30 NOVEMBER 2020

discoverIE Group plc

Interim results for the six months ended 30 September 2020

Resilient performance with strong cash generation

discoverIE Group plc (LSE: DSCV, “discoverIE” or “the Group”), a leading international designer, manufacturer and supplier of customised electronics to industry, today announces its interim results for the six months ended 30 September 2020 (“H1 2020/21” or the “Period”).

	H1 2020/21	H1 2019/20	Movement %
Revenue	**£217.9m**	£232.0m	(6%)
Underlying operating profit(1)	**£15.8m**	£17.7m	(11%)
Underlying profit before tax(1)	**£13.8m**	£15.6m	(12%)
Underlying EPS(1)	**11.3p**	14.4p	(22%)
Reported profit before tax	**£7.7m**	£10.4m	(26%)
Reported fully diluted EPS	**5.8p**	9.1p	(36%)
Operating cash flow	**£25.7m**	£9.2m	+179%
Gearing(8)	**1.0x**	1.6x	(0.6x)
Interim dividend per share	**3.15p**	2.97p	+6%

Highlights

- **Resilient trading during pandemic reflects strength of the operating model and target market focus**
  - Group sales declined by 8% organically with target markets performing ahead of wider markets
  - Group operating expenses reduced by 4% organically (7% reduction from H2 2019/20 run rate)
  - Underlying operating profit 11% lower
  - Underlying earnings per share reflecting lower profits & the equity issuance in H2 2019/20
  - Increasing order momentum since Q2, returning to organic growth in September

- **Excellent cash generation leading to resumption of dividend and acquisitions**
  - £43m of free cash flow(7) in the last 12 months up 63% on prior period and 174% of post-tax profit
  - Gearing(8) reduced to 1.0x at 30 Sept 2020 from 1.6x(8) in the last 12 months
  - Dividend reinstated with a 6% increase in the interim payment

- **Good progress on strategic priorities**
  - Sales from D&M(4) increased to 65% of Group sales (H1 2019/20: 63%)
  - Sales from target markets(5) increased to 68% of Group sales (H1 2019/20: 66%)
  - Sales beyond Europe increased to 28% of Group sales (H1 2019/20: 24%)
  - Increasing ESG focus with introduction of carbon emissions reduction target of 50% over 5 years

- **Second half has started well with orders ahead of sales and up on last year**
  - Phoenix America acquired for $11.0m (£8.5m) in October 2020
  - Pipeline of acquisition opportunities in development
  - Delivery of strategic targets for the next 5 years remain the focus

Nick Jefferies, Group Chief Executive, commented:

"The Group took quick action to reduce costs and preserve cash as the pandemic spread, and with our focus on structural growth markets and a flexible operating structure, we have delivered a resilient performance whilst preserving the capabilities to benefit from conditions as they improve.

Cash generation was excellent with £43m of free cash flow over the last 12 months reducing gearing to 1.0x from 1.6x. As well as reinforcing the cash generating capability of our businesses and the strength of the operating model, this provides us with the capacity to pursue further value enhancing initiatives. Accordingly, we have resumed dividends, with an increased interim payment, and acquisitions, with Phoenix America announced last month and others in the pipeline.

The second half has started well with orders ahead of sales and up on last year. With the Group's continued focus on the structural growth markets of renewable energy, medical, electrification of transportation and industrial & connectivity, we expect to continue to perform ahead of wider markets and make further progress on our strategic priorities."

Analyst and investor presentation

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

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

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Notes:

(1) 'Underlying Operating Profit', 'Underlying EBITDA', 'Underlying Operating Costs', 'Underlying Profit before Tax' and 'Underlying EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude acquisition-related costs (amortisation of acquired intangible assets of £5.3m, acquisition costs of £0.6m and the IAS19 pension charge relating to a legacy defined benefit scheme of £0.2m) totalling £6.1m. Equivalent underlying adjustments within the H1 2019/20 underlying results totalled £5.2m. For further information, see notes 2 and 5 of the attached summary financial statements.

(2) Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions (Hobart and Positek were both acquired on 15 April 2019 and Sens-Tech was acquired on 16 October 2019).

(3) Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange weakened 1% against the Euro compared with the average rate for the same period last year while strengthening 1% against the US Dollar and by 1% on average against the three Nordic currencies.

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

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

(6) 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.

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

(8) Gearing ratio is defined as net debt divided by underlying EBITDA (annualised for acquisitions). Gearing of 1.6x shown for H1 2019/20 is the proforma gearing including the acquisition of Sens-Tech in October 2019.

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

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

Notes to Editors:

About discoverIE Group plc

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

The Group provides application-specific components to original equipment manufacturers ("OEMs") internationally. By designing components that meet customers' unique requirements, which are then manufactured and supplied throughout the life of their production, a high level of repeating revenue is generated with long term customer relationships.

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

The Group employs c.4,200 people and its principal operating units are located in Continental Europe, the UK, China, Sri Lanka, India and North America.

The Group is listed on the Main Market of the London Stock Exchange and is in the top quartile of the FTSE Small Cap Index, classified within the Electrical Components and Equipment subsector, and has revenues of over £450m. Over the last five years, underlying earnings per share almost doubled.

Strategic, Operational and Financial Review

Overview

The first half of this year coincided with the spread of the COVID-19 pandemic, testing all aspects of the Group's business. The Group's multi-site operations responded quickly, establishing safe working practices and maintaining continuity. While the effects of the pandemic are evident in these results, the Group's performance has proven resilient and able to mitigate the scale of impact while continuing to deliver on its strategic goals.

First half Group sales were 8% lower than last year organically (7% lower in the D&M division organically and 11% lower in the Custom Supply division), and 6% lower including acquisitions. Performance in the target markets, which account for 68% of Group sales, has been better than other markets which were more severely affected.

Orders for the period were 18% lower than last year organically as a result of uncertainty created by the pandemic. Orders increased sequentially through the second quarter with a return to organic growth in September of 6%, and ahead of sales. The book to bill ratio was 0.85:1 in the first quarter, improving to 0.97:1 in the second quarter. This resulted in a period-end order book of £140m (10% lower than last year, 11% lower organically). The second half has started well with orders for October and November ahead of sales and up on last year.

Project design wins were 19% lower in the period with an estimated lifetime value of £108m, reflecting customers' focus on business continuity during the pandemic over new projects, particularly in the first quarter. The second quarter saw a sharp increase sequentially in new project activity and the project pipeline remains at a high level with the Group well positioned to benefit from the significant bank of design wins.

Operational cash performance was excellent, reflecting the cash generative nature of the business. This together with a number of prudent actions taken at the onset of the pandemic such as suspending acquisitions and dividends, ceasing non-essential capital expenditure, and cutting expenses and the pay of the Board and Group management, served to reduce our gearing to the lowest level in seven years, ensuring the Group is well positioned and resourced to return to strong growth as market conditions recover.

Together with these results, we have introduced a carbon emissions reduction target, with the intention to reduce Group emissions by 50% over five years. Along with the focus on selling into markets that are aligned with a sustainable future, this target reflects the Group's ongoing commitment to reducing the impact of its operations on the environment.

COVID-19

The Group responded decisively to the emergence of the COVID-19 pandemic, prioritising the well-being of employees, supporting customers and trading partners, developing fast solutions for medical market customers, and maintaining business continuity. Whilst sales in China have recovered strongly and returned to growth, the effects have been felt across all other regions of the business.

During the period, the Group consisted of operations in 23 countries, with 27 manufacturing facilities in 17 of those countries across Europe, the UK, Asia and the Americas. Four facilities (Sri Lanka, California and two in India) were required by government mandate to close for a short period in the first quarter and again in the second quarter. All sites are now open with capacity approaching normal levels.

With a decentralised structure, the Group was able to adapt quickly to establish safe working practices and appropriate distancing measures, with each business implementing an operating plan developed to suit its needs and welfare requirements. At its peak, over 650 employees were working from home although this has since reduced to around 300 employees and mixed mode working.

We took prudent actions to preserve cash and reduce operating expenses, including:

- Deferral of non-essential capital expenditure and other discretionary spend
- Deferral of bonuses and pay rises, together with a hiring freeze
- 20% salary reduction for the Board and Group Executive Committee for three months
- Increased focus on working capital efficiency
- All acquisitions deferred, but pipeline development continued
- No final dividend proposed for the year ended 31 March 2020

These actions led to organic operating costs being 4% lower than last year, a reduction of 7% over last year's second half run rate, capital expenditure being c.50% lower than last year and working capital being 9% lower than at the start of the year, helping to achieve strong operating cash generation for the period of £25.7m up 179% on last year.

Enormous effort was also deployed supporting customers in the rapid development and supply of key components for virus-related medical products with over 60 customer projects developed.

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

With its focus on high quality growth markets, the Group is well positioned for a return to strong growth as conditions recover.

Group Results Summary

Group sales for the first half reduced by 6% to £217.9m, with first half underlying operating profit, which excludes acquisition-related costs, reducing by 11% to £15.8m and underlying profit before tax by 12% to £13.8m.

Fully diluted share capital increased by 12% in the last 12 months, mainly as a result of the 10% equity fund raising in October 2019, such that underlying earnings per share for the period reduced by 22% to 11.3p (H1 2019/20: 14.4p).

After underlying adjustments for acquisition-related costs of £6.1m which were higher than last year following the acquisition of Sens-Tech in October 2019 (H1 2019/20: £5.2m), profit before tax for the year on a reported basis was £7.7m, compared with £10.4m last year with fully diluted earnings per share of 5.8p (FY 2019/20: 9.1p).

Cash generation in the period was particularly strong. Operating cash generation for the period was £25.7m (163% of underlying operating profits, and up 179% on last year) driven by an inflow from lower working capital as well as the swift actions taken in response to COVID-19. Free cash flow for the period was £20.1m (194% of underlying profit after tax). This resulted in a c.£20m reduction in net debt over the period from £61.3m at 31 March 2020 to £42.1m at 30 September 2020, with a gearing ratio of 1.0x reducing by 0.25x from the year end (gearing: 1.25x at 31 March 2020) and by 0.6x over the last 12 months (proforma gearing: 1.6x at 30 September 2019 including the Sens-Tech acquisition).

On a proforma basis at 30 September 2020, including our post period-end acquisition of Phoenix America, gearing was 1.2x. Our target gearing range remains between 1.5x and 2.0x therefore leaving debt capacity for further acquisitions.

Dividend

With an improving outlook, and strong cash flow, the Board is pleased to reinstate dividends, and has declared a 6% increase in the interim dividend to 3.15p per share (H1 2019/20: 2.97p per share).

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

The interim dividend is payable on 15 January 2021 to shareholders registered on 18 December 2020.

Carbon emissions

Over the last year, we have developed our focus on sustainability and our environmental impact and for 2020, the Group received a rating of AA in the MSCI ESG Ratings assessment. Our target sales markets were already well aligned to a sustainable agenda and earlier this year, we set ourselves the goal of achieving 85% of sales from those target markets by the end of FY 2024/25.

With these results, we are also announcing the introduction of carbon reduction targets.

With 27 manufacturing locations in the period, the primary source (75%) of our emissions are from purchased electricity (Scope 2 emissions). The remainder are mainly from vehicles (Scope 1).

Our plan is to reduce emissions by sourcing electricity from renewable and lower / no carbon sources and to reduce electricity demand through more efficient practices. This will include both sustainably generated grid power and the installation of renewable power sources at some of our sites.

We aim to achieve a 50% reduction in carbon emissions from our existing businesses over 5 years. Additionally for our newly acquired businesses, we are targeting that within the first 5 years of ownership, at least 50% of their energy demand will be generated from renewable sources.

Brexit

discoverIE does not anticipate a material direct impact from Brexit. As an international Group, only 13% of sales are in the UK with minimal cross border trade between the UK & the EU. The majority of sales in the UK are of products manufactured outside the EU, predominantly in Asia and the US, and are thus unaffected. WTO rules, were they to apply, for products traded between the EU and the UK and vice versa, would only be expected to have a minimal impact.

Changes have been made to some warehousing and logistics to hold a buffer stock in the country of demand to minimise the effects of any border disruption.

Risks remain in terms of disruption leading to delayed deliveries, softening customer demand as a result of any uncertainty, and also from the impact from any depreciation of Sterling which would increase import costs.

Group Strategy

The Group is a customised electronics business operating internationally, focusing on structurally growing markets which are driven by increasing electronic content and where there is an essential need for our products. The Group’s product range is highly differentiated, being customised for specific applications, supplying complex, value-added solutions for international customers. With our target markets and global customer base, the business is expanding beyond Europe (28% of Group sales are now outside Europe) as well as within Europe, as we continue to build a geographically-diverse electronics group.

Acquisitions have made a significant contribution to the development of the D&M division as, over the last 10 years, we have acquired 15 specialist, high margin D&M businesses which have been integrated successfully and helped to drive our growth. We have a well-developed and disciplined approach to acquisitions and the use of capital, and we see significant scope for further expansion of the D&M division with several acquisition opportunities in development.

Our strategy comprises four elements:

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

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

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

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

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

Target Markets

The four focus target markets of transportation, medical, renewable energy and industrial & connectivity, account for 73% of D&M turnover (up 3ppts from last year) and 68% of Group turnover (up 2ppts from last year). These 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 increasing electronic content and by global macro trends such as an ageing affluent population and the increasing need for renewable sources of energy.

During the first half, in the D&M division, target market sales reduced by 5% organically with other markets reducing by 11%, resulting in D&M organic sales being 7% lower organically than last year. At a Group level, revenue in the target markets reduced by 7% organically, as compared with other markets which reduced by 11%, resulting in overall Group organic reduction of 8%.

i) Renewable Energy

The increasing global requirement for clean electricity is leading to the rapid deployment of sustainable energy generation. So much so that, according to the International Energy Agency (IEA), 70% of the growth (2017-23) in global electricity production will come from renewable energy sources with the proportion of total energy production rising to 40% globally from 25% currently. Our focus is on wind and solar energy. We anticipate that demand for renewable energy will accelerate further.

ii) Transportation

We focus particularly on rail and bus transportation, electrification infrastructure and specialist vehicle electrification, all of which are important for increasingly urban environments and consistent with the sustainability agenda. We do not address the passenger car market. Electronic content is increasing driven by electrification, safety, intelligence, automation and convenience.

iii) Medical

Driven by the increasing use of technology in diagnosing, monitoring and controlling medical conditions, as well as an increasingly affluent and ageing global population which now accounts for the majority of healthcare spending in developed economies, the medical electronics market is expected to continue growing steadily.

iv) Industrial & Connectivity

Technology is creating opportunities for widespread connectivity of equipment and devices, and is being increasingly adopted in industry and automation. With a focus on sustainable markets, we concentrate on industrial markets that are aligned with a sustainable growth agenda and also fibre optic and wireless connectivity applications within these markets.

Engineering-led Sales Model

Our business model has three core capabilities:

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

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

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

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

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

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

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

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

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

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

Key Strategic and Performance Indicators

Since 2014, the Group's progress with its strategic objectives has been measured through key strategic indicators ("KSIs"), and progress with its financial performance has been measured through key performance indicators ("KPIs"). Our KSI targets have been raised as they have been achieved, and in June 2020, we set new increased targets up to 31 March 2025.

Key Strategic Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	H1 20	H1 21	FY25 Target
1. Increase share of Group revenue from D&M(1)	18%	37%	48%	52%	57%	61%	63%	65%	>75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	7.6%	7.3%	12.5%
3. Build sales beyond Europe(1)	5%	12%	17%	19%	19%	21%	24%	28%	40%
4. Target market sales(1)	n/d	n/d	n/d	56%	62%	66%	66%	68%	85%

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

The Group has continued to make progress with its KSIs during this period despite the impact of COVID-19.

- The higher margin D&M division delivered 65% of Group sales, up 2ppts on the first half last year (H1 2019/20: 63%), generating 87% of the Group's underlying operating profit contribution (H1 2019/20: 81%); importantly, customer concentration remains low with no single customer accounting for more than 7% of Group sales;

- Underlying operating margin was impacted by reduced sales in the period resulting from the global slowdown partly offset by savings from the tight management of operating costs, reducing to 7.3% from 7.6% prior year. We aim to achieve organic margin improvement through growth-based efficiencies and to acquire business with margins that are higher than our D&M division;

- Sales beyond Europe in the first half represented 28% of Group revenue (up from 24% in H1 2019/20), partly increasing as a result of the acquisition of Sens-Tech in October 2019 (for which c.70% of sales in the period were outside Europe). The recent acquisition of Phoenix in October 2020 will further increase this metric with 100% of its revenue derived in the US. We continue to seek acquisitions with high quality international revenues; and

- In June 2020, we introduced a new mid-term target of achieving 85% of Group sales from our target markets, namely renewable energy, transportation, medical and industrial & connectivity. These are all markets which have long-term growth momentum. Since first publishing this data, target market sales have increased from 56% of Group sales in FY 2016/17 to 68% in the first half this year, with an increase of 2ppts over this period last year. As in previous years, sales in target markets outperformed sales in other markets with target market sales in D&M reducing by 5% organically compared with other markets which were 11% lower.

Key Performance Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	H1 20	H1 21	Target
1. Sales growth									
CER	17%	36%	14%	6%	11%	14%	9%	(6%)	Well ahead of GDP
Organic	2%	3%	3%	(1%)	6%	8%	5%	(8%)	
2. Underlying EPS growth	20%	31%	10%	13%	16%	22%	11%	(22%)	>10%
3. Dividend growth	10%	11%	6%	6%	6%	6%	6%(1)	6%	Progressive
4. ROCE(2)	15.2%	12.0%	11.6%	13.0%	13.7%	15.4%	15.8%	12.7%	>15%
5. Operating profit conversion(2)	100%	104%	100%	136%	85%	93%	101%	159%	>85% of underlying operating profit
6. Free cash conversion(2)	n/d	n/d	n/d	n/d	n/d	94%	116%	174%	>85% of underlying PAT
7.Carbon emissions									50% reduction v 2019

(1) 6% increase in the H1 2019/20 interim dividend; a final dividend was not proposed for FY 2019/20 due to COVID-19
(2) Defined in Note 2 of the attached summary financial statements; operating profit conversion is calculated based on last 12 months.
n/d: not disclosed

The performance of each of our Group KPIs for this period are as follows:

- Organic sales reduced by 8%, better than GDP, driven by a stronger performance in our D&M target markets where sales were 5% lower, compared with 11% lower in the other markets;

- Underlying EPS for the period was 22% below last year (H1 2019/20: +11%), a reflection of the equity issuance in the second half last year as well as the impact of COVID-19 on profitability;

- As part of the cash conservation actions taken earlier in the year, a final dividend for last year was not paid. With greater visibility and improving conditions, we are now resuming dividends with an interim payment for this period, which is 6% higher than last year's, aligned with our progressive dividend policy;

- The reduction in underlying operating profit resulting from COVID-19 has also impacted ROCE which reduced to 12.7% (H1 2019/20: 15.8%);

- Operating cash conversion has been extremely strong at 159% of underlying operating profit over the last 12 months, significantly above our 85% target, reflecting tight management of working capital and expenditure during this period. Over the last eight years, operating cash conversion has been consistently strong both during periods of strong organic growth and now with growth impacted by a global pandemic;

- Strong operating cash flow has translated into strong free cash conversion at 174% of profit after tax, being cash available for dividends and acquisitions. This is a new target set last year as we seek to become a business which can increasingly self-fund its acquisitions; and

- A new target has been introduced for the reduction of carbon emissions from our existing businesses by 50% over 5 years from the end of 2019. Additionally for new acquisitions, we are targeting that within the first 5 years of ownership, at least 50% of their energy demand is generated from renewable sources.

Divisional Results

Divisional and Group performances for the half year ended 30 September 2020 are set out and reviewed below.

	H1 2020/21			H1 2019/20					
	Revenue £m	**Underlying operating profit (1) £m**	**Margin**	Revenue £m	Underlying operating profit (1) £m	Margin	Revenue growth	CER revenue growth	Organic revenue growth
Design & Manufacturing	**141.3**	**17.2**	**12.2%**	146.6	17.6	12.0%	(4%)	(3%)	(7%)
Custom Supply	**76.6**	**2.5**	**3.3%**	85.4	4.1	4.8%	(10%)	(11%)	(11%)
Unallocated costs		**(3.9)**			(4.0)				
Total	**217.9**	**15.8**	**7.3%**	232.0	17.7	7.6%	(6%)	(6%)	(8%)

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

Order Book

The Group continues to retain a healthy order book of £140m at 30 September 2020 despite the impact of the pandemic which resulted in a reduction of 10% CER compared with last year. On an organic basis, the Group order book reduced by 11%, with the D&M order book 10% lower organically than last year and the Custom Supply order book 14% lower.

The order book is driven by repeating revenues from existing customer projects as well as by the conversion of new project design wins into orders. The pandemic had the effect of temporarily shortening customers' order windows with fewer orders being placed for delivery beyond the immediate three months ahead. Towards the end of the period and since the period end, customers have again started placing longer term orders. Over 80% of the order book is for delivery within twelve months from the time of order.

Design wins

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

In many cases, the operational disruption for customers arising from the pandemic had the effect of reducing their focus on new products and maintaining revenue momentum with existing products. This led to a 19% reduction in new product design wins to £108m. Additionally, new project activity slowed sharply in the first quarter recovering significantly in the second quarter. 90% of design wins in the D&M division were within the target markets and 82% for the Group overall.

Design & Manufacturing Division

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

More resilient demand from our key target markets reduced the impact of the pandemic with sales 7% lower organically. While orders were 18% lower organically for the period, second quarter orders increased by 15% sequentially, and were 10% lower organically. September saw a return to organic order growth and orders have continued into the third quarter at a similar level to last year.

Growth in the period was impacted in certain markets by short term site closures, as required by local government regulations. Four facilities, in Sri Lanka, India (two) and the US were required to close for a short period during the first quarter, with the Indian and Sri Lankan facilities requiring a further short closure in the second quarter. All are now open and operating at, or close to, normal capacity. The closures impacted sales in these areas.

Our Chinese facilities which were closed temporarily in the fourth quarter of last year, have recovered well since reopening, with Asian sales up by 4%. All other sites remained open, several with essential supplier status and a number operated at reduced capacity for periods during the disruption but are now approaching normal capacity. Demand in our German businesses was resilient, and unaffected by the regional auto decline to which we have negligible direct exposure, with sales 1% lower than last year organically. Sales in other territories were all impacted, including the UK (-19%), the Nordic region (-7%), the rest of Europe (-13%) and North America (-8%). Asia and North America now account for 38% of D&M revenues (H1 2019/20: 34%), up from 22% five years ago.

Organic sales reduced by 7% for the division combined with a 4% sales increase from acquisitions, resulting in overall sales for the first half of £141.3m being 3% lower than last year (H1 2019/20: £146.6m).

Divisional revenue was 65% of Group revenue, an increase of 2ppts over last year (H1 2019/20: 63%) and further good progress towards our mid-term target for D&M to exceed 75% of Group revenue.

Underlying operating profit of £17.2m was £0.4m (2%) lower than last year (H1 2019/20: £17.6m) and £0.2m (1%) lower at CER, and represents 87% of the Group's underlying profit contribution, up 6ppts on last year (H1 2019/20: 81%).

The underlying operating margin of 12.2% was 0.2ppts higher than last year (H1 2019/20: 12.0%) reflecting the positive mix effect of operating efficiencies and higher margin acquisitions offsetting the impact of lower sales.

Acquisitions

Typically, the businesses we acquire are led by entrepreneurial leaders who wish to remain following acquisition. We encourage this as it helps retain a decentralised, entrepreneurial culture. The market is highly fragmented with many opportunities to acquire and consolidate.

We acquire businesses that are successful and profitable with good growth prospects and where we invest for growth and operational performance development. According to the circumstances, we add value in some of or all of the following areas:

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

Since the period end, the Group announced in October, the acquisition of the trade and assets of Phoenix America Inc ("Phoenix"), a US designer and manufacturer of magnetically actuated sensors, encoders and related products. Phoenix was acquired for an initial cash consideration of $11.0m (£8.5m) on a debt free, cash free basis and a contingent payment of up to $1.5m (£1.2m), subject to the achievement of certain growth targets over a three year period.

Based in Fort Wayne, Indiana, the business is well aligned with our core technologies and will operate within the Variohm business cluster in the D&M division, retaining its distinct brand identity and high-quality management. Their complementary product range and wider access to customers will create cross-selling opportunities in our target markets and drive further growth. We are delighted to welcome their employees into the Group.

Prior to the recent Phoenix transaction, the Group had successfully completed 14 acquisitions in the D&M division since 2011, which have contributed to growth in revenues in the D&M division from £15m in FY13 to £298m in FY20 resulting in Group operating margins increasing by 5ppts to 8% over the same period. The Group's operating model is well established and has facilitated the smooth integration of acquired businesses. Through a combination of investment in efficiency and leveraging of the broader Group's commercial infrastructure, the businesses acquired since 2011 and owned for at least two years, had delivered an average return on investment of 17% by FY 2019/20 over the life of those acquisitions, ahead of our target of 15%.

Custom Supply Division

The Custom Supply division provides customised electronic, photonic and medical products for technically demanding applications in industrial, medical and healthcare markets. The business operates similarly to the D&M division, but with products that are mostly sourced from third party suppliers rather than manufactured in-house. As such, operating margins are lower than in the D&M division. Additionally, the division acts as a sales channel through which to grow sales of D&M products.

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

The division's trading in the first half was more impacted by the pandemic than D&M, due to sales being predominately in Europe and with a lower percentage of sales in the more resilient target markets (59% of sales in target markets in Custom Supply compared with 72% in D&M). Reported divisional revenue was 10% lower than last year at £76.6m (H1 2019/20: £85.4m). Underlying operating profit of £2.5m was £1.6m lower than last year (H1 2019/20: £4.1m) while the underlying operating margin reduced to 3.3% (H1 2019/20: 4.8%) as a result of the drop through of reduced revenues offset in part by cost saving actions which reduced operating expenditure by 6% compared with last year.

Group Financial Results

Revenue and Orders

Reflecting the impact of the global pandemic across the Group, sales of £217.9m were 8% lower organically than last year (H1 2019/20: £232.0m), and with the acquired business of Sens-Tech adding 2%, overall sales reduced by 6% CER and with minimal net FX translation impact, by 6% on a reported basis also.

£m	**FY 2020/21**	**FY 2019/20**	**%**
Reported revenue	217.9	232.0	(6%)
FX translation impact		(0.8)	
Underlying revenue (CER)	217.9	231.2	(6%)
Acquisitions	(5.5)	–	
Organic revenue	212.4	231.2	(8%)

Group orders reduced by 18% organically to £198.7m with a book to bill ratio of 0.91, with a low point in the first quarter (with a book to bill ratio of 0.85) improving through the second quarter (with a book to bill ratio of 0.97), ending with September up 6% organically with a monthly book to bill ratio of 1.04.

Gross Margin and Gross Profit

Group gross margin increased 0.3ppts in the first half to 33.7% (H1 2019/20: 33.4%). This is the highest Group gross margin since the current strategy was started ten years ago. Underlying gross margin was marginally down by 0.3ppts, with high gross margin acquisitions adding 0.6ppts.

Gross profit for the period was £73.4m, 5% lower than last year (H1 2019/20: £77.4m).

The Group continues with its policy of hedging transactions from the point of order through to payment, typically hedging around six months of the order book.

Underlying Operating Costs

At the outset of the pandemic, the Group took prudent actions to preserve cash and reduce expenditure including deferral of discretionary spend, deferral of pay rises, a hiring freeze, and a three month 20% salary reduction for the Board and Group Executive, the effect of which was to reduce Group underlying operating costs by 4% organically and by 7% compared with the second half run rate from last year.

£m	**H1 2020/21**	**H1 2019/20**	**%**
Organic operating costs	57.0	59.4	(4%)
Acquisition operating costs	0.6		
Underlying operating costs (CER)	57.6	59.4	(3%)
FX translation		0.3	
Underlying adjustments (see below)	6.1	5.1	
Reported operating costs	63.7	64.8	(2%)

£m	H1 2020/21	H1 2019/20
Selling and distribution costs	27.6	29.5
Administrative expenses	36.1	35.3
Reported operating costs	63.7	64.8

Group Operating Profit and Margin

Group underlying operating profit for the period was £15.8m, a reduction of £1.9m on last year (H1 2019/20: £17.7m), delivering a Group underlying operating margin of 7.3%, 0.3ppts lower than last year (H1 2019/20: 7.6%).

Reported Group operating profit for the period (after accounting for the underlying adjustments discussed below) was £9.7m, £2.9m lower than last year.

£m	H1 2020/21			H1 2019/20		
	Operating profit	**Finance Cost**	**Profit before tax**	Operating profit	Finance cost	Profit before tax
Underlying	15.8	(2.0)	13.8	17.7	(2.1)	15.6
Underlying adjustments						
Acquisition expenses	(0.6)	–	(0.6)	(1.4)	–	(1.4)
Amortisation of acquired intangibles	(5.3)	–	(5.3)	(3.6)	–	(3.6)
IAS 19 pension cost	(0.2)	–	(0.2)	(0.1)	(0.1)	(0.2)
Reported	9.7	(2.0)	7.7	12.6	(2.2)	10.4

Underlying Adjustments

Underlying adjustments for the period comprise acquisition expenses of £0.6m (H1 2019/20: £1.4m), the amortisation of acquired intangibles of £5.3m (H1 2019/20: £3.6m) and the IAS19 legacy pension cost of £0.2m (H1 2019/20: £0.2m).

Acquisition expenses of £0.6m are mainly the accrued contingent consideration costs relating to the acquisition of Cursor Controls (acquired in October 2018) and Sens-Tech (acquired in October 2019). The £1.7m increase in the amortisation charge since last year to £5.3m relates to the amortisation of intangibles acquired with Sens-Tech.

Financing Costs

For the half year, total finance costs were £2.0m (H1 2019/20: £2.2m). This year's charge comprises underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £1.7m (H1 2019/20: £1.8m) and an IFRS 16 interest charge of £0.3m in line with last year. Last year, there was additionally a £0.1m interest charge relating to the IAS19 legacy pension finance charge.

Underlying finance costs for the period of £1.7m were £0.1m lower than last year due to lower average net debt this year compared with last year.

Underlying Tax Rate

The underlying effective tax rate for the first half was 25%, 1ppt higher than last year's rate due to increased profits in Asia.

The overall effective tax rate of 31% (H1 2019/20: 28%) was higher than the underlying effective tax rate due to there being no tax relief on acquisition costs and a lower rate of tax on amortisation of acquired intangibles (within underlying adjustments above).

Profit Before Tax and EPS

Underlying profit before tax for the period of £13.8m was £1.8m lower than last year (H1 2019/20: £15.6m), with underlying EPS for the period reducing to 11.3p (H1 2019/20: 14.4p). The reduction in underlying EPS (22%) was higher than that for underlying profit before tax (12%) due to the issuance of 10% new equity, both in April 2019 and in October 2019, increasing fully diluted shares by 12% to 92.2m shares (H1: 2019/20: 82.5m shares)

After the underlying adjustments above, reported profit before tax was £7.7m, a reduction of £2.7m compared with last year (H1 2019/20: £10.4m) with reported fully diluted earnings per share of 5.8p reducing by 3.3p compared with last year (H1 2019/20: 9.1p).

£m	**H1 2020/21**		**H1 2019/20**	
	PBT	**EPS**	**PBT**	**EPS**
Underlying	13.8	11.3p	15.6	14.4p
Underlying adjustments				
Acquisition expenses	(0.6)		(1.4)	
Amortisation of acquired intangibles	(5.3)		(3.6)	
IAS 19 pension cost	(0.2)		(0.2)	
Reported	7.7	5.8p	10.4	9.1p

Working Capital

Working capital at 30 September 2020 was £64.5m, equivalent to 14.7% of annualised second quarter sales at CER and was £6.4m (9%) lower than at the year-end (31 March 2020: £70.9m and 14.4% of last year's annualised fourth quarter sales). This reduction is partly due to the lower demand in the period with organic sales reducing by 8%, and partly reflects tight management across the Group, with debtor days reducing 1 day to 51 days and creditor days increasing by 2 days to 65 days. Due to the lower sales, stock turns reduced by 0.9 turns to 4.3 turns. Compared to last year, working capital was 20% lower (30 September 2019: £81.2m), principally driven by debtor days which were 5 days lower.

The D&M division working capital was 17.7% of sales (FY 2019/20: 17.7%; H1 2019/20: 21.0%) and in Custom Supply was 13.1% of sales (FY 2019/20: 11.1%; H1 2019/20: 13.1%).

Cash Flow

Net debt at 30 September 2020 was £42.1m compared with £61.3m at 31 March 2020 and £55.4m at 30 September 2019. Excluding spend on acquisitions and the equity raised in the second half last year, net debt reduced by £39.1m in the last 12 months, equating to well over 100% of underlying operating profits, demonstrating continuing strong cash generation by the Group.

	H1 2020/21	**H1 2019/20**	**Last 12 Months**
Opening net debt	(61.3)	(63.3)	(55.4)
Free cash flow (see table below)	20.1	4.3	43.1
Acquisition related cash flow	(0.2)	(18.0)	(58.1)
Equity issuance	–	28.2	32.3
Dividends	–	(5.4)	(2.7)
Foreign exchange impact	(0.7)	(1.2)	(1.3)
Net debt at 30 Sept	**(42.1)**	**(55.4)**	**(42.1)**

With dividends and acquisitions put on hold as part of our COVID-19 cash preservation measures, the only outflow this period was £0.2m of acquisition expenses. This compares with a £5.4m final dividend payment last year in respect of the year ended 31 March 2019 together with £18.0m of acquisition related cash flow, largely in respect of the acquisitions of Hobart and Positek in April last year. The acquisition outflow of £58.1m in the last 12 months is mainly the Sens-Tech acquisition in October 2019.

Operating cash flow and free cash flow (see definitions in note 2 to the interim financial statements) for the period, compared with the first half of last year, and for the last 12 months, are shown below:

£m	H1 2020/21	H1 2019/20	Last 12 Months
Underlying profit before tax	**13.8**	**15.6**	**31.0**
Finance costs	2.0	2.2	4.1
Non-cash items*	6.9	6.4	14.0
Underlying EBITDA	**22.7**	**24.2**	**49.1**
Working capital	7.9	(8.5)	18.0
Capital expenditure	(1.5)	(3.2)	(4.6)
IFRS 16	(3.4)	(3.3)	(6.7)
Operating cash flow	**25.7**	**9.2**	**55.8**
Finance costs	(1.7)	(1.9)	(3.5)
Taxation	(3.0)	(2.1)	(7.3)
Legacy pensions	(0.9)	(0.9)	(1.8)
Executive share option exercises	–	–	(0.1)
Free cash flow	**20.1**	**4.3**	**43.1**

* Non-cash items are depreciation, amortisation and share based payments. Includes £3.4m IFRS 16 depreciation for H1 2020/21 (H1 2019/20: £3.1m)

Underlying EBITDA of £22.7m was 6% lower than last year (H1 2019/20: £24.2m). With a heightened focus on working capital optimisation during the period and partly as a result of an 8% reduction in organic sales, a £7.9m inflow was generated from working capital compared with an outflow of £8.5m last year driven by a 7% organic increase in D&M sales. In total £18.0m of cash has been generated from working capital in the last 12 months. With sales expected to increase sequentially in the second half of the year, investment will be required into working capital.

Capital expenditure was also restricted during the period to mainly maintenance costs giving a 53% reduction to £1.5m (H1 2019/20: £3.2m). Capital expenditure levels are expected to increase in the second half to around £4.0m spend for the full year.

With the various cash conservation measures taken this period, £25.7m of operating cash was generated in the first half; together with £30.1m generated in the second half of last year. The total of £55.8m of operating cash generated over the last 12 months, was an increase of 65% over last year (12 month operating cash to 30 Sept 2019: £33.8m). This represents 159% of underlying operating profit during that period, well above our 85% target. Over the last 7 years, the Group has consistently achieved high levels of cash conversion averaging in excess of 100%.

Finance cash costs of £1.7m were £0.2m lower than last year due to reduced average net debt balances in the period. Tax payments of £3.0m were £0.9m higher than the first half last year, reflecting last year's increased Group profitability. Further payment of taxes in the second half of c.£4.5m is expected.

Free cash flow (being cash flow before dividends, acquisitions and equity) for the last 12 months was £43.1m an increase of 63% over the prior 12 month period (H1 2019/20: £26.4m). Our free cash conversion over the last 12 months was 174% of profit after tax, again well ahead of our 85% target.

Banking Facilities

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

With net debt at 30 September 2020 of £42.1m, the Group's gearing ratio at the end of the period (being net debt divided by underlying EBITDA as annualised for acquisitions) was 1.0x. Including the post period-end acquisition of Phoenix America Inc, pro-forma gearing at 30 September 2020 increased to 1.2x, with our target gearing range being between 1.5x and 2.0x, so plenty of debt capacity for further acquisitions.

Balance Sheet

Net assets of £207.0m at 30 September 2020 were £6.5m higher than at the end of the last financial year (31 March 2020: £200.5m). The increase primarily relates to the net profit after tax for the period of £5.3m. The movement in net assets is summarised below:

£m	**H1 2020/21**
Net assets at 31 March 2020	200.5
Net profit after tax	5.3
Currency net assets – translation impact	3.3
Loss on defined benefit scheme	(2.9)
Share based payments (inc tax)	0.8
Net assets at 30 Sep 2020	**207.0**

Defined Benefit Pension Scheme

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the last 12 months by £0.6m from £1.7m at 30 September 2019 to £1.1m at 30 September 2020.

Corporate bond yields temporarily increased due to the COVID-19 situation around the year ended 31 March 2020 converting the net liability at 30 September 2019 to a net asset at 31 March 2020 of £1.8m. Since the year end, corporate bond yields reverted back to previous levels resulting in a net liability at 30 September 2020.

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

Risks and Uncertainties

The principal risks faced by the Group are set out on pages 50 to 55 of the Group's Annual Report for year ended 31 March 2020, a copy of which is available on the Group's website: www.discoverieplc.com. These risks include, but are not limited to: the economic environment, particularly linked to the impact of COVID-19; the impact arising from the UK’s decision to leave the European Union; the performance of acquired companies; loss of major customers or suppliers; technological change; major business disruption; cyber security; inventory obsolescence; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; loss of key personnel; and non-compliance with legal and regulatory requirements.

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

Summary and Outlook

The Group took quick action to reduce costs and preserve cash as the pandemic spread, and with our focus on structural growth markets and a flexible operating structure, we have delivered a resilient performance whilst preserving the capabilities to benefit from conditions as they improve.

Cash generation was excellent with £43m of free cash flow over the last 12 months reducing gearing to 1.0x from 1.6x. As well as reinforcing the cash generating capability of our businesses and the strength of the operating model, this provides us with the capacity to pursue further value enhancing initiatives. Accordingly, we have resumed dividends, with an increased interim payment, and acquisitions, with Phoenix America announced last month and others in the pipeline.

The second half has started well with orders ahead of sales and up on last year. With the Group's continued focus on the structural growth markets of renewable energy, medical, electrification of transportation and industrial & connectivity, we expect to continue to perform ahead of wider markets and make further progress on our strategic priorities.

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director
30 November 2020

Condensed consolidated income statement
for the six months ended 30 September 2020

	Notes	**Unaudited six months ended 30 Sept 2020 £m**	Unaudited six months ended 30 Sept 2019 £m	Audited year ended 31 Mar 2020 £m
Revenue	4	**217.9**	232.0	466.4
Cost of sales		**(144.5)**	(154.6)	(309.7)
Gross profit		**73.4**	77.4	156.7
Selling and distribution costs		**(27.6)**	(29.5)	(58.1)
Administrative expenses (including underlying adjustments)		**(36.1)**	(35.3)	(74.8)
Operating profit	4	**9.7**	12.6	23.8
Finance revenue		**0.1**	0.2	0.6
Finance costs		**(2.1)**	(2.4)	(4.9)
Profit before tax		**7.7**	10.4	19.5
Tax expense	6	**(2.4)**	(2.9)	(5.2)
Profit for the period		**5.3**	7.5	14.3
Earnings per share				
Basic	8	**6.0p**	9.4p	17.0p
Diluted	8	**5.8p**	9.1p	16.5p

Supplementary income statement information

Underlying Performance Measure	Notes	**Unaudited six months ended 30 Sept 2020 £m**	Unaudited six months ended 30 Sept 2019 £m	Audited year ended 31 Mar 2020 £m
Operating profit	4	**9.7**	12.6	23.8
Add: Acquisition costs	5	**0.6**	1.4	4.0
Amortisation of acquired intangible assets	5	**5.3**	3.6	9.0
IAS 19 pension administrative charge		**0.2**	0.1	0.3
Underlying operating profit		**15.8**	17.7	37.1
Profit before tax		**7.7**	10.4	19.5
Add: Acquisition costs	5	**0.6**	1.4	4.0
Amortisation of acquired intangible assets	5	**5.3**	3.6	9.0
Total IAS 19 pension charge	5	**0.2**	0.2	0.3
Underlying profit before tax		**13.8**	15.6	32.8
Underlying earnings per share				
Diluted	8	**11.3p**	14.4p	30.2p

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2020

	Unaudited six months ended 30 Sept 2020 £m	Unaudited six months ended 30 Sept 2019 £m	Audited year ended 31 Mar 2020 £m
Profit for the period	**5.3**	7.5	14.3
Other comprehensive (loss)/income:			
Items that will not be subsequently reclassified to profit or loss:			
Re-measurement (loss)/gain on defined benefit pension scheme	**(3.6)**	0.2	2.4
Deferred tax credit/(charge) relating to defined benefit pension scheme	**0.7**	–	(0.5)
	(2.9)	0.2	1.9
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries	**3.3**	3.0	(4.6)
	3.3	3.0	(4.6)
Other comprehensive income/(loss) for the period, net of tax	**0.4**	3.2	(2.7)
Total comprehensive income for the period, net of tax	**5.7**	10.7	11.6

Condensed consolidated statement of financial position

at 30 September 2020

	Notes	**Unaudited at 30 Sept 2020 £m**	Unaudited at 30 Sept 2019 £m	Audited at 31 March 2020 £m
Non-current assets				
Property, plant and equipment		**24.6**	25.4	25.2
Intangible assets - goodwill		**119.7**	94.5	117.3
Intangible assets - other		**59.8**	38.8	64.9
Right of use assets		**20.6**	17.8	21.1
Defined benefit surplus	11	**–**	–	1.8
Deferred tax assets		**7.5**	5.7	6.1
		232.2	182.2	236.4
Current assets				
Inventories		**69.3**	72.2	68.4
Trade and other receivables		**80.4**	92.8	90.1
Current tax assets		**2.1**	1.3	2.1
Cash and cash equivalents	10	**30.3**	24.9	36.8
		182.1	191.2	197.4
Total assets		**414.3**	373.4	433.8
Current liabilities				
Trade and other payables		**(85.2)**	(83.8)	(87.6)
Other financial liabilities		**(3.6)**	(2.1)	(4.3)
Lease liabilities		**(5.2)**	(6.7)	(5.3)
Current tax liabilities		**(6.5)**	(7.6)	(5.5)
Provisions		**(1.1)**	(0.7)	(0.9)
		(101.6)	(100.9)	(103.6)
Non-current liabilities				
Trade and other payables		**(3.7)**	(1.9)	(3.1)
Other financial liabilities		**(68.8)**	(78.2)	(93.8)
Lease liabilities		**(14.8)**	(11.2)	(14.7)
Pension liability	11	**(1.1)**	(1.7)	–
Provisions		**(4.7)**	(3.3)	(4.7)
Deferred tax liabilities		**(12.6)**	(7.4)	(13.4)
		(105.7)	(103.7)	(129.7)
Total liabilities		**(207.3)**	(204.6)	(233.3)
Net assets		**207.0**	168.8	200.5
Equity				
Share capital		**4.4**	4.1	4.4
Share premium account		**138.8**	106.9	138.8
Merger reserve		**22.7**	2.9	22.7
Currency translation reserve		**1.1**	5.4	(2.2)
Retained earnings		**40.0**	49.5	36.8
Total equity		**207.0**	168.8	200.5

Condensed consolidated statement of changes in equity
for the six months ended 30 September 2020

	Attributable to equity holders of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total Equity £m
At 1 April 2020	4.4	138.8	22.7	(2.2)	36.8	200.5
Profit for the period	–	–	–	–	**5.3**	**5.3**
Other comprehensive income	–	–	–	**3.3**	**(2.9)**	**0.4**
Total comprehensive income	–	–	–	**3.3**	**2.4**	**5.7**
Share-based payments	–	–	–	–	**0.8**	**0.8**
At 30 September 2020 - unaudited	**4.4**	**138.8**	**22.7**	**1.1**	**40.0**	**207.0**
At 1 April 2019	3.7	106.9	2.9	2.4	18.8	134.7
Profit for the period	–	–	–	–	7.5	7.5
Other comprehensive income	–	–	–	3.0	0.2	3.2
Total comprehensive income	–	–	–	3.0	7.7	10.7
Shares issued	0.4	–	–	–	27.8	28.2
Share-based payments	–	–	–	–	0.6	0.6
Dividends	–	–	–	–	(5.4)	(5.4)
At 30 September 2019 – unaudited	4.1	106.9	2.9	5.4	49.5	168.8
At 1 April 2019	3.7	106.9	2.9	2.4	18.8	134.7
Profit for the period	–	–	–	–	14.3	14.3
Other comprehensive loss	–	–	–	(4.6)	1.9	(2.7)
Total comprehensive income	–	–	–	(4.6)	16.2	11.6
Shares issued	0.7	31.9	27.9	–	–	60.5
Share-based payments	–	–	–	–	1.8	1.8
Transfer to retained earnings	–	–	(8.1)	–	8.1	–
Dividends	–	–	–	–	(8.1)	(8.1)
At 31 March 2020 - audited	4.4	138.8	22.7	(2.2)	36.8	200.5

Condensed consolidated statement of cash flows
for the six months ended 30 September 2020

	Notes	**Unaudited six months ended 30 Sept 2020 £m**	Unaudited six months ended 30 Sept 2019 £m	Audited year ended 31 Mar 2020 £m
Net cash inflow from operating activities	9	**24.7**	9.3	37.4
Investing activities				
Acquisitions of shares in subsidiaries and businesses		**–**	(15.7)	(72.6)
Acquisition related contingent consideration		**–**	(1.0)	(1.0)
Purchase of property, plant and equipment		**(1.3)**	(2.7)	(5.3)
Purchase of intangible assets - software		**(0.2)**	(0.5)	(1.0)
Interest received		**0.1**	0.2	0.5
Net cash used in investing activities		**(1.4)**	(19.7)	(79.4)
Financing activities				
Net proceeds from the issue of shares		**–**	28.2	60.5
Proceeds from borrowings		**–**	18.5	41.9
Repayment of borrowings		**(26.6)**	(26.2)	(31.3)
Principal element of lease payments		**(3.1)**	(3.0)	(6.0)
Interest paid on lease liabilities		**(0.3)**	(0.3)	(0.6)
Dividends paid		**–**	(5.4)	(8.1)
Net cash (absorbed)/generated from financing activities		**(30.0)**	11.8	56.4
Net (decrease)/increase in cash and cash equivalents		**(6.7)**	1.4	14.4
Cash and cash equivalents at beginning of period		**34.8**	20.8	20.8
Net foreign exchange differences		**0.4**	0.2	(0.4)
Cash and cash equivalents at end of period		**28.5**	22.4	34.8

Reconciliation to cash and cash equivalents in the condensed consolidated statement of financial position				
Cash and cash equivalents shown above		**28.5**	22.4	34.8
Add bank overdrafts		**1.8**	2.5	2.0
Cash and cash equivalents in the condensed consolidated statement of financial position		**30.3**	24.9	36.8

Further information on the condensed consolidated statement of cash flows is provided in notes 9 and 10.

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

1. Corporate information

discoverIE Group plc ("the Company") is incorporated and domiciled in England and Wales. The Company's shares are traded on the London Stock Exchange. The interim condensed consolidated financial statements consolidate the financial statements of discoverIE Group plc and entities controlled by the Company (collectively referred to as "the Group").

The interim condensed consolidated financial statements for the six months ended 30 September 2020 were authorised for issue by the Board of Directors on 30 November 2020. They do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006, and are unaudited.

2. Basis of preparation and accounting policies

The interim condensed consolidated financial statements for the six months to 30 September 2020 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as adopted by the European Union. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2020, which were prepared in accordance with IFRS as adopted by the European Union.

The results for the year ended 31 March 2020 are based on audited statutory consolidated financial statements prepared in accordance with IFRS as adopted by the European Union. These financial statements were filed with the Registrar of Companies and contain a report of the auditor, which was unqualified and which does not contain a statement under section 498 of the Companies Act 2006. The consolidated financial statements of the Group for the year ended 31 March 2020 ("FY20 Annual Accounts") are available on request from the Company's registered office or on its website.

As at 30 September 2020 the Group's financial position remains robust with a £180m syndicated banking facility which extends to June 2024, together with a £60m accordion increasing the total facility to £240m if required. Net debt at 30 September 2020 is £42.1m compared with £61.3m at the year-end, following a period of strong cash generation. The Group's gearing ratio at the end of the period (being net debt divided by underlying EBITDA as annualised for acquisitions) is 1.0x compared with 1.25x at the year-end (1.6x pro-forma at 30 September 2019 including the Sens-tech acquisition). Including the post period-end acquisition of Phoenix America Inc, pro-forma gearing at 30 September 2020 increased to 1.2x. This compares with a financial covenant of less than 3.0x.

In May 2020 a base case scenario was prepared, the "May Forecast". The May forecast was a consolidation of sales, profits, working capital and cash flow made by each operating entity and head office, factoring in each business's view of COVID-19 this financial year. Details of this scenario is set out on page 48 of the Annual Report and Accounts for the year-ended 31 March 2020.

As at 30 September 2020 the base case scenario was reviewed and updated. The revised forecast reflects the resilient performance of the Group in dealing with the challenges of COVID-19 and the reduction of net debt in the first half of the year. The revised base case includes plausible downside scenarios in the second half of the year which could be caused by a greater impact of COVID-19.

None of the scenarios result in a breach of the Group's available debt facility or covenants and accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted in the preparation of these interim condensed consolidated financial statements are included in the consolidated financial statements for the year ended 31 March 2020. All other accounting policies have been consistently applied to all periods presented. The significant estimates and judgements made by management in preparing the financial information were consistent with those applied to the consolidated financial statements for the year ended 31 March 2020.

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

Underlying Performance Measures

The Group uses a number of alternative non Generally Accepted Accounting Practice ("non-GAAP") financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and, as such, these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in these interim condensed consolidated financial statements.

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 administrative charge relating to the Group's legacy defined benefit pension scheme).

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

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

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

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

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

Operating cash flow
"Operating cash flow" is defined as underlying EBITDA adjusted for the investment in, or release of, working capital and less the cash cost of capital expenditure and IFRS 16 lease costs.

Free cash flow
"Free cash flow" is defined as net cash flow before dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

Return On Capital Employed ("ROCE")
"ROCE" is defined as underlying operating profit as a percentage of net assets plus net debt, including an annualisation for acquisitions.

Organic basis
Reference to 'organic' basis included in the Strategic, Operational and Financial Review means at constant exchange rates ("CER"), and is shown excluding the first 12 months of acquisitions (Hobart and Positek were both acquired on 15 April 2019 and Sens-Tech was acquired on 16 October 2019).

3. New accounting standards and financial reporting requirements

New standards not yet effective

There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods.

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

4. Segmental reporting

The Group organises its businesses into two divisions, Design & Manufacturing and Custom Supply:

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

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

These two divisions have been assessed as the reportable operating segments of the Group. Within each reportable operating segment are aggregated business units with similar characteristics such as the method of acquiring products for sale (manufacturing versus supply), 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.

Six months to 30 September 2020 - unaudited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	**141.3**	**76.6**	–	**217.9**
Underlying operating profit/(loss)	**17.2**	**2.5**	**(3.9)**	**15.8**
Acquisition costs	(0.6)	–	–	(0.6)
Amortisation of acquired intangible assets	(5.3)	–	–	(5.3)
IAS 19 pension charge	–	–	(0.2)	(0.2)
Operating profit/(loss)	**11.3**	**2.5**	**(4.1)**	**9.7**

Six months to 30 September 2019 - unaudited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	146.6	85.4	–	232.0
Underlying operating profit/(loss)	17.6	4.1	(4.0)	17.7
Acquisition costs	(1.4)	–	–	(1.4)
Amortisation of acquired intangible assets	(3.6)	–	–	(3.6)
IAS 19 pension charge	–	–	(0.1)	(0.1)
Operating profit/(loss)	12.6	4.1	(4.1)	12.6

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

Year to 31 March 2020 - audited

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

5. Underlying profit before tax

		Unaudited six months ended 30 Sept 2020 £m	Unaudited six months ended 30 Sept 2019 £m	Audited year ended 31 Mar 2020 £m
Profit before tax		7.7	10.4	19.5
Add back: Acquisition costs	(a)	0.6	1.4	4.0
Amortisation of acquired intangibles	(b)	5.3	3.6	9.0
IAS19 pension costs	(c)	0.2	0.2	0.3
Underlying profit before tax		13.8	15.6	32.8

The tax impact of the underlying profit adjustments above is a credit of £1.0m (H1 2019/20: £0.8m).

a) Accrued contingent consideration costs in relation to past acquisitions.

During FY19/20 there were £4.0m of acquisition costs. Costs of £1.5m were incurred in relation to the acquisition of Hobart, Positek and Sens-Tech and £0.3m in relation to ongoing acquisitions. Contingent consideration of £2.0m was charged in relation to current and past acquisitions. Costs of £0.2m was incurred in relation to the integration of RSG into the Custom Supply division.

b) Amortisation charge for intangible assets recognised for business combinations.

c) Pension costs related to the Group's legacy defined benefit pension scheme (see note 11).

6. Taxation

The underlying tax charge for the period was £3.4m (H1 2019/20: £3.7m) giving an underlying effective tax rate on underlying profit before tax of 25% (H1 2019/20: 24%) which is 4% higher than the rate for FY 2019/20 of 21%. The higher rate is due to increased profits in Asia and also the FY 2019/20 rate benefitted from the recognition of certain tax losses.

The tax credit in respect of the underlying adjustments was £1.0m (H1 2019/20: £0.8m). This gives an overall tax charge for the period of £2.4m (H1 2019/20: £2.9m) on profit before tax of £7.7m (H1 2019/20: £10.4m) which is an effective tax rate of 31% (H1 2019/20: 28%).

7. Dividends

The Directors have declared an interim dividend of 3.15 pence per share (H1 2019/20: 2.97 pence) payable on 15 January 2021 to shareholders on the register at 18 December 2020.

In accordance with IAS 10, this dividend has not been reflected in the interim results. The cash cost of the interim dividend will be £2.8m (H1 2019/20: £2.7m).

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

8. Earnings per share

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

	Unaudited Six months ended 30 Sept 2020 £m	Unaudited Six months ended 30 Sept 2019 £m	Audited Year ended 31 Mar 2020 £m
Profit for the period	**5.3**	7.5	14.3
	No	No	No
Weighted average number of shares for basic earnings per share	**88,740,383**	79.990,843	83,997,130
Effect of dilution - share options	**3,430,052**	2,518,035	2,878,352
Adjusted weighted average number of shares for diluted earnings per share	**92,170,435**	82,508,878	86,875,482
Earnings per share – basic	**6.0p**	9.4p	17.0p
Earnings per share – diluted	**5.8p**	9.1p	16.5p

At the period end, there were 3.9 million ordinary share options in issue that could potentially dilute earnings per share in the future, of which 3.4 million are currently dilutive (30 September 2019: 2.8 million in issue and 2.5 million dilutive, 31 March 2020: 3.3 million in issue and 2.9 million dilutive).

Underlying earnings per share

Underlying earnings per share are calculated as follows:

	Unaudited Six months ended 30 Sept 2020 £m	Unaudited Six months ended 30 Sept 2019 £m	Audited Year ended 31 Mar 2020 £m
Profit for the period	**5.3**	7.5	14.3
Acquisition costs	**0.6**	1.4	4.0
Amortisation of acquired intangible assets	**5.3**	3.6	9.0
IAS 19 pension costs	**0.2**	0.2	0.3
Tax effects of acquisition costs, exceptional items, amortisation of acquired intangible assets and IAS 19 pension costs	**(1.0)**	(0.8)	(1.4)
Underlying profit for the period	**10.4**	11.9	26.2
	No	No	No
Weighted average number of shares for basic earnings per share	**88,740,383**	79.990,843	83,997,130
Effect of dilution - share options	**3,430,052**	2,518,035	2,878,352
Adjusted weighted average number of shares for diluted earnings per share	**92,170,435**	82,508,878	86,875,482
Underlying earnings per share	**11.3p**	14.4p	30.2p

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

9. Reconciliation of cash flow from operating activities

	Unaudited Six months ended 30 Sept 2020 £m	Unaudited Six months ended 30 Sept 2019 £m	Audited Year ended 31 Mar 2020 £m
Profit for the period	**5.3**	7.5	14.3
Taxation expense	**2.4**	2.9	5.2
Net finance costs	**2.0**	2.2	4.3
Depreciation of property, plant and equipment	**2.4**	2.4	4.8
Depreciation of right of use assets	**3.4**	3.1	6.6
Amortisation of intangible assets	**5.6**	3.9	9.6
Loss on disposal of property, plant and equipment	**–**	–	0.1
Change in provisions	**0.2**	0.1	(0.3)
Pension scheme funding	**(0.9)**	(0.9)	(1.8)
IAS 19 pension administration charge	**0.2**	0.2	0.3
Equity-settled share based payment expense and associated taxes	**0.8**	0.6	1.3
Operating cash flows before changes in working capital	**21.4**	22.0	44.4
(Decrease)/increase in inventories	**(0.1)**	(1.7)	2.7
Increase/(decrease) in trade and other receivables	**12.0**	(1.3)	1.9
(Decrease)/increase in trade and other payables	**(3.8)**	(5.5)	(1.0)
Increase/(decrease) in working capital	**8.1**	(8.5)	3.6
Cash generated from operations	**29.5**	13.5	48.0
Interest paid	**(1.8)**	(2.1)	(4.2)
Net income taxes paid	**(3.0)**	(2.1)	(6.4)
Net cash inflow from operating activities	**24.7**	9.3	37.4

10. Closing net debt

	At 30 Sept 2020 £m	At 30 Sept 2019 £m	At 31 Mar 2020 £m
Borrowings – current - overdrafts	**(1.8)**	(2.5)	(2.0)
Borrowings – current portion of long term debt	**(2.3)**	–	(2.8)
Borrowings – non current	**(69.7)**	(79.4)	(95.0)
Capitalised debt cost	**1.4**	1.6	1.7
Cash and cash equivalents	**30.3**	24.9	36.8
Closing net debt	**(42.1)**	(55.4)	(61.3)

Reconciliation of movement in cash and net debt

	Six months ended 30 Sept 2020 £m	Six months ended 30 Sept 2019 £m	Year ended 31 Mar 2020 £m
Net (decrease)/increase in cash and cash equivalents	**(6.7)**	1.4	14.4
Proceeds from borrowings	**–**	(18.5)	(41.9)
Repayment of borrowings	**26.6**	26.2	31.3
Increase in net cash before translation differences	**19.9**	9.1	3.8
Translation and other non-cash changes	**(0.7)**	(1.2)	(1.8)
Increase in net cash	**19.2**	7.9	2.0
Net debt at beginning of the period	**(61.3)**	(63.3)	(63.3)
Net debt at end of the period	**(42.1)**	(55.4)	(61.3)

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

Supplementary information to the statement of cash flows

Underlying Performance Measure	**Six months ended 30 Sept 2020 £m**	Six months ended 30 Sept 2019 £m	Year ended 31 Mar 2020 £m
Increase in net cash before translation differences	**19.9**	9.1	3.8
Add: Business acquisitions	**0.2**	18.0	75.9
Dividends paid	**–**	5.4	8.1
Less: Net proceeds from share issue	**–**	(28.2)	(60.5)
Free cash flow	**20.1**	4.3	27.3
Executive options issuance	**–**	–	0.1
Legacy pension scheme funding	**0.9**	0.9	1.8
Net finance costs	**1.7**	1.9	3.7
Taxation	**3.0**	2.1	6.4
Operating cash flow	**25.7**	9.2	39.3

11. Pension liability

The acquisition of the Sedgemoor Group in June 1999 included a defined benefit pension scheme, the Sedgemoor Group Pension Fund ("the Sedgemoor Scheme"). The Sedgemoor Scheme, which is funded by the Company, provides retirement benefits based on final pensionable salary. Its assets are held in a separate trustee-administered fund. Following the acquisition of the Sedgemoor Group, the Sedgemoor Scheme was closed to new members. Shortly thereafter, employees were given the opportunity to join the discoverIE pension scheme and future service benefits ceased to accrue to members under the Sedgemoor Scheme. Contributions to the Sedgemoor Scheme are determined in accordance with the advice of independent, professionally qualified actuaries.

During the period, the financial position of the Sedgemoor Scheme has been updated in line with changes in actuarial assumptions and cash contributions made to the Scheme. The valuation used for IAS 19 disclosures has been based on the most recent valuation at 31 March 2018 updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at 30 September 2020.

The IAS 19 defined benefit pension scheme liability at 30 September 2020 was £1.1m (31 March 2020: £1.8m asset). The movement principally relates to the changes in actuarial assumptions and cash contributions in the period.

12. Exchange rates

The principal exchange rates used to translate the results of overseas businesses are as follows:

	Six months ended 30 Sept 2020		Six months ended 30 Sept 2019		Year ended 31 March 2020	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US Dollar	**1.2833**	**1.2660**	1.2294	1.2597	1.2360	1.2722
Euro	**1.0961**	**1.1167**	1.1290	1.1268	1.1281	1.1448
Norwegian Krone	**12.1673**	**12.1149**	11.1719	11.0785	12.9847	11.4630

13. Events after the reporting date

Business Combinations

On 13 October 2020, subsequent to the period end, the Group acquired the trade and assets of Phoenix America Inc for an upfront consideration of $11.0m (£8.5m) on a debt free, cash free basis, with further contingent cash consideration of up to $1.5m (£1.2m), payable subject to the achievement of certain profit growth targets over a three year period.

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2020

14. Interim report

A copy of the interim report will be available for inspection at the Company's registered office:
2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, GU2 7AH.

Current regulations permit the Company not to send copies of its interim results to shareholders. Accordingly, the 2020 interim results published on 30 November 2020 will not be sent to shareholders. The 2020 interim results and other information about discoverIE Group plc are available on the Company's website at www.discoverieplc.com.