Final Results

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discoverIE Group plc

Preliminary results for the year ended 31 March 2020
Strategy delivering further growth

discoverIE Group plc (LSE: DSCV, "discoverIE", the "Group" or the "Company"), a leading international designer, manufacturer and supplier of customised electronics to industry, today announces its results for the year ended 31 March 2020.

	FY 2019/20	FY 2018/19	Growth%	CER[2] Growth%
Revenue	**£466.4m**	£438.9m	+6%	+8%
Underlying operating profit[1]	**£37.1m**	£30.6m	+21%	+23%
Underlying profit before tax[1]	**£32.8m**	£27.2m	+21%	
Underlying EPS[1]	**30.2p**	27.2p	+11%	
Reported profit before tax	**£19.5m**	£19.3m	+1%	
Reported fully diluted EPS	**16.5p**	19.4p	-2.9p	

Highlights

- **Strong financial and operating performance**
  - Group sales increased by 8% CER and orders by 6% CER
  - Group organic[3] sales grew by 2% and organic orders by 1%
  - D&M[4] organic sales grew by 5% and now account for 64% of Group sales (FY 2018/19: 61%)
  - Underlying operating profit increased by 23% CER
  - Underlying earnings per share increased by 11%
- **Further good progress on key strategic and performance targets**
  - Underlying operating margin increased by 100bps to 8.0% (FY 2018/19: 7.0%)
  - Our D&M target markets are 72% of D&M sales with 9% organic growth
  - Sales beyond Europe increased to 27% of total sales (FY 2018/19: 21%)
  - Excellent cash generation: £39.3m operating cash flow[5] up 37%, 106% of underlying operating profit
  - ROCE[6] increased to 16.0% (FY 2018/19: 15.4%)
- **Three higher margin, international D&M acquisitions completed**
  - Hobart and Positek acquired in April 2019 for a combined £16m
  - Sens-Tech acquired in October 2019 for £58m
  - Integrations progressing well
  - Well supported equity placings in the year raising a combined net £61m
- **Decisive response to COVID-19**
  - Swift implementation of working practices to maintain safety and customer continuity
  - In-house technical capability supports customers with front-line COVID-19 projects
  - Prudent actions to manage cost and preserve cash, whilst not limiting capability
  - No final dividend proposed to preserve flexibility
- **Group well positioned for further growth when conditions improve**
  - Good level of new project design wins
  - Record year end order book of £159m (+13% CER)
  - Gearing reduced to 1.25x at the year end with £119m undrawn under bank facility
  - Strong pipeline of acquisition opportunities in development

- New strategic targets for the next 5 years.

Nick Jefferies, Group Chief Executive, commented:

"Our focus on long term structural growth markets and strong operational performance, together with our successful acquisition strategy, has delivered strong results for the year with a 21% increase in operating profits and a 37% increase in operating cash flow.

In response to the COVID-19 pandemic which became evident in the final quarter of the year, we have taken swift action to ensure the safe working of employees and trading partners whilst maintaining operational continuity. We are supporting customer needs in the medical sector by quickly developing and supplying products for a range of virus-related medical equipment in over 60 different projects.

The Group has a strong financial position, a clear strategy and is performing well. Gearing at the year-end reduced to 1.25x with significant headroom under our existing facilities. We have taken decisive measures to preserve cash and reduce operating expenditure whilst maintaining our capability to respond effectively as conditions improve.

Customer demand remains resilient with first quarter sales running 10% lower on an organic basis. The order book remains strong, and along with the Group's focus on the growth markets of renewable energy, medical, electrification of transportation and industrial & connectivity, we expect to outperform underlying markets during this period of disruption.

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) '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 £9.0m, acquisition costs of £4.0m, the IAS19 pension charge relating to a legacy defined benefit scheme of £0.3m) totalling £13.3m. Equivalent underlying adjustments within the FY 2018/19 underlying results totalled £7.9m. For further information, see note 5 of the attached summary financial statements.

(2) Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange 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.

(3) 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).

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

(5) 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 IFRS16 costs .

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

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

(8) 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.

With a focus 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.4,400 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 £450m. Over the last five years, underlying earnings per share has almost doubled.

CHAIRMAN'S STATEMENT

Despite the effects of the COVID-19 pandemic in the final quarter, I am pleased to report that the Group has delivered another strong set of results with further growth in sales, underlying profits and underlying earnings. Management continued to make good progress on the Group's strategic and operational objectives with most nearing or bettering our original targets. Consequently, new strategic targets are being introduced for the coming five years as the Group focuses its strategy on the next stage of development.

Strategy

The Group is a customised electronics business operating internationally, 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 applications.

With key markets being worldwide and major customers operating internationally, the business is expanding beyond Europe (27% of Group sales are now outside Europe), as well as within Europe, building an international electronics group supplying complex, value-added solutions for international customers.

Acquisitions are important in building discoverIE, having already made a significant contribution to the development of the D&M division. Over the last 9 years we have acquired 14 specialist, high margin Design & Manufacturing businesses which have been integrated successfully and helped to drive our organic growth. We have a well-developed and disciplined approach to acquisitions and management continue to develop a pipeline of opportunities, ready to proceed when conditions allow. In the year, the Group made three acquisitions, all higher margin D&M businesses, with 70% of combined sales being in international markets beyond Europe. Their characteristics are aligned with the rest of the Group, and each provides scope for further development in our international target markets.

The increase in Group profitability, together with our capital expenditure light model, has resulted in further strengthening of our cash generation. As we continue to grow, we will look to reinvest our strong free cash flows into accelerating the strategy and delivering significant value creation for shareholders.

Group Results

Group sales for the year increased by 6% to £466.4m and by 8% at constant exchange rates ("CER").

Underlying operating profit, which excludes any exceptional items (none this year) and acquisition-related costs, increased by £6.5m to £37.1m (up by 21% and up by 23% CER) with underlying profit before tax increasing by £5.6m to £32.8m (up 21%). The strong growth in D&M helped to deliver a 100bps increase in underlying operating margins to 8.0% (FY 2018/19: 7.0%), despite investment to support future growth.

Underlying earnings per share for the year increased by 11% to 30.2p (up 3.0p from 27.2p last year). This growth is lower than the growth in underlying profit before tax of 21% mainly due to the equity fund raisings during the year which raised nearly 20% of additional equity share capital.

After underlying adjustments for acquisition-related costs of £13.3m (FY 2018/19: £7.9m), profit before tax for the year on a reported basis was £19.5m, in line with last year (FY 2018/19: £19.3m), with fully diluted earnings per share of 16.5p (FY 2018/19: 19.4p). Growth in reported profits and earnings was limited by the higher value of acquisitions this year, with resulting higher non-tax deductible acquisition costs.

Cash generation was very strong, with operating cash flow of £39.3m up 37% on last year (FY 2018/19: £28.6m), and representing 106% of underlying operating profit, well ahead of our 85% cash conversion target. Net debt at the year end was £61.3m with a Group gearing ratio of 1.25x. During the year, the term of the Group's £180m syndicated bank facility was extended to June 2024, giving nearly £120m of undrawn facility.

In addition, the Group has received confirmation from the Bank of England, that the Group is eligible in principle, subject to satisfactory documentation, to participate in HM Treasury's Covid Corporate Financing Facility. The Group does not believe it will need to utilise this facility but has the flexibility if conditions deteriorate materially from current expectations.

Alongside the acquisitions in April and October 2019, the balance sheet was further strengthened by way of two well-supported placings, raising net proceeds of £60.5m. Together with high operating cash flows, these have provided the Group with a strong position from which to manage through the current market uncertainties. 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 with further contingent cash consideration 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 Indiana, US with manufacturing also 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 with further contingent cash consideration of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the following 18 months. Based in Cheltenham, UK and supplying international markets, operationally Positek reports to the Variohm Group.

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.

COVID-19

The Group has responded decisively to the coronavirus pandemic, prioritising the well-being of employees and trading partners, supporting customers with fast solutions in medical markets, maintaining business continuity and preserving our resources.

As you will read in the Operating Review, changes were made to operating procedures and I am pleased to report high levels of operational continuity being achieved with only a small number of short term site closures, as required by local government regulations and all of which have since reopened. At its peak in early April, there were a dozen confirmed cases of coronavirus amongst our c. 4,400 employees, all of whom have since recovered.

I would like on behalf of the Board to thank all our employees for their flexibility in adapting so effectively to the new environment.

The pandemic had a limited effect on fourth quarter trading when our two sites in China were closed for nearly a month, rebounding quickly upon reopening. 23% of our sales in the year were linked to trade with China through our manufacturing sites, supplying customers or purchasing from suppliers there, but the effects of the closure were limited by flexibility in our manufacturing and supply chains, switching to alternatives where possible.

At the time of writing, and with the virus having spread internationally, the Group's dispersed operations are proving resilient and flexible through the disruption, with first quarter sales running only 10% down organically on last year. With its focus on high quality growth markets, the Group is well positioned for a return to growth as conditions recover.

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 joined the Board on 2 September 2019, also becoming Chair of the Audit and Risk Committee. Clive retired from Spectris plc in 2019 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

Considering current circumstances, the Board has decided not to propose a final dividend. However, recognising the importance of dividends to shareholders, the Board will look to re-introduce distributions later this year subject to trading conditions at the time.

An interim dividend of 2.97 pence per share was paid in January 2020 (H1 2018/19: 2.8 pence per share), an increase of 6%. Over the last ten years, the full dividend has increased by 7% CAGR.

The Board believes that, as an acquisitive growth company, maintaining a progressive dividend policy with a long term dividend cover of over 3 times underlying earnings is appropriate to enable both dividend growth and a higher level of investment from internally generated resources.

Employees

On behalf of the Board, I would like to thank everybody at discoverIE for their commitment and hard work, particularly during this unprecedented situation when their flexibility, resilience, initiative and support have demonstrated, beyond all expectations, their quality and capability.

The Group comprises approximately 4,400 employees in 23 countries around the world. The Board believes that by adopting an entrepreneurial and decentralised operating environment, together with rigorous planning, review, support, investment and controls, the Group has created an ambitious and successful culture.

Summary

By focusing on structural growth markets with complex customer requirements, the Group has grown into a high quality business with excellent long-term prospects. To reflect this, the Group has updated targets for our next five years.

The customised electronics market remains highly fragmented, providing scope to build the Group's technology capability and extend its geographic coverage through disciplined acquisitions. Despite the current challenges posed by COVID-19, the Board and management are excited by the opportunities ahead to continue building a global business that attracts and retains high quality employees, delivers value to our customers, and grows long term returns for our shareholders.

Malcolm Diamond MBE
Chairman
24 June 2020

OPERATING REVIEW

Overview

The effects of the COVID-19 pandemic have been felt throughout the Group leading to widespread changes in our operations and our interactions with customers, suppliers and other third parties. As covered on page 14, the business has responded decisively, and embarks upon the challenges with a strong financial position, a clear strategy and performing well.

We continue to pursue our successful strategy of focussing on growing opportunities for customised electronic products in targeted growth markets, namely renewable energy, transportation, medical and industrial & connectivity. Despite feeling the effects of the pandemic in the final quarter, the benefits of this strategy are evident with good levels of organic revenue growth in the D&M division helping drive a 21% increase in Group underlying operating profits to £37.1m, and an 11% growth in underlying earnings per share to 30.2p.

Group sales increased by 8% CER and 6% on a reported basis to £466.4m including the translation effect of a slightly stronger Sterling in the year. Organic sales grew by 5% in the D&M division and by 2% for the Group overall.

Group orders also performed well, growing organically by 4% in the D&M division and by 1% organically for the Group overall to £476.4m with a book to bill ratio of 1.02. This resulted in another record year end order book at 31 March 2020 of £159m (up by 13% CER year-on-year, and up by 7% organically).

Project design wins, essential for future organic growth, continued at high levels, with an estimated lifetime revenue value of £260m, having increased by 37% over two years.

Group Strategy

Our four target markets of renewable energy, transportation, medical and industrial & connectivity, are global in scale and underpinned by long term structural growth factors, customers' dependence on our products, and a need or opportunity for custom products. Customers choose our components because they help them to create differentiated, innovative designs.

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.

These underpin a core objective of generating strong cash flows and long term sustainable returns.

Target Markets

The four focus target markets, which account for 72% of D&M turnover and 68% of Group turnover (both up 2ppts from last year): transportation, medical, renewable energy and industrial & connectivity 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 and the increasing need for renewable sources of energy. This year, organic revenue growth for the Group in target markets was 6%, with other markets reducing by 7%, resulting in overall Group organic growth of 2%. In the D&M division, organic growth in target markets was 9%, with other markets reducing by 5%, resulting in overall growth of 5%.

i) 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.

ii) 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.

iii) Transportation

Transport markets continue to grow across the world. The electronics content is rising driven by electrification, safety, intelligence, automation and convenience. Our focus is on mass transportation markets particularly rail and buses, as well as vehicle electrification infrastructure. According to Research and Markets, the global market for smart transportation is forecast to grow by 16.3% CAGR 2019 to 2024.

iv) Industrial & Connectivity

Technology is creating opportunities for connectivity everywhere, and 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. In addition to our focus on the wireless connectivity of devices (machine-to-machine) and the associated industrial markets which benefit from this new connectivity, we have recently refined our focus in the industrial sector towards new and sustainable industrial markets with a long-term future such as smart agriculture and water management.

Engineering-led Sales Model

Our business model has three core capabilities:-

- Engineering - our primary differentiator. By understanding our customers' design challenges we design and create products that specifically address their needs.

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

- Logistics - we supply our manufactured products internationally to customers' production locations repeatedly over the life of their demand, typically for five to seven years.

We apply these capabilities to develop long term, embedded relationships with our customers as follows:

- Understanding customer needs
  We help customers solve their technical challenges to create more effective, efficient, productive and sustainable equipment and comply with increasingly stringent environmental, health, safety and performance requirements.

- Enduring customer relationships
  Our sales model creates a unique understanding of customers' needs and builds long term relationships that last for many years.

- Engineering - led solutions
  By applying our extensive technical knowledge of applications and design, our engineers create unique products for customers' specific needs.

- Recurring revenues
  Our designs are specified into our customers' system designs for production, leading to multiple years of repeated monthly demand, creating stable, recurring revenue streams.

- Regional manufacturing
  Manufacturing locations in Europe, Asia and the Americas provides regional supply for customers, reducing transit times, costs and environmental impact as well as providing flexibility and reducing risk of disruption.

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

Key Strategic and Performance Indicators

Since 2014, the Group's progress with its strategic objectives has been measured through key strategic indicators ("KSIs"), and progress with its financial performance has been measured through key performance indicators ("KPIs").

Our KSIs were mid-term targets over a three to five year period from November 2016 with KPIs being three year targets starting in March 2017. With the KSI targets having been nearly achieved, we have introduced revised strategic targets for the next five years.

Key Strategic Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Previous Mid term Targets	New Targets(2)
1. Increase share of Group revenue from D&M(1)	18%	37%	48%	52%	57%	61%	64%	75%	>75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	8.0%	8.5%	12.5%
3. Build sales beyond Europe(1)	5%	12%	17%	19%	19%	21%	27%	30%	40%
4. Target market sales (1)	n/d	n/d	n/d	56%	62%	66%	68%	New	85%

(1) As a proportion of Group revenue
(2) New targets for the five-year period to March 2025
n/d: not previously disclosed:

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

- The higher margin D&M division delivered 64% of Group sales, up 3ppts on last year (FY 2018/19: 61%), generating 84% of the Group's underlying operating profit contribution up 6ppts on last year (FY 2018/19: 78%); customer concentration remains low with no customer accounting for more than 7% of Group sales.

- The increasing scale of the D&M division has helped to improve the Group operating margin by 1.0ppt in the year to 8.0% (FY 2018/19: 7.0%). On a proforma basis, the acquisition of the Sens-Tech business in October 2019 increases Group operating margin by a further 0.5ppts to 8.5% in line with our mid-term target. Over the last two years, we have acquired businesses with higher margins than the D&M division. Accordingly, we have reached our current operating margin with D&M sales of 64% of Group sales, rather than the previously modelled 75% which assumed we would acquire businesses with margins in line with the division as a whole.

- Sales beyond Europe for the year represented 27% of Group revenue (from 21% for FY 2018/19) improving as a result of the acquisitions of Hobart, Positek and Sens-Tech (for which c.70% of combined sales in the year were outside Europe). On an annualised

basis, this rises to 28%. We continue to seek acquisitions with high quality international revenues.

With our underlying operating margin KSI having been achieved on an annualised basis, we are setting a new five-year target of 12.5%, from D&M sales of at least 75%. Additionally, we are introducing a new target of 85% of sales from target markets.

Key Performance Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Targets
1. Sales growth								
CER	17%	36%	14%	6%	11%	14%	8%	Well ahead of GDP
D&M organic	3%	9%	3%	(1)%	11%	10%	5%	
Group organic	2%	3%	3%	(1)%	6%	8%	2%	
2. Increase cross-selling	£0.3m	£0.9m	£3.0m	£4.6m	£8.8m	£10.6m	£11.4m	£12m p.a.
3. Underlying EPS growth	20%	31%	10%	13%	16%	22%	11%	>10%
4. Dividend growth	10%	11%	6%	6%	6%	6%	n/a[1]	Progressive
5. ROCE[2]	15.2%	12.0%	11.6%	13.0%	13.7%	15.4%	16.0%[3]	>15%
6. Operating cash conversion[2]	100%	104%	100%	136%	90%	93%	106%	>85% of underlying operating profit

(1) 6% increase in the interim dividend; a final dividend has not been proposed due to COVID-19
(2) Defined in Note 5 of the attached summary financial statements;.
(3) Includes an annualisation of the results of Sens-Tech which was acquired on 16 Oct 19.

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

- Organic sales growth for the year of 5% in our higher margin D&M division was well ahead of GDP, reflecting the sustained focus on higher growth target markets; organic growth overall for the Group was 2%.

- Cross-selling generated £11.4m of Group sales, an increase of 8% over the prior year. Our target was increased last year from £10m p.a. to £12m p.a.

- Underlying EPS growth for the year was 11% (FY 2018/19: 22%) ahead of our 10% annual target, with growth over the last three years of 57%. This is well ahead of our annual target and reflects widespread organic growth, acquisitions and improved operating efficiency over the period.

- Due to the uncertainty as to the duration and impact of disruption from COVID-19, as a precautionary measure, the Board has decided not to propose a final dividend. If conditions permit, the Board intends to continue with its progressive dividend policy later in the year.

- Strong growth in underlying operating profit has driven a 0.6ppt increase in return on capital employed to 16.0% (including an annualised operating profit for Sens-Tech which was acquired on 16 October 2019) compared with the return for FY 2018/19 of 15.4%, comfortably ahead of our target of exceeding 15%.

- Operating cash flow for the year was 106% of underlying operating profit, being well ahead of our 85% target. Operating cash flow has been consistently strong with conversion averaging over 100% over the last six years.

As we look towards the next five years, we are introducing an additional KPI, that of free cash flow with a target of being greater than 85% of underlying profit after tax. This year, we delivered £27.3m of such cash flow (104% of underlying profit after tax).

Divisional Results

Divisional and Group performances for the year ended 31 March 2020 are set out and reviewed below.

	FY 2019/20			FY 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	**297.9**	**38.1**	**12.8%**	266.2	29.8	11.2%	12%	13%	5%
Custom Supply	**168.5**	**7.3**	**4.3%**	172.7	8.6	5.0%	(2%)	(1%)	(4%)
Unallocated costs		**(8.3)**			(7.8)				
Total	**466.4**	**37.1**	**8.0%**	438.9	30.6	7.0%	6%	8%	2%

(1) Underlying operating profit excludes acquisition-related costs and exceptional costs.

With approximately 88% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has been slightly impacted by stronger Sterling year-on-year, with Group revenue growth reducing from 8% CER to 6% on a reported basis.

Order Book

Orders continued to grow well with the order book reaching a year-end record high of £159m, an increase of 13% CER over last year and 6% ahead of the half year. On an organic basis, the Group order book increased by 7% over the prior year, with the D&M order book growing by 8% organically and the Custom Supply order book by 6% organically.

Order book growth is driven by repeating revenues from existing customer projects and the conversion of customer design wins from new projects into orders. Over 80% of the order book is for delivery within 12 months from the time of order.

By working with high quality customers in our target 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 18 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.

Design wins in the year continued at a high level with an estimated lifetime sales value of £260m, growing by 37% over the last two years and with estimated future annual revenues representing approximately 16% of current revenue. Over 90% of design wins were within the higher growth target markets in the D&M division, and 80% for the Group as a whole.

Design & Manufacturing ("D&M") Division

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

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

The benefit of new revenue from design wins of previous years and strong demand from our key target markets delivered good organic growth in the division. Sales grew organically by 5% with orders growing by 4% organically, continuing the momentum of previous years with sales and orders growing organically by around 28% over the last three years. Growth this year was led by Asia (+26%), followed by the Nordic region (+7%) and Germany (+6%). North America was grew by 2% while the UK declined by 4% as Brexit concerns led to customers destocking, and Rest of Europe reduced by 9% reflecting the more challenging conditions experienced during the year. Asia and the US now account for 37% of D&M revenues (2018/19: 29%), up from 22% four years ago.

Organic sales growth of 5%, combined with an 8% sales increase from acquisitions, resulted in overall sales increasing by 13% CER. Including a 1% reduction in revenue due to the impact of currency translation, reported divisional revenue increased by 12% to £297.9m (FY 2018/19: £266.2m).

D&M revenue accounted for 64% of Group revenue (FY 2018/19: 61%) and generated 84% of the Group's underlying profit contribution, up 6ppts on last year (FY 2018/19: 78%).

Underlying operating profit of £38.1m was £8.3m (+28%) higher than last year (FY 2018/19: £29.8m) and up £8.7m CER (+30%), while the underlying operating margin of 12.8% was 1.6pts higher than last year (FY 2018/19: 11.2%). The increase in underlying profits and margin was principally driven by three acquisitions during the year with higher margins than the Group's average: Sens-Tech, Positek and Hobart, together with 6 months profit contribution from Cursor Controls which was acquired in the prior year.

Hobart Electronics

In April 2019, the Group acquired Hobart Electronics, an 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 three year period ended 31 March 2022.

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.

Sens-Tech

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 £12.0m payable subject to the achievement of certain profit growth targets over the three year period ending 31 March 2022.

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. Additionally, the division acts as a sales channel through which to grow sales from the D&M division.

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 and finance, supplier 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. During the year, our smallest business unit, RSG, was integrated into Acal BFi in the Custom Supply division from D&M.

The division's sales in the year were 4% lower organically with orders 2% lower as market conditions toughened in the second half, although the book to bill ratio for the year remained positive at 1.01. The division saw good growth in Italy and Benelux offset by falls in Germany, France and the UK.

Including the impact of the transfer of RSG from D&M and integration into Acal BFi, reported divisional revenue reduced by 2% to £168.5m (FY 2018/19: £172.7m), and by 1% CER. Underlying operating profit of £7.3m was £1.3m lower than last year (FY 2018/19: £8.6m), while the underlying operating margin was 4.3% compared with 5.0% last year.

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. This year, cross-selling revenues, which now account for 2.4% of Group sales, were up 8% to £11.4m from the previous year (FY 2018/19: £10.6m), compared with our revised target of £12m.

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 and profitable with good growth prospects with long-term growth drivers aligned with the Group's target markets. We support investment for growth and develop operational performance according to the requirements of each business unit. Depending upon the circumstances, we add value in some of or all 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.

Acquisition performance

The Group has 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 £298m in FY20, with Group underlying operating margins increasing from 3.1% to 8.0% over the same period. The Group's operating model is well established and has facilitated the smooth integration of acquired businesses, including Cursor Controls, Hobart, Positek and Sens-Tech, all acquired in the last 2 years.

We measure acquisition return on investment ("ROI") as operating profit attributable to every business each year, divided by its acquisition cost (including earn outs, expenses of acquisition and integration costs). The Group, which has a weighted average cost of capital ("WACC") of c.9%, targets an acquisition EBIT ROI of 15% by the end of the third year of ownership. The ROI of the acquired businesses owned for at least two years was 18.6%, up 1.4ppts on last year on a like for like basis, with an average ROI over the life of those acquisitions of 17%.

COVID-19

The following section outlines the Group's position and actions that have been taken in response to the coronavirus pandemic.

The effects of the virus became evident in the fourth quarter, initially in China, with our two design and manufacturing sites in Guangdong province closed for almost a month, before rebounding quickly upon reopening with only a limited effect on overall trading. Approximately 23% of our sales in the year were linked to trade with China, but the effects of the closures were limited by flexibility in our manufacturing and supply chains. It is estimated that this disruption led to a loss of sales in the quarter of £4m in the D&M division, reducing D&M organic growth in the fourth quarter by 5ppts, and 3ppts for the Group organically.

Since then, in the first quarter of the new financial year, COVID-19 has spread internationally and whilst China has continued its strong recovery, the effects have been felt across all other regions of the business. Revenues in the first quarter have been relatively resilient, reducing by 10% organically to date, better than the wider market and a reflection of the specialised products and markets we supply. The order book remains strong, with the three month order book in the D&M division remaining at levels consistent with the prior year. As with previous downturns, the uncertain conditions led to a reduction in longer term orders, which we expect to recover as conditions improve.

Operations

Each of our businesses is implementing an operating plan developed for their business.

The Group comprises 47 operating companies in 23 countries, with 27 manufacturing facilities in 17 of those countries across Europe, UK, Asia and the Americas. Six facilities (Sri Lanka, California and two each in China and India) were required by government mandate to close for a period. All six have since re-opened with initially limited but increasing capacity. All other sites have remained open, several with essential supplier status and a number operating at reduced capacity during the disruption.

With a decentralised structure, the Group has been able to adapt quickly 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. At its peak, over 650 employees were working from home and across all our locations there has been an overriding priority to establish safe working practices such as split working shifts with no overlap and appropriate distancing measures. These initiatives include:

- Increased frequency site cleaning
- Hand sanitation at entry and exit points
- Closure of canteens
- Face to face meetings replaced by calls and video conferencing
- Cancellation of all non-essential business travel

Customers

Enormous effort has been deployed supporting customers in the rapid development and supply of key components for virus related medical products with over 60 customer projects having been developed during the March to May period. For example:

- Customer ventilator projects: designing and supplying custom components such as pressure sensors and switches. For instance, our team of engineers designed-in a power unit for a ventilator manufacturer taking just one week from design to receipt of first order;

- Temperature sensing projects: specifying and supplying sensors for human temperature screening;

- Fluid / chemical analysers: key components for the sensing and analysis of body fluids;

- Air purification projects: power units for hospital air purification units;

- Hospital bed projects: power units and drive controllers for mechanised hospital beds;

- Various other projects such as high-performance power units to ensure hospital power supply continuity in the event of mains outages.

Cash conservation and cost reduction

Whilst our financial position is strong, we have taken prudent action to preserve cash and reduce operating expenses with several 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 Committee for three months
- Increased focus on working capital efficiency
- All acquisitions deferred, but pipeline development continues

Additionally, the Board is not proposing a final dividend but intends to re-introduce distributions in respect of the first half of the new year subject to trading conditions at the time.

Balance sheet and liquidity

The Group's financial position remains strong with a committed syndicated bank facility of £180m with the term of that facility being extended to June 2024 during this year. With year-end net debt of £61.3m, the Group has almost £120m of undrawn committed facility, gearing of 1.25x and interest cover of 13.5x. The financial covenants in the facility are gearing (net debt / underlying EBITDA including pre-acquisition EBITDA of

acquisitions) of not more than three times and interest cover of not less than four times.

In addition, the Group has received confirmation from the Bank of England, that the Group is eligible in principle, subject to satisfactory documentation, to participate in HM Treasury's Covid Corporate Financing Facility. The Group does not believe it will need to utilise this facility but has the flexibility if conditions deteriorate materially from current expectations.

Summary and Outlook

Our focus on long term structural growth markets and strong operational performance, together with our successful acquisition strategy, has delivered strong results for the year with a 21% increase in operating profits and a 37% increase in operating cash flow.

In response to the COVID-19 pandemic which became evident in the final quarter of the year, we have taken swift action to ensure the safe working of employees and trading partners whilst maintaining operational continuity. We are supporting customer needs in the medical sector by quickly developing and supplying products for a range of virus-related medical equipment in over 60 different projects.

The Group has a strong financial position, a clear strategy and is performing well. Gearing at the year-end reduced to 1.25x with significant headroom under our existing facilities. We have taken decisive measures to preserve cash and reduce operating expenditure whilst maintaining our capability to respond effectively as conditions improve.

Customer demand remains resilient with first quarter sales running 10% lower on an organic basis, reflecting the specialised and critical nature of our products as well as the benefits of our long term growth sector focus. The order book remains strong, with the three-month order book in the D&M division at a level consistent with the prior year. As with previous downturns, longer term orders have slowed in the short term, with the first quarter book to bill ratio running at 0.85:1, and we expect this to recover as conditions improve. June orders and sales are tracking ahead of those in May. We remain confident that with the Group's operational flexibility, diversified customer base and focus on the growth sectors of renewable energy, medical, transportation and industrial & connectivity, we will outperform underlying markets during this period of disruption.

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.

Nick Jefferies
Group Chief Executive
24 June 2020

FINANCE REVIEW

Orders, Revenue and Gross Profit

Group revenue for the year increased by 6% over last year to £466.4m, and by 8% CER, the difference reflecting the translation impact of Sterling strength on average since last year. Organic revenue increased by 2% (with D&M increasing 5% partly offset by Custom Supply reducing by 4%), while the acquisitions of Cursor Controls last year, and Hobart, Positek and Sens-Tech this year contributed an additional 6% growth in revenues.

£m	**FY 2019/20**	**FY 2018/19**	**%**
Reported revenue	466.4	438.9	6%
FX translation impact		(5.1)	
Underlying revenue (CER)	466.4	433.8	8%
Acquisitions	(25.5)	-	
Organic revenue	440.9	433.8	2%

Group orders increased by 6% CER with a book to bill ratio of 1.02 (H1: 1.02, H2: 1.02). Organically, orders were up 1% for the year with an increase in D&M of 4% partly offset by a 2% reduction in Custom Supply.

With approximately 88% of Group sales in non-Sterling currencies, the translation of Group results into Sterling was impacted by its average strength since last year. While Sterling strengthened 1% against the Euro during the year, and 4% against Nordic currencies on average, it weakened 3% against the US dollar.

Gross profit for the year of £156.7m increased by 8% over last year (FY2018/19: £145.0m) with gross margin for the year of 33.6% being 0.6ppts ahead of last year (FY 2018/19: 33.0%).

The Group's gross margin has increased by around 7ppts in the last 11 years since the Group's strategy was introduced, a reflection of the differentiated nature of our products and the significant organic and inorganic growth of our higher margin D&M division.

Underlying Operating Costs

Reported costs were up 9% as detailed below. Excluding underlying adjustments, Group underlying operating costs increased by 6% CER. Adjusting for the pre-acquisition costs of Hobart, Positek and Sens-Tech acquired this year, and Cursor Controls acquired during last year, underlying operating costs increased by 1% organically. This reflects investment in D&M businesses with a 5% uplift in divisional operating expenses including £1.4m invested to support future growth initiatives, offset by 5% operating cost savings in Custom Supply where sales reduced by 4% in the year.

As a percentage of sales, underlying operating costs for the year reduced by 0.4ppts to 25.6% (FY 2018/19: 26.0%), a reflection of ongoing sales growth and tight cost control.

	FY	

£m	FY 2019/20	2018/19	%
Organic operating costs	114.9	113.3	1%
Acquisition operating costs	4.7		
Underlying operating costs (CER)	119.6	113.3	6%
FX translation		1.1	
Underlying adjustments			
Acquisition-related costs	4.0	1.8	
Amortisation of acquired intangibles	9.0	5.9	
Exceptional items	-	(0.2)	
IAS 19 pension administration cost	0.3	0.4	
Reported operating costs	132.9	122.3	9%

£m	FY 2019/20	FY 2018/19
Selling and distribution costs	58.1	57.7
Administrative expenses	74.8	64.6
Reported operating costs	132.9	122.3

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

Group Operating Profit and Margin

Group underlying operating profit for the year was £37.1m, up £6.5m (+21%) on last year, and up 23% CER, with a Group underlying operating margin of 8.0%, up 1.0ppt on last year.

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £23.8m, an increase of £1.1m (+5%) compared with last year (FY 2018/19: £22.7m). Growth in reported operating profits was lower than underlying growth due to an increase in the number of acquisitions this year compared with last year (three compared with one), and so a greater level of acquisition costs and amortisation of acquired intangibles.

£m	FY 2019/20			FY 2018/19		
	Operating Profit	**Net Finance Costs**	**Profit before tax**	Operating profit	Net Finance Costs	Profit before tax
Underlying	37.1	(4.3)	32.8	30.6	(3.4)	27.2
Underlying adjustments						
Acquisition-related costs	(4.0)	-	(4.0)	(1.8)	-	(1.8)
Amortisation of acquired intangibles	(9.0)	-	(9.0)	(5.9)	-	(5.9)
Exceptional items	-	-	-	0.2	-	0.2
IAS 19 pension cost	(0.3)	-	(0.3)	(0.4)	-	(0.4)
Reported	23.8	(4.3)	19.5	22.7	(3.4)	19.3

Underlying Adjustments

Underlying adjustments for the year comprise: acquisition-related costs of £4.0m (FY 2018/19: £1.8m); the amortisation of acquired intangibles of £9.0m (FY 2018/19: £5.9m); and the IAS19 legacy pension cost of £0.3m (FY 2018/19: £0.4m).

Acquisition-related costs of £4.0m comprised expenses related to the acquisition of Hobart and Positek in April 2019 and Sens-Tech in October 2019 of £1.8m, accruals for contingent consideration of £2.0m in relation to acquired businesses (mainly Sens-Tech and Cursor Controls) together with integration costs of £0.2m. The £3.1m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Hobart, Positek and Sens-Tech this year and Cursor Controls last year. The total annualised amortisation cost for next year is expected to be around £11.0m including a full annualisation of amortisation for Sens-Tech which was acquired in October 2019.

Net Finance Costs

Net finance costs were £4.3m (FY 2018/19: £3.4m). This year's charge comprises underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £3.7m (FY 2018/19: £3.4m), and an IFRS 16 interest charge of £0.6m, the first year following its introduction.

Underlying finance costs for the year of £3.7m were £0.3m higher than last year, due to increased commitment fees following the extension of our banking facility by £60m in February 2019, and higher average monthly net debt following the Sens-Tech acquisition in October 2019. Underlying interest rates on the overall facility have though reduced under the terms of the extended facility.

Underlying Tax Rate

The underlying effective tax rate for the year was 20%. This was approximately 5ppts lower than last year due mainly to increased profitability in the UK following the UK acquisitions of Sens-Tech and Positek during the year, and the use of certain unrecognised losses.

The overall effective tax rate of 27% was higher than the underlying effective tax rate mainly due to acquisition costs being largely non-deductible for corporate tax purposes.

Profit Before Tax and EPS

Underlying profit before tax for the year was £32.8m, an increase of £5.6m (21%) compared with last year. This increase resulted in underlying diluted earnings per share for the year of 30.2p, up 11% on last year.

After the underlying adjustments discussed above, reported profit before tax of £19.5m was broadly in line with last year (FY2018/19: £19.3m), with reported fully diluted earnings per share of 16.5p, compared with 19.4p last year. This reduction related to the c.20% of new equity issued during the year at the time of our three acquisitions.

£m	FY 2019/20		FY 2018/19	
	PBT	EPS	PBT	EPS
Underlying	32.8	30.2p	27.2	27.2p
Underlying adjustments				
Acquisition-related costs	(4.0)		(1.8)	
Amortisation of acquired intangibles	(9.0)		(5.9)	
Exceptional items	-		0.2	
IAS 19 pension cost	(0.3)		(0.4)	
Reported	19.5	16.5p	19.3	19.4p

Working Capital

Working capital at 31 March 2020 was £70.9m (FY2018/19: £67.2m) equivalent to 14% of annualised final quarter sales at CER. This ratio was in line with last year despite higher sales in the D&M division which, as a manufacturer, holds raw material and more finished goods than in Custom Supply, due to geographic spread of manufacturing sites and hence has lower stock turns (3.7 times in D&M compared with 10.9 times in Custom Supply). This in turn results in higher working capital as a percentage of sales in the D&M division (18% in D&M compared with 11% in Custom Supply).

Group stock turns were 5.2, 0.1 turns better than last year, despite the increasing percentage of D&M sales. Group trade debtor days and trade creditor days outstanding at 31 March 2020 were at 52 days (down 2 days since last year) and 63 days (consistent with last year) respectively.

ROCE for the year (return on capital employed, as defined in note 5 to the attached summary financial statements) including an annualisation of our Sens-Tech acquisition, was 16.0%, up 0.6ppts on last year driven by increased profitability and operating efficiency. This is ahead of our target to achieve a ROCE of at least 15%.

Cash Flow

Net debt at 31 March 2020 was £61.3m, compared with £63.3m at 31 March 2019. Excluding acquisition spend during the year of £75.9m and equity issuance of £60.5m, net debt reduced by £17.4m during the year, equating to 47% of underlying operating profits, demonstrating continuing strong cash generation by the Group.

	FY 2019/20	FY 2018/19
Net debt at 1 April	(63.3)	(52.4)
Free cash flow (see table below)	27.3	19.2
Acquisition-related cash flow	(75.9)	(24.2)
Equity issuance	60.5	0.1
Dividends	(8.1)	(6.7)
Foreign exchange impact	(1.8)	0.7
Net debt at 31 March	**(61.3)**	**(63.3)**

Net acquisition cash flows, (including associated costs of acquisitions) of £75.9m comprised £58.4m for the acquisition of Sens-Tech, £16.5m for the acquisitions of Hobart and Positek, and an earnout payment in respect of the 2016 Contour acquisition of £1.0m.

Dividend payments increased by £1.4m (+21%) to £8.1m following the 6% increase of the final dividend last year and the two c.10% equity placings in April 2019 and October 2019 to maintain a strong balance sheet.

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

£m	FY 2019/20	FY 2018/19
Underlying profit before tax	**32.8**	**27.2**
Net finance costs	4.3	3.4
Non-cash items[(1)]	13.5	6.4
Underlying EBITDA	**50.6**	**37.0**
Working capital	1.6	(3.2)
Capital expenditure	(6.3)	(5.2)
IFRS 16	(6.6)	-
Operating cash flow	**39.3**	**28.6**
Finance costs	(3.7)	(3.4)
Taxation	(6.4)	(3.8)
Legacy pension	(1.8)	(1.7)
Executive Share option exercises	(0.1)	(1.6)
Net exceptional receipt	-	1.1
Free cash flow	**27.3**	**19.2**

(1) Non-cash items are depreciation, amortisation and share based payments, plus £6.6m IFRS 16 depreciation for FY 2019/20.

Underlying EBITDA of £50.6m includes the add back of IFRS 16 depreciation of £6.6m; excluding this, it was 18% higher than last year. Working capital reduced by £1.6m reflecting £2.0m early payments from customers and a lower growth in the last quarter. This compares with an investment of £3.2m last year reflecting the stronger organic growth that year.

Capital expenditure of £6.3m, 1.4% of Group sales (FY2018/19: 1.2%), was £1.1m higher than last year with increased investment in the D&M division. On a divisional basis, capital expenditure was 1.9% of divisional sales in D&M and 0.2% of divisional sales in Custom Supply.

Operating cash flow of £39.3m, which was up 37% on last year, represents 106% of underlying operating profit, well ahead of our 85% conversion target. Free cash flow (after finance costs, taxation, legacy pension and exceptional costs) was £27.3m, up 42% on last year and at 104% of underlying profit after tax, was again well ahead of our target of 85%. We have introduced free cash flow as a new KPI for the next five-year period, as we look to evolve into a business which is self-sufficient in the funding of acquisitions.

Banking Facilities

The Group has a revolving credit facility of £180m with a syndicate of six banks. During February 2020, the Group exercised its option to extend the term of the facility to June 2024. In addition, the Group has a £60m accordion facility which it can use to extend the total facility up to £240m, subject to banking approval. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2020 of £61.3m, the Group's gearing ratio was 1.25 times (FY 2018/19: 1.7 times), being defined as net debt divided by underlying EBITDA (annualised for acquisitions) with our longer term target gearing range being between 1.5 and 2.0 times. Interest cover was 13.5 times.

Balance Sheet

Net assets of £200.5m at 31 March 2020 were £65.8m higher than at the end of the last financial year (31 March 2019: £134.7m). The increase primarily relates to the two equity issuances during the year to strengthen the balance sheet plus the net profit for the year partly offset by the payment of dividends. The movement in net assets is summarised below:

£m	**FY 2019/20**
Net assets at 31 March 2019 (restated)	134.7
Net profit after tax	14.3
Dividend paid	(8.1)
Currency net assets - translation impact	(4.6)
Gain on defined benefit scheme (inc tax)	1.9
Equity issuance	60.5
Share based payments (inc tax)	1.8
Net assets at 31 March 2020	**200.5**

Defined Benefit Pension Scheme

The Group's IAS19 pension position associated with its legacy defined benefit pension scheme improved during the year by £4.3m, from a £2.5m deficit at 31 March 2019 to a £1.8m surplus at 31 March 2020. This partly results from contributions of £1.8m made by the Group; and also from increased corporate bond yields, reductions in future RPI expectations and updated demographic assumptions during the year. Annual payments of £1.8m remain payable (growing by 3% each year in accordance with the plan agreed with the pension trustees in 2019) until September 2022. The next triennial valuation will be as at 31 March 2021.

Brexit Update

discoverIE does not anticipate a material direct tariff impact from Brexit. As an international Group, only 12% 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, would only be expected to have a minimal effect.

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 from the impact from a depreciation of Sterling which would increase import costs.

Risks and Uncertainties

The principal risks faced by the Group are covered in more detail in the Group's Annual Report, which will be published shortly. These risks include the economic environment, particularly linked to the impact of COVID-19; 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 a legacy defined benefit pension scheme; loss of key personnel; and non-compliance with legal and regulatory requirements.

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.

Simon Gibbins
Group Finance Director

24 June 2020

Consolidated income statement

for the year ended 31 March 2020

	notes	2020 £m	2019 £m
Revenue		**466.4**	438.9
Cost of sales		**(309.7)**	(293.9)
Gross profit		**156.7**	145.0
Selling and distribution costs		**(58.1)**	(57.7)
Administrative expenses		**(74.8)**	(64.6)
Operating profit		**23.8**	22.7
Finance income		**0.6**	0.5
Finance costs		**(4.9)**	(3.9)
Profit before tax		**19.5**	19.3
Tax expense		**(5.2)**	(4.7)
Profit for the year		**14.3**	14.6
Earnings per share	9		
Basic		**17.0p**	20.0p
Diluted		**16.5p**	19.4p

Supplementary income statement information

Underlying Performance Measures	notes	2020 £m	2019 £m
Operating profit		**23.8**	22.7
Add back: Exceptional items		**-**	(0.2)
Acquisition costs		**4.0**	1.8
Amortisation of acquired intangible assets		**9.0**	5.9
IAS 19 pension administrative charge		**0.3**	0.4
Underlying operating profit		**37.1**	30.6
Profit before tax	7	**19.5**	19.3
Add back: Exceptional items		**-**	(0.2)
Acquisition costs		**4.0**	1.8
Amortisation of acquired intangible assets		**9.0**	5.9
Total IAS 19 pension charge		**0.3**	0.4
Underlying profit before tax	7	**32.8**	27.2
Underlying earnings per share	11	**30.2p**	27.2p

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	2020 £m	2019 £m
Profit for the year	**14.3**	14.6
Other comprehensive income/(loss):		
Items that will not be subsequently reclassified to profit or loss:		
Actuarial gain on defined benefit pension scheme	**2.4**	0.1
Deferred tax charge relating to defined benefit pension scheme	**(0.5)**	-
	1.9	0.1
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign subsidiaries	**(4.6)**	(1.1)
	(4.6)	(1.1)
Other comprehensive loss for the year, net of tax	**(2.7)**	(1.0)
Total comprehensive income for the year, net of tax	**11.6**	13.6

Consolidated statement of financial position

as at 31 March 2020

	notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment		**25.2**	24.4
Intangible assets - goodwill	13	**117.3**	85.3
Intangible assets - other		**64.9**	34.4
Right of use assets	14	**21.1**	-
Defined benefit surplus	16	**1.8**	-
Deferred tax assets		**6.1**	5.1

		236.4	149.2
Current assets			
Inventories		**68.4**	66.2
Trade and other receivables		**90.1**	88.7
Current tax assets		**2.1**	1.3
Cash and cash equivalents		**36.8**	22.9
		197.4	179.1
Total assets		**433.8**	328.3
Current liabilities			
Trade and other payables		**(87.6)**	(87.7)
Other financial liabilities		**(4.3)**	(1.7)
Lease liabilities	14	**(5.3)**	-
Current tax liabilities		**(5.5)**	(5.5)
Provisions		**(0.9)**	(1.1)
		(103.6)	(96.0)
Non-current liabilities			
Trade and other payables		**(3.1)**	(0.2)
Other financial liabilities		**(93.8)**	(84.5)
Lease liabilities	14	**(14.7)**	-
Pension liability	16	**-**	(2.5)
Provisions		**(4.7)**	(2.7)
Deferred tax liabilities		**(13.4)**	(7.7)
		(129.7)	(97.6)
Total liabilities		**(233.3)**	(193.6)
Net assets		**200.5**	134.7
Equity			
Share capital	15	**4.4**	3.7
Share premium		**138.8**	106.9
Merger reserve		**22.7**	2.9
Currency translation reserve		**(2.2)**	2.4
Retained earnings		**36.8**	18.8
Total equity		**200.5**	134.7

These financial statements were approved by the Board of Directors on 24 June 2020 and signed on its behalf by:

Nick Jefferies **Simon Gibbins**
Group Chief Executive Group Finance Director

Consolidated statement of changes in equity

for the year ended 31 March 2020

	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 2018	**3.6**	**106.9**	**2.9**	**3.5**	**9.9**	**126.8**
Profit for the year	-	-	-	-	14.6	14.6
Other comprehensive loss	-	-	-	(1.1)	0.1	(1.0)
Total comprehensive income	-	-	-	(1.1)	14.7	13.6
Shares issued (note 15)	0.1	-	-	-	-	0.1
Share-based payments including tax	-	-	-	-	0.9	0.9
Dividends (note 8)	-	-	-	-	(6.7)	(6.7)
At 31 March 2019	**3.7**	**106.9**	**2.9**	**2.4**	**18.8**	**134.7**
Profit for the year	-	-	-	-	14.3	14.3
Other comprehensive loss	-	-	-	(4.6)	1.9	(2.7)
Total comprehensive income	-	-	-	(4.6)	16.2	11.6
Shares issued (note 15)	0.7	31.9	27.9	-	-	60.5
Share-based payments including tax	-	-	-	-	1.8	1.8
Transfer to retained earnings	-	-	(8.1)	-	8.1	-
Dividends (note 8)	-	-	-	-	(8.1)	(8.1)
At 31 March 2020	**4.4**	**138.8**	**22.7**	**(2.2)**	**36.8**	**200.5**

The £27.9m merger reserve arising during the year is available for distribution and £8.1m was transferred to retained earnings for the payment of the dividend.

Consolidated statement of cash flows

for the year ended 31 March 2020

	notes	**2020 £m**	2019 £m
Net cash flow from operating activities	12	**37.4**	22.4
Investing activities			
Acquisition of shares in subsidiaries (net of cash/(debt) acquired)		**(72.6)**	(21.3)
Acquisition related contingent consideration		**(1.0)**	(1.3)

Purchase of property, plant and equipment		**(5.3)**	(4.2)
Purchase of intangible assets - software		**(1.0)**	(1.2)
Proceeds from disposal of property, plant and equipment		**-**	0.2
Interest received		**0.5**	0.4
Net cash used in investing activities		**(79.4)**	(27.4)
Financing activities			
Net proceeds from the issue of shares		**60.5**	0.1
Proceeds from borrowings		**41.9**	17.2
Repayment of borrowings		**(31.3)**	(1.2)
Payment of lease liabilities		**(6.0)**	-
Interest paid on lease liabilities		**(0.6)**	-
Dividends paid	8	**(8.1)**	(6.7)
Net cash generated from financing activities		**56.4**	9.4
Net increase in cash and cash equivalents[1]		**14.4**	4.4
Cash and cash equivalents at 1 April		**20.8**	16.2
Effect of exchange rate fluctuations		**(0.4)**	0.2
Cash and cash equivalents at 31 March		**34.8**	20.8

Reconciliation to cash and cash equivalents in the consolidated statement of financial position		
Net cash and cash equivalents shown above	**34.8**	20.8
Add back: bank overdrafts	**2.0**	2.1
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	**36.8**	22.9

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

Notes to the Group financial statements

for the year ended 31 March 2020

1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 24 June 2020. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies whereas those for 2020 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 2006.

2. Basis of preparation

The financial information in this statement is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006. They have been prepared on a historical cost basis, except as otherwise stated.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except as otherwise indicated.

3. Going concern

In line with IAS1 'Presentation of financial statements' and revised guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in the Strategic Report on pages 4 to 69 of the Annual Report and Accounts. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review section of the Strategic Report on pages 40 to 45 of the Annual Report and Accounts.

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

The Viability Base Case, as stated on page 48 of the Annual Report and Accounts has been subjected to sensitivity analysis involving flexing a number of the underlying main assumptions, both individually and in conjunction. The sensitivities take into account the principal risks and uncertainties set out on pages 50 to 55 of the Annual Report and Accounts. notably COVID-19 pandemic, economic downturn, Brexit, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity and debt covenants and foreign currency.

In respect of COVID-19, the Directors have modelled 'severe but plausible' downside scenarios to the Viability Base Case. The Directors prepared these scenarios based on an underlying analysis of the potential further impact of COVID-19 this year and future years additional to that already factored into the Viability Base Case.

These downsides include a much longer term, and deeper impact with a further double-digit organic sales growth downside to the Viability Base Case in FY2020/21. Downside sales impact was varied by market sector with organic falls in the year ranging above 30% in some markets. A further downside was also applied the following year with FY2021/22 experiencing a mid-single digit organic sales decline below the downside sales position in FY2020/21. Additionally, gross margin was materially reduced and working capital materially increased.

Even after factoring in these significant additional downsides to the Viability Base Case, there remains good headroom in our banking covenants and significant liquidity. This is supported by the fact that the Group sells a wide portfolio of different products across a diverse set of industries and geographies, has a global supply chain network, and has well-established relationships with its customers. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 50 to 55 of the Strategic Report in the Annual Report and Accounts.

The Directors are confident that the Company and the Group have sufficient resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The Annual Report and Accounts will be published on 15 July 2020.

4. New accounting standards and financial reporting requirements

New standards applied

The following standards and interpretations, which have been issued by the IASB, became effective during the current year end and have been adopted by the Group:

International Accounting Standards (IAS/IFRS/IFRIC)		Effective date[1]
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

1 Period beginning on or after

IFRS 16, 'Leases'

IFRS 16 'Leases' replaces IAS 17 and relates to the classification, measurement and recognition of leases. The impact of adoption of IFRS 16 is material on the consolidated financial statements and is disclosed in note 17.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

· The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;

· The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and

· If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The adoption of IFRIC 23 had no material impact on corporate tax liabilities.

New standards not yet applied
There are no other 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 years.

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

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

Underlying operating profit

"Underlying operating profit" is defined as operating profit excluding acquisition 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 outside of the 12 month measurement period.

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 IFRS16 costs."

Free cash flow

"Free cash flow" is defined as net cash flow before 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, including an annualisation for acquisitions.

Organic basis

Reference to 'organic' basis included in the Chairman's statement, Operating Review and Finance Review of the Strategic Report means at constant exchange rates ("CER") and excluding the first 12 months of acquisitions (Cursor Controls was acquired on 16 October 2018, Hobart and Positek on 15 April 2019 and Sens-Tech on 16 October 2019).

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

- The Design & Manufacturing division manufactures custom electronic products that are uniquely designed or modified from a standard product for a specific customer requirement. The products are manufactured at one of our in-house manufacturing facilities or, in some cases, by third party contractors.

- The Custom Supply division provides technically demanding, customised electronic, photonic and medical products to the industrial, medical and healthcare

markets, both from a range of high-quality, international suppliers (often on an exclusive basis) and from discoverIE's Design & Manufacturing division.

These two divisions have been assessed as the reportable operating segments of the Group. Within each reportable operating segment are aggregated businesses units with similar characteristics such as the method of acquiring products for sale (manufacturing versus distribution), the nature of customers and products, risk profile and economic characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is reported and evaluated based on operating profit or loss earned by each segment without allocation of central administration costs including directors' salaries, investment revenue and finance costs, and income tax expense.

Segment revenue and results

2020	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
Revenue	**297.9**	**168.5**	**-**	**466.4**
Result				
Underlying operating profit/(loss)	38.1	7.3	(8.3)	37.1
Acquisition costs	(3.8)	(0.2)	-	(4.0)
Amortisation of acquired intangible assets	(9.0)	-	-	(9.0)
IAS 19 pension charge	-	-	(0.3)	(0.3)
Operating profit/(loss)	**25.3**	**7.1**	**(8.6)**	**23.8**

2019	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
Revenue	266.2	172.7	-	438.9
Result				
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

7. Underlying profit before tax

			2020 £m	2019 £m
Profit before tax			**19.5**	19.3
Add back	Acquisition Costs	(a)	**4.0**	1.8
	Amortisation of acquired intangible assets	(b)	**9.0**	5.9
	Total IAS 19 pension charge	(c)	**0.3**	0.4
	Exceptional Items	(d)	**-**	(0.2)
Underlying profit before tax			**32.8**	27.2

The tax impact of the underlying profit adjustments above is a credit of £1.4m (2019: £2.0m).

a. In the year there were £4.0m of acquisition costs. Costs of £1.5m were incurred in relation to the acquisition of Hobart, Positek and Sens-Tech and £0.3m in relation to ongoing acquisitions. Contingent consideration of £2.0m was charged in relation to current and past acquisitions. Costs of £0.2m were incurred in relation to the integration of RSG into the Custom Supply division.

   In the prior year 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. Amortisation charge for intangible assets recognised on acquisition of £9.0m being amortisation of acquired customer relationships, patents and brands. The equivalent charge last year was £5.9m. The increase relates to the four acquisitions during the last two years (Cursor Controls in October 2018, Hobart and Positek in April 2019 and Sens-Tech in October 2019).

c. Pension costs related to the Group's legacy defined benefit pension scheme (see note 16).

d. There were no exceptional charges this year. Last year there was net exceptional income of £0.2m comprising exceptional income of £1.1m partly offset by an exceptional charge of £0.9m incurred in relation to the equalisation of Guaranteed Minimum Pensions (GMPs) in the Sedgemoor Group Pension Fund. The exceptional income of £1.1m related to a fraud, perpetrated against the Group last year in a small US subsidiary leading to new subsidiary management and tightened Group controls. Insurance receipts of £2.6m were recovered, offset by the fraud cost incurred during last year of £1.5m (out of the total cost of the fraud of £4.0m).

8. Dividends

Dividends recognised in equity as distributions to equity holders in the year:	2020 £m	2019 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2019 of 6.75p (2018: 6.35p)	**5.4**	4.6
Interim dividend for the year ended 31 March 2020 of 2.97p (2019: 2.80p)	**2.7**	2.1
Total amounts recognised as equity distributions during the year	**8.1**	6.7

Proposed for approval at AGM:	2020 £m	2019 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2020 of 0.0p (2019: 6.75p)	**-**	5.4
Summary		
Dividends per share declared in respect of the year	**2.97p**	9.55p
Dividends per share paid in the year	**9.72p**	9.15p
Dividends paid in the year	**£8.1m**	£6.7m

9. Earnings per share

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

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

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

	2020 £m	2019 £m
Profit for the year attributable to equity holders of the parent:	**14.3**	14.6

	Number	Number
Weighted average number of shares for basic earnings per share	**83,997,130**	72,979,791
Effect of dilution - share options	**2,878,352**	2,419,122
Adjusted weighted average number of shares for diluted earnings per share	**86,875,482**	75,398,913
Basic earnings per share	**17.0p**	20.0p
Diluted earnings per share	**16.5p**	19.4p

Underlying earnings per share is calculated as follows:

	2020 £m	2019 £m
Net profit for the year	**14.3**	14.6
Exceptional items	**-**	(0.2)
Acquisition costs	**4.0**	1.8
Amortisation of acquired intangible assets	**9.0**	5.9
IAS 19 pension charge	**0.3**	0.4
Tax effect of the above	**(1.4)**	(2.0)
Underlying profit	**26.2**	20.5

	Number	Number
Weighted average number of shares for basic earnings per share	**83,997,130**	72,979,791
Effect of dilution - share options	**2,878,352**	2,419,122
Adjusted weighted average number of shares for diluted earnings per share	**86,875,482**	75,398,913

Underlying earnings per share	**30.2p**	27.2p

At the year end, there were 3,306,166 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 2,878,352 are currently dilutive (2019: 2,629,936 in issue and 2,419,122 dilutive).

10. Business combinations

Acquisitions in the year ended 31 March 2020

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, further contingent cash consideration of up to £3.1m ($4.0m) is payable 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 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)
Current tax liabilities	(0.2)
Provisions (current)	(0.2)
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) [1]	0.4
Net cash acquired	(0.3)

	11.6

1 Acquisition costs of £0.2m and £0.3m were expensed as incurred in the years ended 31 March 2020 and 31 March 2019 respectively. These were included within administrative expenses (note 7).

Included in cash flow from investing activities is the cash consideration of £11.5m and the net cash acquired of £0.3m.

From the date of acquisition to 31 March 2020, Hobart contributed £9.9m to revenue and £0.5m to profit after tax of the Group.

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 further contingent cash consideration of up to £0.4m is 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 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	(0.2)
Deferred tax liabilities (non-current)	(0.3)
Total identifiable net assets	**2.8**
Provisional goodwill arising on acquisition	**2.7**
Total investment	**5.5**
Discharged by	
Cash	5.3
Contingent consideration	0.2
	5.5

Included in the £2.7m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These 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) [1]	0.2
Net cash acquired	(1.1)
	4.4

1Acquisition costs of £0.1m and £0.1m were expensed as incurred in the years ended 31 March 2020 and 31 March 2019 respectively. These were included within administrative expenses (note 7).

Included in cash flow from investing activities is the cash consideration of £5.3m and the net cash acquired of £1.1m.

From the date of acquisition to 31 March 2020, Positek contributed £1.8m to revenue and £0.5m to profit after tax of the Group.

Acquisition of Sens-Tech

On 16 October 2019, the Group completed the acquisition of 100% of the share capital of Xi-Tech Limited and its subsidiary, Sens-Tech Limited ("Sens-Tech").

Sens-Tech was acquired for an initial cash consideration of £58.0m on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities and a placement of shares. In addition, further contingent cash consideration of up to £12m is payable subject to the achievement of certain profit growth targets over a three year period ending 31 March 2022. The fair value of the contingent consideration will be recognised in the consolidated income statement over the performance period from the acquisition date.

Sens-Tech, is a UK based business specialising in X-ray detection and data acquisition modules supplying international markets.

The provisional fair value of the identifiable assets and liabilities of Sens-Tech at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Intangible assets - other	32.4
Inventories	2.0
Trade and other receivables	2.6
Cash and cash equivalents	12.8
Trade and other payables	(1.2)
Current tax liabilities	0.2
Deferred tax liabilities (non-current)	(6.2)
Total identifiable net assets	**42.6**
Provisional goodwill arising on acquisition	**27.4**
Total investment	**70.0**

Discharged by	
Cash	70.0
Contingent consideration	-
	70.0

Included in the £27.4m 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	70.0
Transaction costs of the acquisition (included in operating cash flows) [1]	1.2
Net cash acquired	(12.8)
	58.4

1 Acquisition costs of £1.2m were expensed as incurred in the year ended 31 March 2020 and were included within administrative expenses (note 7).

Included in cash flow from investing activities is the cash consideration of £70.0m and the net cash acquired of £12.8m.

From the date of acquisition to 31 March 2020, Sens-Tech contributed £8.7m to revenue and £1.0m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £16.7m and the consolidated revenue for the Group would have been £476.4m.

11. Movements in cash and net debt

Year to 31 March 2020	1 April 2019 £m	Cash flow £m	Non cash changes £m	**31 March 2020 £m**
Cash and cash equivalents	22.9	13.5	0.4	**36.8**
Bank overdrafts	(2.1)	0.9	(0.8)	**(2.0)**
Net cash	20.8	14.4	(0.4)	**34.8**
Bank loans under one year	-	(2.7)	(0.1)	**(2.8)**
Bank loans over one year	(85.9)	(7.9)	(1.2)	**(95.0)**
Capitalised debt costs	1.8	-	(0.1)	**1.7**
Total loan capital	(84.1)	(10.6)	(1.4)	**(96.1)**
Net debt	(63.3)	3.8	(1.8)	**(61.3)**

Bank loans over one year above include £94.8m (2019: £83.1m) drawn down against the Group's revolving credit facility.

Year to 31 March 2019	1 April 2018 £m	Cash flow £m	Non cash changes £m	31 March 2019 £m
Cash and cash equivalents	21.9	1.0	-	22.9
Bank overdrafts	(5.7)	3.4	0.2	(2.1)
Net cash	16.2	4.4	0.2	20.8
Bank loans under one year	(1.0)	1.2	(0.2)	-
Bank loans over one year	(68.5)	(17.2)	(0.2)	(85.9)
Capitalised debt costs	0.9	-	0.9	1.8
Total loan capital	(68.6)	(16.0)	0.5	(84.1)
Net debt	(52.4)	(11.6)	0.7	(63.3)

Supplementary information to the statement of cash flows

Underlying Performance Measure	**2020 £m**	2019 £m
Increase/(decrease) in net cash	**3.8**	(11.6)
Add: Business combinations	**75.9**	24.2
Dividends paid	**8.1**	6.7
Less: Net proceeds from share issue	**(60.5)**	(0.1)
Free cash flow	**27.3**	19.2
Net finance costs	**3.7**	3.4
Taxation	**6.4**	3.8
Legacy pension scheme funding	**1.8**	1.7
Executive options issuance	**0.1**	1.6
Exceptional cash flow	**-**	(1.1)
Operating cash flow	**39.3**	28.6

12. Reconciliation of cash flows from operating activities

	2020 £m	2019 £m
Profit for the year	**14.3**	14.6
Tax expense	**5.2**	4.7
Net finance costs	**4.3**	3.4
Depreciation of property, plant and equipment	**4.8**	4.6
Depreciation of right of use assets	**6.6**	-
Amortisation of intangible assets - other	**9.6**	6.5
Loss on disposal of property, plant and equipment	**0.1**	0.1
Change in provisions	**(0.3)**	0.2
Pension scheme funding	**(1.8)**	(1.7)
IAS 19 pension administration charge	**0.3**	1.3
Impact of equity-settled share-based payment expense and associated taxes	**1.3**	(0.5)
Operating cash flows before changes in working capital	**44.4**	33.2
Decrease/(increase) in inventories	**2.7**	(6.6)
Decrease/(increase) in trade and other receivables	**1.9**	(4.9)
(Decrease)/increase in trade and other payables	**(1.0)**	8.3

Decrease/(increase) in working capital	**3.6**	(3.2)
Cash generated from operations	**48.0**	30.0
Interest paid	**(4.2)**	(3.8)
Income taxes paid	**(6.4)**	(3.8)
Net cash flow from operating activities	**37.4**	22.4

13. Intangible assets - goodwill

Cost	£m
At 1 April 2018	113.8
Arising from business combinations	9.0
Exchange adjustments	(0.7)
At 31 March 2019	122.1
Arising from business combinations	35.4
Exchange adjustments	(3.4)
At 31 March 2020	154.1

Impairment	£m
At 31 March 2019 and 31 March 2020	**(36.8)**
Net book value at 31 March 2020	117.3
Net book value at 31 March 2019	85.3

The carrying value of goodwill is analysed as follows:

	2020 £m	2019 £m
Custom Supply		
Acal BFi	**9.9**	9.6
Medical	**0.6**	0.6
Design & Manufacturing		
Stortech	**3.6**	3.6
Hectronic	**0.6**	0.6
MTC	**1.9**	2.0
Myrra	**5.3**	5.1
Noratel	**25.9**	29.8
Foss	**5.1**	5.6
Flux	**0.6**	0.6
Contour	**7.7**	7.7
Variohm	**6.0**	6.0
Santon	**5.3**	5.1
Cursor Controls	**9.0**	9.0
Hobart	**5.7**	-
Positek	**2.7**	-
Sens-Tech	**27.4**	-
	117.3	85.3

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Hobart, Positek and Sens-Tech which were acquired in the year (refer to note 10 for details). Hobart was also subject to a foreign exchange movement.

14. Leases

14.1 Leasing arrangements

The Group leases manufacturing and warehousing facilities, offices and various items of plant, machinery, equipment and vehicles.
Manufacturing and warehouse facilities generally have lease terms between 3 and 10 years. Lease contracts generally include extension and termination options and variable lease payments, which are discussed further above in 'Significant accounting judgements and estimates' in note 17.4.

14.2 Carrying value of right of use assets

Set out below are the carrying amounts of right-of-use assets ("ROU") recognised and movements during the year:

	Land and Buildings £m	**Plant and machinery £m**	**Total £m**
At 31 March 2019	-	-	-
Change in accounting policy	17.8	2.9	20.7
At 1 April 2019 (revised)	17.8	2.9	20.7
Additions/modifications	5.8	1.0	6.8
Depreciation charge	(5.0)	(1.6)	(6.6)
Exchange adjustments	0.1	0.1	0.2
At 31 March 2020	18.7	2.4	21.1

14.3 Carrying value of lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Total £m
At 31 March 2019	-
Change in accounting policy	(19.8)
At 1 April 2019 (revised)	(19.8)
Additions	(5.5)
Lease modifications	(0.6)
Interest for the year	(0.6)
Lease payments	6.6
Exchange adjustments	(0.1)
At 31 March 2020	(20.0)

	31 March 2020 £m	1 April 2019 £m
Current liabilities	**5.3**	5.7
Non-current liabilities	**14.7**	14.1
	20.0	19.8

14.4 Amounts recognised in the consolidated income statement:

	2020 £m
Depreciation of ROU assets	6.6
Interest expense (included in finance cost)	0.6
	7.2

14.5 Extension and termination options

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. For a description of judgements and estimates associated with extension and termination options, see note 17.4.

Variable lease payments based upon an index or rate are accounted for once rental amounts are changed.

15. Share capital

Allotted, called up and fully paid	2020 Number	2020 £m	2019 Number	2019 £m
Ordinary shares of 5p each	**88,705,915**	**4.4**	73,358,847	3.7

During the year, 15.3m shares were issued raising £60.5m (of which £0.7m was share capital, with the balance allocated to share premium account and merger reserve as set out below).

On 18 April 2019, 7,309,867 shares were issued for a gross consideration of £29.2m before costs and £28.2m after costs. The shares were issued at 400 pence per share, a discount of 3.85 per cent to the closing share price of 416 pence per share on 15 April 2019. The shares were issued under a cash box structure and accordingly, £0.3m was share capital with the balance of £27.9m being allocated to a merger reserve. This amount is fully available for distribution.

On 17 October 2019, 8,034,840 shares were issued for a gross consideration of £33.3m before costs and £32.3m after costs. The shares were issued at 415 pence per share, a discount of 3.9 per cent to the closing share price of 432 pence per share on 16 October 2019. £0.4m was share capital with the balance of £31.9m being allocated to share premium account.

During the year to 31 March 2020, employees exercised 2,361 share options under the terms of the various share option schemes (2019: 1,940,991).

16. Pension

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

Based upon the results of the triennial funding valuation at 31 March 2018, the Sedgemoor Scheme's Trustees agreed with Sedgemoor Limited on behalf of the participating employers to continue the participating employers' contributions under the deficit recovery plan agreed at the previous valuation at 31 March 2015. This required contributions of £1.8m p.a. over the year to 31 March 2020 with future contributions increasing by 3% each April payable over the period to 30 September 2022. There is a risk that adverse experience could lead to a requirement for additional contributions to recover any deficit that arises.

A pension scheme asset has been recognised as the employer has an unconditional right to receive a surplus arising on the wind-up of the scheme.

The results of the triennial funding valuation as at 31 March 2018 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

The pension asset at 31 March 2020 was £1.8m (2019: £2.5m liability) and the total pension charge was £0.3m (2018: £0.4m).

17. Changes in accounting policies

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

17.1 Impact on the 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	20.7
Lease liabilities	Increase	19.8

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 31 March 2020 and 1 April 2019 were as follows:

	31 March 2020 £m	1 April 2019 £m
Current liabilities	**(5.3)**	(5.7)
Non-current liabilities	**(14.7)**	(14.1)
	(20.0)	(19.8)

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

	1 April 2019 £m
Operating lease commitments as at 31 March 2019	**16.4**
Add: Adjustments as a result of a different treatment of extension and termination options	**4.9**
Gross future lease cash flows	**21.3**
Effect of discounting	**(1.5)**
Lease liability recognised as at 1 April 2019	**19.8**

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 for the cost of any restoration obligations and by the amount of prepaid or accrued lease payments relating to leases recognised in the statement of financial position as at 31 March 2019. These adjustments amounted to £0.9m. 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:

	31 March 2020 £m	1 April 2019 £m
Land and buildings	**18.7**	17.8
Plant and equipment	**2.4**	2.9
Total	**21.1**	20.7

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

17.2 Impact on the consolidated income statement and earnings per share

For the year ended 31 March 2020 Underlying operating profit was unchanged as a result of applying IFRS 16. Profit before tax was £0.6m 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 year was:

	£m
Lease expense	6.6
Depreciation	(6.6)
Underlying operating profit	0.0
Interest	(0.6)
Underlying profit before tax	(0.6)
Underlying EPS	(0.7)p

There was no impact on underlying profit by operating segments for the year.

17.3 Impact on the 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 £6.6m.

17.4 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.

17.5 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

18. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year and consolidated statements of financial position are translated at year end rates. The main currencies are the US Dollar, the Euro and the Norwegian Krone. Details of the exchange rates used are as follows:

	Year to 31 March 2020		Year to 31 March 2019	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.2360**	**1.2722**	1.3090	1.3139
Euro	**1.1281**	**1.1448**	1.1651	1.1340

Norwegian Krone	**12.9847**	**11.4639**	11.2536	10.9175

19. Events after the reporting date
There were no matters arising, between the statement of financial position date and the date on which these financial statements were approved by the Board of Directors, requiring adjustment in accordance with IAS10, Events after the reporting period. The following important non-adjusting event should be noted:

COVID-19

The impact of COVID-19 has been fully considered in both the Going Concern assessment of the Group which is included in note 2 to the Group's financial statements and in the Viability Statement on page 48. This did not have any impact on the judgements made in the preparation of the financial statements and conclusions reached as at 31 March 2020.

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