3 JUNE 2021

discoverIE Group plc

Preliminary results for the year ended 31 March 2021

Strong second half recovery with record order book and excellent cash generation

discoverIE Group plc (LSE: DSCV, "discoverIE" or "the Group"), a leading international designer, manufacturer and supplier of customised electronics to industry, today announces its results for the year ended 31 March 2021 ("FY 2020/21" or the "Year").

	FY 2020/21	FY 2019/20	Movement %
Revenue	**£454.3m**	£466.4m	(3%)
Underlying operating profit[1]	**£35.2m**	£37.1m	(5%)
Underlying profit before tax[1]	**£31.5m**	£32.8m	(4%)
Underlying EPS[1]	**26.0p**	30.2p	(14%)
Reported profit before tax	**£17.0m**	£19.5m	(13%)
Reported fully diluted EPS	**13.0p**	16.5p	(21%)
Free cash flow[2]	**£37.6m**	£27.3m	+38%
Gearing[3]	**1.1x**	1.25x	(0.15x)
Full year dividend per share	**10.15p**	2.97p	242%[4]

Highlights

- **Strong second half order growth[5] with sales returning to organic growth[6] by year end**
  - H2 orders up 12% organically and 40% above H1
  - H2 sales up 10% on H1 and returned to organic growth for the last two months
  - Record year end order book, up 11% organically to £181m

- **Resilient trading during pandemic reflects strength of operating model and target market[7] focus**
  - Group adapted quickly to pandemic, creating safe working practices and maintaining service levels
  - Full year Group sales 6% lower organically with target markets well ahead of wider markets
  - Gross margin increased by 0.6ppts to 34.2% (FY 2019/20: 33.6%)
  - Underlying operating expenses reduced by 2% and working capital by 13%
  - Underlying PBT recovered to be 3% higher than last year in H2, and 4% lower for the year
  - EPS of 26.0p, ahead of expectations

- **Excellent cash generation with resumption of acquisitions and dividends in H2**
  - £38m of free cash flow, up 38% on last year and 157% of post-tax profit
  - Two acquisitions completed during H2 for £21m (Phoenix and Limitor)
  - ROCE[8] for the year recovered well to 14.5% (H2: 15.6%; H1 12.7%)
  - Year-end gearing down to 1.1x, well below target range of 1.5x to 2.0x
  - Full year dividend increased by 6% over FY 2018/19 (last full dividend payment)

- **Key strategic initiatives on track towards FY 2024/25 targets**
  - 65% of Group sales in D&M[9], up 1ppt, with a target of greater than 75%
  - Sales in target markets of 70%, up 2ppts, with a target of 85%
  - Carbon emissions reduced by 19% and by 6% underlying[10]
  - Underlying operating margin of 7.7%, 0.3ppts lower, with a target of 12.5%

- **New year has started well with record order book**
  - Strong order intake continues and ahead of sales
  - Organic sales growth over the last two years
  - Completed US sensor acquisition (Control Products Inc) in May 2021
  - Strong pipeline of acquisition opportunities

Nick Jefferies, Group Chief Executive, commented:

"This year challenged us in ways we couldn't have foreseen. Our dedicated employees responded quickly, creating a new normal operating environment with COVID safety at its core, whilst continuing operations with minimal disruption to customers.

The second half saw a strong recovery following the uncertainty of the first half, with orders increasing organically by 12% year-on-year and the Group returning to organic sales growth by the year end. A record order book, up 15%, leads the way for sales growth in the year ahead. Together with robust gross margins and tight management of expenditure throughout the year, underlying earnings ended the year ahead of expectations.

Cash generation was excellent with £38m of free cash flow for the year reducing gearing to 1.1x. As well as demonstrating the cash generating capability of our businesses and the strength of the operating model, this provides us with the capacity to pursue further value enhancing acquisitions.

The new financial year has started well with organic sales growth ahead of last year and the year before and continuing strong orders running ahead of sales across all territories.

With a clear strategy focussed on long-term high quality growth markets, a diversified customer base, excellent order book and a strong pipeline of acquisition opportunities, we are well positioned to make further progress on our key strategic priorities."

Analyst and investor presentation

A virtual results briefing for analysts and investors will be held today at 9.30am (UK time) via a live webinar.

If you would like to join the webinar, please contact Buchanan at discoverIE@buchanan.uk.com.

Enquiries:

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

Buchanan 020 7466 5000
Chris Lane, Toto Berger
discoverIE@buchanan.uk.com

Notes:

(1) 'Underlying Operating Profit', 'Underlying EBITDA', 'Underlying Operating Expenses', '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 £11.1m, acquisition and merger expenses of £2.0m and the IAS19 pension charge relating to a legacy defined benefit scheme of £1.4m) totalling £14.5m. Equivalent underlying adjustments within the FY 2019/20 underlying results totalled £13.3m. For further information, see note 5 of the attached summary financial statements.

(2) Free cash flow is cash flow before dividends, acquisitions and equity fund raising.

(3) Gearing is defined as net debt divided by underlying EBITDA (excluding IFRS 16, annualised for acquisitions).

(4) No final dividend declared for FY 2019/20 as part of COVID cash saving measures. The final dividend for this year is 6% higher than the last full dividend declared in FY 2018/19.

(5) Growth rates are at constant exchange rates ("CER") and refer to the comparable prior year period unless stated. The average sterling rate of exchange against the Euro weakened by 2% compared with the average rate last year, and by 2% on average against the three Nordic currencies, but strengthened by 3% compared with the US dollar rate for last year.

(6) Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions post completion (Sens-Tech was acquired in October 2019, Phoenix in October 2020 and Limitor in February 2021).

(7) Target markets are renewable energy, medical, transportation, industrial & connectivity.

(8) 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.

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

(10) Carbon emission reductions were 19% from CY 2019 to CY 2020 on a like-for-like basis excluding acquisitions in CY 2020; on an underlying basis (i.e with emissions adjusted to normalise the impact of COVID-19), carbon emission reductions were 6%.

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, medical, transportation 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 has an ongoing commitment to reducing the impact of its operations on the environment, while its key markets are aligned with a sustainable future.

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.

CHAIRMAN'S STATEMENT

This year coincided with the unprecedented COVID-19 pandemic, testing every aspect of the Group's business. The Group's multiple operations around the world responded quickly, establishing safe working practices and maintaining continuity. While the effects of the pandemic are evident in these results, the Group's ability to mitigate the impact and to rebound strongly in the second half represents a very creditable performance, while continuing to make progress on the strategic priorities.

Cash generation was very strong, reflecting both the quality of earnings generated by the business and the efficient nature of the Group's operating model. This, together with a number of prudent actions taken in the first half, such as suspending acquisitions and dividends, served to reduce gearing to the lowest level in seven years, minimised risk and enabled a strong recovery as conditions improved in the second half.

The Group is committed to reducing the impact of its business operations on the environment. Along with its focus on selling into markets that are aligned with a sustainable future, the Group has introduced an important sustainability target this year, to reduce its carbon emissions by 50% over five years, and good progress has been made to date.

Throughout the year, the Group has demonstrated the quality and resilience of its businesses and, with good levels of operational and funding capacity, is well positioned for continued growth in the year ahead.

Strategy

discoverIE is a customised electronics business operating internationally, focusing on structurally growing markets 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 our target markets being worldwide and major customers operating internationally, the business is expanding both within and beyond Europe, building an international electronics group supplying complex, value-added solutions for international customers.

Alongside organic growth, acquisitions have made a significant contribution to the development of the D&M division and over the 11 years to 31 March 2021, we have acquired 16 specialist, high margin D&M businesses which have been integrated successfully, helping to drive our growth. An additional business has been acquired since the year end. We have a well-developed and disciplined approach to acquisitions and continue to see significant scope for further expansion of the D&M division with several acquisition opportunities in development.

The Group's capital-light model delivers strong cash flows which we look to reinvest into accelerating the strategy and delivering further value creation for shareholders.

Sustainability and Social Responsibility

The Group provides innovative electronics that help customers create new technologies for a sustainable world. Applications which use our products help reduce power consumption and increase efficiency, such as wind turbines for renewable energy, charging infrastructure for vehicle electrification and wireless and fibre optic communications. This focus on sustainability forms the core of our target markets where, through targeted growth initiatives, we aim to grow our revenues organically. These trends are reported in our key strategic indicators as target market sales. Additionally, the Group has reduced emphasis in market areas that are inconsistent with a long term sustainable agenda.

The Group also aims to be a socially responsible employer, adhering to the highest ethical standards both internally and externally through its supply chain, with excellent employee relations and a commitment to increasing diversity in the workplace.

Reporting to the Board, the Group Executive Committee has responsibility for ESG implementation around the Group and each member has the achievement of ESG objectives included in their bonus plans.

Group Results Summary

Group sales for the year reduced by 3% to £454.3m, with underlying operating profit, which excludes acquisition-related costs, reducing by 5% to £35.2m and underlying profit before tax reducing by 4% to £31.5m.

Underlying earnings per share for the year reduced by 14% to 26.0p (FY 2019/20: 30.2p) as a result of the combined effect of share capital increasing by 6% following equity fund-raising last year, the underlying tax rate increasing by 4ppts to 24% and profitability reducing by 5%.

After accounting for acquisition-related costs of £14.5m (FY 2019/20: £13.3m), profit before tax for the year on a reported basis was £17.0m, 13% lower than last year (FY 2019/20: £19.5m) with fully diluted earnings per share of 13.0p (FY 2019/20: 16.5p).

Free cash flow increased by 38% to £37.6m (157% of underlying profit after tax) driven by an inflow from lower working capital as well as swift operational actions taken in response to COVID-19. This resulted in net debt reducing by £35.9m during the year (before including the cost of two acquisitions) with net debt at the year end of £47.2m and a gearing ratio of 1.1x, reducing by 0.15x over the year (gearing: 1.25x at 31 March 2020).

Acquisitions

The Group paused acquisitions during the first half during the height of the pandemic to preserve resources, recommencing in the second half. The Group made two acquisitions of specialist sensor manufacturers: the German-based Limitor GmbH ("Limitor") and the trade and assets of the US-based Phoenix America Inc ("Phoenix"), for a combined initial cash consideration of £21.2m on a debt free, cash free basis.

Both businesses are being integrated into the Group and now operate within the Variohm sensors cluster in the D&M division, retaining their distinct identity and high-quality management teams. Their complementary product ranges and wider access to customers should create cross-selling opportunities in our target markets and drive further growth. Both businesses have started well and in line with expectations, delivering organic growth in orders and sales.

Since the year end, we have also acquired Control Products Inc ("CPI"), a New Jersey, USA, based designer and manufacturer of custom, rugged sensors and switches for £8m on a debt free, cash free basis.

We are delighted to welcome the employees of all three businesses into the Group.

COVID-19

The Group responded decisively to the coronavirus pandemic at the beginning of the year, prioritising the well-being of employees and trading partners, supporting customers, quickly developing solutions for medical market customers, maintaining business continuity and preserving resources.

Widespread changes were made to operating procedures across the Group's 29 international manufacturing locations with high levels of operational continuity and only a small number of short term site closures, as required by local government regulations, which has continued into the new year.

Employees and Culture

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

The Group comprises approximately 4,400 employees in 24 countries around the world. By adopting an entrepreneurial and decentralised operating environment with rigorous planning, review, support, investment and controls, and with a commitment to increasing diversity, the Group has created an ambitious and successful culture.

We aim to achieve a culture across the Group that:

- is entrepreneurial
- is honest, reliable, trusting and non-political
- enables decision making close to the customer through a decentralised structure
- enables open, constructive communication with a willingness to listen
- is performance, target and results driven

Dividend

Last year, with the onset of COVID-19, the Board took the prudent decision not to declare a final dividend for FY 2019/20. With an improving outlook by the third quarter, and strong cash flow, the Board reinstated dividends in November 2020 with a 6% increase in this year's interim dividend to 3.15p per share (H1 2019/20: 2.97p per share).

With the Group's performance continuing to improve, the Board is recommending a final dividend of 7.0p per share, giving a full year dividend of 10.15p per share, 6% higher than the pre-pandemic dividend for FY 2018/19 of 9.55p per share. This represents a cover against underlying earnings of 2.6 times (FY 2018/19: 2.8 times). The final dividend is payable on 3 August 2021 to shareholders registered on 11 June 2021. Since 2010, the annual dividend per share has doubled and the total dividend payment has increased by nearly 400%.

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

Summary

With these results, the Group has demonstrated its strength and adaptability through a year of unprecedented market and operational conditions. The benefits of discoverIE's clear commercial and operational strategy, which delivered strong organic growth during the 'up' cycle of the previous few years, have enabled the Group to demonstrate real resilience through the pandemic and leave it well positioned to capitalise on the significant long term opportunities ahead.

By focussing on custom products in attractive growth markets, the Group has a high-quality business with excellent prospects. The customised electronics market remains highly fragmented, providing scope to further build capability and extend geographic coverage through disciplined acquisitions.

Despite the challenges still posed by the pandemic in certain parts of the world, the Board and management are excited by the opportunities ahead to continue building a global business that attracts and retains high quality employees, delivers exceptional value to our customers, grows long term returns for our shareholders, contributes to the creation of a sustainable environment and that adheres to the highest standards.

Malcolm Diamond
Chairman
3 June 2021

STRATEGIC AND OPERATIONAL REVIEW

Overview

The Group is pursuing its clear and established strategy of focussing on growing opportunities for customised electronic products in targeted growth markets, namely renewable energy, medical, transportation and industrial & connectivity. Group organic sales were 6% lower than last year (4% lower in the D&M division and 8% lower in the Custom Supply division) due to the effects of COVID-19. Performance in our target markets, which accounted for 70% of Group sales, has been better than other markets which were more severely affected by the global pandemic. Including acquisitions, Group sales reduced by 3% on a reported basis and by 4% CER to £454.3m.

As a result of the uncertainty caused by the onset of the pandemic, customers significantly reduced their placement of new orders in April and May 2020 to cover a much shorter period, with the result that orders for the first half were 18% lower than last year organically with a book to bill ratio of 0.91:1. The situation stabilised over the summer, and orders picked up strongly in the second half being 40% higher than the first half at CER and up 12% organically, as longer term orders resumed. Orders were significantly ahead of sales with the book to bill ratio of 1.19:1 for the second half and 1.05:1 for the full year. This strong second half order growth resulted in a record order book at the year end of £181m, 15% higher than last year at CER, and 11% higher organically.

During the year, we introduced a carbon emissions reduction target, with the intention to reduce Group emissions by 50% over five years. Along with the focus on selling into markets that are aligned with a sustainable future, this target reflects the Group's commitment to reducing the impact of its operations on the environment. A good start has been made with underlying carbon emissions reducing by 6% in calendar 2020 since last year. Overall carbon emissions reduced by 19%, the difference being savings arising from the impact of the pandemic on our operations including sites closures, freight and travel reductions.

COVID-19

The Group responded decisively to the emergence of the COVID-19 pandemic, prioritising the well-being of employees, supporting customers and trading partners, developing fast solutions for medical market customers, and maintaining business continuity. Whilst sales in China, which were impacted by the pandemic at the end of last year have recovered quickly and returned to growth, its effects have been felt across all other regions where the Group operates.

The Group has operations in 24 countries, with 29 manufacturing facilities in 18 of those countries across Europe, the UK, Asia and the Americas. Four facilities (Sri Lanka, California and two in India) were required by government mandate to close for short periods during the first half. By the year end, all sites were open with capacity mostly back to normal levels as organic sales growth returned to the Group in the last two months of the year. The recent escalation of the pandemic in India, where the Group has two production facilities, and Sri Lanka, has resulted in some disruption to those operations. We expect this situation may continue for some time and are making arrangements to mitigate the impact. The effects on the Group overall are expected to be minimal.

With a decentralised structure, the Group was able to adapt quickly to establish safe working practices and appropriate distancing measures, with each business making changes to suit its particular needs and welfare requirements. At its peak, around 650 employees were working from home although this has since reduced.

During the year we took prudent actions to preserve cash and reduce operating expenses, including:

- Deferral of non-essential capital expenditure and other discretionary spend
- Freezes in pay rises and hiring
- 20% salary reduction for the Board and Group Executive Committee for three months and reduced bonuses for the Group Executive Committee
- Increased focus on working capital efficiency

These actions led to organic operating costs being 2% lower than last year, a reduction of 4% over last year's second half run rate, with working capital and capital expenditure being 13% and 43% lower than last year respectively. These reductions all helped to achieve strong operating cash generation for the year of £49.7m, up 26% on last year (141% of underlying operating profits).

Additionally, during the first half, acquisitions were deferred and no final dividend was made for the year ended 31 March 2020. By the second half, with an improving outlook, continuing strong cash generation and low gearing, the Group repaid all UK furlough payments received, resumed acquisitions with two deals completed, and resumed its dividend with a 6% uplift compared with FY 2018/19, the last year pre-pandemic.

Sustainability and Social Responsibility

The Group provides innovative electronics that help customers create new technologies for a sustainable world. Applications which use our products help reduce power consumption and increase efficiency, such as wind turbines for renewable energy, charging infrastructure for vehicle electrification and wireless and fibre optic communications. This focus on sustainability forms the core of our target markets where, through targeted growth initiatives, we aim to grow our revenues organically. These trends are reported in our key strategic indicators as target market sales. Additionally, the Group has reduced emphasis in market areas that are inconsistent with a long term sustainable agenda.

Our target sales markets are well aligned to a sustainable agenda and last year we set ourselves the goal of achieving 85% of sales from those target markets by the end of FY 2024/25. By the end of this year, sales from target markets were 70% of Group sales and 75% of sales in our D&M division.

Please refer to the Group's Impact Report which will be published online with the Annual Report and Accounts and which illustrates how the Group is helping meet the sustainability challenges facing the world today.

Carbon emissions

During the year we introduced carbon reduction targets for the Group. With 29 manufacturing locations, the primary source (80%) of our emissions is from purchased electricity (Scope 2 emissions). The remainder are mainly from vehicles (Scope 1).

We plan to reduce emissions by sourcing electricity from renewable and lower or zero carbon sources and to reduce electricity demand through more efficient working practices. This will include both sustainably generated grid sourced power and the installation of renewable power sources at some sites.

It is planned to achieve a 50% reduction in carbon emissions from existing businesses over 5 years and additionally, it is targeted that for newly acquired businesses, within the first 5 years of ownership, at least 50% of their energy demand will be generated from renewable sources.

During the year the Group committed to invest c.£1m in capital expenditure for renewable energy generation in Sri Lanka and Poland which will be installed in the coming year. Good progress towards our targets has been made in calendar year 2020 with a 6% year-on-year reduction in underlying carbon emissions. Overall carbon emissions were 19% lower.

Brexit

As expected, discoverIE has not been materially impacted by Brexit, and although there was some minor disruption in the first few weeks as new border processes were established, this has since settled.

As an international business, exposure to Brexit risks are low, with only 12% of sales in the UK and minimal cross border trade between the UK & the EU. The majority of sales in the UK are of products manufactured outside the EU, predominantly in Asia and the US, and are unaffected.

Prior to Brexit, changes had 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.

Group Strategy

The Group designs, manufactures and supplies customised electronics, operating internationally and focusing on structurally growing markets which are driven by increasing electronic content and where there is an essential need for our products. With our target markets and global customer base, the business is expanding both in Europe and beyond Europe (28% of Group sales and 36% of D&M sales are now outside Europe) as we build a geographically diverse electronics group.

Acquisitions have made a significant contribution to the development of the D&M division and over the 11 years to 31 March 2021, we have acquired 16 specialist, high margin D&M businesses which have been integrated successfully, helping to drive our growth alongside our key organic focus. A further acquisition has been completed since the year end. We have a well-developed and disciplined approach to acquisitions and the use of capital, and we see significant scope for further expansion of the D&M division with several acquisition opportunities in development.

Our strategy comprises four elements:

1. Grow sales well ahead of GDP over the economic cycle by focussing on the structural growth markets that form our target 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 operations in North America and Asia.

These elements are underpinned by a core objective of generating strong cash flows from a capital-light model, and delivering long-term sustainable returns.

Target Markets

Our four focus target markets of renewable energy, medical, transportation, and industrial & connectivity account for 75% of D&M turnover and 70% of Group turnover. These markets are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities.

During the year, sales to target markets continued to perform well ahead of sales into other markets, both in the D&M division and in the Group overall. Target market sales reduced by only 3% organically while other markets reduced by 9%, resulting in D&M organic sales being 4% lower organically and Group organic sales being 6% lower.

Growth in these markets is driven by increasing electronic content and by global trends such as the accelerating need for renewable sources of energy and an ageing affluent population.

i) Renewable Energy

Mega trend – decarbonisation and diversification of energy sources

The increasing global requirement for clean electricity is leading to the rapid deployment of sustainable energy generation. According to the International Energy Agency (IEA), renewable energy production needs to increase by 7% p.a. globally, driving the proportion of global electricity production coming from renewable energy to increase from 28% in 2019 to 49% in 2030. The Group's focus is on wind and solar energy which in 2020 accounted for around two thirds of global growth. We anticipate that demand for renewable energy will accelerate further.

ii) Medical

Mega trend – sensing, analytics and artificial intelligence

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 expected to continue growing steadily. The medical sensors market is forecast to grow by 10% p.a. (2021 – 2026) according to Mordor market intelligence.

iii) Transportation

Mega trend – vehicle electrification

The Group is particularly focussed on rail and bus transportation, electrification infrastructure and specialist vehicle electrification, all of which are important for the urban environment and consistent with the sustainability agenda. Electronic content is increasingly driven by electrification, safety, intelligence, automation and convenience. External reports indicate that the rail electrification and vehicle charging markets will grow at a combined 11% p.a. from 2020 through to 2025.

iv) Industrial & Connectivity

Mega trend – industrial automation and connectivity

Technology proliferation is creating opportunities for widespread connectivity of equipment and devices, and is being increasingly adopted in industry and automation for remote monitoring and control. With a focus on sustainable markets, we concentrate on improving efficiency in industrial market applications that are aligned with a sustainable growth agenda, including fibre optic and wireless connectivity applications within these markets. According to Grandview research, the global industrial automation market is forecast to grow by 8.6% p.a. from 2019 to 2025.

Engineering-led Sales Model

Our business model has three core capabilities:

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

- Manufacturing - we manufacture individually designed products to a repeatedly and consistently high standard at one or more of our production facilities internationally.

- Logistics - we supply our products internationally to customers' various production locations 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
  By listening to and understanding customers' needs, we help 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, leading to multiple years of repeated monthly demand and creating stable, recurring revenue streams.

- Regional manufacturing
  Manufacturing locations in Europe, Asia and the Americas provide 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 and its financial performance have been measured through key strategic indicators ("KSIs") and key performance indicators ("KPIs"). Our KSI targets have been raised each time they are achieved, and in June 2020, we set increased targets for 31 March 2025.

Key Strategic Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY 21	FY25 Target
1. Increase share of Group revenue from D&M(1)	18%	37%	48%	52%	57%	61%	64%	65%	>75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	8.0%	7.7%	12.5%
3. Build sales beyond Europe(1)	5%	12%	17%	19%	19%	21%	27%	28%	40%
4. Target market sales(1)	n/d	n/d	n/d	56%	62%	66%	68%	70%	85%

(1) As a percentage of Group revenue
n/d: not previously disclosed

During the year, the Group made further progress with its KSIs despite the impact of COVID-19.

- The higher margin D&M division delivered 65% of Group sales, up 1ppt on last year (FY 2019/20: 64%), generating 87% of the Group's underlying operating profit contribution (FY 2019/20: 84%); importantly, customer concentration remains low with no single customer accounting for more than 7% of Group sales;

- Underlying operating margin was impacted by reduced sales in the year resulting from the global slowdown caused by the pandemic partly offset by savings from lower operating costs, reducing by 0.3ppts to 7.7%. We aim to achieve organic margin improvement through growth-based efficiencies and to acquire businesses with margins that are higher than our D&M division, with a target in the next four years to increase the Group's margin to 12.5%;

- 28% of Group sales were beyond Europe, in line with last year, with sales arising from stronger organic growth in Asia and the acquisition of the US based Phoenix, being offset by weaker organic sales in North America and the acquisition of the Germany based Limitor. We continue

to seek acquisitions with high quality international revenues with a target to reach 40% of sales by FY 2024/25; and

- In June 2020, we introduced a new mid-term target of achieving 85% of Group sales from our target markets, all of which have long-term growth momentum. Since first publishing this data, target market sales have increased from 56% of Group sales in FY 2016/17 to 70% this year, with an increase of 2ppts over last year. As in previous years, sales in target markets outperformed sales in other markets with target market sales in D&M reducing by 3% organically compared with other markets which were 10% lower.

Key Performance Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Target
1. Sales growth									
CER	17%	36%	14%	6%	11%	14%	8%	(4%)	Well ahead of GDP
D&M organic	3%	9%	3%	(1%)	11%	10%	5%	(4%)	
Group organic	2%	3%	3%	(1%)	6%	8%	2%	(6%)	
2. Underlying EPS growth	20%	31%	10%	13%	16%	22%	11%	(14%)	>10%
3. Dividend growth	10%	11%	6%	6%	6%	6%	6%(1)	6%(2)	Progressive
4. ROCE(3)	15.2%	12.0%	11.6%	13.0%	13.7%	15.4%	16.0%	14.5%	>15%
5. Operating profit conversion(3)	100%	104%	100%	136%	85%	93%	106%	141%	>85% of underlying operating profit
6. Free cash conversion(3)						94%	104%	157%	>85% of underlying PAT
7. Carbon emissions								(6%)(4)	50% reduction to CY25

(1) 6% increase in the H1 2019/20 interim dividend; a final dividend was not proposed for FY 2019/20 due to COVID-19
(2) 6% increase over FY 2018/19, the last full dividend payment year
(3) Defined in Note 5 of the attached summary financial statements
(4) Annual carbon emissions for CY 2020 reduced by 19% on a like-for-like basis and by 6% on an underlying basis (adjusted to normalise the impact of COVID-19)

The performance of each of our KPIs for this year was as follows:

- Group organic sales reduced by 6% driven by a stronger performance in our target markets in D&M where organic sales were 3% lower. Second half organic sales reduced by 3% and returned to growth for the last two months of the year;
- Underlying EPS for the year was 14% below last year (FY 2019/20: +11%), a combination of the equity issuance in the second half last year, increased underlying tax rates and the impact of COVID-19;
- As part of the cash conservation actions taken earlier in the year, a final dividend for last year was not paid. With greater visibility and improving conditions, dividends resumed this year at a level 6% higher than in FY2018/19 (the last full dividend payment year), aligned with our progressive dividend policy;
- ROCE reduced to 14.5% (FY 2019/20: 16.0%) reflecting the lower underlying operating profit resulting from COVID-19. First half ROCE reduced to 12.7% before recovering to 15.6% in the second half, ahead of our 15% target;

- Operating cash conversion for the year was very strong at 141% of underlying operating profit, reflecting tight management of working capital, working capital inflow from lower sales and lower capital expenditure throughout the year. Over the last eight years since targets were introduced, operating cash conversion has been consistently strong through the cycle;
- Strong operating cash flow has translated into strong free cash conversion (being cash available for dividends and acquisitions) at 157% of profit after tax. This target was established last year as we seek to become a business which can increasingly and repeatedly self-fund acquisitions; and
- A new target was introduced during the year for the reduction of carbon emissions from our existing businesses by 50% over five years. Additionally for new acquisitions, we are targeting that within the first five years of ownership, at least 50% of their energy demand is generated from renewable sources. For calendar year 2020, carbon emissions reduced by 19% on a like-for-like basis and by 6% on an underlying basis adjusted for the effects of COVID-19.

Order Book

During the second half, the Group order book grew strongly and finished the year at a record level of £181m, an increase of 15% CER compared with last year. Second half orders increased 29% over the first half more than offsetting the 11% year on year reduction in the first half. On an organic basis, the Group order book increased by 11%.

The order book is driven by repeating revenues from existing customer projects as well as by the conversion of new project design wins into new orders. The pandemic had the effect of customers temporarily shortening their order windows amidst the uncertainty. During the second half, customers resumed placing longer term orders. Over 80% of the order book is for delivery within twelve months from the time of order.

Design Wins

Project design wins are a measurement of new business creation. By working with customers at an early stage in their project design cycle, we identify opportunities for our products to be specified into their designs, which then lead to future revenue streams.

Design wins were 15% lower for the year, with the second half being 12% lower and the first half 19% lower. Second half design wins were 3% higher sequentially than the first half and were supported by an increase in new project activity, albeit that this was still lower than for the same prior year period.

Over 90% of design wins in the D&M division and 60% in the Custom Supply division were in the target markets.

The Group has a strong bank of design wins built up over several years that creates the basis for the strong order growth now being experienced.

Divisional Results

Divisional and Group performance for the year ended 31 March 2021 are set out and reviewed below.

	FY 2020/21			FY 2019/20					
	Revenue £m	**Underlying operating profit [(1)] £m**	**Margin**	Revenue £m	Underlying operating profit [(1)] £m	Margin	Revenue growth	CER revenue growth	Organic revenue growth
Design & Manufacturing	**296.6**	**37.7**	**12.7%**	297.9	38.1	12.8%	0%	(1%)	(4%)
Custom Supply	**157.7**	**5.6**	**3.6%**	168.5	7.3	4.3%	(6%)	(8%)	(8%)
Head office costs		**(8.1)**			(8.3)				
Total	**454.3**	**35.2**	**7.7%**	466.4	37.1	8.0%	(3%)	(4%)	(6%)

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

Design & Manufacturing Division

The D&M division designs, manufactures and supplies highly differentiated, innovative components for electronic applications. Over 85% of the products are manufactured in-house, with the division's principal manufacturing facilities being in China, Hungary, India, Mexico, the Netherlands, Poland, Slovakia, Sri Lanka, Thailand, the US and the UK.

Growth in the first half was impacted by short term site closures, as required by local government regulations in Sri Lanka, India and the US to combat COVID-19. These sites were all open during the second half and operating at normal capacity by the end of the year. Our two Chinese facilities, which were closed temporarily in the fourth quarter of the last financial year, recovered quickly with Asian sales up 11% this year. All other sites remained open throughout the year, several with essential supplier status classification, and a number operated at reduced capacity but are mostly now back to normal capacity. At the time of writing, lockdown restrictions are affecting our sites in India and Sri Lanka and while causing some disruption, these are minor in nature at a Group level.

Demand in our German and Rest of Europe businesses was resilient with organic sales 3% and 1% lower than last year respectively. Organic sales in other territories were more impacted, including the UK (15% lower), the Nordic region (8% lower) and North America (17% lower). Asia and North America now account for 36% of D&M revenues up from 22% five years ago. Demand was much better in target markets (75% of D&M sales) with sales only 3% lower than last year compared with 9% in the other markets.

Organic orders recovered strongly in the second half increasing by 10%, partially offsetting an 18% fall in the first half for a net 4% organic reduction for the year to £307.0m with a book to bill ratio of 1.04:1. Second half orders were 40% higher than the first half at CER.

The second half also saw a noticeable improvement in organic sales being only 2% lower than last year compared with 7% lower in the first half for a net 4% reduction in organic sales for the year. Together with a 3% sales contribution from acquisitions, overall reported sales of £296.6m were broadly level with last year (FY 2019/20: £297.9m), with second half reported sales increasing by 1%.

D&M revenue was 65% of Group revenue, an increase of 1ppt over last year (FY 2019/20: 64%) and further progress towards our mid-term target for D&M to exceed 75% of Group revenue.

Underlying operating profit of £37.7m was £0.4m (1%) lower than last year (FY 2019/20: £38.1m), or 1% lower at CER, and was 87% of the Group's underlying profit contribution, up 3ppts on last year (FY 2019/20: 84%).

The underlying operating margin of 12.7% was 0.1ppts lower than last year (FY 2019/20: 12.8%) reflecting the positive effect of operating efficiencies and higher margin acquisitions largely offsetting the impact of lower sales resulting from the pandemic.

Acquisitions

We acquire businesses that are successful and profitable with good growth prospects, led by entrepreneurial management teams where we can invest for growth and operational performance development. We operate a decentralised structure and an entrepreneurial culture with the business unit leadership empowered to make decisions and act quickly. The market is highly fragmented with many opportunities to acquire and consolidate. According to circumstances, the Group adds value in some of or all of the following areas:

- Internationalising sales channels and expanding the customer base, including Group cross-selling initiatives;
- Focussing sales development onto target market areas and enabling growth with larger customers;
- Developing and expanding the product range;
- Investing in management capability ('scaling up') and succession planning;
- Capital investment in manufacturing and infrastructure, improving efficiency in manufacturing, warehousing and freight;

- Finance and administrative support, such as treasury, banking, legal, pension, tax and insurance;
- Installing Group risk, control, ESG and diversity policies;
- Longer term strategic planning for the business; and
- Expanding the acquired business through further acquisitions.

During the year, the Group completed two acquisitions:-

1) In October 2020, the trade and assets of Phoenix America Inc ("Phoenix"), a US designer and manufacturer of magnetically actuated sensors, encoders and related products, for an initial cash consideration of $11.0m (£8.5m) on a debt free, cash free basis and a contingent payment of up to $1.5m (£1.2m), subject to the achievement of certain growth targets over a three year period. Phoenix is based in Fort Wayne, Indiana.

2) In February 2021, Limitor GmbH, a German designer and manufacturer of custom thermal safety sensors and limiters, for an initial consideration of €14.5m (£12.8m) on a debt free, cash free basis and a contingent payment of up to €3.5m (£3.1m) subject to the achievement of certain growth targets over a three year period. Limitor is based near Urbach, Germany, with production in Pécs, Hungary.

Both will operate within the Variohm business cluster in the D&M division, retaining their distinct brand identity and high-quality management. Their complementary product ranges and wider access to customers will create cross-selling opportunities in our target markets which are expected to drive further growth.

Also, since the year end, in May 2021, we completed the acquisition of Control Products Inc ("CPI"), a New Jersey, USA, based designer and manufacturer of custom, rugged sensors and switches, for $11.4m (£8.1m) on a debt free, cash free basis.

In the 11 years to 31 March 2021, the Group has successfully completed 16 D&M acquisitions contributing to an increase in D&M revenues from £15m in FY 2012/13 to £297m in FY 2020/21 with Group operating margins increasing by 5ppts to 8% over the same period, and increasing D&M operating margins to c.13%. The Group's operating model is well established, facilitating the smooth integration of acquired businesses, with a combination of investment in growth and efficiency while leveraging the Group's commercial infrastructure. The D&M businesses acquired and owned for at least two years delivered an average return on investment of 16% over the life of those acquisitions, ahead of our target of 15%. While this is a 1ppt lower average than last year due to the pandemic's impact on profits, it illustrates the strength and resilience of our acquired businesses.

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 the D&M division. Additionally, the division acts as a sales channel through which to cross-sell D&M products.

The division comprises two businesses, Acal BFi and Vertec. Acal BFi supplies industrial markets and accounts for most of the divisional revenue. It supplies products from third party manufacturers 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.

The division's trading for the year was more impacted by the pandemic than D&M, due to sales being predominately in Europe and with a lower percentage of sales in the more resilient target markets (60% of sales in target markets in Custom Supply compared with 75% in D&M). Reported divisional revenue was 6% lower than last year at £157.7m (FY 2019/20: £168.5m) with organic sales 8% lower, the

difference being the translation benefit from a net weakening of Sterling compared with last year. The second half saw a noticeable improvement with organic sales 6% lower compared with 10% lower in the first half. Orders of £173.0m were in line with last year organically with a book to bill ratio of 1.09:1. Similar to D&M, second half orders increased by 16% organically, offsetting a similar level fall in the first half to be c.40% ahead of first half levels.

Underlying operating profit for the year reduced by £1.7m on last year to £5.6m (or £1.8m lower at CER) with an underlying operating margin of 3.6% (FY 2019/20: £7.3m at 4.3%). Gross margins remained strong and operating expenditure reducing 4% compared with last year's second half run rate, partly offsetting the impact of lower sales.

Summary and Outlook

This year challenged us in ways we couldn't have foreseen. Our dedicated employees responded quickly, creating a new normal operating environment with COVID safety at its core, whilst continuing operations with minimal disruption to customers.

The second half saw a strong recovery following the uncertainty of the first half, with orders increasing organically by 12% year-on-year and the Group returning to organic sales growth by the year end. A record order book, up 15%, leads the way for sales growth in the year ahead. Together with robust gross margins and tight management of expenditure throughout the year, underlying earnings ended the year ahead of expectations.

Cash generation was excellent with £38m of free cash flow for the year reducing gearing to 1.1x. As well as demonstrating the cash generating capability of our businesses and the strength of the operating model, this provides us with the capacity to pursue further value enhancing acquisitions.

The new financial year has started well with organic sales growth ahead of last year and the year before and continuing strong orders running ahead of sales across all territories.

With a clear strategy focussed on long-term high quality growth markets, a diversified customer base, excellent order book and a strong pipeline of acquisition opportunities, we are well positioned to make further progress on our key strategic priorities.

Nick Jefferies
Group Chief Executive
3 June 2021

FINANCE REVIEW

Revenue and Orders

Reflecting the impact of the pandemic across the Group, sales of £454.3m were 6% lower organically than last year, second half sales being 3% lower and first half sales being 8% lower. The acquired businesses of Sens-Tech in October last year, and Phoenix and Limitor this year, added 2% to sales, such that overall Group sales reduced by 3% on both a CER and reported basis (FY 2019/20: £466.4m).

£m	FY 2020/21	FY 2019/20	%
Reported revenue	454.3	466.4	(3%)
FX translation impact		4.6	
Underlying revenue (CER)	454.3	471.0	(4%)
Acquisitions	(9.5)	–	
Organic revenue	444.8	471.0	(6%)

With 90% of Group sales in non-Sterling currencies, the translation of Group results into Sterling was positively impacted by Sterling being on average 2% weaker against the Euro and Nordic currencies during the year, partially offset by 3% strength against the US dollar.

Group orders reduced by 2% organically for the year to £480.0m with a book to bill ratio of 1.06:1. Second half orders rebounded strongly growing 12% organically with a book to bill ratio of 1.19:1 following the pandemic-impacted first half with orders 18% lower and a book to bill ratio of 0.91:1.

Gross Margin and Gross Profit

Group gross margin increased 0.6ppts in the year to 34.2% (FY 2019/20: 33.6%). This is the highest Group gross margin since the current strategy was implemented 11 years ago. Organic gross margins were robust and increased by 0.1ppt with high gross margin acquisitions adding 0.5ppts.

With the benefit of the higher gross margin year-on-year, gross profit for the year of £155.3m was only 1% lower than last year (FY 2019/20: £156.7m).

The Group continues with its policy of hedging foreign exchange transactions from the point of order through to settlement.

Underlying Operating Costs

At the outset of the pandemic, the Group took prudent actions to preserve cash and reduce expenditure including deferral of discretionary spend, freezes in pay rises and hiring, a three month 20% salary reduction for the Board and Group Executive Committee and reduced bonus opportunity for the Group Executive Committee. The combined effect of these actions was to reduce Group underlying operating costs for the year by 2% organically and by 4% compared with the second half run rate from last year.

£m	FY 2020/21	FY 2019/20	%
Organic operating costs	118.0	120.4	(2%)
Acquisition operating costs	2.1		
Underlying operating costs (CER)	120.1	120.4	0%
FX translation		(0.8)	
Underlying adjustments (see below)	14.5	13.3	
Reported operating costs	134.6	132.9	1%

£m	FY 2020/21	FY 2019/20
Selling and distribution costs	57.8	58.1
Administrative expenses	76.8	74.8
Reported operating costs	134.6	132.9

Group Operating Profit and Margin

Group underlying operating profit for the year was £35.2m, a reduction of £1.9m on last year (FY 2019/20: £37.1m), delivering a Group underlying operating margin of 7.7%, 0.3ppts lower than last year (FY 2019/20: 8.0%).

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £20.7m, £3.1m lower than last year.

£m	FY 2020/21			FY 2019/20		
	Operating profit	**Finance Cost**	**Profit before tax**	Operating profit	**Finance cost**	**Profit before tax**
Underlying	35.2	(3.7)	31.5	37.1	(4.3)	32.8
Underlying adjustments						
Acquisition & merger expenses	(2.0)	–	(2.0)	(4.0)	–	(4.0)
Amortisation of acquired intangibles	(11.1)	–	(11.1)	(9.0)	–	(9.0)
Legacy pension cost	(1.4)	–	(1.4)	(0.3)	–	(0.3)
Reported	20.7	(3.7)	17.0	23.8	(4.3)	19.5

Underlying Adjustments

Underlying adjustments for the year comprise acquisition and merger expenses of £2.0m (FY 2019/20: £4.0m), the amortisation of acquired intangibles of £11.1m (FY 2019/20: £9.0m) and the IAS19 legacy pension cost of £1.4m (FY 2019/20: £0.3m).

Acquisition expenses of £2.0m mainly comprise the transactions costs incurred in acquiring Phoenix and Limitor, ongoing transaction costs and the integration costs of North American businesses within the Noratel cluster. The £2.1m increase in the amortisation charge since last year to £11.1m relates to the annualisation of the amortisation charge for Sens-Tech together with amortisation for Phoenix and Limitor. The increased pension charge of £1.1m compared with last year relates mainly to a one off adjustment relating to historic commutation terms for legacy scheme members.

Financing Costs

Total finance costs for the year were £3.7m (FY 2019/20: £4.3m). This year's charge comprises underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £3.1m (FY 2019/20: £3.7m) and an IFRS 16 interest charge of £0.6m, in line with last year.

Finance costs (excluding IFRS 16 interest charge) of £3.1m were £0.6m lower than last year due to lower average net debt this year resulting from strong cash generation.

Underlying Tax Rate

The underlying effective tax rate for the year was 24%, an increase of 4ppts over last year due to a greater proportion of group profits arising in higher taxed countries, such as China, and the recognition last year of certain tax losses not available this year.

The overall effective tax rate of 29% (FY 2019/20: 27%) was higher than the underlying effective tax rate due to there being no tax relief on acquisition costs and a lower rate of tax relief on amortisation of acquired intangibles (within underlying adjustments above).

Profit Before Tax and EPS

Underlying profit before tax ("PBT") for the year of £31.5m was £1.3m lower than last year (FY 2019/20: £32.8m), with underlying EPS for the year reducing to 26.0p (FY 2019/20: 30.2p). On the back of improving conditions, underlying PBT rebounded in the second half rising £0.5m on last year (+3%) partly offsetting a £1.8m reduction in the first half at the height of the pandemic. The reduction in underlying EPS of 14% was higher than that for underlying profit before tax (4%) due to higher underlying tax rates and the issuance of new equity in October 2019, increasing weighted average fully diluted shares by 6% to 92.2m shares (FY 2019/20: 86.9m shares).

£m	**FY 2020/21**		**FY 2019/20**	
	PBT	**EPS**	**PBT**	**EPS**
H1 Underlying	13.8	11.3p	15.6	14.4p
H2 Underlying	17.7	14.7p	17.2	15.8p
FY Underlying	31.5	26.0p	32.8	30.2p
Underlying adjustments				
Acquisition & merger expenses	(2.0)		(4.0)	
Amortisation of acquired intangibles	(11.1)		(9.0)	
Legacy pension cost	(1.4)		(0.3)	
Reported	17.0	13.0p	19.5	16.5p

After the underlying adjustments above, reported profit before tax was £17.0m, a reduction of £2.5m compared with last year (FY 2019/20: £19.5m) with reported fully diluted earnings per share of 13.0p reducing by 3.5p compared with last year (FY 2019/20: 16.5p).

Working Capital

Working capital at 31 March 2021 was £61.6m, equivalent to 13.1% of annualised second half sales at CER and was £9.3m (13%) lower than the prior year (31 March 2020: £70.9m at 14.4% of annualised sales). This reduction is partly due to the lower demand in the year with organic sales reducing by 6%, and partly reflects tight management across the Group, with debtor days reducing 4 days to 48 days partly offset by creditor days decreasing by 2 days to 61 days. Due to the lower sales, stock turns reduced by 0.2 turns to 5.0 turns.

Working capital performance was strong across both divisions: in D&M, working capital was 17.0% of sales (FY 2019/20: 17.7%) and in Custom Supply, it was 9.6% of sales (FY 2019/20: 11.1%).

Return on Capital Employed

ROCE for the year (return on capital employed, as defined in note 5 to the attached summary financial statements) including an annualisation of acquisitions, was 14.5%, a reduction of 1.5ppts on last year reflecting lower underlying operating profit resulting from COVID-19 taking it below our target of 15%. The impact was particularly noticeable in the first half with ROCE reducing to 12.7% before recovering to 15.6% in the second half, ahead of our target. The full year Group ROCE is expected to improve further next year.

Cash Flow

Net debt at 31 March 2021 was £47.2m compared with £61.3m at 31 March 2020. Excluding spend on acquisitions, net debt reduced by £35.9m in the year (59% of last year's net debt) demonstrating continuing strong cash generation by the Group.

	FY 2020/21	FY 2019/20
Opening net debt	(61.3)	(63.3)
Free cash flow (see table below)	37.6	27.3
Acquisition related cash flow	(21.8)	(75.9)
Equity issuance	0.1	60.5
Dividends	(2.8)	(8.1)
Foreign exchange impact	1.0	(1.8)
Net debt at 31 March	(47.2)	(61.3)

While dividends and acquisitions were put on hold in the first half as part of our cash preservation measures in response to the pandemic, the second half saw a resumption of both as conditions improved. The acquisitions of Phoenix and Limitor, associated acquisition expenses and earnout payments totalled £21.8m. The acquisition outflow last year of £75.9m comprised the acquisition of Sens-Tech in October 2019 for £58.4m together with Hobart and Positek acquired in April 2019. The payment of an interim dividend of £2.8m was £0.2m higher than last year's interim following a 6% increase. Included last year was £5.5m paid in respect of the FY 2018/19 final dividend payment with no final dividend paid for FY 2019/20.

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 2020/21	FY 2019/20
Underlying profit before tax	**31.5**	**32.8**
Net finance costs	3.7	4.3
Non-cash items*	13.2	13.5
Underlying EBITDA	**48.4**	**50.6**
Working capital	11.6	1.6
Capital expenditure	(3.6)	(6.3)
IFRS 16	(6.7)	(6.6)
Operating cash flow	**49.7**	**39.3**
Net finance costs	(3.1)	(3.7)
Taxation	(7.2)	(6.4)
Legacy pensions	(1.8)	(1.8)
Executive share option exercises	–	(0.1)
Free cash flow	**37.6**	**27.3**

* Non-cash items are depreciation, amortisation and share based payments. Includes £6.6m IFRS 16 depreciation for FY 2020/21 (FY 2019/20: £6.6m)

Underlying EBITDA of £48.4m was 4% lower than last year (FY 2019/20: £50.6m). With a heightened focus on working capital optimisation during the year and partly as a result of a 6% reduction in organic sales, an £11.6m inflow was generated from working capital compared with an inflow of £1.6m last year. Around 50% of this year's savings are expected to reverse as we invest in working capital to support growth.

Capital expenditure was also restricted during the year to mainly maintenance costs giving a 43% reduction to £3.6m (FY 2019/20: £6.3m). Capital expenditure levels are expected to increase next year to around £8.5m spend for the full year.

Combined with the other cash conservation measures taken by the Group this year, £49.7m of operating cash was generated in the year, an increase of 26% over last year (FY 2019/20: £39.3m). This represents 141% of underlying operating profit during the year, well above our 85% target. Over the last 7 years, the Group has consistently achieved high levels of cash conversion averaging in excess of 100%.

Finance cash costs of £3.1m were £0.6m lower than last year due to reduced average net debt balances in the year. Tax payments of £7.2m were £0.8m higher than last year, reflecting last year's increased Group profitability.

Free cash flow (being cash flow before dividends and acquisitions) for the year was £37.6m, an increase of 38% over last year (FY 2019/20: £27.3m). Our free cash conversion for the year was 157% of profit after tax, again well ahead of our 85% target.

Banking Facilities

The Group has a £180m syndicated banking facility which extends to June 2024, together with a £60m accordion increasing the total facility to £240m if required. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2021 of £47.2m, the Group's gearing ratio at the end of the year (being net debt divided by underlying EBITDA as annualised for acquisitions) was 1.1x a reduction of 0.15x from last year despite completing two acquisitions. Excluding the acquisitions, on a like-for-like basis, the gearing would have been 0.7x at the year end. Including the post year end acquisition of CPI, pro-forma gearing at 31 March 2021 increased to 1.25x; with our target gearing range being between 1.5x and 2.0x, plenty of debt capacity remains for further acquisitions.

Balance Sheet

Net assets of £208.8m at 31 March 2021 were £8.3m higher than at the end of the last financial year (31 March 2020: £200.5m). The increase primarily relates to the net profit after tax for the year of £12.0m offset by dividends paid in the year and movements on the Group's legacy defined benefit scheme. The movement in net assets is summarised below:

£m	**FY 2020/21**
Net assets at 31 March 2020	200.5
Net profit after tax	12.0
Dividend paid	(2.8)
Currency net assets – translation impact	(0.6)
Loss on defined benefit scheme	(2.8)
Shares issued	0.1
Share based payments (inc tax)	2.4
Net assets at 31 March 2021	**208.8**

Defined Benefit Pension Scheme

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, increased during the year by £2.8m from a surplus of £1.8m at 31 March 2020 to a deficit of £1.0m at 31 March 2021.

At the end of last year, corporate bond yields temporarily increased due to the COVID-19 situation, converting the net liability at 31 March 2019 of £2.5m to a net surplus at 31 March 2020. Since last year end, corporate bond yields have reverted back to previous levels and historic commutation rates for legacy scheme members have been subject to a one off adjustment, resulting in a £1.0m liability at the year end. Over the last two years, there has been a net liability reduction of £1.5m.

Annual payments of £1.8m are payable, growing by 3% each year until September 2022 in accordance with the plan agreed with the pension trustees as part of the most recently completed triennial valuation at 31 March 2018. The next triennial valuation will be at 31 March 2021.

Risks and Uncertainties

The principal risks faced by the Group are covered in more detail in the Group's Annual Report and Accounts, which will be published shortly. These risks are: 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; climate-related risks; loss of major customers or suppliers; technological change; major business disruption; cyber security; loss of key personnel; inventory obsolescence; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; and non-compliance with legal and regulatory requirements.

The Group's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions where practicable. 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, committed banking facility of £180m and the adaptability we have as an organisation. The Group's performance over the last year has demonstrated this well.

Simon Gibbins
Group Finance Director
3 June 2021

Consolidated income statement

for the year ended 31 March 2021

	notes	2021 £m	2020 £m
Revenue		**454.3**	466.4
Cost of sales		**(299.0)**	(309.7)
Gross profit		**155.3**	156.7
Selling and distribution costs		**(57.8)**	(58.1)
Administrative expenses		**(76.8)**	(74.8)
Operating profit		**20.7**	23.8
Finance income		**0.3**	0.6
Finance costs		**(4.0)**	(4.9)
Profit before tax		**17.0**	19.5
Tax expense		**(5.0)**	(5.2)
Profit for the year		**12.0**	14.3
Earnings per share	9		
Basic		**13.5p**	17.0p
Diluted		**13.0p**	16.5p

Supplementary income statement information

Underlying Performance Measures		notes	2021 £m	2020 £m
Operating profit			**20.7**	23.8
Add back:	Acquisition and merger expenses		**2.0**	4.0
	Amortisation of acquired intangible assets		**11.1**	9.0
	IAS 19 pension charge		**1.4**	0.3
Underlying operating profit			**35.2**	37.1
Profit before tax		7	**17.0**	19.5
Add back:	Acquisition and merger expenses		**2.0**	4.0
	Amortisation of acquired intangible assets		**11.1**	9.0
	IAS 19 pension charge		**1.4**	0.3
Underlying profit before tax		7	**31.5**	32.8
Underlying earnings per share		9	**26.0p**	30.2p

Consolidated statement of comprehensive income

for the year ended 31 March 2021

	notes	**2021 £m**	2020 £m
Profit for the year		**12.0**	14.3
Other comprehensive (loss)/income:			
Items that will not be subsequently reclassified to profit or loss:			
Actuarial (loss)/gain on defined benefit pension scheme		**(3.4)**	2.4
Deferred tax credit/(charge) relating to defined benefit pension scheme		**0.6**	(0.5)
		(2.8)	1.9
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries		**(0.5)**	(4.6)
		(0.5)	(4.6)
Other comprehensive loss for the year, net of tax		**(3.3)**	(2.7)
Total comprehensive income for the year, net of tax		**8.7**	11.6

Consolidated statement of financial position

as at 31 March 2021

	notes	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment		**23.5**	25.2
Intangible assets – goodwill	13	**127.9**	117.3
Intangible assets – other		**63.3**	64.9
Right of use assets		**22.4**	21.1
Defined benefit pension surplus	15	**–**	1.8
Deferred tax assets		**7.9**	6.1
		245.0	236.4
Current assets			
Inventories		**67.7**	68.4
Trade and other receivables		**84.9**	90.1
Current tax assets		**1.8**	2.1
Cash and cash equivalents		**29.2**	36.8
		183.6	197.4
Total assets		**428.6**	433.8
Current liabilities			
Trade and other payables		**(94.8)**	(87.6)
Other financial liabilities		**(0.8)**	(4.3)
Lease liabilities		**(4.8)**	(5.3)
Current tax liabilities		**(5.6)**	(5.5)
Provisions		**(1.8)**	(0.9)
		(107.8)	(103.6)
Non-current liabilities			
Trade and other payables		**(0.8)**	(3.1)
Other financial liabilities		**(75.6)**	(93.8)
Lease liabilities		**(16.7)**	(14.7)
Pension liability	15	**(1.0)**	–
Provisions		**(5.4)**	(4.7)
Deferred tax liabilities		**(12.5)**	(13.4)
		(112.0)	(129.7)
Total liabilities		**(219.8)**	(233.3)
Net assets		**208.8**	200.5
Equity			
Share capital	14	**4.4**	4.4
Share premium		**138.8**	138.8
Merger reserve		**19.9**	22.7
Currency translation reserve		**(2.7)**	(2.2)
Retained earnings		**48.4**	36.8
Total equity		**208.8**	200.5

The financial statements were approved by the Board of Directors on 3 June 2021 and signed on its behalf by:

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

Consolidated statement of changes in equity

for the year ended 31 March 2021

	Attributable to equity holders of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2019	**3.7**	**106.9**	**2.9**	**2.4**	**18.8**	**134.7**
Profit for the 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 14)	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**
Profit for the year	–	–	–	–	12.0	12.0
Other comprehensive loss	–	–	–	(0.5)	(2.8)	(3.3)
Total comprehensive income	–	–	–	(0.5)	9.2	8.7
Share-based payments including tax	–	–	–	–	2.4	2.4
Transfer to retained earnings	–	–	(2.8)	–	2.8	–
Dividends (note 8)	–	–	–	–	(2.8)	(2.8)
At 31 March 2021	**4.4**	**138.8**	**19.9**	**(2.7)**	**48.4**	**208.8**

Consolidated statement of cash flows

for the year ended 31 March 2021

	notes	2021 £m	2020 £m
Net cash flow from operating activities	12	**46.6**	37.4
Investing activities			
Acquisition of businesses (net of cash/(debt) acquired)		**(20.8)**	(72.6)
Acquisition related contingent consideration		**–**	(1.0)
Purchase of property, plant and equipment		**(3.2)**	(5.3)
Purchase of intangible assets – software		**(0.7)**	(1.0)
Proceeds from disposal of property, plant and equipment		**0.3**	–
Interest received		**0.3**	0.5
Net cash used in investing activities		**(24.1)**	(79.4)
Financing activities			
Net proceeds from the issue of shares		**0.1**	60.5
Proceeds from borrowings		**9.3**	41.9
Repayment of borrowings		**(27.8)**	(31.3)
Payment of lease liabilities		**(6.1)**	(6.0)
Interest paid on lease liabilities		**(0.6)**	(0.6)
Dividends paid	8	**(2.8)**	(8.1)
Net cash (used in)/generated from financing activities		**(27.9)**	56.4
Net (decrease)/increase in cash and cash equivalents[1]		**(5.4)**	14.4
Net cash and cash equivalents at 1 April		**34.8**	20.8
Effect of exchange rate fluctuations		**(1.2)**	(0.4)
Net cash and cash equivalents at 31 March		**28.2**	34.8

Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Net cash and cash equivalents shown above		**28.2**	34.8
Add back: bank overdrafts		**1.0**	2.0
Cash and cash equivalents presented in current assets in the consolidated statement of financial position		**29.2**	36.8

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

Notes to the Group consolidated financial statements

for the year ended 31 March 2021

1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 3 June 2021. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2021 or 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies whereas those for 2021 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 Group's consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRS). The consolidated financial statements are prepared under the historical cost convention, unless 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. Changes in Accounting Policies

In the prior year, the Group adopted IFRS 16 'Leases'; and recognised lease liabilities and right of use assets in respect of the leasing agreements in place as at 1 April 2019 and those which were entered into during the prior year. During the prior year, the Group did not make use of the exemption of applying IFRS 16 for short-term leases (leases shorter than 12 months). In the current year, for the purposes of practical expediency, the Group has decided to make use of the above exemption available under IFRS 16. This change in accounting policy does not have a material impact on the current year and prior year balances and therefore the numbers for prior year have not been restated.

4. 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 and Company's ability to continue as a going concern.

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 sensitivities take into account the principal risks and uncertainties, notably instability in the economic environment, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity restriction, breach of debt covenants and adverse foreign currency movements arising from a stronger Sterling.

The most severe but plausible downside scenario assumes a recurrence of COVID-19 in the second half of FY 2021/22 and adverse macroeconomic factors resulting in a significant decline in second half sales of FY 2021/22, negative sales growth in FY 2022/23 and modest growth thereon in FY 2023/24. Additionally, gross margin was reduced, working capital materially increased, significant one-off expenditures (product liability, major customer insolvency or litigation) included, and an increase in the Group effective tax rate.

Even after factoring in these significant additional downsides, there remains good headroom both in terms of liquidity and our banking covenants. This is supported by the fact that the Group sells a wide portfolio of different products across a diverse set of industries and geographies, low customer/supplier concentration, has a global supply chain network, diverse manufacturing capacity, and has well-established and in many cases long term relationships with its customers. These factors are considered important in mitigating many of the risks that could affect the long-term viability of the Group.

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.

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. See note 7.

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 and merger expenses, and the IAS19 pension charge relating to the Group's legacy defined benefit pension scheme) and exceptional items.

Acquisition and merger expenses comprise all attributable costs in connection with business acquisitions and disposals and any related integration into the Group. Acquisition costs 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 and merger expenses and the 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 year.

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

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, Strategic and Operational Review and Finance Review means at constant exchange rates ("CER") and excluding the first 12 months of acquisitions (Sens-Tech was acquired on 16 October 2019, Phoenix on 13 October 2020 and Limitor on 11 February 2021).

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 business 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

2021	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
Revenue	**296.6**	**157.7**	–	**454.3**
Result				
Underlying operating profit/(loss)	37.7	5.6	(8.1)	35.2
Acquisition and merger expenses	(2.0)	–	–	(2.0)
Amortisation of acquired intangible assets	(11.1)	–	–	(11.1)
IAS 19 pension charge	–	(1.0)	(0.4)	(1.4)
Operating profit/(loss)	**24.6**	**4.6**	**(8.5)**	**20.7**

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 and merger expenses	(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

7. Underlying profit before tax

			2021 £m	2020 £m
Profit before tax			**17.0**	19.5
Add back	Acquisition and merger expenses	(a)	**2.0**	4.0
	Amortisation of acquired intangible assets	(b)	**11.1**	9.0
	Total IAS 19 pension charge	(c)	**1.4**	0.3
Underlying profit before tax			**31.5**	32.8

The tax impact of the underlying profit adjustments above is a credit of £2.5m (2020: £1.4m).

a. In the year there were £2.0m of acquisition and merger related expenses. £1.8m of transaction costs were incurred in relation to the acquisition of Phoenix, Limitor and ongoing transactions. There was a net contingent consideration credit of £0.2m in relation to current and past acquisitions and £0.4m charge in relation to the integration of acquired businesses in North America.

   In the prior year there were £4.0m of acquisition and merger related expenses. Costs of £1.5m were incurred in relation to the acquisition of Hobart, Positek and Sens-Tech and £0.3m in relation to ongoing transactions. 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.

b. Amortisation charge for intangible assets recognised on acquisition of £11.1m being amortisation of acquired customer relationships and patents. The equivalent charge last year was £9.0m. The increase relates to the three acquisitions during the last two years (Sens-Tech in October 2019, Phoenix in October 2020 and Limitor in February 2021).

c. Pension costs of £1.4m this year in respect of the Group's legacy defined benefit pension scheme, mainly relate to a one-off adjustment relating to historic commutation terms for legacy scheme members (see note 15).

8. Dividends

Dividends recognised in equity as distributions to equity holders in the year:	**2021 £m**	2020 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2020 of 0.0p (2019: 6.75p)	–	5.4
Interim dividend for the year ended 31 March 2021 of 3.15p (2020: 2.97p)	**2.8**	2.7
Total amounts recognised as equity distributions during the year	**2.8**	8.1

Proposed for approval at AGM:	**2021 £m**	2020 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2021 of 7.0p (2020: 0.0p)	**6.2**	–
Summary		
Dividends per share declared in respect of the year	**10.15p**	2.97p
Dividends per share paid in the year	**3.15p**	9.72p
Dividends paid in the year	**£2.8m**	£8.1m

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:

	2021 £m	2020 £m
Profit for the year attributable to equity holders of the parent:	**12.0**	14.3

	Number	Number
Weighted average number of shares for basic earnings per share	**88,753,576**	83,997,130
Effect of dilution – share options	**3,469,048**	2,878,352
Adjusted weighted average number of shares for diluted earnings per share	**92,222,624**	86,875,482
Basic earnings per share	**13.5p**	17.0p
Diluted earnings per share	**13.0p**	16.5p

Underlying earnings per share is calculated as follows:

	2021 £m	2020 £m
Net profit for the year	**12.0**	14.3
Acquisition and merger expenses	**2.0**	4.0
Amortisation of acquired intangible assets	**11.1**	9.0
IAS 19 pension charge	**1.4**	0.3
Tax effect of the above	**(2.5)**	(1.4)
Underlying profit	**24.0**	26.2

	Number	Number
Weighted average number of shares for basic earnings per share	**88,753,576**	83,997,130
Effect of dilution – share options	**3,469,048**	2,878,352
Adjusted weighted average number of shares for diluted earnings per share	**92,222,624**	86,875,482
Underlying earnings per share	**26.0p**	30.2p

At the year end, there were 3,928,273 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 3,469,048 are currently dilutive (2020: 3,306,166 in issue and 2,878,352 dilutive).

10. Business combinations

Acquisitions in the year ended 31 March 2021

Acquisition of Phoenix

On 13 October 2020, the Group completed the acquisition of the trade and assets of Phoenix America Inc ("Phoenix"). The trade and assets were transferred to a newly incorporated company, Phoenix America LLC.

Phoenix was acquired for an initial cash consideration of £8.5m ($10.9m) and funded from the Group's existing debt facilities. In addition, a contingent payment of up to £1.2m($1.5m) will be payable subject to Phoenix achieving certain profit targets during the three-year period ended 31 December 2023. The fair value of the contingent consideration will be recognised in the consolidated income statement over the performance period.

Phoenix, based in the USA, is a designer and manufacturer of magnetically actuated sensors, encoders and related products for industrial customers.

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

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.5
Intangible assets – other	3.3
Inventories	0.7
Trade and other receivables	0.5
Trade and other payables	(0.2)
Total identifiable net assets	**4.8**
Provisional goodwill arising on acquisition	**3.7**
Total investment	**8.5**
Discharged by	
Cash	8.5
	8.5

Included in the £3.7m 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.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	8.5
Transaction costs of the acquisition (included in operating cash flows) [1]	0.4
	8.9

1 Acquisition costs of £0.1m and £0.3m were expensed as incurred in the years ended 31 March 2021 and 31 March 2020 respectively. These were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £8.5m.

Acquisition of Limitor

On 11 February 2021, the Group completed the acquisition of the Limitor Group ("Limitor") via the purchase of 100% of the share capital and voting equity interests of Limitor GmbH and its subsidiary company Limitor Solutions GmbH and 100% of the share capital and voting equity interests of Limitor Hungaria Kft.

Limitor was acquired for an initial cash consideration of £12.8m (€14.6m), before expenses, funded from the Group's existing debt facilities. In addition, a contingent payment of up to £3.1m (€3.5m) will be payable subject to Limitor achieving certain operational and profit growth targets during the three-year period ended 31 March 2024. £0.4m of contingent consideration has been accounted for in the purchase price with the remaining fair value of the contingent consideration to be recognised in the consolidated income statement over the performance period.

Limitor, based in Germany and Hungary, designs and manufactures custom thermal safety components for industrial markets.

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

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.8
Intangible assets – other	6.5
Inventories	0.7
Trade and other receivables	0.9
Cash and cash equivalents	1.0
Trade and other payables	(0.8)
Current tax asset	0.1
Deferred tax liabilities	(1.6)
Total identifiable net assets	**7.6**
Provisional goodwill arising on acquisition	**5.6**
Total investment	**13.2**
Discharged by	
Cash	12.8
Contingent consideration	0.4
	13.2

Included in the £5.6m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	12.8
Transaction costs of the acquisition (included in operating cash flows) [1]	0.5
Net cash acquired	(1.0)
	12.3

1 Acquisition costs of £0.5m were expensed as incurred in the year ended 31 March 2021 and were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £12.8m and the net cash acquired of £1.0m.

11. Movements in cash and net debt

Year to 31 March 2021	1 April 2020 £m	Cash flow £m	Non cash changes £m	**31 March 2021 £m**
Cash and cash equivalents	36.8	(6.0)	(1.6)	**29.2**
Bank overdrafts	(2.0)	0.6	0.4	**(1.0)**
Net cash	34.8	(5.4)	(1.2)	**28.2**
Bank loans under one year	(2.8)	2.4	0.1	**(0.3)**
Bank loans over one year	(95.0)	16.1	2.6	**(76.3)**
Capitalised debt costs	1.7	–	(0.5)	**1.2**
Total loan capital	(96.1)	18.5	2.2	**(75.4)**
Net debt	(61.3)	13.1	1.0	**(47.2)**

Bank loans over one year above include £74.0m (2020: £94.8m) drawn down against the Group's revolving credit facility.

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)

Supplementary information to the statement of cash flows

Underlying Performance Measure	**2021 £m**	2020 £m
Increase in net cash	**13.1**	3.8
Add: Business combinations	**21.8**	75.9
Dividends paid	**2.8**	8.1
Less: Net proceeds from share issue	(0.1)	(60.5)
Free cash flow	**37.6**	27.3
Net finance costs	**3.1**	3.7
Taxation	**7.2**	6.4
Executive options issuance	–	0.1
Legacy pension scheme funding	**1.8**	1.8
Operating cash flow	**49.7**	39.3

12. Reconciliation of cash flows from operating activities

	2021 £m	2020 £m
Profit for the year	**12.0**	14.3
Tax expense	**5.0**	5.2
Net finance costs	**3.7**	4.3
Depreciation of property, plant and equipment	**4.9**	4.8
Depreciation of right of use assets	**6.6**	6.6
Amortisation of intangible assets – other	**11.7**	9.6
Loss on disposal of property, plant and equipment	–	0.1
Change in provisions	**1.0**	(0.3)
Pension scheme funding	**(1.8)**	(1.8)
IAS 19 pension charge	**1.4**	0.3
Impact of equity-settled share-based payment expense and associated taxes	**1.1**	1.3
Operating cash flows before changes in working capital	**45.6**	44.4
(Increase)/decrease in inventories	**(0.1)**	2.7
Decrease in trade and other receivables	**5.5**	1.9
Increase/(decrease) in trade and other payables	**6.2**	(1.0)
Decrease in working capital	**11.6**	3.6
Cash generated from operations	**57.2**	48.0
Interest paid	**(3.4)**	(4.2)
Income taxes paid	**(7.2)**	(6.4)
Net cash flow from operating activities	**46.6**	37.4

13. Intangible assets – goodwill

Cost	£m
At 1 April 2019	122.1
Arising from business combinations	35.4
Exchange adjustments	(3.4)
At 31 March 2020	154.1
Arising from business combinations	9.3
Exchange adjustments	1.3
At 31 March 2021	164.7

Impairment	£m
At 31 March 2020 and 31 March 2021	**(36.8)**

Net book value at 31 March 2021	**127.9**
Net book value at 31 March 2020	117.3

The carrying value of goodwill is analysed as follows:

	2021 £m	2020 £m
Custom Supply		
Acal BFi	**9.6**	9.9
Medical	**0.6**	0.6
Design & Manufacturing		
Stortech	**3.6**	3.6
Hectronic	**0.6**	0.6
MTC	**2.0**	1.9
Myrra	**5.1**	5.3
Noratel	**28.6**	25.9
Foss	**5.4**	5.1
Flux	**0.6**	0.6
Contour	**7.7**	7.7
Variohm	**6.0**	6.0
Santon	**5.1**	5.3
Cursor Controls	**9.0**	9.0
Hobart	**5.0**	5.7
Positek	**2.7**	2.7
Sens-Tech	**27.4**	27.4
Phoenix	**3.5**	–
Limitor	**5.4**	–
	127.9	117.3

Goodwill acquired through business combinations is allocated to cash-generating units (“CGUs”).

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Phoenix and Limitor which were acquired in the year (refer to note 10 for details).

14. Share capital

Allotted, called up and fully paid	2021 Number	2021 £m	2020 Number	2020 £m
Ordinary shares of 5p each	**89,455,915**	**4.4**	88,705,915	4.4

In April 2020 750,000 shares were issued to the Group's Employee Benefit Trust. At 31 March 2021 the Trust held 689,307 shares (2010: nil). During the year to 31 March 2021, employees exercised 60,693 share options under the terms of the various schemes (2020: 2,361).

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.

15. 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 2021 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. The next triennial funding valuation is due for the year ended 31 March 2021.

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 liability at 31 March 2020 was £1.0m (2020: £1.8m asset) and the total pension charge was £1.4m (2020: £0.3m).

The pension costs include £0.4m administration costs (2020: £0.3m) and a £1.0m charge (2020: nil) relating to a one-off adjustment to historic commutation terms for legacy scheme members

16. 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 2021		Year to 31 March 2020	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.3760**	**1.3075**	1.2360	1.2722
Euro	**1.1736**	**1.1207**	1.1281	1.1448
Norwegian Krone	**11.7306**	**11.9697**	12.9847	11.4639

17. 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 events should be noted:

Dividends
A final dividend of 7.0p per share (2020: nil), amounting to a dividend of £6.2m (2020: nil) and bringing the total dividend for the year to 10.15p (2020: 2.97p), was declared by the Board on 27 May 2021. The discoverIE group financial statements do not reflect this dividend.

Business Combinations
On 13 May 2021, subsequent to the year end, the Group completed the acquisition of Control Products Inc ("CPI"). CPI was acquired for an initial cash consideration of £8.1m ($11.4m) on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition, a contingent payment of up to £3.8m ($5.4m) will be payable subject to CPI achieving certain profit growth targets over a four year period.