For Release:
7.00am, 9 November 2021

discoverIE Group plc

Sale of Acal BFi Distribution Business

- *Sale of Custom Supply distribution business, Acal BFi, for total cash consideration of £50m*
- *Accelerates growth strategy with the Group now solely focused on the higher margin Design & Manufacturing ("D&M") division, the principal driver of the Group's financial performance*
- *Increases exposure to structurally growing target markets and positively impacts operating margin*
- *Proforma gearing reduces to 1.0x, leaving significant capacity for further acquisitions*

discoverIE Group plc (LSE: DSCV, "discoverIE", the "Group" or the "Company"), a leading international designer and manufacturer of customised electronics to industry, today announces the sale of Acal BFi ("Acal BFi"), the Group's electronic component distribution business.

The Company has agreed to sell Acal BFi to H2 Equity Partners, for a total cash consideration of £50m, on a debt free, cash free basis, comprising an upfront payment of £45m, together with £5m of deferred consideration[1] (the "Transaction"). The Transaction is subject to certain consultation requirements[2] and regulatory approvals, with completion expected in the current financial year. Sale proceeds will be used to reduce the Group's net debt and to progress the design and manufacturing growth strategy.

For the year ended 31 March 2021 ("FY21"), Acal BFi reported revenues of £148.7m, profit before tax of £4.0m and gross assets of £60.1m. The total consideration represents a multiple of approximately 7x pre-Covid average underlying operating profits.

Acal BFi is a European specialist electronic components distributor, with operating companies in the UK, Germany, France, Italy, the Nordic region and Benelux and will continue under its existing management team, led by Paul Webster. Following the planned disposal of Vertec SA announced last month, the sale of Acal BFi concludes discoverIE's exit from its Custom Supply distribution business and leaves the Group wholly focused on design and manufacturing, the principal driver of the Group's financial performance.

The Group's D&M division has grown strongly over the last 10 years, both organically and through acquisitions. In FY21, D&M accounted for 65% of Group revenues and 87% of Group underlying profit contribution with an operating margin of 12.7% (compared with 3.6% in Custom Supply).

The D&M businesses are focused on markets with long term structural growth drivers, namely renewable energy, medical, transportation and industrial & connectivity. In FY21, sales into these four target markets accounted for 75% of D&M revenue. Including its recent acquisitions, the division generates c. 40%[3] of its sales outside Europe. Acal BFi will continue to sell the Group's D&M products, building on the successful cross selling activity of previous years.

On completion, proforma gearing[4] at 30 September 2021 will reduce to 1.0x, well below the Group's target range of 1.5x to 2.0x. The Group continues to have a strong pipeline of further D&M acquisition opportunities and the sale proceeds provide additional capacity to progress the Group's growth strategy.

discoverIE's proven growth strategy remains unchanged, being:

1) to grow sales well ahead of GDP over the economic cycle by focusing on the structural growth markets that form our target markets;
2) to move up the value chain into higher margin products;
3) to acquire businesses with attractive growth prospects and strong operating margins;

4) to further internationalise the business by developing operations in North America and Asia.

Restated Financial information

Acal BFi and Vertec SA were classified as held for sale as at 30 September 2021 and will be treated as a discontinued operation for reporting purposes in accordance with IFRS5. The profit after tax of the discontinued operation up to 30 September 2021 will be reported as a single line item in the consolidated statement of comprehensive income. The Group's balance sheet, statement of cash flows and underlying notes to the financial statements will be amended accordingly. Prior year comparatives will be similarly restated, where applicable, to enable shareholders to understand the underlying trends.

Nick Jefferies, Group Chief Executive of discoverIE, said:

"The Group has developed significantly in recent years, with a substantial and higher growth design and manufacturing business becoming the core of operations. The sale of Acal BFi concludes the Group's exit from the business of distribution, with discoverIE becoming solely a global designer and manufacturer of customised electronics with higher operating margins, and provides additional resources to invest further in our growth.

We are pleased to have found a new home for Acal BFi so that it can continue to grow under the existing management team, who have served discoverIE well over many years. We wish them and the whole Acal BFi workforce every success under their new ownership.

As recently announced in our trading update, the ongoing Group delivered an excellent performance in the first half of the current financial year with a record order book alongside strong growth in orders and sales compared with last year and also the pre-covid period two years ago.

With a clear strategy focused on long-term, high quality, structural growth markets across Europe, North America and Asia, a diversified customer base and a strong pipeline of acquisition opportunities, the Group is well positioned to make further progress on its key priorities."

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Notes:

1. The deferred consideration is payable on the third anniversary of completion of the Transaction and accrues interest at a rate of 5% per annum in the intervening period.

2. The terms of the transaction are structured to ensure that the decision to sell the French operations of Acal BFi is only taken following completion of an information and consultation process with the Social and Economic Committee of Acal BFi France SAS as required pursuant to French law.

3. The recent acquisitions of Beacon EmbeddedWorks and Antenova Limited increased D&M sales outside Europe for the year ended 31 March 2021 on a proforma basis from 37% to 40%.

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

5. Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

Notes to Editors:

About discoverIE

discoverIE Group plc is an international group of businesses that designs and manufactures 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.5,000 people and its principal operating units are located in Continental Europe, the UK, China, Sri Lanka, India and North America.

The Group is listed on the Main Market of the London Stock Exchange and is a member of the FTSE250, classified within the Electrical Components and Equipment subsector.