new project design wins into orders. Over 80% of the order book is for delivery within twelve months from the time of order.

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

Design wins

Project design wins are a measurement of new business creation and a proxy for future organic growth. By working with customers at an early stage in their project design cycle, we identify opportunities for custom products.

Design opportunities take typically eighteen months to reach conclusion, at which point they become a design win. Once in production, the design win is expected to create a recurring revenue stream for several years.

The strong level of new design wins continued at a high level during the first half with an estimated lifetime sales value in the period of £134m, growing by 6% over last year and with estimated future annual revenues representing approximately 15% of current revenue. In the D&M division, over 90% of design wins were within the higher growth target markets, and 80% for the Group as a whole.

Design & Manufacturing 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, with the division's principal manufacturing facilities being in China, India, Mexico, the Netherlands, Poland, Slovakia, Sri Lanka and Thailand.

During the period, the expansion of our magnetic components production facility in China was completed which has increased Myrra's Asian capacity by around 70%. Additionally, the production facility in Bangalore, India, which was opened two years ago, is being doubled in size, driven by good levels of domestic market growth as expected, but also the relocation of some existing Chinese production that is destined for the US and which would otherwise be subject to 25% import tariff.

The benefit of new revenue from design wins of previous years and strong demand from our key target markets delivered strong organic growth in the division. Both sales and orders grew organically by 7% and continued the momentum of previous years with sales and orders growing organically by 22% over the last two years. Growth was widespread - Asia (+28%), Nordic region (+9%), Germany (+9%) and North America (+3%) although the UK declined by 7%. Asia and US now accounts for 34% of D&M revenues (H1 2018/19: 29%), up from 22% three years ago.

The direct effect of China / US tariffs on the Group is limited. Of £22m sales into the US in the first half of the year, £2.8m were manufactured in China and subject to a tariff (of 25%), with our pass-through policy applying. With our production operations located internationally, in Mexico, India, Sri-Lanka and Thailand, production for the US is being reduced in China and transferred to other countries, thereby minimising the effects of such tariffs.

Overall organic sales growth of 7%, combined with a 7% sales increase from acquisitions, resulted in overall sales increasing by 14% CER. Including the impact of translation, reported divisional revenue increased by 15% to £146.6m (H1 2018/19: £127.8m).

Divisional revenue was 63% of Group revenue (H1 2018/19: 60%) representing a further increase towards our mid-term target for D&M to reach 75% of Group revenue, and generated 81% of the Group's underlying profit contribution (H1 2018/19: 78%).

Underlying operating profit of £17.6m was £3.4m (+24%) higher than last year (H1 2018/19: £14.2m) and also up £3.4m CER. The underlying operating margin of 12.0% was 0.9ppt higher than last year (H1 2018/19: 11.1%) reflecting the positive mix effect of operating efficiencies and higher margin acquisitions, as well as continued investment in our commercial and manufacturing infrastructure to ensure sufficient resources and capacity for further growth.

Hobart Electronics

In April 2019, the Group acquired Hobart Electronics, a Hobart, Indiana, US headquartered business founded in 1969 which designs, manufactures and supplies customised transformers, inductors and magnetic components for niche applications. As well as manufacturing sites in Indiana and Arizona, it has two larger manufacturing sites in Mexico and employs around 260 people. Over 90% of revenues are generated from customers in North America. The markets served by Hobart include energy infrastructure and industrial, which collectively account for approximately 74% of sales. Following acquisition, Hobart now operates as part of Noratel's US business within the D&M division.

The business was acquired for an initial cash consideration of $15.2m (£11.5m) on a debt free, cash free basis, with a further contingent cash consideration of up to $4.0m (£3.1m) payable subject to the achievement of certain growth targets over the next three years.

Revenues for the year ended 31 December 2018 were $13.0m (£10.0m), generating a pre-tax profit of $2.0m (£1.5m).

Positek

Also in April 2019, the Group acquired Positek, a Cheltenham, UK based designer and manufacturer of rugged, high accuracy linear, rotary, tilt and submersible sensors, supplying international markets with 60% of sales into the Industrial sector. Positek, which was founded in 1992, sells products worldwide that are renowned for their quality, precision and robustness. Approximately 50% of revenues are generated from customers in Europe, 20% from customers in North America, 15% from customers in Asia Pacific and 15% in the UK. Following acquisition, Positek now operates as part of the Variohm business within the D&M division.

The business was acquired for an initial cash consideration of £4.2m on a debt free, cash free basis, with further contingent cash consideration of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the 18 months following acquisition. Revenues for the year ended 31 August 2018 were £1.5m, generating an underlying EBITDA of £0.6m.

Sens-Tech

Since the period end, in October 2019, the Group acquired Sens-Tech, an Egham, UK based business, originally a spin out from Thorn EMI in 1994 specialising in X-ray detection and data acquisition modules. These systems are typically used in industries that have high regulatory and certification requirements, such as medical imaging, safety and security applications, and leads to long product life cycles with high barriers to entry. Sens-Tech sells worldwide, with approximately 51% of its revenues generated from customers in North America, 29% from Europe, 17% from Asia with the balancing 3% from the UK and the rest of the world. Following acquisition, Sens-Tech operates within the D&M division.

The business was acquired for an initial cash consideration of £58.0m on a debt free, cash free basis, with a further contingent cash consideration of up to £12m payable subject to the achievement of certain profit growth targets over a three year period.

Revenues for the year ended March 2018, its last audited accounts prior to acquisition, were £15.0m, generating underlying operating profits of £5.3m. The business has a good history of sustained revenue and profit growth and has continued to grow well since then.

Custom Supply Division

The Custom Supply 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 with products that are mostly sourced from third party suppliers rather than 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 products manufactured by the D&M division in a manner that complements, but does not compete with our highly valued third party suppliers.

The division comprises two businesses, Acal BFi and Vertec. Acal BFi supplies industrial markets and accounts for most of Custom Supply divisional revenue. It supplies products from a 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 trading in the first half was level with the first half last year with a book to bill ratio for the period of 1.0. The division saw good growth in Italy and Benelux offset by falls in Germany and the UK.

Including translation movements and the impact of the transfer of RSG from D&M to Acal BFi, reported divisional revenue increased by 2% to £85.4m (H1 2018/19: £83.9m). Underlying operating profit of £4.1m was £0.2m (+5%) higher than last year (H1 2018/19: £3.9m) while the underlying operating margin was 4.8%, 0.2ppts higher than the same period last year, and broadly in line with our mid-term target margin for this division of 5%.

Target Markets

The Group focuses on four target markets, which account for around 70% of D&M turnover and 66% of Group turnover: transportation, medical, renewable energy and industrial & connectivity. These target markets are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities. Growth in these markets is driven by increasing electronic content and by global macro trends such as an ageing affluent population, an expanding transport infrastructure, and the increasing need for renewable sources of energy. This period, organic revenue growth for the Group in target markets was 6% with other markets growing by 1% resulting in overall Group organic growth of 5%. In the D&M division, organic growth in target markets was 9%, with other markets growing by 3% resulting in overall growth of 7%.

i) Transportation

Transport markets continue to grow internationally. The electronics content is rising driven by electrification, safety, intelligence, automation and convenience. Our focus is on mass transportation markets such as rail, air, trucks, buses and electrification infrastructure. According to Research and Markets, the global market for smart transportation is forecast to grow by 18.7% CAGR 2019 to 2024

ii) Medical

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, the medical electronics market is forecast to grow by 8% CAGR 2018-24 according to TechSci Research.

iii) Renewable Energy

The increasing global requirement for clean electricity is leading to the rapid deployment of sustainable energy generation. So much so, that according to the International Energy Agency (IEA), 70% of the growth (2017-23) in global electricity production will come from renewable energy sources with the proportion of total energy production rising to 40% globally from 25% currently. Our focus is on Wind and Solar energy.

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 for global IoT (internet of things) connections to grow by 18.7% CAGR 2019-24. Another report by PwC expects the global semiconductor market for industrial applications to grow by 10.8% CAGR 2018-22. Our focus is on the wireless connectivity of devices (machine-to-machine) and the associated industrial markets which benefit from this new connectivity.

Cross-selling

Cross-selling is the sale of products by one discoverIE Group company to customers of another Group company. For newly acquired businesses, access to a greater number of potential new customers provides an effective route to expanding their customer base and geographic reach.

Typically, it takes three years for cross-selling to become established within a business unit, due to project lead-in cycles, and 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. In the first half of this year, cross-selling revenue increased by 13% year-on-year to £5.4m (H1 2018/19: £4.8m CER) as new designs and order book came into production. Cross-selling accounts for 2.3% of Group revenue.

With annualised cross-selling revenue of £10.8m, we remain on track to achieve our mid-term target of £12m p.a (increased from £10m p.a. last year).

Acquisitions

Niche electronic components is a highly fragmented market with many opportunities to acquire and consolidate.

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

We acquire businesses that are successful, profitable with good growth prospects and long term growth drivers aligned with the Group's target markets. We support growth investment 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;
- 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.

Prior to the recent Sens-Tech transaction, the Group had successfully completed 14 acquisitions in the D&M division since 2011, which have contributed to growth in revenues in the division from £15m in FY13 to £266m in FY19, with Group underlying operating margins increasing from 3.1% to 7.0% over the same period. The Group's operating model is well established and has facilitated the smooth integration of acquired businesses, including both Hobart and Positek. Through a combination of investment in efficiency and leveraging of the broader Group's commercial infrastructure, the businesses acquired since 2011 have delivered an average return on investment of 20% in FY19.

Group Results

Revenue and Orders

Organic sales increased by 5% in the period to £232.0m (H1 2018/19: £211.7m), and with the acquired businesses of Cursor Controls, Hobart and Positek adding 4%, overall sales increased by 9% CER. Including a small translation impact of a slightly weaker Sterling on average during the period, reported revenues increased by 10% year-on-year. Organic sales were stronger in the second quarter driven by strong growth in the D&M division with 4% organic growth in the first quarter rising to 6% growth in the second quarter.

Group orders increased by 8% CER and 4% organically to £236.1m with a positive book to bill ratio of 1.02.

The Group's order book increased by 15% CER and by 11% organically year-on-year, to reach another record period end high of £153m.

Gross Margin and Profit

Group gross margin increased 0.4ppts in the first half to 33.4% (H1 2018/19: 33.0%). This is the highest Group gross margin since the current strategy was started ten years ago.

Gross profit grew by 11% and by 10% CER to £77.4m.

The Group continues with its policy of hedging transactions from the point of order through to payment, typically hedging around six months of the order book.

Underlying Operating Costs

Group underlying operating costs increased by 7% CER. Excluding the operating costs of businesses acquired since last year, underlying operating costs increased by 2% organically reflecting investment of 4% in D&M businesses offset by 1% savings in the Custom Supply division. Underlying operating costs as a percentage of sales reduced by 0.4ppts to 25.8% compared with last year, our lowest operating cost percentage since the strategy began ten years ago.

£m	**H1 2019/20**	**H1 2018/19**	**%**
Organic operating costs	56.9	55.6	2%
Acquisition operating costs	2.8		
Underlying operating costs (CER)	59.7	55.6	7%
FX translation		(0.2)	
Underlying adjustments (see below)	5.1	5.0	
Reported operating costs	64.8	60.4	7%

£m	**H1 2019/20**	**H1 2018/19**
Selling and distribution costs	29.5	27.8
Administrative expenses	35.3	32.6
Reported operating costs	64.8	60.4

Group Operating Profit and Margin

Group underlying operating profit for the period was £17.7m, an increase of £3.2m (+22%) on last year on a reported and CER basis, delivering a Group underlying operating margin of 7.6%, up 0.8ppts on last year.

Reported Group operating profit for the period (after accounting for the underlying adjustments discussed below) was £12.6m, an increase of £3.1m over last year (+33%).

£m	**H1 2019/20**			H1 2018/19		
	Operating profit	**Finance cost**	**Profit before tax**	Operating profit	Finance cost	Profit before tax
Underlying	17.7	(2.1)	15.6	14.5	(1.6)	12.9
Underlying adjustments						
Acquisition expenses	(1.4)	-	(1.4)	(0.4)	-	(0.4)
Amortisation of acquired intangibles	(3.6)	-	(3.6)	(2.9)	-	(2.9)
Exceptional charge (US)	-	-	-	(1.5)	-	(1.5)
IAS 19 pension cost	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.3)
Reported	12.6	(2.2)	10.4	9.5	(1.7)	7.8

Underlying Adjustments

Underlying adjustments for the period comprise acquisition expenses of £1.4m (H1 2018/19: £0.4m), the amortisation of acquired intangibles of £3.6m (H1 2018/19: £2.9m) and the IAS19 legacy pension cost of £0.2m (H1 2018/19: £0.3m).

Acquisition expenses of £1.4m include the expenses related to the acquisitions of Hobart and Positek in April 2019 of £1.0m and £0.4m of accrued contingent consideration costs relating to the acquisition of Cursor Controls. The £0.7m increase in the amortisation charge since last year to £3.6m relates to the amortisation of intangibles acquired with Cursor Controls, Hobart and Positek.

Financing Costs

For the half year, total finance costs were £2.2m (H1 2018/19: £1.7m). This year's charge comprises underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £1.8m (H1 2018/19: £1.6m), an IFRS 16 interest charge of £0.3m and a £0.1m interest charge relating to the IAS19 legacy pension finance charge (H1 2018/19: £0.1m).

Underlying finance costs for the period of £1.8m were £0.2m higher than last year, due to increased commitment fees following the extension of our banking facility by £60m in February 2019, partly offset by lower interest rates.

Underlying Tax Rate

The underlying effective tax rate for the first half was 24%, was slightly below last year's rate of 25% due to higher UK profits being taxed at a lower rate.

The overall effective tax rate of 28% was higher than the underlying effective tax rate due to there being no tax relief on acquisition costs (within underlying adjustments above).

Profit Before Tax and EPS

Underlying profit before tax for the period increased by £2.7m (+21%) to £15.6m compared with last year (H1 2018/19: £12.9m), driving growth in underlying EPS for the period of 11% to 14.4p (H1 2018/19: 13.0p). The increase in underlying EPS was lower than the increase in underlying profit before tax due to the issuance of 10% new equity in April 2019.

After the underlying adjustments above, reported profit before tax was £10.4m an increase of £2.6m (+33%) compared with last year (H1 2018/19: £7.8m) with reported fully diluted earnings per share of 9.1p increasing by 2.0p (+28%) compared with last year (H1 2018/19: 7.1p).

£m	**H1 2019/20**		**H1 2018/19**	
	PBT	**EPS**	**PBT**	**EPS**
Underlying	15.6	14.4p	12.9	13.0p
Underlying adjustments				
Acquisition expenses	(1.4)		(0.4)	
Amortisation of acquired intangibles	(3.6)		(2.9)	
Exceptional charge (US)	-		(1.5)	
IAS 19 pension cost	(0.2)		(0.3)	
Reported	10.4	9.1p	7.8	7.1p

Working Capital

Working capital at 30 September 2019 was £81.2m, equivalent to 16.9% of annualised second quarter sales at CER. This compares with working capital of £74.3m at 30 September 2018, 17.3% of last year's annualised second quarter sales as we continue to improve working capital efficiency in the Group.

The D&M division working capital was 21% of sales (H1 2018/19: 22%) and 13% in Custom Supply (H1 2018/19: 13%).

Cash Flow

Net debt at 30 September 2019 was £55.4m, compared with £63.3m at 31 March 2019 and £62.6m at 30 September 2018. Excluding spend on the acquisitions of Cursor Controls in October 2018 and Hobart and Positek in April 2019 and the equity raise in the period, net debt reduced by £18.9m in the last 12 months, equating to 56% of underlying operating profits, demonstrating continuing strong cash generation by the Group.

	H1 2019/20	**H1 2018/19**	**Last 12 Months**
Opening net debt	(63.3)	(52.4)	(62.6)
Free cash flow (see table below)	5.2	0.7	25.9
Acquisition related cash flow	(18.0)	(2.3)	(39.9)
Equity raise	28.2	-	28.2
Exceptional items	-	(1.5)	2.6
Legacy pension	(0.9)	(0.9)	(1.7)
Dividends	(5.4)	(4.7)	(7.4)
Executive options issuance	-	(1.1)	(0.4)
Foreign exchange impact	(1.2)	(0.4)	(0.1)

Net debt at 30 Sept	**(55.4)**	**(62.6)**	**(55.4)**

Net acquisition costs of £18.0m comprised £17.0m for the acquisitions of Hobart and Positek (including associated costs of acquisitions), and an earnout payment in respect of Contour of £1.0m.

Dividend payments increased by £0.7m (+15%) to £5.4m following the 6% increase of the final dividend last year and the 10% equity placing in April 2019 to strengthen the balance sheet and help support future acquisitions. Total dividend payments made in the last 12 months were £7.4m. The Group will continue to review the level of future dividend growth in relation to its policy of long term dividend cover of over 3 times underlying earnings per share

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

£m	H1 2019/20	H1 2018/19	Last 12 Months
Underlying profit before tax	**15.6**	**12.9**	**29.9**
Finance costs	2.2	1.6	4.0
Non-cash items*	6.4	3.0	9.8
Underlying EBITDA	**24.2**	**17.5**	**43.7**
Working capital	(8.5)	(11.6)	(0.1)
Capital expenditure	(3.2)	(1.9)	(6.5)
IFRS 16	**(3.3)**	-	**(3.3)**
Operating cash flow	**9.2**	**4.0**	**33.8**
Finance costs	(1.9)	(1.6)	(3.7)
Taxation	(2.1)	(1.7)	(4.2)
Free cash flow	**5.2**	**0.7**	**25.9**

* Non-cash items are depreciation, amortisation and share based payments. Includes £3.1m IFRS 16 depreciation for H1 2019/20.

Underlying EBITDA of £24.2m includes the add back of IFRS 16 depreciation of £3.3m; excluding this, it was 19% higher than last year. £8.5m was invested into working capital partly as a result of the strong growth in first half D&M sales (up 7% organically) and partly into inventory to support expected sales growth in the second half of the year. Typically, the Group benefits from greater operational cash generation in the second half of a year with inflows of working capital following utilisation of inventory built at the half year; additionally, commissions and bonuses are accrued through the year and typically paid in the first half. Last year, saw a cash outflow for working capital of £11.6m in the first half followed by an inflow in the second half of £8.4m for a net investment of £3.2m for the year. Over the last 12 months, working capital has been held broadly flat despite Group organic sales growth of 6% in the second quarter, being annualised additional sales of £28m CER.

Capital expenditure of £3.2m in the first half was £1.3m higher than the first half last year but in line with spend in the second half (H2 2018/19: £3.3m) as the Group continues to invest in additional production capacity in the D&M division. Further investment of £3.5m is expected in the second half.

Finance costs of £1.9m were up £0.3m on last year due to increased average net debt balances in the period and higher commitment following the increased facility size in January 2019. Tax payments of £2.1m were £0.4m higher in the first half compared with last year, reflecting increased profitability of the Group. Further payment of taxes in the second half of c£4.0m are expected.

The first half generated £9.2m of operating cash; together with £24.6m generated in the second half of last year, a total of £33.8m of operating cash was generated over the last 12 months. This is an increase of 48% over last year (H1 2018/19 12 month operating cash: £22.9m) and is 101% of underlying operating profit during that period, well above our 85% target. Over the last 7 years, the Group has consistently achieved a similarly high level of cash conversion.

Free cash flow (being operating cash flow after interest and taxation in the last 12 months was £25.9m, an increase of 55% over the prior 12 month period (H1 2018/19: £16.7m). Our free cash conversion over the last 12 months was 114% of profit after tax, well ahead of our 90% target.

Banking Facilities

The Group has a £180m syndicated banking facility which extends to June 2023 with an option to extend the facility by a further year to June 2024. In addition, the Group has a £60m accordion facility extending the total facility up to £240m if required. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 30 September 2019 of £55.4m, the Group's gearing ratio at the end of the period was 1.3x, being net debt divided by underlying EBITDA (annualised for acquisitions). Following the post period-end placing on 17 October 2019 to part fund the acquisition of Sens-Tech, pro-forma gearing at 30 September 2019 increased to 1.6x, with our target gearing range being between 1.5x and 2.0x.

Balance Sheet

Net assets of £168.8m at 30 September 2019 were £34.1m higher than at the end of the last financial year (31 March 2019: £134.7m). The increase primarily relates to the c.10% equity placing in April 2019 plus the net profit for the period partly offset by the payment of last year's final dividend. The movement in net assets is summarised below:

£m	H1 2019/20
Net assets at 31 March 2019	134.7
Net profit after tax	7.5
Dividend paid	(5.4)

Currency net assets - translation impact	3.0
Gain on defined benefit scheme	0.2
Equity issue	28.2
Share based payments (inc tax)	0.6
Net assets at 30 Sep 2019	**168.8**

Defined Benefit Pension Scheme

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the period by £0.8m, from £2.5m at 31 March 2019 to £1.7m at 30 September 2019. This mainly follows improvements in asset values held and Company contributions, offset by lower corporate bond rates during the period increasing the gross value of longer term pension liabilities. Annual payments of £1.8m are payable, growing by 3% each year until September 2022 in accordance with the revised plan agreed with the pension trustees in June 2019 as part of the recent triennial valuation.

Brexit

discoverIE does not anticipate a material direct tariff impact from Brexit. As an international Group, only 13% of sales are in the UK with minimal trade between the UK & Eurozone. The majority of sales in the UK are of products manufactured outside the EU, predominantly in Asia and the US, and are thus unaffected. WTO rules, were they to apply, for products traded between the EU and the UK and vice versa, are mostly low or zero rated and the effect would therefore be minimal.

Changes have been made to some warehousing and logistics to hold a buffer stock in the country of demand to minimise the effects of any border disruption.

Indirect risk remains in terms of softening customer demand as a result of ongoing uncertainty, and also the impact from a depreciation of Sterling which would increase import costs.

Risks and Uncertainties

The principal risks faced by the Group are set out on pages 40 to 45 of the Group's Annual Report for year ended 31 March 2019, a copy of which is available on the Group's website: www.discoverieplc.com. These risks include, but are not limited to: the economic environment; 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; inventory obsolescence; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of the Group's 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 £180m.

Summary and Outlook

discoverIE's focus on growth markets and higher margin acquisitions has delivered strong first half results with a 22% increase in operating profits, excellent operating cash conversion and 7% organic sales growth in the higher margin D&M division, despite the varied market conditions.

Our target markets now generate two thirds of Group revenue, and in the D&M division over 90% of new design wins. Three years ago less than half our revenue was from these markets.

Since the period end, orders have continued ahead of sales, and with a record order book, a continuing high level of design wins and a pipeline of acquisition opportunities, the Group is on track to deliver full year earnings in line with our expectations.

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director
28 November 2019

Condensed consolidated income statement
for the six months ended 30 September 2019

	notes	**Unaudited six months ended 30 Sept 2019 £m**	Unaudited six months ended 30 Sept 2018 £m Restated[1]	Audited year ended 31 Mar 2019 £m
Revenue	4	**232.0**	211.7	438.9
Cost of sales		**(154.6)**	(141.8)	(293.9)
Gross profit		**77.4**	69.9	145.0
Selling and distribution costs		**(29.5)**	(27.8)	(57.7)
Administrative expenses (including underlying adjustments)		**(35.3)**	(32.6)	(64.6)
Operating profit	4	**12.6**	9.5	22.7
Finance revenue		**0.2**	0.2	0.5
Finance costs		**(2.4)**	(1.9)	(3.9)
Profit before tax		**10.4**	7.8	19.3
Tax expense	7	**(2.9)**	(2.5)	(4.7)
Profit for the period		**7.5**	5.3	14.6
Earnings per share				
Basic	9	**9.4p**	7.4p	20.0p
Diluted	9	**9.1p**	7.1p	19.4p

Supplementary income statement information

Underlying Performance Measure	Notes	**Unaudited six months ended 30 Sept 2019 £m**	Unaudited six months ended 30 Sept 2018 £m Restated[1]	Audited year ended 31 Mar 2019 £m
Operating profit	4	**12.6**	9.5	22.7
Add: Acquisition costs	5	**1.4**	0.4	1.8
Exceptional items	5	**-**	1.5	(0.2)
Amortisation of acquired intangible assets	5	**3.6**	2.9	5.9
IAS 19 pension administrative charge		**0.1**	0.2	0.4
Underlying operating profit		**17.7**	14.5	30.6
Profit before tax		**10.4**	7.8	19.3
Add: Acquisition costs	5	**1.4**	0.4	1.8
Exceptional items	5	**-**	1.5	(0.2)
Amortisation of acquired intangible assets	5	**3.6**	2.9	5.9
Total IAS 19 pension charge	5	**0.2**	0.3	0.4
Underlying profit before tax		**15.6**	12.9	27.2
Underlying earnings per share				
Basic	9	**14.9p**	13.5p	28.1p
Diluted	9	**14.4p**	13.0p	27.2p

1. Refer to note 2 for details on restatement.

Condensed consolidated statement of comprehensive income
for the six months ended 30 September 2019

	Unaudited six months ended 30 Sept 2019 £m	Unaudited six months ended 30 Sept 2018 £m Restated[1]	Audited year ended 31 Mar 2019 £m
Profit for the period	**7.5**	5.3	14.6
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Re-measurement gain on defined benefit pension scheme	**0.2**	0.6	0.1
Deferred tax credit relating to defined benefit pension scheme	**-**	(0.1)	-
	0.2	0.5	0.1
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries	**3.0**	2.7	(1.1)

	3.0	2.7	(1.1)
Other comprehensive income/(loss) for the period, net of tax	**3.2**	3.2	(1.0)
Total comprehensive income for the period, net of tax	**10.7**	8.5	13.6

1. Refer to note 2 for details on restatement.

Condensed consolidated statement of financial position

at 30 September 2019

	Notes	**Unaudited at 30 Sept 2019 £m**	Unaudited at 30 Sept 2018 £m Restated[1]	Audited at 31 March 2019 £m
Non-current assets				
Property, plant and equipment		**25.4**	24.0	24.4
Right of use assets		**17.8**	-	-
Intangible assets - goodwill		**94.5**	78.2	85.3
Intangible assets - other		**38.8**	27.9	34.4
Deferred tax assets		**5.7**	5.6	5.1
		182.2	135.7	149.2
Current assets				
Inventories		**72.2**	63.7	66.2
Trade and other receivables		**92.8**	88.1	88.7
Current tax assets		**1.3**	1.1	1.3
Cash and cash equivalents	11	**24.9**	17.8	22.9
		191.2	170.7	179.1
Total assets		**373.4**	306.4	328.3
Current liabilities				
Trade and other payables		**(83.8)**	(77.5)	(87.7)
Other borrowings	11	**(2.1)**	(4.1)	(1.7)
Lease liabilities		**(6.7)**	-	-
Current tax liabilities		**(7.6)**	(5.2)	(5.5)
Provisions		**(0.7)**	(2.2)	(1.1)
		(100.9)	(89.0)	(96.0)
Non-current liabilities				
Trade and other payables		**(1.9)**	-	(0.2)
Other borrowings	11	**(78.2)**	(76.3)	(84.5)
Lease liabilities		**(11.2)**	-	-
Pension liability		**(1.7)**	(1.8)	(2.5)
Provisions		**(3.3)**	(1.4)	(2.7)
Deferred tax liabilities		**(7.4)**	(6.8)	(7.7)
		(103.7)	(86.3)	(97.6)
Total liabilities		**(204.6)**	(175.3)	(193.6)
Net assets		**168.8**	131.1	134.7
Equity				
Share capital		**4.1**	3.7	3.7
Share premium account		**106.9**	106.9	106.9
Merger reserve		**2.9**	2.9	2.9
Currency translation reserve		**5.4**	6.2	2.4
Retained earnings		**49.5**	11.4	18.8
Total equity		**168.8**	131.1	134.7

1. Refer to note 2 for details on restatement.

Condensed consolidated statement of changes in equity

for the six months ended 30 September 2019

	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 2019	**3.7**	**106.9**	**2.9**	**2.4**	**18.8**	**134.7**
Profit for the period	**-**	**-**	**-**	**-**	**7.5**	**7.5**
Other comprehensive income	**-**	**-**	**-**	**3.0**	**0.2**	**3.2**
Total comprehensive income	**-**	**-**	**-**	**3.0**	**7.7**	**10.7**
Shares issued[1]	**0.4**	**-**	**-**	**-**	**27.8**	**28.2**
Share-based payments	**-**	**-**	**-**	**-**	**0.6**	**0.6**
Dividends	**-**	**-**	**-**	**-**	**(5.4)**	**(5.4)**
At 30 September 2019 - unaudited	**4.1**	**106.9**	**2.9**	**5.4**	**49.5**	**168.8**
At 1 April 2018	3.6	106.9	2.9	3.5	9.9	126.8
Profit for the period	-	-	-	-	5.3	5.3
Other comprehensive income	-	-	-	2.7	0.5	3.2
Total comprehensive income	-	-	-	2.7	5.8	8.5
Shares issued	0.1	-	-	-	(0.1)	-
Share-based payments	-	-	-	-	0.5	0.5
Dividends	-	-	-	-	(4.7)	(4.7)
At 30 September 2018 - unaudited (Restated[2])	3.7	106.9	2.9	6.2	11.4	131.1
At 1 April 2018	3.6	106.9	2.9	3.5	9.9	126.8
Profit for the period	-	-	-	-	14.6	14.6
Other comprehensive income	-	-	-	(1.1)	0.1	(1.0)
Total comprehensive income	-	-	-	(1.1)	14.7	13.6
Shares issued	0.1	-	-	-	-	0.1
Share-based payments	-	-	-	-	0.9	0.9
Dividends	-	-	-	-	(6.7)	(6.7)
At 31 March 2019 - audited	3.7	106.9	2.9	2.4	18.8	134.7

1. On 18 April 2019, the Company issued 7,309,867 new ordinary shares through an equity placing. The shares were issued at a price of 400 pence per share representing a discount of 3.85% to the closing price of 416 pence per share on 15 April 2019. Net proceeds were £28.2m, being gross proceeds on issue of £29.2m, less directly attributable expenses of £1.0m. The placing structure attracted merger relief under section 612 of the Companies Act 2006, and therefore did not require an increase in share premium. This resulted in an increase in distributable reserves of £27.8m, being the excess of the net proceeds of £28.2m over the nominal value of the shares issued of £0.4m.

2. Refer to note 2 for details on restatement.

Condensed consolidated statement of cash flows
for the six months ended 30 September 2019

	Notes	**Unaudited six months ended 30 Sept 2019 £m**	Unaudited six months ended 30 Sept 2018 £m	Audited year ended 31 Mar 2019 £m
Net cash inflow/(outflow) from operating activities	10	**9.3**	(1.4)	22.4
Investing activities				
Acquisitions of shares in subsidiaries and businesses		**(15.7)**	-	(21.3)
Acquisition related contingent consideration		**(1.0)**	(2.0)	(1.3)
Purchase of property, plant and equipment		**(2.7)**	(1.7)	(4.2)
Purchase of intangible assets - software		**(0.5)**	(0.3)	(1.2)
Proceeds from disposal of property plant and equipment		**-**	0.1	0.2
Interest received		**0.2**	0.2	0.4
Net cash used in investing activities		**(19.7)**	(3.7)	(27.4)
Financing activities				
Net proceeds from the issue of shares		**28.2**	-	0.1
Proceeds from borrowings		**18.5**	7.6	17.2
Repayment of borrowings		**(26.2)**	(1.0)	(1.2)
Principal element of lease payments		**(3.0)**	-	-
Interest paid on lease liabilities		**(0.3)**	-	-
Dividends paid		**(5.4)**	(4.7)	(6.7)
Net cash generated from financing activities		**11.8**	1.9	9.4
Net increase/(decrease) in cash and cash equivalents		**1.4**	(3.2)	4.4
Cash and cash equivalents at beginning of period		**20.8**	16.2	16.2
Net foreign exchange differences		**0.2**	0.4	0.2
Cash and cash equivalents at end of period		**22.4**	13.4	20.8

Reconciliation to cash and cash equivalents in the condensed consolidated statement of financial position			
Cash and cash equivalents shown above	**22.4**	13.4	20.8
Add bank overdrafts	**2.5**	4.4	2.1
Cash and cash equivalents in the condensed consolidated statement of financial position	**24.9**	17.8	22.9

Further information on the condensed consolidated statement of cash flows is provided in notes 10 and 11.

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2019

1. Corporate information

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

The interim condensed consolidated financial statements for the six months ended 30 September 2019 were authorised for issue by the Board of Directors on 27 November 2019. They do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006, and are unaudited.

2. Basis of preparation and accounting policies

The interim condensed consolidated financial statements for the six months to 30 September 2019 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as adopted by the European Union. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2019, which were prepared in accordance with IFRS as adopted by the European Union.

The results for the year ended 31 March 2019 are based on audited statutory consolidated financial statements prepared in accordance with IFRS as adopted by the European Union. These financial statements were filed with the Registrar of Companies and contain a report of the auditor, which was unqualified and which does not contain a statement under section 498 of the Companies Act 2006. The consolidated financial statements of the Group for the year ended 31 March 2019 ("FY19 Annual Accounts") are available on request from the Company's registered office or on its website.

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

The principal accounting policies adopted in the preparation of these interim condensed consolidated financial statements are included in the consolidated financial statements for the year ended 31 March 2019. All other accounting policies have been consistently applied to all periods presented with the exception of the change in policy in applying IFRS 16. The significant estimates and judgements made by management in preparing the financial information were consistent with those applied to the consolidated financial statements for the year ended 31 March 2019, with the exception of judgements made in applying IFRS 16. See note 14 for further details of changes arising from the application of IFRS 16.

Underlying Performance Measures

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

Underlying operating profit

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

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 related expenditure (namely amortisation of acquired intangible assets, acquisition costs and the total IAS19 pension charge relating to the Group's legacy defined benefit pension scheme) and exceptional items.

Underlying effective tax rate

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

Underlying earnings per share

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

Operating cash flow

"Operating cash flow" is defined as underlying EBITDA adjusted for the investment in, or release of, working capital, less the cash cost of capital expenditure and IFRS 16 lease costs.

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 plus net debt.

Organic basis

Reference to 'organic' basis included in the Chairman's statement and the Strategic, Operational and Financial Review means at constant exchange rates ("CER"), and is shown excluding the first 12 months of acquisitions (Cursor Controls was acquired last financial year on 16 October 2018; Hobart and Positek were both acquired on 15 April 2019). Sens-Tech was acquired after the period end so not included.

Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group includes, where material, the profit or loss on disposal of property, investments or businesses and other financial assets, asset impairments and significant restructuring costs in exceptional items.

Prior year restatement

During the year ended 31 March 2019, internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary, full details of which are disclosed in the 2019 consolidated financial statements. At 30 September 2018 the Group had made a provision of £2.9m in respect of the gross loss associated with this with a tax credit of £0.8m. At 31 March 2019 the gross loss was revised to £4.0m, of which £1.5m related to the six months to 30 September 2018 and £2.5m to prior years. The tax credit was amended to £nil. £2.6m of the loss was recovered from insurance in the second half of last year. In accordance with IAS 8, the 30 September 2018 consolidated income statement and balance sheet have been restated. The restatement impact on the consolidated income statement and consolidated statement of financial position is shown below:

	September 2018 reported £m	Restatement £m	September 2018 restated £m
Consolidated income statement			
Profit before tax	6.4	1.4	**7.8**
Profit after tax	4.7	0.6	**5.3**
Consolidated statement of financial position			
Deferred tax assets	6.4	(0.8)	**5.6**
Inventories	64.8	(1.1)	**63.7**
Retained earnings	13.3	(1.9)	**11.4**

3. New accounting standards and financial reporting requirements

New standards effective in the current reporting period

The following standards, which have been issued by the IASB, became applicable for the current accounting period:

International Accounting Standards (IAS/IFRS/IFRIC)	
IFRS 16	Leases

IFRS 16 Leases became applicable for the current reporting period and the Group changed certain accounting policies and made adjustments to opening balances as a result. The impact of the adoption is disclosed in note 14.

New standards not yet effective

There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods.

4. Segmental reporting

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 business units with similar characteristics such as the method of acquiring products for sale (manufacturing versus supply), 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.

Six months to 30 September 2019 - unaudited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	**146.6**	**85.4**	**-**	**232.0**
Underlying operating profit/(loss)	**17.6**	**4.1**	**(4.0)**	**17.7**
Acquisition costs	(1.4)	-	-	(1.4)
Amortisation of acquired intangible assets	(3.6)	-	-	(3.6)
IAS 19 pension charge	-	-	(0.1)	(0.1)
Operating profit/(loss)	**12.6**	**4.1**	**(4.1)**	**12.6**

Six months to 30 September 2018 restated - unaudited

	Design & Manufacturing £m Restated	Custom Supply £m	Unallocated costs £m	Total operations £m Restated
Revenue	127.8	83.9	-	211.7
Underlying operating profit/(loss)	14.2	3.9	(3.6)	14.5
Acquisition costs	(0.4)	-	-	(0.4)
Exceptional items	(1.5)	-	-	(1.5)
Amortisation of acquired intangible assets	(2.9)	-	-	(2.9)
IAS 19 pension charge	-	-	(0.2)	(0.2)
Operating profit/(loss)	9.4	3.9	(3.8)	9.5

Year to 31 March 2019 - audited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	266.2	172.7	-	438.9
Underlying operating profit/(loss)	29.8	8.6	(7.8)	30.6
Exceptional items	1.1	-	(0.9)	0.2
Acquisition costs	(1.8)	-	-	(1.8)
Amortisation of acquired intangible assets	(5.9)	-	-	(5.9)
IAS 19 pension charge	-	-	(0.4)	(0.4)
Operating profit/(loss)	23.2	8.6	(9.1)	22.7

5. Underlying profit before tax

		Unaudited six months ended 30 Sept 2019 £m	Unaudited six months ended 30 Sept 2018 £m Restated	Audited year ended 31 Mar 2019 £m
Profit before tax		**10.4**	7.8	19.3
Add back: Acquisition costs	(a)	**1.4**	0.4	1.8
Exceptional items	(b)	**-**	1.5	(0.2)
Amortisation of acquired intangibles	(c)	**3.6**	2.9	5.9
IAS19 pension costs	(d)	**0.2**	0.3	0.4
Underlying profit before tax		**15.6**	12.9	27.2

The tax impact of the underlying profit adjustments above is a credit of £0.8m (FY 2018/19: £2.0m).

a) £1.0m acquisition costs incurred primarily in relation to the acquisitions of Hobart and Positek (see note 6), and Sens-Tech (see note 14), and £0.4m of accrued contingent consideration costs relating to the acquisition of Cursor Controls.

During FY19 there were £1.8m of acquisition costs. Costs of £0.9m were incurred in relation to the acquisition of Cursor Controls. Contingent consideration of £0.5m was charged in relation to past acquisitions. £0.4m was incurred in relation to the post year-end acquisitions of Hobart and Positek.

b) During FY19, internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary with £1.5m impact during the first half of FY19 and £2.5m relating to prior years. Of the total fraud cost of £4.0m, £2.6m was recovered during FY19 from insurance after the excess deductible. The exceptional income of £1.1m in FY19 comprised the insurance receipt of £2.6m offset by the cost incurred during FY19 of £1.5m. HY19 has been restated to a £1.5m charge in relation to the same event.

In FY19 an exceptional charge of £0.9m was incurred in relation to equalisation of Guaranteed Minimum Pensions (GMPs) in the Sedgemoor Group Pension Fund.

c) Amortisation charge for intangible assets recognised for business combinations.

d) Pension costs related to the Group's legacy defined benefit pension scheme (see note 12).

6. Business combinations

Acquisition of Hobart

On 15 April 2019, the Group completed the acquisition of 100% of the share capital and voting equity interests of Coil-Tran Corporation and 85% of the share capital and voting equity interests of Coil-Tran de Mexico SA de CV (trading as Hobart Electronics). The fair value of the non-controlling interest in Coil-Tran de Mexico is assessed as immaterial.

Hobart Electronics ("Hobart") was acquired for an initial cash consideration of £11.5m ($15.2m) on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition, a further contingent cash consideration of up to £3.1m ($4.0m) which is subject to achieving certain operational and profit growth targets during the three-year period ending 31 March 2022.

Hobart is a US based designer and manufacturer of custom transformers, inductors and magnetic components.

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

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.1
Intangible assets - other	5.4
Inventories	1.9
Trade and other receivables	0.8
Cash and cash equivalents	0.3
Trade and other payables	(0.9)
Provisions (current)	(0.4)
Total identifiable net assets	**7.2**
Provisional goodwill arising on acquisition	**5.3**
Total investment	**12.5**
Discharged by	
Cash	11.5
Contingent consideration	1.0
	12.5

Included in the £5.3m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	11.5
Transaction costs of the acquisition (included in operating cash flows)	0.4
Net cash acquired	(0.3)
	11.6

Acquisition of Positek

On 15 April 2019, the Group completed the acquisition of 100% of the share capital and voting equity interests of Positek Limited ("Positek").

Positek was acquired for an initial cash consideration of £4.2m on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition a further contingent cash consideration of up to £0.4m payable subject to achievement of certain integration objectives and profit target for the 12 month period ending 30 September 2020.

Positek is a UK based designer and manufacturer of rugged, high accuracy linear rotary tilt and submersible sensors supplying the international markets.

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

	Provisional fair value recognised at acquisition £m
Intangible assets - other	1.8
Inventories	0.3
Trade and other receivables	0.2
Cash and cash equivalents	1.1
Trade and other payables	(0.1)
Current tax liabilities	(0.1)
Deferred tax liabilities (non-current)	(0.3)

Total identifiable net assets	**2.9**
Provisional goodwill arising on acquisition	**2.6**
Total investment	**5.5**
Discharged by	
Cash	5.3
Contingent consideration	0.2
	5.5

Included in the £2.6m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits. 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	5.3
Transaction costs of the acquisition (included in operating cash flows)	0.2
Net cash acquired	(1.1)
	4.4

7. Taxation

The underlying tax charge for the period was £3.7m (H1 2018/19: £3.2m) giving an underlying effective tax rate on underlying profit before tax of 24% (H1 2018/19: 25%) which is slightly lower than the rate of 25% for FY 2018/19 due to higher UK profits being taxed at a lower tax rate.

The tax credit in respect of the underlying adjustments was £0.8m (H1 2018/19: £0.7m restated). This gives an overall tax charge for the period of £2.9m (H1 2018/19: £2.5m restated) on profit before tax of £10.4m (H1 2018/19: £7.8m restated) which is an effective tax rate of 28%.

8. Dividends

The Directors have declared an interim dividend of 2.97 pence per share (H1 2018/19: 2.80 pence) payable on 6 January 2020 to shareholders on the register at 13 December 2019.

In accordance with IAS 10, this dividend has not been reflected in the interim results. The cash cost of the interim dividend will be £2.6m (H1 2018/19: £2.1m).

9. Earnings per share

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

	Unaudited Six months ended 30 Sept 2019 £m	Unaudited Six months ended 30 Sept 2018 £m Restated	Audited Year ended 31 Mar 2019 £m
Profit for the period	**7.5**	5.3	14.6
	No	No	No
Weighted average number of shares for basic earnings per share	**79.990,843**	72,006,637	72,979,791
Effect of dilution - share options	**2,518,035**	2,503,447	2,419,122
Adjusted weighted average number of shares for diluted earnings per share	**82,508,878**	74,510,084	75,398,913
Earnings per share - basic	**9.4p**	7.4p	20.0p
Earnings per share - diluted	**9.1p**	7.1p	19.4p

At the period end, there were 2.8 million ordinary share options in issue that could potentially dilute earnings per share in the future, of which 2.5 million are currently dilutive (30 September 2018 2.6 million in issue and 2.5 million dilutive, 31 March 2019: 2.6 million in issue and 2.4 million dilutive).

Underlying earnings per share

Underlying earnings per share are calculated as follows:

	Unaudited Six months ended 30 Sept 2019 £m	Unaudited Six months ended 30 Sept 2018 £m Restated	Audited Year ended 31 Mar 2019 £m
Profit for the period	**7.5**	5.3	14.6
Acquisition costs	**1.4**	0.4	(0.2)
Exceptional items	**-**	1.5	1.8
Amortisation of acquired intangible assets	**3.6**	2.9	5.9
IAS 19 pension costs	**0.2**	0.3	0.4

Tax effects of acquisition costs, exceptional items, amortisation of acquired intangible assets and IAS 19 pension costs	**(0.8)**	(0.7)	(2.0)
Underlying profit for the period	**11.9**	9.7	20.5

	No	No	No
Weighted average number of shares for basic earnings per share	**79.990,843**	72,006,637	72,979,791
Effect of dilution - share options	**2,518,035**	2,503,447	2,419,122
Adjusted weighted average number of shares for diluted earnings per share	**82,508,878**	74,510,084	75,398,913
Underlying earnings per share - basic	**14.9p**	13.5p	28.1p
Underlying earnings per share - diluted	**14.4p**	13.0p	27.2p

10. Reconciliation of cash flow from operating activities

	Unaudited Six months ended 30 Sept 2019 £m	Unaudited Six months ended 30 Sept 2018 £m Restated	Audited Year ended 31 Mar 2019 £m
Profit for the period	**7.5**	5.3	14.6
Taxation expense	**2.9**	2.5	4.7
Net finance costs	**2.2**	1.7	3.4
Depreciation of property, plant and equipment	**2.4**	2.3	4.6
Depreciation of right of use assets	**3.1**	-	-
Amortisation of intangible assets	**3.9**	3.2	6.5
Loss on disposal of property, plant and equipment	**-**	-	0.1
Change in provisions	**0.1**	0.1	0.2
Pension scheme funding	**(0.9)**	(0.9)	(1.7)
IAS 19 pension administration charge	**0.2**	0.2	1.3
Equity-settled share based payment expense and associated taxes	**0.6**	(0.7)	(0.5)
Operating cash flows before changes in working capital	**22.0**	13.7	33.2
Increase in inventories	**(1.7)**	(4.2)	(6.6)
Increase in trade and other receivables	**(1.3)**	(4.8)	(4.9)
(Decrease)/increase in trade and other payables	**(5.5)**	(2.6)	8.3
Increase in working capital	**(8.5)**	(11.6)	(3.2)
Cash generated from operations	**13.5**	2.1	30.0
Interest paid	**(2.1)**	(1.8)	(3.8)
Net income taxes paid	**(2.1)**	(1.7)	(3.8)
Net cash inflow/(outflow) from operating activities	**9.3**	(1.4)	22.4

11. Closing net debt

	At 30 Sept 2019 £m	At 30 Sept 2018 £m	At 31 Mar 2019 £m
Borrowings - current - overdrafts	**(2.5)**	(4.4)	(2.1)
Borrowings - current portion of long term debt	**-**	-	-
Borrowings - non current	**(79.4)**	(76.8)	(85.9)
Capitalised debt cost	**1.6**	0.8	1.8
Cash and cash equivalents	**24.9**	17.8	22.9
Closing net debt	**(55.4)**	(62.6)	(63.3)

Reconciliation of movement in cash and net debt

	Six months ended 30 Sept 2019 £m	Six months ended 30 Sept 2018 £m	Year ended 31 Mar 2019 £m
Net increase/(decrease) in cash and cash equivalents	**1.4**	(3.2)	4.4
Proceeds from borrowings	**(18.5)**	(7.6)	(17.2)
Repayment of borrowings	**26.2**	1.0	1.2
Increase/(decrease) in net cash before translation differences	**9.1**	(9.8)	(11.6)
Translation and other non-cash changes	**(1.2)**	(0.4)	0.7
Increase/(decrease) in net cash	**7.9**	(10.2)	(10.9)
Net debt at beginning of the period	**(63.3)**	(52.4)	(52.4)
Net debt at end of the period	**(55.4)**	(62.6)	(63.3)

Supplementary information to the statement of cash flows

Underlying Performance Measure	**Six months ended 30 Sept 2019 £m**	Six months ended 30 Sept 2018 £m Restated	Year ended 31 Mar 2019 £m

Increase/(decrease) in net cash before translation differences	**9.1**	(9.8)	(11.6)
Add: Business acquisitions	**18.0**	2.3	24.2
Exceptional cash flow	**-**	1.5	(1.1)
Executive options issuance	**-**	1.1	1.6
Legacy pension scheme funding	**0.9**	0.9	1.7
Dividends paid	**5.4**	4.7	6.7
Less: Net proceeds from share issue	**(28.2)**	-	(0.1)
Free cash flow	**5.2**	0.7	21.4
Net finance costs	**1.9**	1.6	3.4
Taxation	**2.1**	1.7	3.8
Operating cash flow	**9.2**	4.0	28.6

12. Pension liability

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

During the period, the financial position of the Sedgemoor Scheme has been updated in line with changes in actuarial assumptions and cash contributions made to the Scheme. The valuation used for IAS 19 disclosures has been based on the most recent valuation at 31 March 2018 updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at 30 September 2019.

The IAS 19 defined benefit pension scheme liability at 30 September 2019 was £1.7m (31 March 2019: £2.5m). The movement principally relates to the changes in actuarial movements and cash contributions in the period.

13. Exchange rates

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

	Six months ended 30 Sept 2019		Six months ended 30 Sept 2018		Year ended 31 March 2019	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.2294**	**1.2597**	1.3046	1.3336	1.3090	1.3139
Euro	**1.1290**	**1.1268**	1.1270	1.1314	1.1651	1.1340

14. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

14.1 Impact on the condensed consolidated statement of financial position

The change in accounting policy affected the following items in the statement of financial position on 1 April 2019:

		£m
Right of use assets	Increase	19.1
Lease liabilities	Increase	19.1

There was no impact on retained earnings at 1 April 2019.

Lease liabilities

On adoption of IFRS 16 the Group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019.

The lease liabilities at 30 September 2019 and 1 April 2019 were as follows:

	30 Sept 2019 Unaudited £m	1 April 2019 Unaudited £m
Current liabilities	**(6.7)**	(6.7)
Non-current liabilities	**(11.2)**	(12.4)
	(17.9)	(19.1)

Lease liabilities recorded at 1 April 2019 can be reconciled to operating lease disclosures as at 31 March 2019 as follows:

	1 April 2019 Unaudited £m

Operating lease commitments disclosed as at 31 March 2019	16.4
Add: Adjustments for permitted practical expedients used (see note 14.5)	4.2
Gross future lease cash flows	20.6
Effect of discounting	(1.5)
Lease liability recognised as at 1 April 2019	**19.1**

The Group has not made use of the exemptions for leases of low-value assets and short-term leases (leases shorter than 12 months).

Right of use assets

The Group has not restated prior year comparators, with right of use assets being set equal to lease liabilities at the date of transition in line with the simplified approach under IFRS 16. Values have been adjusted by the amount of prepaid or accrued lease payments relating to leases recognised in the statement of financial position as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of application.

The recognised right of use assets relate to the following types of assets:

	30 Sept 2019 Unaudited £m	1 April 2019 Unaudited £m
Properties	**14.8**	15.4
Plant and equipment	**3.0**	3.7
Total	**17.8**	19.1

Properties are depreciated over the shorter of the lease term or useful life and plant and equipment over periods of two to five years.

14.2 Impact on the condensed consolidated income statement and earnings per share

For the six months ended 30 September 2019 Underlying operating profit was £0.2m higher as a result of applying IFRS 16 due to a portion of the lease costs now being recorded as interest expense. Profit before tax was £0.1m lower due to interest expenses being higher at the beginning of the lease term.

The impact on the income statement and earnings per share for the period was:

	£m
Lease expense	3.3
Depreciation	(3.1)
Underlying operating profit	0.2
Interest	(0.3)
Underlying profit before tax	**(0.1)**
Underlying EPS	**(0.12)p**

The impact on underlying profit by operating segments for the period was:

	£m
Design and Manufacturing	0.1
Custom Supply	0.1
Central	-
Total	**0.2**

14.3 Impact on the condensed consolidated statement of cash flows

Payments in respect of leases which were previously recognised within cash flows from operating activities are now recorded within cash flow from financing activities, separated between payment of interest and payment of principal elements. This has resulted in a net nil impact on cash flow but increased net cash flow from operating activities and decreased net cash generated from financing activities by £3.3m.

14.4 Judgements and estimates

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Group and not by the lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current period, there were no leases where this assessment was changed.

The revised leases accounting policy will be disclosed in the 2020 annual report.

14.5 Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases were onerous
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

15. Post balance sheet events

Business Combinations
On 16 October 2019, subsequent to the period end, the company completed the acquisition of Xi-Tech Limited and its wholly owned subsidiary Sens-Tech Limited (collectively "Sens-Tech"). Sens-Tech was acquired for an initial cash consideration of £58m on a debt free, cash free basis, before expenses, funded by a combination of existing debt facilities and a share placing (see below). In addition, a contingent payment of up to £12m will be payable subject to Sens-Tech achieving certain profit growth targets over a three year period.

Share placing
On 17 October 2019, 8,034,840 shares were issued for a gross consideration of £33.3m before costs and £32.4m after costs. The shares were issues at 415 pence per share, which is a discount of 3.9 per cent to the closing share price of 432 pence per share on 16 October 2019.

16. Interim report

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

Current regulations permit the Company not to send copies of its interim results to shareholders. Accordingly, the 2019 interim results published on 28 November 2019 will not be sent to shareholders. The 2019 interim results and other information about discoverIE Group plc are available on the Company's website at www.discoverieplc.com.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

IR BIBDBBGDBGCR