Year-end & Covid-19 Trading Update

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discoverIE Group plc (LSE: DSCV, "discoverIE" or the "Group"), a leading international designer, manufacturer and supplier of customised electronics to industry, today issues a trading update for the year ending 31 March 2020.

Further to the update of 19 March 2020, trading in China at the end of the final quarter was stronger than expected at the time, with a quicker recovery in the region following the reopening of our facilities there. Consequently, with trading elsewhere in the Group at the end of the year as anticipated, Group sales for the year increased by 8% CER[(1)] (up 6% reported) with organic[(2)] sales growth of 2%, driven by 5% organic growth in our D&M division. Accordingly, earnings for the year are expected to be slightly ahead of our revised expectations set in March. Orders remained ahead of sales driving an order book up 7% organically to £159m, a record year-end high.

The Group has responded decisively to the COVID-19 pandemic, prioritising the safety of employees and trading partners, and preserving the Group's financial resources.

Operational update

The Group operates a diversified and flexible footprint with 27 manufacturing facilities across 17 countries in Europe, Asia and the Americas. After re-establishing operations in China, four facilities across Sri Lanka, India and the US were required by local government mandate to close for a period. All four have since re-opened with limited, but growing capacity. All other sites have remained open, several with essential supplier status and a number operating at reduced capacity during the disruption.

With the Group's decentralised structure, we have been able to quickly adapt to the evolving circumstances and adopt new ways of working, with each of our businesses implementing an operating plan developed to suit its local market and welfare requirements. Over 650 employees are working from home and across all our locations there has been an overriding priority to establish safe working practices.

Our supply chains, which are continuously monitored, have remained resilient, enabling us to maintain high levels of customer service across the Group. Furthermore, significant effort has been deployed to support customers in the rapid development and supply of key components for virus related medical products such as ventilators and testing instruments. Over 50 such customer projects have been developed during March and April alone.

Balance sheet and liquidity

The Group's financial position is strong with a committed syndicated bank facility of £180m and nearly £120m of undrawn headroom. Gearing[(3)] at the year-end reduced to 1.3x (from 1.5x at 31 December 2019) following further strong cash generation, and interest cover was 12x, both comfortably within the limits required under our facility agreements.

Whilst our financial position is strong, we have taken prudent action to preserve cash and reduce operating expenses with a number of initiatives, including:

- Deferral of non-essential capital expenditure and other discretionary spend
- Deferral of bonuses and pay rises, together with a new hiring freeze
- 20% salary reduction for the Board and Group Executive for three months
- Continued focus on working capital, with customer credit monitoring intensified
- All acquisitions deferred, but pipeline development continues

In light of the current uncertainty, the Board does not intend to propose a final dividend at the time of the full year results. The Board will continue to monitor the situation and re-introduce distributions once there is greater clarity of trading conditions.

Preliminary results

We expect to publish our results on 24 June. This ensures that the Group and its auditors have adequate time to complete their standard procedures given the current challenges posed by social distancing and remote working.

Current trading & outlook

Sales to date for the first quarter of the new year are running 10% lower on an organic basis compared with last year, partly as a result of the short term impact of the facility closures experienced in March and April. Customer demand remains relatively resilient with a book to bill ratio of 0.95:1. The Group has a strong order book and its core market focus of renewable energy, medical, electrification of transportation and industrial & connectivity, should help to reduce the ongoing impact from COVID-19.

The duration and breadth of the market disruption arising from this situation remains unclear and therefore we do not believe it is appropriate to provide financial guidance for the current year at this early stage. Nevertheless, we are encouraged by the continued demand for our differentiated products and the response by our businesses which has enabled us to continue to operate effectively.

The Board believes that there will be significant scope for the Group to progress its successful acquisition strategy as the situation stabilises and a good pipeline of opportunities continues to be developed.

The discoverIE business model is resilient and flexible, underpinned by a clear strategy focused on high quality growth markets. With a strong funnel of design wins and acquisition targets, the Group is well positioned for a return to strong growth as conditions recover.

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Notes

1. Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange strengthened 1% against the Euro compared with the average rate for last year and weakened 3% against the US Dollar while strengthening by 4% on average against the three Nordic currencies.
2. 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 and Sens-Tech was acquired on 16 October 2019).
3. Gearing defined as net debt divided by underlying EBITDA, annualised for acquisitions.
4. This trading update is based upon unaudited management accounts and has been prepared solely to provide additional information on trading to the shareholders of discoverIE Group plc. It should not be relied on by any other party for other purposes. Certain statements made in this update are forward looking statements. Such statements have been made by the Directors in good faith using information available up until the date that they approved this update. Forward looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.
5. 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 quartile 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, underlying earnings per share has nearly doubled.

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