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discoverIE Group plc - DSCV Final Results
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discoverIE Group plc

Preliminary results for the year ended 31 March 2019
Strategy delivering further growth

discoverIE Group plc (LSE: DSCV, "discoverIE", the "Group" or the "Company"), a leading international designer, manufacturer and supplier of customised electronics to industry, today announces its results for the year ended 31 March 2019.

	FY 2018/19	FY 2017/18	Growth%	CER[3] Growth%
Revenue	**£438.9m**	£387.9m	+13%	+14%
Underlying operating profit[1]	**£30.6m**	£24.5m	+25%	+26%
Underlying profit before tax[1]	**£27.2m**	£21.9m	+24%	
Underlying EPS[1]	**27.2p**	22.3p	+22%	
Reported profit before tax	**£19.3m**	£14.6m[2]	+32%	
Reported fully diluted EPS	**19.4p**	14.2p[2]	+37%	
Full year dividend per share	**9.55p**	9.0p	+6%	

Highlights

- **Strong financial and operating performance**
  - Group sales and orders increased by 13% (+14% CER[3])
  - Group organic sales and orders grew by 8%
  - D&M organic[4] sales up 10%: now 61% of Group sales (FY 2017/18: 57%)
  - Underlying operating profit increased by 25% (+26% CER)
  - Underlying earnings per share increased by 22%
  - Excellent cash generation with £28.6m operating cash flow[5], 93% of underlying operating profit

- **Further good progress on key strategic and performance targets**
  - Underlying operating margin increased to 7.0% (FY 2017/18: 6.3%)
  - Sales beyond Europe increased to 21% of total sales (FY 2017/18: 19%)
  - Cross-selling revenue of £10.6m, up 20% on last year (FY 2017/18: £8.8m)
  - ROCE(6) of 15.4% (FY 2017/18: 13.7%(2))
  - Full year dividend increased by 6%

- **Three higher margin, international D&M acquisitions completed, two since the year end**
  - Cursor Controls acquired in October 2018 for £19m
  - Hobart and Positek acquired in April 2019 for £16m

- **Group well positioned for further growth**
  - Strong growth in new project design wins
  - Record year end order book of £139m (+15% CER)
  - Over-subscribed equity placing in April 2019 raising a net £28m
  - Debt facility extended by £60m to £180m; gearing(7) reduced to 1.4x (post equity fund raising)
  - Further acquisition opportunities developing
  - New year trading has started well

Nick Jefferies, Group Chief Executive, commented:

"This year has seen an excellent Group performance with strong organic growth complemented by the contribution from acquisitions, resulting in 22% growth in underlying earnings per share.

As a business we are focused on four key structurally growing markets with66% of Group revenue and 75% of design wins derived from our target markets of renewable energy, transportation, medical and industrial & connectivity.

discoverIE is a natural consolidator in a highly fragmented market, acquiring high-quality Design & Manufacturing businesses to build the Group's technology capability and extend our geographic coverage. We have made three acquisitions in the last eight months - Cursor Controls, Hobart and Positek - all of which are high quality, higher margin custom design businesses, selling into international markets, and further build our business in line with our strategic objectives.

With a record year end order book and a high level of design wins, we are well positioned for continued progress and excited by the opportunities that lie ahead as we continue to build a high-quality, global business."

For further information, please contact:

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Simon Gibbins - Group Finance Director

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James Gray

Notes:

(1) Underlying Operating Profit', 'Underlying EBITDA', 'Underlying Operating Costs', 'Underlying Profit before Tax' and 'Underlying EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude acquisition-related costs (amortisation of acquired intangible assets of £5.9m, acquisition costs of £1.8m, the IAS19 pension charge relating to a legacy defined benefit scheme of £0.4m) and exceptional income of £0.2m for FY 2018/19. Equivalent underlying adjustments within the FY 2017/18 underlying results totalled £7.3m. For further information, see note 6 of the attached summary financial statements.

(2) Last year's financial statements have been restated as set out in note 5 of the attached summary financial statements which has impacted reported profit before tax, reported fully diluted EPS and ROCE.

(3) Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange against the Euro was in line with last year, weakened 1% against the US Dollar and was up 3% on average against the three Nordic currencies.

(4) Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions. Santon was acquired last financial year on 1 February 2018 and Cursor Controls was acquired on 17 October 2018.

(5) 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.

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

(7) Group gearing is defined as net debt divided by underlying EBITDA (annualised for acquisitions).

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

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

Notes to Editors:

About discoverIE Group plc

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

The Group provides application-specific components to original equipment manufacturers ("OEMs") internationally. With in-house engineering capability, we are able to design components to meet customer requirements, which are then manufactured and supplied, usually on a repeating basis, for their ongoing production needs. This generates a high level of repeating revenue and long term customer relationships.

By focusing on key markets which are driven by structural growth and increasing electronic content, namely renewable energy, transportation, medical and industrial connectivity, the Group aims to achieve organic growth that is well ahead of GDP and to supplement that with targeted complementary acquisitions.

The Group employs c.4,400 people and its principal operating units are located in Continental Europe, the UK, China, India, Sri Lanka and North America.

The Group is listed on the Main Market of the London Stock Exchange and is a member of the FTSE Small Cap Index, classified within the Electrical Components and Equipment subsector, and has revenue of over £400m. Over the last five years, revenue and underlying earnings per share have both more than doubled.

CHAIRMAN'S STATEMENT

I am pleased to report that the Group has made significant progress again this year with an excellent set of results reflecting strong levels of organic growth and operating efficiency. Progress has been made on all the Group's strategic and operational objectives towards our mid-term targets with one of these objectives being upwardly revised for the coming year.

Acquisitions continue to play an important role in building discoverIE. The most recent acquisitions of the UK based Cursor Controls and Positek, and Hobart in the US, are all high quality, higher margin D&M businesses, designing, manufacturing and supplying custom solutions. Each provides good scope for developing further, both in our target markets and internationally, with c.70% of sales from the three businesses being beyond Europe.

Strategy

The Group is an international leader in customised electronics, focusing on structurally growing markets driven by increasing electronic content, where there is an essential need for our products. The Group's product range is highly differentiated, with the majority being either partly or fully customised for specific customer applications.

With our key markets being worldwide, management sees the opportunity to continue expanding beyond Europe (currently 21% of Group sales), as well as within Europe, as we continue our strategy of building a global electronics group.

A priority for the year ahead is to deliver further good growth through a combination of organic performance and value-enhancing acquisitions.

Group Results

Group sales for the year increased by 13% to £438.9m and by 14% at constant exchange rates ("CER").

Underlying operating profit, which excludes acquisition-related costs and exceptional items, increased by £6.1m to £30.6m (up by 25% and up by 26% CER) with underlying profit before tax increasing by £5.3m to £27.2m (up 24%). The strong growth in D&M helped to deliver a 70bps increase in underlying operating margins to 7.0% (FY 2017/18: 6.3%), despite additional investment to support future growth and an adverse impact of the weak solar market at Santon during the year.

Underlying earnings per share for the year increased by 22% to 27.2p (up 4.9p from 22.3p last year). The difference between the growth of underlying profit before tax and underlying earnings per share results from a slightly higher underlying tax rate (up c.1ppt).

After underlying adjustments for acquisition-related costs of £8.1m, offset by exceptional income of £0.2m, profit before tax for the year on a reported basis was £19.3m, a 32% increase from last year (FY 2017/18: £14.6m), with fully diluted earnings per share increasing by 37% to 19.4p (FY 2017/18: 14.2p).

Cash generation was strong, with operating cash flow of £28.6m up 29% on last year (FY 2017/18: £22.1m), and representing 93% of underlying operating profit. Net debt at the year end was £63.3m, resulting in a Group gearing ratio of 1.7 times. We are mindful of retaining a strong financial position, in order to retain the flexibility to take advantage of further acquisition opportunities and are comfortable operating with gearing in the range of 1.5 to 2.0 times. Alongside the acquisitions of Hobart and Positek, in April 2019, we took the opportunity to strengthen the balance sheet by way of a well-supported placing which raised net proceeds of £28.2m, reducing proforma year end gearing to 1.4 times. Together with strong organic cash flows, this provides the Group with an excellent platform from which to continue to execute its growth strategy. On behalf of the Board, I would like to thank shareholders for their support.

As reported in our first half results, we uncovered a fraud at one of our subsidiary companies through our divisional control processes. Management's response was swift, decisive and appropriate. A review of our internal controls and procedures was undertaken and a number of recommendations were made and implemented which will further strengthen our controls. The Group is insured against fraud and management were able to recover the majority of the loss.

Acquisitions

On 17 October 2018, the Group acquired the Cursor Controls Group ("Cursor Controls"), a designer and manufacturer of human to machine interface products for an initial consideration of £19.0m on a debt free, cash free basis, and a contingent payment of up to £4.0m, subject to the business achieving certain profit growth targets during the three-year period ended 31 December 2021. Cursor Controls is based in the UK and Belgium.

Since the year end, on 16 April 2019, the Group acquired Hobart Electronics ("Hobart"), a designer and manufacturer of custom transformers, inductors and magnetic components, for an initial cash consideration of $15.2m (£11.7m) on a debt free, cash free basis and a contingent payment of up to $4.0m (£3.1m), subject to the achievement of certain growth targets over the three-year period ended 31 December 2021. Hobart is based in the US with manufacturing in Mexico.

Also on 16 April 2019, the Group acquired Positek, a designer and manufacturer of customised rugged, high accuracy sensors for an initial consideration of £4.2m on a debt free, cash free basis and a further contingent payment of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the next 18 months. Positek is based in the UK and supplies international markets.

We are delighted to welcome the employees from all the new businesses into the Group.

Board Changes

After six years, Henrietta Marsh and Richard Brooman will retire at the Company's annual general meeting on 25 July 2019. Henrietta has served as a Non-Executive Director since May 2013 and as Chair of the Remuneration Committee since October 2014. Richard has served as a Non-Executive Director since January 2013, Chair of the Audit and Risk Committee since July 2013 and as Senior Independent Director since December 2014. We thank them for their significant contributions to the Company's development and wish them well.

Tracey Graham, who has been on the Board since November 2015, has succeeded Henrietta as Chair of the Remuneration Committee. Tracey is also Non-Executive Director and Chair of the Remuneration Committee at Royal London Mutual Insurance Society and Ibstock plc. Bruce Thompson, who joined the Board as a Non-Executive Director in February 2018, will succeed Richard as Senior Independent Director.

Since the period end, it has been announced that Clive Watson will join the Board in September 2019 as a Non-Executive Director and Chair of the Audit & Risk Committee. Clive has recently retired from Spectris plc after thirteen years as Group Finance Director and also from Spirax Sarco Engineering plc where he was Senior Independent Non-Executive Director and Chair of the Audit and Risk Committee, having joined in 2009.

Dividend

The Board is recommending a 6% (0.4 pence) increase in the final dividend per share to 6.75 pence per share, giving a full year dividend per share of 9.55 pence, and representing a cover against underlying earnings of 2.8 times (FY 2017/18: 2.5 times). The final dividend is payable on 30 July 2019 to shareholders registered on 14 June 2019. Since 2010, the annual dividend per share has risen by 88% and the total dividend payment by nearly 350%.

In light of the Group's active and successful acquisition strategy, the Board believes that maintaining a progressive dividend policy with a long term dividend cover (over 3 times underlying earnings) is appropriate to enable both dividend growth and a higher level of investment from internally generated resources.

Employees

Including the recent acquisitions of Cursor Controls, Hobart and Positek, the Group now comprises approximately 4,400 employees in 23 countries around the world. The Board believes that by adopting an entrepreneurial and decentralised operating environment, together with rigorous planning, review, support, investment and controls, the Group is able to continue to foster an ambitious and successful culture.

On behalf of the Board, I would like to thank everybody at discoverIE for their commitment and hard work. Their dedication remains essential in helping us to achieve our goals.

Summary

By focusing on structural growth markets and responding effectively to complex customer requirements, the Group has evolved into a higher quality business that is making excellent progress and delivering strong results.

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

Malcolm Diamond MBE
Chairman
4 June 2019

OPERATING REVIEW

Overview

Over recent years the Group has pursued a clear strategy, investing in initiatives that enhance design opportunities for customised products in targeted growth markets namely: renewable energy; transportation; medical; and industrial & connectivity. The benefits of this approach are evident in these results with strong levels of organic revenue growth throughout the established business units in the D&M division, driving a 23% increase in its divisional underlying operating profits. Likewise, in the Custom Supply division, good organic growth and greater efficiency has resulted in a 15% increase in its underlying operating profit.

Group organic sales in the year grew by 8% to £439m, driven by 10% organic growth in the D&M division and 5% in Custom Supply. Together with a 6% contribution from the acquisitions of Santon in February 2018 and Cursor Controls in October 2018, Group sales increased by 14% CER. Including the translation impact of a slightly stronger Sterling on average since last year, reported Group revenues increased by 13%.

Orders also performed well, growing by 8% organically to £454m and by 14% CER, when including acquisitions, leading to another record year-end order book at 31 March 2019 of £139m (up 12% organically year-on-year and 15% CER).

Project design wins, a proxy measurement for new business creation, grew strongly during the year. The estimated lifetime sales value of design wins during the year was £266m, an increase of 40% compared with last year, with 75% of these wins in our target markets.

Strong revenue growth has driven a 25% increase in underlying operating profit, rising by £6.1m to £30.6m, (26% CER), with underlying EPS increasing by 22% to 27.2p.

Group Strategy

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

Core to our value proposition is the understanding of our customers' design challenges and the design and manufacture of engineered products to meet their needs, that are then supplied over the life of the customer's production, typically five to seven years.

In a fragmented market, there exist opportunities to consolidate certain manufacturers of customised products for the Group's common customer base, which ranges from mid-sized OEMs (original equipment manufacturers) to multinational companies operating in multiple locations. Our four target markets (renewable energy, transportation, medical, and industrial & connectivity), are long term, international growth markets driven by excellent fundamentals where our customers depend upon the Group's products.

Our strategy comprises four elements:

1. Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets;

2. Move up the value chain by continuing to build revenues in the higher margin D&M division;

3. Acquire businesses with attractive growth prospects and strong operating margins;

4. Further internationalise the business by developing sales in North America and Asia.

The Group's progress with its strategic objectives is measured through key strategic indicators ("KSIs"), while progress with its financial performance is measured through key performance indicators ("KPIs"). Our KSIs and KPIs are mid-term targets over a three to five-year period from November 2016.

Key Strategic Indicators

	FY14	FY15	FY 16	FY 17	FY 18	FY 19	Mid term Target[2]
1. Increase share of Group revenue from D&M[1]	18%	37%	48%	52%	57%	61%	75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	8.5%
3. Build sales beyond Europe[1]	5%	12%	17%	19%	19%	21%	30%

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

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

- The D&M division accounts for 61% of Group sales (FY 2017/18: 57%), and 78% of the Group's underlying profit contribution. Annualised for the acquisitions of Cursor Controls in October 2018, and Hobart and Positek in April 2019, D&M sales now represent 62.5% of Group sales. Importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales;

- The growing proportion of the D&M division and the Group's improving operating efficiencies have increased the Group operating margin by 0.7ppts over last year to 7.0% (FY 2017/18: 6.3%) despite additional investment to support future growth and an adverse impact from the weak solar market at Santon during the year;

- Sales beyond Europe represented 21% of Group revenue (from 19% in FY 2017/18) improving as a result of the acquisitions of Santon and Cursor Controls (for which over 50% of sales in the period were outside Europe). On an annualised basis, including acquisitions, this would rise to 23%. We continue to seek acquisitions with international revenues.

Our long term ambition is to increase the share of Group revenue from D&M to 85% with an overall operating margin of 10% and sales beyond Europe of 40%.

Key Performance Indicators

	FY14	**FY15**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**Mid term target**
1. Sales growth							
CER	17%	36%	14%	6%	11%	14%	Well ahead of GDP
Organic	2%	3%	3%	(1)%	6%	8%	
2. Increase cross-selling	£0.3m	£0.9m	£3.0m	£4.6m	£8.8m	£10.6m	£12m p.a. *(was £10m p.a)*
3. Underlying EPS growth	20%	31%	10%	13%	16%	22%	>10%
4. Dividend growth	10%	11%	6%	6%	6%	6%	Progressive
5. ROCE(1)	15.2%	12.0%	11.6%	13.0%	13.7%(2)	15.4%	>15%
6. Operating cash flow(1)	100%	104%	100%	136%	90%(2)	93%	>85% of underlying operating profit

(1) Defined in Note 6 of the attached summary financial statements;.
(2) Last year's financial statements have been restated as set out in note 5 of the attached summary financial statements which has impacted ROCE and operating cash flow.

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

- Organic sales growth for the year of 8% was well ahead of GDP, with good growth in both divisions (D&M increasing by 10% and Custom Supply by 5%) reflecting the sustained focus on higher growth target markets;

- Cross-selling generated £10.6m of Group sales, an increase of 20% over the prior year, reaching our three year target of £10m p.a. early. Consequently, we have increased our target to £12m p.a. for the coming year;

- Underlying EPS growth for the year was very strong at 22% (FY 2017/18: 16%), with two year growth of 42%. This is well ahead of our annual target of exceeding 10% and reflects widespread organic growth, acquisitions and improved operating efficiency;

- Strong growth in underlying operating profit has driven a 1.7ppt increase in return on capital employed to 15.4% (including the acquisitions of Santon and Cursor Controls) compared with the return for FY 2017/18 of 13.7%, ahead of our three-year target of exceeding 15%;

- Over the last year, operating cash flow was 93% of underlying operating profit, being ahead of our 85% target, despite the working capital required to support the strong organic sales growth. Over the last six years, operating cash flow has been consistently strong.

Divisional Results

Divisional and Group performances for the year ended 31 March 2019 are set out and reviewed below.

	FY 2018/19			FY 2017/18			Revenue growth	CER revenue growth	Organic revenue growth
	Revenue £m	**Underlying operating profit (1) £m**	**Margin**	Revenue £m	Underlying operating profit (1) £m	Margin			
Design & Manufacturing	**266.2**	**29.8**	**11.2%**	222.6	24.2	10.9%	20%	21%	10%
Custom Supply	**172.7**	**8.6**	**5.0%**	165.3	7.5	4.5%	4%	5%	5%
Unallocated costs		**(7.8)**			(7.2)				
Total	**438.9**	**30.6**	**7.0%**	387.9	24.5	6.3%	13%	14%	8%

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

With approximately 85% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has been slightly impacted by stronger Sterling year-on-year, with Group revenue growth reducing from 14% CER to 13% on a reported basis.

Order Book

Orders have continued to grow well with the year end order book reaching a record high of £139m, an increase of 15% CER over last year. On an organic basis, the Group order book increased by 12%, with the D&M order book growing by 17% organically and the Custom Supply order book by 4% organically.

The order book growth is driven by repeating revenues from existing customer projects and the conversion of customer design wins from new projects into orders.

Over 80% of the order book is for delivery within twelve months from the time of order, and it is this conversion into sales which is driving the continued momentum in sales into FY2019/20.

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

Design wins

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

Design opportunities take on average eighteen months to develop to conclusion, at which point they become a design win. Once in production, the design win is expected to create a recurring revenue stream over a number of years.

Design wins again grew very strongly this year. The estimated lifetime sales value of design wins during the period was £266m, an increase of 40% over the prior year (FY 2017/18: £190m) and on an estimated annual revenue basis, represent 16% of reported revenue, up from 12% last year. A portion of design wins are to replace existing projects as they become end-of-life.

Design & Manufacturing ("D&M") Division

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

During the year, production ramp up began in our new, larger production facilities in Bangalore, India for magnetic components; Bratislava, Slovakia for fibre optic components and Seoul, Korea for electromagnetic shielding products. Additionally, we commenced the expansion of our magnetic components production facility in China which, when complete later this year, will increase Myrra's production capacity in Asia by around 70%.

The benefit of design wins from previous years generating new revenue and strong demand from our key target markets helped to deliver strong organic growth in the division with sales growth of 10% and order growth of 11%. This continued the momentum seen last year when organic sales and orders grew by 11% and 10% respectively. Sales growth has been consistently strong across each of the last 9 quarters, with growth between 9% and 11%, with one quarter at 14%. Geographically, sales grew by 12% in Asia, Germany & the Nordic region; by 9% in the Rest of Europe and North America and 6% in the UK. Revenues beyond Europe were 27% of D&M revenues (up from 26% last year).

The effect of China / US tariffs is limited. Of £32m sales into the US, £4m were manufactured in China and subject to a tariff (mostly at 25%), with our pass-through policy applying. With our production operations located internationally, in India, Sri-Lanka, Thailand and now Mexico, production for the US is being reduced in China and transferred to other countries where appropriate. We expect this to continue in the year ahead, minimising the effects of such tariffs on our customers.

Organic sales growth of 10%, combined with an 11% sales increase from acquisitions, resulted in overall sales increasing by 21% CER. Including a 1% reduction in revenue due to the impact of currency translation, reported divisional revenue increased by 20% to 266.2m (FY 2017/18: £222.6m).

D&M revenue accounted for 61% of Group revenue (FY 2017/18: 57%) representing further progress towards our mid-term target for D&M to reach 75% of Group revenue, and generated 78% of the Group's underlying profit contribution, up 2ppts on last year (FY 2017/18: 76%).

Underlying operating profit of £29.8m was £5.6m (+23%) higher than last year (FY 2017/18: £24.2m) and up £5.9m CER (+25%). The underlying operating margin of 11.2% was 0.3ppts higher than last year (FY 2017/18: 10.9%), with higher gross margins partly offset by operational investment to support infrastructure, for example, local IT systems required for future growth, and was also partly impacted by the solar market slow down during the year.

Santon

In February 2018, the Group acquired the Santon Group, a Dutch based designer and manufacturer of highly differentiated, patented, direct current ("DC") switches for use in solar, industrial and transportation markets. The acquisition was consistent with the Group's strategy of targeting structural growth markets, in this case renewable energy, transportation and industrial markets, building on its established position in niche components for solar power.

Following anticipated changes to Chinese solar tariffs, sales and orders in Santon's solar business slowed in the first half of the year as the market adapted. In the second half, orders recovered strongly such that full year orders were at a similar level to the prior year, lifting second half sales by 12% over the first half. The lower solar sales for the year as a whole also had an adverse impact on divisional margins. The growing order book bodes well for future organic growth.

The potential for the Chinese tariff reduction and the subsequent temporary drop in sales was anticipated in the deal structure at the time of acquisition. As a result, a repayment was made to the Group by the vendor of the €2.5m (£2.2m) capital expenditure contribution made by the Group at the time of acquisition and the initial contingent payment of up to €10m was not payable.

Sales in Santon's transportation and industrial businesses grew by 8% during the year and are expected to continue to grow, having recently won a number of new projects.

The growth prospects for Santon remain excellent. Its high performance switches are suitable for a number of growth markets, in particular transportation such as rail, energy storage, solar energy and industrial markets where it can benefit from access to the Group's wide customer base and geographic presence. A number of initiatives are underway, developing these opportunities.

Cursor Controls

In October 2018, the Group acquired the Cursor Controls Group, a UK based designer and manufacturer of human to machine interface ("HMI") products for medical, industrial and transportation applications. Its products include trackballs, touchpads and rugged keyboards, which are custom designed for specific applications, and are highly complementary to the Group's existing business. The acquisition is consistent with discoverIE's focus on structural growth markets with over 60% of its revenues derived from the medical and industrial sectors. Over 90% of its sales are to international markets outside the UK, with 40% being into North America, Asia and other non-EU markets. The business, which is based in Newark, UK, with manufacturing facilities in the UK and Belgium, continues to retain its distinct brand identity.

Cursor Controls was acquired for an initial cash consideration of £19.0m on a debt free, cash free basis, before expenses, and generated revenue of £7.9m for its year ended 31 December 2017, with an underlying operating profit of £2.1m. In addition, a contingent payment of up to £4.0m will be payable subject to Cursor Controls achieving certain profit growth targets during the three-year period ended 31 December 2021.

Since acquisition, Cursor Controls has performed strongly, with excellent growth in orders and sales including a large new order from a major international customer. As with other acquisitions, we expect the business to benefit from access to discoverIE's broader, international customer base, to create new revenue opportunities from cross-selling within the Group.

Hobart Electronics

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

The business was acquired for an initial cash consideration of $15.2m (£11.7m) on a debt free, cash free basis, with a further contingent cash consideration of up to $4.0m (£3.1m) payable subject to the achievement of certain growth targets over the next three years.

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

Positek

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

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

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 mostly with products sourced from third party suppliers rather than manufactured in-house. As such, operating margins are lower than in D&M. A key element of the division's strategy is to grow the proportion of cross-sales from products manufactured by the D&M division in a manner that complements, but does not compete with or limit growth of our highly valued third party suppliers, thereby enhancing the Group's overall value proposition to customers and suppliers.

Given the bespoke nature of the product offering, a high degree of technical knowledge is required during the sales process with the division's in-house engineers helping customers to solve their design challenges. The Group is the only industrial electronics business which provides such a comprehensive range of customer-specific products and solutions across Europe. The division comprises two businesses, Acal BFi and Vertec.

Acal BFi supplies industrial markets and accounts for most of Custom Supply divisional revenue. It supplies products from a selected group of manufacturers (including the Group's D&M businesses) to customers in five technology areas: Communications & Sensors, Power & Magnetics, Electromechanical & Cabling, Microsystems, and Imaging & Photonics. The business operates across Europe, with centralised warehousing, purchasing, finance, customer contact management and IT systems. Vertec supplies exclusively-sourced medical imaging and radiotherapy products into medical and healthcare markets in the UK and South Africa.

The division's trading performance this year was good, particularly in Germany, Italy and the Netherlands, driving 5% overall organic sales growth in the year, with organic growth of 2% in the first half and 8% in the second half; first half growth excluding one large order shipment in the prior year was 6%.

Including a 1% reduction due to translation movements, reported divisional revenue increased by 4% to £172.7m (FY 2017/18: £165.3m). Underlying operating profit of £8.6m was £1.1m (+15%) higher than last year (FY 2017/18: £7.5m) while the underlying operating margin was 5.0%, 0.5ppts higher than last year, achieving our mid-term target margin for this division.

Target Markets

The Group focuses on four target markets, which account for around 71% of D&M turnover and 66% of Group turnover: transportation, medical, renewable energy and industrial & connectivity. These target markets are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities. Growth in these markets is driven by the increasing electronic content, connectivity and communication in products, and by global macro trends such as an ageing affluent population, an expanding transport infrastructure, and the increasing need for renewable sources of energy. This year, organic revenue growth in these target markets was 12%, compared with 8% for the Group as a whole.

i) Transportation

Transport markets continue to grow internationally. The electronics content is rising driven by electrification, safety, automation and convenience. IC Insights, an electronics market research company, expects integrated circuit sales, a proxy for electronic content, into the automotive market to rise by a CAGR of 13.4% between 2016 and 2021.

ii) Medical

This market is 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. A report by Research+Markets forecasts the global sales of medical electronics to grow by a CAGR of 6.8% between 2017 and 2022.

iii) Renewable Energy

The increasing global requirement for clean electricity is leading to the rapid adoption of sustainable energy generation. So much so, that according to the World Energy Outlook 2017, two thirds of global investment in power generation up to 2040 will be into renewable energy, primarily wind and solar.

iv) Industrial & Connectivity

Technology is creating opportunities for connectivity everywhere, which is becoming increasingly important in industry. A report by the research firm Markets-and-Markets, expects the overall market size for global machine-to-machine connections to rise by 13.2% CAGR between 2016 and 2021. With the growing adoption of electronics and connectivity of industrial devices, the definition of this target market is being broadened to include key, growth industrial applications, reflecting the increasing contribution of the D&M division.

Cross-selling

For acquired businesses, cross-selling through our Custom Supply division or between other D&M businesses provides new customer and geographic growth opportunities.

It takes typically three years for cross-selling to become established within a business unit, due to project lead-in cycles, and then develops into a significant additional source of revenue, as evidenced by the Group's longer standing acquisitions of MTC and Myrra, which both now count intra-Group cross-selling as one of their largest customers. This year, cross-selling revenues which now account for 2.4% of Group sales, were up 20% to £10.6m from the previous year (FY 2017/18: £8.8m), exceeding our 3 year target set at 31 March 2017 of £10m and achieved earlier than anticipated. We have increased this target for the year ahead to £12m.

Acquisitions

There are numerous opportunities to acquire businesses that will enhance, strengthen and build the Group. Good acquisitions, at the right price, which build complementary product and/or geographic capability and supply common markets and customers, create future organic growth opportunities and build value for shareholders.

We acquire businesses that are successful, profitable and growing in our existing and adjacent technology areas, with good growth prospects and long term growth drivers similar to the Group's target markets.

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

Our primary acquisition focus is to invest for growth, with operational efficiency improvement. As such, the D&M division operates a decentralised structure with business units operating to pre-agreed business plans. We support growth investment requirements and develop operational performance according to the requirements of each business unit. Depending upon the circumstances, we add value in some or all of the following areas:

- Internationalising sales channels and expanding the customer base, including via Group cross-selling initiatives (see above);
- Developing and expanding the product range;
- Investing in management capability ('scaling up') and succession planning;
- Capital investment in manufacturing & infrastructure;
- Improving manufacturing efficiency;
- Enabling growth with larger customers as a consequence of the stronger Group balance sheet;
- Infrastructure efficiencies, such as warehousing and freight;
- Finance and administrative support, such as treasury, banking, legal, pension, tax & insurance, risk & control; and
- Expanding the business through further acquisitions.

<u>Acquisition performance</u>

Over the last eight years, 14 businesses have been acquired in the D&M division at a cost of £187m, including two since the year end, and a further two acquired in the last two years. We measure acquisition return on investment ("ROI") using the current year operating profit attributable to each business over the acquisition costs (including earn outs, expenses of acquisition and integration costs).

The Group, which has a weighted average cost of capital ("WACC") of c.9%, targets an acquisition EBIT ROI of 15% within two years. Overall, the weighted average ROI of the 10 acquired businesses owned for at least two years was 20%, up from 17% in the prior year. During the year, of these 10 businesses, seven significantly exceeded our target ROI with a range of 24% to 115%, mostly the result of several years' profitable post-acquisition growth from those businesses. While the smallest business performed below our WACC, changes to this business are being made which are expected to improve its profitability in the year ahead.

Group Priorities for the Year Ahead

Our priority for the year ahead is to deliver further good growth in earnings and operating margins, through:

1. Organic sales growth, including:
    - High quality design wins in target markets;
    - Continued emphasis on cross-selling.
2. Developing new and expanded production facilities.

3. Integrating the Hobart and Positek acquisitions through:
    - Organic growth;
    - Integration into Noratel and Variohm respectively;
    - Establishment of cross-selling.
4. Improving underlying operating margins through:
    - Further growth in the D&M contribution to Group performance;
    - Ongoing efficiency initiatives;
    - Operational gearing benefits;
    - Continued investment in our commercial and manufacturing infrastructure.
5. Further value enhancing acquisitions.

Summary and Outlook

This year has seen an excellent Group performance with strong organic growth complemented by the contribution from acquisitions, resulting in 22% growth in underlying earnings per share.

As a business we are focused on four key structurally growing markets with66% of Group revenue and 75% of design wins derived from our target markets of renewable energy, transportation, medical and industrial & connectivity.

discoverIE is a natural consolidator in a highly fragmented market, acquiring high-quality Design & Manufacturing businesses to build the Group's technology capability and extend our geographic coverage. We have made three acquisitions in the last eight months - Cursor Controls, Hobart and Positek - all of which are high quality, higher margin custom design businesses, selling into international markets, and further build our business in line with our strategic objectives.

With a record year end order book and a high level of design wins, we are well positioned for continued progress and excited by the opportunities that lie ahead as we continue to build a high-quality, global business

Nick Jefferies
Group Chief Executive
4 June 2019

FINANCE REVIEW

Orders, Revenue and Gross Profit

Group revenue for the year increased by 13% over last year to £438.9m, and by 14% CER, the difference reflecting the translation impact of Sterling strength on average since last year. Organic revenue increased by 8%, while the acquisitions of Santon last year, and Cursor Controls this year contributed an additional 6% growth in revenues.

£m	**FY 2018/19**	**FY 2017/18**	**%**
Reported revenue	438.9	387.9	13%
FX translation impact		(3.9)	
Underlying revenue (CER)	438.9	384.0	14%
Acquisitions	(24.7)	-	
Organic revenue	414.2	384.0	8%

Group orders also increased by 14% CER with a book to bill ratio of 1.03 (H1: 1.03, H2: 1.04). Organically, orders were also up 8% for the year.

With approximately 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling was impacted by its strength on average since last year. While Sterling was in line with the Euro during the year, it appreciated 3% against Nordic currencies on average and weakened 1% against the US dollar.

Gross profit for the year of £145.0m increased by 14% over last year (FY2017/18: £126.7m) with gross margin for the year of 33.0% being 0.3ppts ahead of last year (FY 2017/18: 32.7%).

The Group's gross margin has increased by around 7ppts in the last 10 years, a reflection of the differentiated nature of our products and the acquisitions of higher margin businesses.

Underlying Operating Costs

Reported costs were up 12% as detailed below. Excluding underlying adjustments, Group underlying operating costs increased by 13% CER. Adjusting for the pre-acquisition costs of Santon and Cursor Controls, underlying operating costs increased by 5% organically, reflecting investment in D&M businesses to support strong revenue growth.

As a percentage of sales, underlying operating costs for the year reduced by 0.4ppts to 26.0% (FY 2017/18: 26.4%), a reflection of strong sales growth and tight cost control.

£m	**FY 2018/19**	**FY 2017/18**	**%**
Organic operating costs	106.9	101.4	5%
Acquisition operating costs	7.5	-	
Underlying operating costs (CER)	114.4	101.4	13%
FX translation		0.8	
Underlying adjustments			
Acquisition-related costs	1.8	0.8	
Amortisation of acquired intangibles	5.9	4.9	
Exceptional items(1)	(0.2)	1.2	
IAS 19 pension administration cost	0.4	0.3	
Reported operating costs	122.3	109.4	12%

£m	**FY 2018/19**	**FY 2017/18**
Selling and distribution costs	57.7	54.5
Administrative expenses(1)	64.6	54.9
Reported operating costs	122.3	109.4

(1) Last year's exceptional charge within administrative expenses restated as set out in Note 5 of the attached summary financial statements.

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

Group Operating Profit and Margin

Group underlying operating profit for the year was £30.6m, up £6.1m (+25%) on last year, and up 26% CER, delivering a Group underlying operating margin of 7.0%, up 0.7ppts on last year.

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £22.7m, an increase of £5.4m (+31%) compared with last year (FY 2017/18: £17.3m).

£m	**FY 2018/19**			FY 2017/18		
	Operating profit	**Finance cost**	**Profit before tax**	Operating profit	Finance cost	Profit before tax
Underlying	30.6	(3.4)	27.2	24.5	(2.6)	21.9
Underlying adjustments						
Acquisition-related costs	(1.8)	-	(1.8)	(0.8)	-	(0.8)
Amortisation of acquired intangibles	(5.9)	-	(5.9)	(4.9)	-	(4.9)
Exceptional items (restated)	0.2	-	0.2	(1.2)	-	(1.2)
IAS 19 pension cost	(0.4)	-	(0.4)	(0.3)	(0.1)	(0.4)
Reported	22.7	(3.4)	19.3	17.3	(2.7)	14.6

Underlying Adjustments

Underlying adjustments for the year comprise: acquisition-related costs of £1.8m (FY 2017/18: £0.8m); the amortisation of acquired intangibles of £5.9m (FY 2017/18: £4.9m); and the IAS19 legacy pension cost of £0.4m (FY 2017/18: £0.3m). In addition, there was net exceptional income this year of £0.2m, being exceptional income of £1.1m related to income from an insurance policy in respect of a fraud uncovered during the year (as detailed below), offset by an exceptional charge of £0.9m related to a pension equalisation provision for Guaranteed Minimum Pensions (GMP) which is covered in more detail in the pension section below.

During the year, divisional internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary. Decisive action was taken to resolve the matter with new management put in place and tightened Group and local controls. Of the total fraud cost of £4.0m, £2.6m has been recovered this year from insurance after the excess deductible. The fraud was conducted over a period of four years of which £1.5m of the fraud cost was incurred this year, £1.2m last year and a further £1.3m in the previous two years. The exceptional income of £1.1m for this year comprises the insurance receipt of £2.6m offset by the fraud cost incurred this year of £1.5m.

Acquisition-related costs of £1.8m comprised expenses related to the acquisition of Cursor Controls in October 2018 of £0.9m, contingent consideration of £0.5m paid in relation to earlier acquisitions and £0.4m incurred in relation to the post year-end acquisitions of Hobart and Positek. The £1.0m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Santon last year and Cursor Controls this year. The total annualised amortisation cost for next year is expected to be around £7.0m, excluding the impact of the two businesses (Hobart and Positek) which were acquired after the year end.

Financing Costs

Group finance costs of £3.4m (FY 2017/18: £2.7m), comprised underlying finance costs (being interest and facility fees arising from the Group's banking and pooling facilities), together with an IAS19 pension finance charge.

Underlying finance costs for the year were £3.4m, an increase of £0.8m from last year (FY 2017/18: £2.6m), due to higher average debt balances during the year following the acquisitions of Santon for £24.0m in February 2018 and Cursor Controls for £19.0m in October 2018. Included within finance costs is the amortisation of the upfront arrangement fees associated with the Group's syndicated banking facility of approximately £0.3m per annum, rising to £0.4m next year.

The IAS19 pension finance cost for the year was nil, compared with £0.1m last year.

Underlying Tax Rate

The underlying effective tax rate for the year was 25%. This was approximately 1ppt higher than last year due mainly to increased profitability in higher tax territories.

The overall effective tax rate of 24% was slightly lower than the underlying effective tax rate mainly due to higher tax credit available on the amortisation of acquired intangibles.

Profit Before Tax and EPS

Underlying profit before tax for the year was £27.2m, an increase of £5.3m (24%) compared with last year. This increase, resulted in underlying diluted earnings per share for the year of 27.2p, up 22% on last year.

After the underlying adjustments discussed above, reported profit before tax of £19.3m was 32% higher than last year (FY2017/18: £14.6m), with reported fully diluted earnings per share of 19.4p, an increase of 37% on last year (FY2017/18: 14.2p).

£m	**FY 2018/19**		**FY 2017/18**	
	PBT	**EPS**	**PBT**	**EPS**
Underlying	27.2	27.2p	21.9	22.3p
Underlying adjustments				
Acquisition-related costs	(1.8)		(0.8)	
Amortisation of acquired intangibles	(5.9)		(4.9)	
Exceptional items (restated)	0.2		(1.2)	
IAS 19 pension cost	(0.4)		(0.4)	

Reported	19.3	19.4p	14.6	14.2p

Working Capital

Working capital at 31 March 2019 was £67.2m, equivalent to 14% of annualised final quarter sales at CER. This compares with working capital of £60.6m at 31 March 2018, also at 14% of last year's annualised final quarter sales at CER. Continued tight management of working capital has kept this ratio in line with last year, despite increased sales in the D&M division, which as a manufacturer, holds raw material and more finished goods than in Custom Supply, and hence has lower stock turns (3.8 times in D&M compared with 10.9 times in Custom Supply). This in turn, results in higher working capital as a percentage of sales in the D&M division (19% in D&M compared with 10% in Custom Supply).

Group stock turns were 5.1, 0.2 turns better than last year, despite the increasing percentage of D&M sales. Group trade debtor days and trade creditor days outstanding at 31 March 2019 were at 54 days (down 1 day) and 63 days (consistent with last year) respectively.

ROCE for the year (return on capital employed, as defined in note 6 to the attached summary financial statements) on our organic business was 15.4%, up 1.7ppts on last year driven by increased profitability and operating efficiency. This is ahead of our target to achieve a ROCE of at least 15%.

Cash Flow

Net debt at 31 March 2019 was £63.3m, compared with £52.4m at 31 March 2018. The increase of £10.9m results mainly from the Cursor Controls acquisition in October 2018. Excluding the upfront costs and expenses related to acquisitions, net debt would have reduced by £13.3m to £39.1m.

	FY 2018/19	**FY 2017/18**
Net debt at 1 April	(52.4)	(30.0)
Free cash flow (see table below)	21.4	15.8
Acquisition-related cash flow	(24.2)	(25.4)
Executive Share option exercises	(1.6)	(1.5)
Equity issuance	0.1	-
Net exceptional receipt/(cost) (restated)	1.1	(3.0)
Legacy pension	(1.7)	(1.7)
Dividends	(6.7)	(6.2)
Foreign exchange impact	0.7	(0.4)
Net debt at 31 March	**(63.3)**	**(52.4)**

Net acquisition cash flows of £24.2m comprise a £19.0m upfront cash payment for the acquisition of Cursor Controls in October 2018, £1.5m of acquisition adjustments for acquired cash and working capital, acquisition costs of £1.6m and the cash cost of earn-out payments made in the year of £2.1m. The net cash receipt in respect of the fraud uncovered during the year (see underlying adjustments above) totalled £1.1m (being insurance proceeds of £2.6m offset by the cash loss incurred in the year of £1.5m). Additionally, £1.5m of tax was paid in respect of executive share options which were exercised during the year.

Dividend payments increased by £0.5m to £6.7m following the 6% dividend increase last year. The Group will continue to review the level of future dividend growth in relation to its policy of long term dividend cover of over 3 times underlying earnings per share.

Operating cash flow and free cash flow (see definitions in note 6 to the summary financial statements) for the year compared with last year are shown below.

£m	**FY 2018/19**	**FY 2017/18**
Underlying profit before tax	**27.2**	**21.9**
Finance costs	3.4	2.6
Non-cash items(1)	6.4	4.8
Underlying EBITDA	**37.0**	**29.3**
Working capital (restated)(2)	(3.2)	(2.9)
Capital expenditure	(5.2)	(4.3)
Operating cash flow	**28.6**	**22.1**
Finance costs	(3.4)	(2.6)

Taxation	(3.8)	(3.7)
Free cash flow	**21.4**	**15.8**

(1) Non-cash items comprise depreciation (£4.6m), amortisation (£0.6m) and share based payments (£1.2m)
(2) Last year's inventory restated as set out in Note 5 of the attached summary financial statements.

Underlying EBITDA of £37.0m was 26% higher than last year. £3.2m was invested into working capital, to support strong organic D&M sales growth of 10% (being additional organic D&M sales of £22.3m). This additional working capital equates to 14% of D&M sales, 5ppts below the 19% average for the D&M division.

Capital expenditure at £5.2m was £0.9m higher than last year with increased investment in the D&M division.

Operating cash flow of £28.6m, which was up 29% on last year, represents 93% of underlying operating profit, ahead of our 85% conversion target. Free cash flow (after finance costs and taxation) was £21.4m; at 104% of underlying profit after tax, again ahead of our target of 90%.

Banking Facilities

During February 2019, the Group increased its syndicated banking facility from £120m to £180m and extended the remaining term of the facility by two years out to four years ending in June 2023, with an option exercisable by the Group to extend the facility by a further year to June 2024. In addition, the Group has a £60m accordion facility which it can use to extend the total facility up to £240m. The syndicated facility is available both for acquisitions and for working capital purposes, and now comprises six lending banks.

With net debt at 31 March 2019 of £63.3m, the Group's gearing ratio was 1.7 times (FY 2017/18: 1.5 times), being defined as net debt divided by underlying EBITDA (annualised for acquisitions). Following the placing on 18 April 2019, year-end gearing would have reduced on a proforma basis to 1.4 times, with our target gearing range being between 1.5 and 2.0 times.

Balance Sheet

Net assets of £134.7m at 31 March 2019 were £7.9m higher than at the end of the last financial year (31 March 2018: £126.8m). The increase primarily relates to the net profit for the year partly offset by the payment of last year's final dividend. The movement in net assets is summarised below:

£m	**FY 2018/19**
Net assets at 31 March 2018 (restated)	126.8
Net profit after tax	14.6
Dividend paid	(6.7)
Currency net assets - translation impact	(1.1)
Gain on defined benefit scheme	0.1
Equity issuance	0.1
Share based payments (inc tax)	0.9
Net assets at 31 March 2019	**134.7**

Defined Benefit Pension Scheme

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the period by £0.5m, from £3.0m at 31 March 2018 to £2.5m at 31 March 2019. This mainly results from contributions of £1.7m made by Group partially offset by increased gilt and corporate bond rates during the year. Annual payments of £1.7m remain payable (growing by 3% each year in accordance with the plan agreed with the pension trustees in 2009) until March 2022. The triennial valuation of the scheme is being undertaken based on valuations as at 31 March 2018.

In October 2018, it was ruled that the trustees of Lloyds Banking Group had a duty to remove inequalities in scheme benefits that arose under Guaranteed Minimum Pensions (GMPs) being unequal between men and women. This has affected many UK companies with defined benefit schemes. As a result of this ruling, the liabilities of the pension scheme increased by £0.9m with a corresponding exceptional charge being incurred.

Brexit

discoverIE does not anticipate a material direct tariff impact from Brexit. As an international Group, only 15% of sales are in the UK. Over 90% of these sales are either manufactured in the UK, or sourced from the US and Asia. Likewise, most of our UK businesses sell to UK customers. Where there are sales to Europe, products are already low or zero rated for WTO purposes, and were rates to apply, we would seek to apply our customer pass-through policy. Indirect risk remains in terms of customer demand and also, the impact from a depreciation of Sterling which would increase import costs.

Risks and Uncertainties

The principal risks faced by the Group are covered in more detail in the Group's Annual Report, published later this month. These risks include, but are not limited to: the economic environment, particularly within Europe; the impact arising from the UK's decision to leave the European Union; the performance of acquired companies; loss of major customers or suppliers; technological change; major business disruption; cyber security; inventory obsolescence; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; and loss of key personnel.

The Group's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions. Some level of risk, however, will always be present. The Group is well positioned to manage such risks and uncertainties, if they arise, given its strong balance sheet and committed banking facility of £180m.

Simon Gibbins
Group Finance Director

4 June 2019

Consolidated income statement

for the year ended 31 March 2019

	notes	**2019 £m**	2018 £m Restated*
Revenue	7	**438.9**	387.9
Cost of sales		**(293.9)**	(261.2)
Gross profit		**145.0**	126.7
Selling and distribution costs		**(57.7)**	(54.5)
Administrative expenses (including underlying adjustments)		**(64.6)**	(54.9)
Operating profit		**22.7**	17.3
Finance income		**0.5**	0.4
Finance costs		**(3.9)**	(3.1)
Profit before tax		**19.3**	14.6
Tax expense		**(4.7)**	(4.0)
Profit for the year		**14.6**	10.6
Earnings per share	10		
Basic		**20.0p**	15.0p
Diluted		**19.4p**	14.2p

Supplementary income statement information

Underlying Performance Measures	notes	**2019 £m**	2018 £m Restated*
Operating profit		**22.7**	17.3

Add back:	Exceptional items		**(0.2)**	1.2
	Acquisition costs		**1.8**	0.8
	Amortisation of acquired intangible assets		**5.9**	4.9
	IAS 19 pension administrative charge		**0.4**	0.3
Underlying operating profit		8	**30.6**	24.5
Profit before tax			**19.3**	14.6
Add back:	Exceptional items		**(0.2)**	1.2
	Acquisition costs		**1.8**	0.8
	Amortisation of acquired intangible assets		**5.9**	4.9
	Total IAS 19 pension charge		**0.4**	0.4
Underlying profit before tax		8	**27.2**	21.9
Underlying earnings per share		10		
Basic			**28.1p**	23.4p
Diluted			**27.2p**	22.3p

**Refer to note 5 for details on restatement*

Consolidated statement of comprehensive income

for the year ended 31 March 2019

	2019 £m	2018 £m Restated*
Profit for the year	**14.6**	10.6
Other comprehensive income:		
Items that will not be subsequently reclassified to profit or loss:		
Actuarial gain on defined benefit pension scheme	**0.1**	2.1
Deferred tax charge relating to defined benefit pension scheme	**-**	(0.3)
	0.1	1.8
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign subsidiaries	**(1.1)**	(3.5)
	(1.1)	(3.5)
Other comprehensive loss for the year, net of tax	**(1.0)**	(1.7)
Total comprehensive income for the year, net of tax	**13.6**	8.9

**Refer to note 5 for details on restatement*

Consolidated statement of financial position

as at 31 March 2019

	notes	**2019 £m**	2018 £m Restated*	2017 £m Restated*
Non-current assets				
Property, plant and equipment		**24.4**	23.4	16.0
Intangible assets - goodwill	14	**85.3**	77.0	72.6
Intangible assets - other		**34.4**	30.2	28.1
Deferred tax assets		**5.1**	5.8	5.5
		149.2	136.4	122.2
Current assets				
Inventories		**66.2**	58.1	48.8
Trade and other receivables		**88.7**	84.6	77.3
Current tax assets		**1.3**	1.3	-
Cash and cash equivalents		**22.9**	21.9	21.0
		179.1	165.9	147.1
Total assets		**328.3**	302.3	269.3
Current liabilities				
Trade and other payables		**(87.7)**	(82.1)	(72.3)
Other financial liabilities		**(1.7)**	(6.4)	(1.0)
Current tax liabilities		**(5.5)**	(4.6)	(2.6)
Provisions		**(1.1)**	(0.9)	(2.2)
		(96.0)	(94.0)	(78.1)
Non-current liabilities				
Trade and other payables		**(0.2)**	(0.7)	(3.3)
Other financial liabilities		**(84.5)**	(67.9)	(50.0)
Pension liability	16	**(2.5)**	(3.0)	(6.4)
Provisions		**(2.7)**	(2.8)	(2.5)
Deferred tax liabilities		**(7.7)**	(7.1)	(6.5)
		(97.6)	(81.5)	(68.7)
Total liabilities		**(193.6)**	(175.5)	(146.8)

Net assets		**134.7**	126.8	122.5
Equity				
Share capital	15	**3.7**	3.6	3.5
Share premium		**106.9**	106.9	106.0
Merger reserve		**2.9**	2.9	2.9
Currency translation reserve		**2.4**	3.5	7.0
Retained earnings		**18.8**	9.9	3.1
Total equity		**134.7**	126.8	122.5

**Refer to note 5 for details of restatement*

These financial statements were approved by the Board of Directors on 4 June 2019 and signed on its behalf by:

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

Consolidated statement of changes in equity

for the year ended 31 March 2019

	Attributable to equity holders of the Company					
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Currency translation reserve £m**	**Retained earnings £m**	**Total equity £m**
At 1 April 2017 (Restated*)	**3.5**	**106.0**	**2.9**	**7.0**	**3.1**	**122.5**
Profit for the year (Restated*)	-	-	-	-	10.6	10.6
Other comprehensive loss	-	-	-	(3.5)	1.8	(1.7)
Total comprehensive income	-	-	-	(3.5)	12.4	8.9
Shares issued (note 15)	0.1	0.9	-	-	-	1.0
Notional repurchase of share options	-	-	-	-	(1.5)	(1.5)
Share-based payments including tax	-	-	-	-	2.1	2.1
Dividends (note 9)	-	-	-	-	(6.2)	(6.2)
At 31 March 2018 (Restated*)	**3.6**	**106.9**	**2.9**	**3.5**	**9.9**	**126.8**
Profit for the year	-	-	-	-	14.6	14.6
Other comprehensive loss	-	-	-	(1.1)	0.1	(1.0)
Total comprehensive income	-	-	-	(1.1)	14.7	13.6
Shares issued (note 15)	0.1	-	-	-	-	0.1
Share-based payments including tax	-	-	-	-	0.9	0.9
Dividends (note 9)	-	-	-	-	(6.7)	(6.7)
At 31 March 2019	**3.7**	**106.9**	**2.9**	**2.4**	**18.8**	**134.7**

**Refer to note 5 for details of restatements*

Consolidated statement of cash flows

for the year ended 31 March 2019

	notes	**2019 £m**	2018 £m
Net cash flow from operating activities	13	**22.4**	15.0
Investing activities			
Acquisition of shares in subsidiaries (net of cash/(debt) acquired)		**(21.3)**	(24.6)
Acquisition related contingent consideration		**(1.3)**	(0.8)
Purchase of property, plant and equipment		**(4.2)**	(3.7)
Purchase of intangible assets - software		**(1.2)**	(0.6)
Proceeds from disposal of property, plant and equipment		**0.2**	-
Interest received		**0.4**	0.4
Net cash used in investing activities		**(27.4)**	(29.3)
Financing activities	15		
Net proceeds from the issue of shares		**0.1**	-
Proceeds from borrowings		**17.2**	20.4
Repayment of borrowings		**(1.2)**	(1.5)
Dividends paid		**(6.7)**	(6.2)
Notional repurchase of share options		-	(1.5)
Net cash generated from financing activities		**9.4**	11.2
Net increase/(decrease) in cash and cash equivalents[1]		**4.4**	(3.1)
Cash and cash equivalents at 1 April		**16.2**	19.8

Effect of exchange rate fluctuations	**0.2**	(0.5)
Cash and cash equivalents at 31 March	**20.8**	16.2

Reconciliation to cash and cash equivalents in the consolidated statement of financial position		
Net cash and cash equivalents shown above	**20.8**	16.2
Add back: bank overdrafts	**2.1**	5.7
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	**22.9**	21.9

1 Further information on the consolidated statement of cash flows is provided in notes 12 and 13.

Notes to the Group financial statements

for the year ended 31 March 2019

1. Publication of non-statutory accounts

The preliminary results were authorised for issue by the Board of Directors on 4 June 2019. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies whereas those for 2019 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 2006.

2. Basis of preparation

The financial information in this statement is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006.

3. Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in the Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review. The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties successfully.

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

4. Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, subject to the following:

New standards applied:

International Accounting Standards (IAS/IFRS/IFRIC)		**Effective date**
IFRS 9	Financial Instruments: Classification and measurement	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

The Group has assessed the impact of the above standards and has concluded that neither have had a material impact on the Group's financial statements for the year ended 31 March 2019.

New standards not yet applied

IFRS 16, 'Leases' is effective for annual periods beginning on or after 1 January 2019 and will impact the Group for the first time for the financial year ending 31 March 2020. The Group will not restate prior year comparators when the new standard is adopted, with lease asset values being set equal to lease liabilities at the date of transition in line with the 'simplified approach' under IFRS 16. The Group will apply the standard from 1 April 2019 and expects to recognise right-of-use assets of approximately £19m and lease liabilities of £19m. For the year ending 31 March 2020 the Group expects the impact on net profit after tax, earnings per share and total cashflow to be immaterial.

Changes resulting from the adoption of IFRS 16, including recognition of lease liabilities as financial liabilities, will not impact the Group's gearing for the purpose of the gearing covenant and interest covenant within our £180m syndicated banking facility.

5. Prior year restatement

Fraud

During the year, internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary. Decisive action was taken to resolve the matter with new management put in place and tightened Group and local controls. Of the total fraud cost of £4.0m, £2.6m has been recovered this year from insurance after the excess deductible. The fraud was concealed in inventories and conducted over a period of four years of which £1.5m of the fraud cost was incurred this year, £1.2m last year and a further £1.3m in the previous two years. The exceptional income of £1.1m for this year comprises the insurance receipt of £2.6m offset by the fraud cost incurred this year of £1.5m. In accordance with IAS8 2018 and 2017 balance sheets have been restated.

Santon business combination
In accordance with IFRS3, a measurement period adjustment has been made to the prior year accounting for the acquisition of Santon. The Santon acquisition completed on 1 February 2018 and the provisional accounting for the acquisition was reflected in the 2018 financial statements. During the year, fair values at the acquisition date have been reassessed in light of information and circumstances that existed at the acquisition date. The impact of the reassessment has been to reduce the fair value of the acquired assets and the fair value of consideration transferred to the seller by £6.8m.

The restatement impact on the consolidated income statement and consolidated statement of financial position is shown below.

	2018 reported £m	**Fraud restatement £m**	**Santon restatement £m**	**2018 restated £m**
Consolidated income statement				
Profit before tax	15.8	(1.2)	-	**14.6**
Profit after tax	11.8	(1.2)	-	**10.6**
Consolidated statement of financial position				
Intangible assets - other	33.1	-	(2.9)	**30.2**
Intangible assets - goodwill	81.9	-	(4.9)	**77.0**
Inventories	60.6	(2.5)	-	**58.1**
Trade and other receivables	82.4	-	2.2	**84.6**
Trade and other payables - current	(81.2)	-	(0.9)	**(82.1)**
Trade and other payables - non current	(6.2)	-	5.5	**(0.7)**
Current tax liabilities	(4.9)	-	0.3	**(4.6)**
Deferred tax liabilities	(7.8)	-	0.7	**(7.1)**
Retained earnings	12.4	(2.5)	-	**9.9**

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

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

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

Acquisition costs comprise all attributable costs in connection with business acquisitions and related integration into the Group, including contingent consideration where it is treated as an expense and movement in contingent consideration where it is treated as purchase price outside of the 12 month measurement period

Underlying EBITDA
"Underlying EBITDA" is defined as underlying operating profit with depreciation, amortisation and equity settled share-based payment expense added back.

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

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

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

Operational cash flow
"Operational 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 exceptional items, payments to the legacy defined benefit pension scheme, dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

Return On Capital Employed ("ROCE")
"ROCE" is defined as underlying operating profit as a percentage of net assets (including goodwill) plus net debt.

Organic basis
Reference to 'organic' basis included in the Chairman's statement, Operating Review and Finance Review of the Strategic Report means at constant exchange rates ("CER") and excluding the first 12 months of acquisitions (Santon was acquired last financial year on 1 February 2018 and Cursor Controls was acquired on 17 October 2018).

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

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

- The Custom Supply division provides technically demanding, customised electronic, photonic and medical products to the industrial, medical and healthcare markets, both from a range of high-quality, international suppliers (often on an exclusive basis) and from discoverIE's Design & Manufacturing division.

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

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

Segment revenue and results

2019	**Design & Manufacturing £m**	**Custom Supply £m**	**Unallocated £m**	**Total £m**
Revenue	**266.2**	**172.7**	**-**	**438.9**
Result				
Underlying operating profit/(loss)	29.8	8.6	(7.8)	30.6
Exceptional items	1.1	-	(0.9)	0.2
Acquisition costs	(1.8)	-	-	(1.8)
Amortisation of acquired intangible assets	(5.9)	-	-	(5.9)
IAS 19 pension charge	-	-	(0.4)	(0.4)
Operating profit/(loss)	**23.2**	**8.6**	**(9.1)**	**22.7**

2018	**Design & Manufacturing £m** Restated	**Custom Supply £m**	**Unallocated £m**	**Total £m** Restated
Revenue	222.6	165.3	-	387.9
Result				
Underlying operating profit/(loss)	24.2	7.5	(7.2)	24.5
Exceptional items	(1.2)	-	-	(1.2)
Acquisition costs	(0.8)	-	-	(0.8)
Amortisation of acquired intangible assets	(4.9)	-	-	(4.9)
IAS 19 pension charge	-	-	(0.3)	(0.3)
Operating profit/(loss)	17.3	7.5	(7.5)	17.3

8. Underlying profit before tax

			2019 £m	2018 £m Restated
Profit before tax			**19.3**	14.6
Add back	Exceptional Items	(a)	**(0.2)**	1.2
	Acquisition Costs	(b)	**1.8**	0.8
	Amortisation of acquired intangible assets	(c)	**5.9**	4.9
	Total IAS 19 pension charge	(d)	**0.4**	0.4
Underlying profit before tax			**27.2**	21.9

The tax impact of the underlying profit adjustments above is a credit of £2.0m (2018: £1.3m).

a. An exceptional charge of £0.9m was incurred in relation to equalisation of Guaranteed Minimum Pensions (GMPs) in the Sedgemoor Group Pension Fund. See note 16 for further details

During the year, internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary. Decisive action was taken to resolve the matter with new management in place and tightened Group controls. Of the total fraud cost of £4.0m, £2.6m has been recovered this year from insurance after the excess deductible. The fraud was conducted over a period of four years of which £1.5m of the fraud cost was incurred this year, £1.2m last year and a further £1.3m in the previous two years. The exceptional income of £1.1m for this year comprises the insurance receipt of £2.6m offset by the fraud cost incurred this year of £1.5m.

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

In the prior year there were £1.2m acquisition costs relating primarily to the acquisition of Santon, and £0.3m of acquisition integration cost relating to the manufacturing integration between the Plitron and Noratel business. These costs are partially offset by a £0.7m net credit adjustment to contingent consideration for acquired businesses.

c. Amortisation charge for intangible assets recognised on acquisition.

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

9. Dividends

Dividends recognised in equity as distributions to equity holders in the year:	2019 £m	2018 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2018 of 6.35p (2017: 6.05p)	**4.6**	4.3
Interim dividend for the year ended 31 March 2019 of 2.80p (2018: 2.65p)	**2.1**	1.9
Total amounts recognised as equity distributions during the year	**6.7**	6.2

Proposed for approval at AGM:	2019 £m	2018 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2019 of 6.75p (2018: 6.35p)	**5.4**	4.5
Summary		
Dividends per share declared in respect of the year	**9.55p**	9.0p
Dividends per share paid in the year	**9.15p**	8.7p
Dividends paid in the year	**£6.7m**	£6.2m

10. 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:

	2019 £m	2018 £m Restated
Profit for the year attributable to equity holders of the parent:	**14.6**	10.6

	Number	Number
Weighted average number of shares for basic earnings per share	**72,979,791**	70,797,217
Effect of dilution - share options	**2,419,122**	3,666,253
Adjusted weighted average number of shares for diluted earnings per share	**75,398,913**	74,463,470
Basic earnings per share	**20.0p**	15.0p
Diluted earnings per share	**19.4p**	14.2p

Underlying earnings per share is calculated as follows:

	2019 £m	2018 £m Restated
Net profit for the year	**14.6**	10.6
Exceptional items	**(0.2)**	1.2
Acquisition costs	**1.8**	0.8
Amortisation of acquired intangible assets	**5.9**	4.9

IAS 19 pension charge	**0.4**	0.4
Tax effect of the above	**(2.0)**	(1.3)
Underlying earnings	**20.5**	16.6

	Number	Number
Weighted average number of shares for basic earnings per share	**72,979,791**	70,797,217
Effect of dilution - share options	**2,419,122**	3,666,253
Adjusted weighted average number of shares for diluted earnings per share	**75,398,913**	74,463,470
Underlying basic earnings per share	**28.1p**	23.4p
Underlying diluted earnings per share	**27.2p**	22.3p

At the year end, there were 2,629,935 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 2,419,122 are currently dilutive (2018: 4,580,130 in issue and 3,666,253 dilutive).

11. Business combinations

On 16 October 2018, the Group completed the acquisition of Cursor Controls via the purchase of 100% of the share capital and voting equity interests of its holding company Cursor Controls Holdings ("Cursor Controls").

Cursor Controls was acquired for a consideration of £19m on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. The initial cash consideration of £20.8m was adjusted for cash acquired and other net purchase price adjustments of £1.8m. In addition, a contingent payment of up to £4.0m will be payable subject to Cursor Controls achieving certain profit growth targets during the three year period ended 31 December 2021.

Cursor Controls is a designer and manufacturer of human to machine interface ("HMI") products for medical, industrial and transportation applications. Its products comprise trackballs, touchpads and ruggedised keyboards which are custom designed for specific applications, and are highly complementary to discoverIE's existing business. The business, which is based in Newark, UK, with manufacturing facilities in the UK and Belgium, operates within the Group's Design & Manufacturing division whilst retaining its distinct brand identity.

The fair value of the identifiable assets and liabilities of Cursor Controls at the date of acquisition were as follows.

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.9
Intangible assets - customer relationships and patents	9.7
Inventories	1.4
Trade and other receivables	2.0
Net cash	1.4
Trade and other payables	(1.5)
Current tax liabilities	(0.2)
Deferred tax liabilities (non-current)	(1.9)
Total identifiable net assets	**11.8**
Provisional goodwill arising on acquisition	**9.0**
Total	**20.8**
Discharged by:	
Cash	20.8
	20.8

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

The goodwill of £9.0m arising from the acquisition is attributable to the cross-selling synergies and international expansion expected to arise from operating as part of the Group. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	20.8
Acquisition costs (included in cash flows from operating activities)[1]	0.9
Net cash acquired	(1.4)
	20.3

1. Acquisition costs of £0.9m were expensed as incurred in the year ended 31 March 2019 and were included within administrative expenses.

Included in cash flow from investing activities is the cash consideration of £20.8m, the net cash acquired of £1.4m and debt like items of £0.1m.

From the date of acquisition to 31 March 2019, Cursor Controls contributed £6.6m to revenue and £1.0m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £15.2m and the consolidated revenue for the Group would have been £443.8m.

12. Movements in cash and net debt

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

Bank loans over one year above include £83.1m (2018: £68.3m) drawn down against the Group's revolving credit facility.

Year to 31 March 2018	1 April 2017 £m	Cash flow £m	Non cash changes £m	31 March 2018 £m
Cash and cash equivalents	21.0	1.9	(1.0)	21.9
Bank overdrafts	(1.2)	(5.0)	0.5	(5.7)
Net cash	19.8	(3.1)	(0.5)	16.2
Bank loans under one year	(0.1)	(0.9)	-	(1.0)
Bank loans over one year	(50.9)	(18.0)	0.4	(68.5)
Capitalised debt costs	1.2	-	(0.3)	0.9
Total loan capital	(49.8)	(18.9)	0.1	(68.6)
Net debt	(30.0)	(22.0)	(0.4)	(52.4)

Supplementary information to the statement of cash flows

Underlying Performance Measure	**2019 £m**	2018 £m Restated
Decrease in net cash	**(11.6)**	(22.0)
Add: Business combinations	**24.2**	25.4
Exceptional cash flow	**(1.1)**	3.0
Executive options issuance	**1.6**	-
Legacy pension scheme funding	**1.7**	1.7
Dividends paid	**6.7**	6.2
Notional repurchase of share options	**-**	1.5
Less: Net proceeds from share issue	**(0.1)**	-
Free cash flow	**21.4**	15.8
Net finance costs	**3.4**	2.6
Taxation	**3.8**	3.7
Operating cash flow	**28.6**	22.1

13. Reconciliation of cash flows from operating activities

	2019 £m	2018 £m Restated
Profit for the year	**14.6**	10.6
Tax expense	**4.7**	4.0
Net finance costs	**3.4**	2.7
Depreciation of property, plant and equipment	**4.6**	3.5
Amortisation of intangible assets - other	**6.5**	5.5
Loss on disposal of property, plant and equipment	**0.1**	-
Acquisition related contingent consideration	**-**	-
Change in provisions	**0.2**	(3.5)
Pension scheme funding	**(1.7)**	(1.7)
IAS 19 pension administration charge	**1.3**	0.3
Impact of equity-settled share-based payment expense and associated taxes	**(0.5)**	0.7
Operating cash flows before changes in working capital	**33.2**	22.1
Increase in inventories	**(6.6)**	(6.5)
Increase in trade and other receivables	**(4.9)**	(0.6)
Increase in trade and other payables	**8.3**	6.7
Increase in working capital	**(3.2)**	(0.4)
Cash generated from operations	**30.0**	21.7
Interest paid	**(3.8)**	(3.0)
Income taxes paid	**(3.8)**	(3.7)

Net cash flow from operating activities	**22.4**	15.0

14. Intangible assets - goodwill

Cost	£m Restated
At 1 April 2017	109.4
Arising from business combinations	5.3
Exchange adjustments	(0.9)
At 31 March 2018	113.8
Arising from business combinations	9.0
Exchange adjustments	(0.7)
At 31 March 2019	122.1

Impairment	£m
At 31 March 2018 and 31 March 2019	**(36.8)**
Net book value at 31 March 2019	85.3
Net book value at 31 March 2018	77.0

The carrying value of goodwill is analysed as follows:

	2019 £m	2018 £m Restated
Custom Supply		
Acal BFi	**8.4**	8.5
Medical	**0.6**	0.6
Design & Manufacturing		
Stortech	**3.6**	3.6
Hectronic	**0.6**	0.6
MTC	**2.0**	2.0
Myrra	**5.1**	5.2
RSG	**1.2**	1.3
Noratel	**28.7**	29.2
Foss	**5.6**	5.6
Flux	**0.6**	0.6
Contour	**7.7**	7.7
Plitron	**1.1**	1.1
Variohm	**6.0**	6.0
Santon	**5.1**	5.0
Cursor Controls	**9.0**	-
	85.3	77.0

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Cursor Controls which was acquired in the year (refer to note 11 for details).

Management has reassessed the continuing interdependence of cashflows across the Acal BFi businesses and, as a result, has concluded that Acal BFi is now one CGU. Consequently, Compotron and Acal BFi UK goodwill have been aggregated into this CGU.

15. Share capital

Allotted, called up and fully paid	**2019 Number**	**2019 £m**	2018 Number	2018 £m
Ordinary shares of 5p each	**73,358,847**	**3.7**	71,417,857	3.6

During the year to 31 March 2019, employees exercised 1,940,991 share options under the terms of the various share option schemes (2018: 513,235).

16. Pensions

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 2015, 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 2012. This required contributions of £1.7m p.a. increasing by 3% each April payable over the period to 31 March 2022.

The results of the triennial funding valuation as at 31 March 2015 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

The pension liability at 31 March 2019 was £2.5m (2018: £3.0m) and the total pension charge was £0.4m (2018: £0.4m).

In October 2018, it was ruled that the trustees of Lloyds Banking Group had a duty to remove inequalities in scheme benefits that arose under Guaranteed Minimum Pensions (GMPs) being unequal between men and women. As a result of this, the liabilities of the pension scheme increased by £0.9m with a corresponding past service cost being recognised as an exceptional charge (see note 8).

17. Events after the reporting date

Dividend

A final dividend of 6.75p per share (2018: 6.35p), amounting to a dividend of £5.4m (2018: £4.5m) and bringing the total dividend for the year to 9.55p (2018: 9.0p), was declared by the Board on 29 May 2019. The discoverIE Group plc financial statements do not reflect this dividend.

Business combinations

On 16 April 2019, subsequent to the period end, the Group completed the acquisitions of Coil-Tran Corporation (trading as Hobart Electronics) and Positek Limited. Coil-Tran Corporation was acquired for an initial cash consideration of $15.2m (£11.7m) and Positek Limited for an initial cash consideration of £4.2m, both on a debt free, cash free basis. A contingent payment of up to $4.0m (£3.1m) will be payable to the vendors of Coil-Tran Corporation subject to the achievement of certain growth targets over the next 3 years. A contingent payment of up to £0.4m will be payable to the vendors of Positek Limited subject to the company achieving certain integration and profit targets over the next 18 months. The acquisitions were funded from existing debt facilities.

Share placing

On 18 April 2019, 7,309,867 shares were issued at a premium of £28.9m for an aggregate consideration of £29.2m, and £28.2m after costs. The shares were issued at a price of 400 pence per share representing a discount of 3.85% to the closing price of 416 pence per share on 15 April 2019. The placing structure attracted merger relief under section 612 of the Companies Act 2006, and therefore did not require an increase in share premium. This resulted in an increase in distributable reserves of £27.8m, being the excess of the net proceeds of £28.2m over the nominal value of the shares issued of £0.4m.

18. Exchange rates

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

	Year to 31 March 2019		Year to 31 March 2018	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.3090**	**1.3139**	1.4083	1.3261
Euro	**1.1651**	**1.1340**	1.1430	1.1345

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