4 DECEMBER 2018

discoverIE Group plc

Interim results for the six months ended 30 September 2018

Strategy delivering further strong growth

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 2018.

	H1 2018/19	H1 2017/18	Growth %	CER[2] Growth %
Revenue	**£211.7m**	£190.2m	+11%	+12%
Underlying operating profit[1]	**£14.5m**	£11.8m	+23%	+25%
Underlying profit before tax[1]	**£12.9m**	£10.4m	+24%	
Underlying EPS[1]	**13.0p**	10.5p	+24%	
Reported profit before tax	**£6.4m**	£6.9m	-7%	
Reported fully diluted EPS	**6.3p**	6.5p	-3%	
Interim dividend per share	**2.8p**	2.65p	+6%	

Highlights

- Strong growth in sales, orders, profits and earnings
  - Sales up 12% CER[2] and orders up 13% CER
  - Underlying operating profit up 23% (+25% CER)
  - Underlying earnings per share up 24%

- Widespread organic growth[3] across both divisions
  - Design & Manufacturing division (D&M) organic sales growth, excluding acquisitions, of 10%
  - Custom Supply organic sales up 2% with UK returning to growth
  - Strong growth in target markets

- Good progress towards key strategic and performance targets
  - Underlying operating margin increased to 6.8% (H1 2017/18: 6.2%)
  - Growing D&M division now accounts for 60% of Group sales (H1 2017/18: 57%)
  - Cross-selling of £4.9m, up 17% on last year (H1 2017/18: £4.2m)
  - Interim dividend increased by 6%

- Group well positioned for further growth
  - Record period end order book of £131m (+18% CER, year-on-year)
  - Further strong growth in the value of new project design wins, up 40%
  - Completion of the acquisition of Cursor Controls for £19m on 17 October 2018
  - Further acquisition opportunities developing

Nick Jefferies, Group Chief Executive, commented:

"The Group's first half performance has been strong with underlying earnings per share increasing by 24%, driven by broad-based organic growth, the continued move towards higher value products and good operating leverage.

The organic growth of our established Design & Manufacturing businesses was 10% and reflects our focus on higher growth markets. The Custom Supply division delivered a good performance, with improving profitability being driven by operational efficiency and a return to growth in the UK.

Over 60% of Group revenue is now derived from our target markets of renewable energy, transportation, medical and industrial connectivity. Design wins have continued to grow strongly, increasing by 40% year-on-year, with 80% being in these target markets.

Trading in the second half has started well with further strong growth. We are on track to deliver full year earnings in line with our expectations and we have a healthy pipeline of acquisition opportunities being developed.

With a record order book and a high level of design wins together with the additional capability brought in with the recent acquisition of the higher margin Cursor Controls Group, we are well positioned for continued growth."

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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 £2.9m, acquisition costs of £0.4m, the IAS19 pension charge relating to a legacy defined benefit scheme of £0.3m) totalling £3.6m and an exceptional charge of £2.9m for H1 2018/19. Equivalent underlying adjustments within the H1 2017/18 underlying results totalled £3.5m. For further information, see note 2 of the attached summary financial statements.

(2) Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange weakened 1% against the Euro compared with the average rate for last year, and strengthened 3% against both the US Dollar and on average against the three Nordic currencies.

(3) Organic growth for the Group is calculated at CER and is shown both excluding acquisitions (Santon was acquired last financial year on 1 February 2018), and overall (including acquisitions).

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

(5) 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.4,300 people and its principal operating units are located in Continental Europe, the UK, China, Sri Lanka, India and North America.

The Group is listed on the Main Market of the London Stock Exchange and is a member of the FTSE Small Cap Index, classified within the Electrical Components and Equipment subsector, and has revenue of £0.4bn. Over the last five years, revenue and underlying earnings per share has more than doubled.

Chairman's Statement

I am pleased to report that the Group has delivered another strong set of results with further growth in sales, profits and earnings. Management continues to make good progress on the Group's strategic and operational objectives with further improvements towards our mid-term targets.

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 20% of Group sales), as well as within Europe, as we continue our strategy of building a global electronics design and manufacturing group.

Group Results

Group sales for the first half increased by 11% to £211.7m and by 12% at constant exchange rates ("CER").

First half underlying operating profit, which excludes acquisition-related costs and exceptional items, increased by £2.7m to £14.5m (up 23% and up 25% at CER). Underlying profit before tax increased by £2.5m to £12.9m (up 24%).

The underlying operating margin increased by 0.6ppts to 6.8% reflecting the ongoing focus on higher margin products and customer solutions.

Underlying earnings per share for the period increased by 24% to 13.0p (H1 2017/18: 10.5p).

Net debt at 30 September 2018 was £62.6m (H1 2017/18: £37.6m), with a Group gearing ratio of 1.85 times, defined as net debt divided by underlying EBITDA (annualised for acquisitions) and within our target range of 1.5 to 2.0 times. The increase of £25.0m primarily relates to the acquisition of the Santon Group towards the end of the last financial year. Excluding spend on acquisitions, net debt was £2.3m lower than last year.

Acquisition

On 17 October this year, 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 contingent payment of up to £4.0m payable 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.

Cursor Controls has significant alignment with our core technologies, market and sector focus and is settling in well. We are delighted to welcome their employees into the Group.

Dividend

The Board is pleased to declare an increase in the interim dividend of 6% to 2.8p per share (H1 2017/18: 2.65p per share). Since 2010, the full year dividend per share has risen by 77%.

The Board's policy is to maintain a progressive, long-term dividend cover of between 2 and 3 times underlying earnings.

The interim dividend is payable on 14 January 2019 to shareholders registered on 21 December 2018.

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 customised electronics market 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
Chairman

4 December 2018

Strategic, Operational and Financial Review

Overview

Over recent years the Group has pursued a clear strategy, investing in initiatives that enhance design opportunities for customised products with customers in targeted growth markets namely renewable energy, transportation, medical and industrial connectivity. The benefits 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 Group underlying operating profits. In the Custom Supply division, greater efficiency and a return to growth in the UK resulted in an 18% increase in the division's underlying operating profits.

Group sales increased by 12% CER and 11% on a reported basis after taking account the translation impact of a slightly stronger Sterling in the period. Organic sales growth (excluding acquisitions) in the D&M division was 10% and 7% for the Group overall. There was an expected temporary fall in Santon's solar sales following regulatory changes in relation to Chinese solar feed-in tariffs, which had been anticipated in the acquisition price structure, and which resulted in overall Group organic growth being 3%.

Group orders also performed well, growing by 13% CER, when including acquisitions, to £217.8m. Excluding acquisitions, orders in D&M grew by 13% organically. This resulted in another record period end order book at 30 September 2018 of £131m (up 18% CER year-on-year, and up 13% organically).

Project design wins, a proxy measurement for new business creation, grew strongly again during the period. The estimated lifetime sales value of design wins during the year was £126m, an increase of 40% compared with last year, with over 80% of these wins being in our target markets.

Strong revenue growth, coupled with improving gross margins has driven a 23% increase in underlying operating profit, rising by £2.7m to £14.5m (25% CER), with underlying EPS increasing by 24% to 13.0p.

Group Strategy

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

Core to our value proposition is the understanding of customers' design challenges so as to design and manufacture products for their specific needs, which we then manufacture and supply over the lifetime of their production generating a repeating revenue, typically for five to seven years.

In this fragmented market, we acquire design and manufacturing businesses offering products that meets the needs of our customers. Customers are mostly mid-sized and international OEMs (original equipment manufacturers) operating across multiple sites and regions. Our four target markets of renewable energy, transportation, medical and industrial connectivity, are long term, international growth markets driven by structural growth factors, such as the need for clean energy, where customers depend on our products, and where there is a need for custom products.

Customers choose our products because they help them create differentiated, next generation end 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. 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 are mid-term targets over a 3 to 5 year period from November 2016 while our KPIs are 3 year targets starting in March 2017.

Key Strategic Indicators

	FY14	FY15	FY 16	FY 17	FY 18	H1 19	Mid term Target(2)
1. Increase share of Group revenue from D&M(1)	18%	37%	48%	52%	57%	60%	75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	6.8%	8.5%
3. Build sales beyond Europe(1)	5%	12%	17%	19%	19%	20%	30%

(1) As a proportion of Group revenue
(2) Mid-term is a 3 to 5 year period starting in Nov 16

The Group has made further good progress with its KSIs during this period:

- The higher margin D&M division delivered 60% of Group sales (H1 2017/18: 57%), generating 78% of the Group's underlying operating profit contribution (H1 2017/18: 78%); importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales;

- The increasing proportion of the D&M division has helped to improve the Group operating margin by 0.6ppts over H1 last year to 6.8% (H1 2017/18: 6.2%) and by 0.5ppts over the last financial year (FY 2017/18: 6.3%); and

- Sales beyond Europe in H1 represented 20% of Group revenue (from 19% for FY2017/18) improving as a result of the acquisition of Santon (for which over 50% of sales in the period were outside Europe). On an annualised basis, including the acquired Cursor Controls business, for which over 60% of sales are outside Europe, this would rise to 21%. We continue to seek acquisitions with international revenues.

Key Performance Indicators

	FY14	FY15	FY 16	FY 17	FY 18	H1 19	3 yr target (FY20)
1. Sales growth							
CER	17%	36%	14%	6%	11%	12%	Well ahead of GDP
Organic	2%	3%	3%	(1)%	6%	7%(2)	
2. Increase cross-selling	£0.3m	£0.9m	£3.0m	£4.6m	£8.8m	£9.7m(3)	£10m p.a.
3. Underlying EPS growth	20%	31%	10%	13%	16%	24%	>10%
4. Dividend growth	10%	11%	6%	6%	6%	6%	Progressive
5. ROCE(1)	15.2%	12.0%	11.6%	13.0%	13.5%(4)	14.8%	>15%
6. Operating cash flow(1)	100%	104%	100%	136%	85%	84%	>85% of underlying operating profit

(1) Defined in Note 2 of the attached summary financial statements; calculated based on last 12 months.
(2) Organic growth excluding acquisitions. Including acquisitions, growth was 3%
(3) Annualised sales (H1 19: £4.9m, H1 18: £4.2m)
(4) Includes Santon. Excluding Santon, ROCE last year was 15.5%.

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

- Organic sales growth for the period excluding acquisitions of 7% was ahead of GDP, with good growth in both divisions (D&M increasing by 10% excluding acquisitions and Custom Supply by 2%) reflecting the sustained focus on higher growth target markets;

- Cross-selling generated £4.9m of Group sales, an increase of 17% over the prior year; on an annualised basis, cross-sales of £9.7m are close to reaching our 3 year target of £10m p.a.;

- Underlying EPS growth for the period was very strong at 24% (FY 2017/18: 16%). First half growth is well ahead of our annual target of exceeding 10% and reflects widespread organic growth and improved gross margins;

- Strong growth in underlying operating profit has driven a 1.3ppt increase in return on capital employed to 14.8% compared with the return for FY 2017/18 of 13.5% (including the acquisition of Santon), on track for our 3 year target of exceeding 15%;

- Over the last 12 month period, operating cash flow was 84% of underlying operating profit; while slightly below our 85% target, this reflects the working capital required to achieve the strong first half sales growth in our established D&M businesses, and the further expected growth in the second half. Over the last 5 years, operating cash flow averaged 100% of underlying operating profits.

Divisional Results

Divisional and Group performances for the half year ended 30 September 2018 are set out and reviewed below.

	H1 2018/19			H1 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	**127.8**	**14.2**	**11.1%**	108.2	11.8	10.9%	18%	20%	10%
Custom Supply	**83.9**	**3.9**	**4.6%**	82.0	3.3	4.0%	2%	2%	2%
Unallocated costs		**(3.6)**			(3.3)				
Total	**211.7**	**14.5**	**6.8%**	190.2	11.8	6.2%	11%	12%	7%

(1) Underlying operating profit excludes acquisition-related costs, and exceptional items (see below).

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 12% CER to 11% on a reported basis.

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, the balance being manufactured by approved third party contractors. The division's principal manufacturing facilities are in China, India, the Netherlands, Poland, Sri Lanka and Thailand. During the period, 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, will increase Myrra's Asian capacity 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 excellent organic growth in the division, continuing the momentum seen last year with organic growth in sales and orders, excluding acquisitions, of 10% and 13%

respectively. Strong growth was seen in Germany (+14%), North America (+11%) and particularly in Asia (+25%) which now accounts for 18% of D&M revenues.

The effect of new China / US tariffs is limited. Of the £11m first half sales into the USA, £2.5m were manufactured in China and are now subject to a tariff of, mostly, 25%. With other production sites in India, Sri-Lanka and Thailand, we are able to move production to other countries.

Overall organic sales growth of 10%, combined with a 10% sales increase from acquisitions, resulted in overall sales increasing by 20% CER. Including the impact of translation, reported divisional revenue increased by 18% to 127.8m (H1 2017/18: £108.2m). Overall orders for the division increased by 13% organically year-on-year.

Divisional revenue was 60% of Group revenue (H1 2017/18: 57%) representing further good 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 (H1 2017/18: 78%).

Underlying operating profit of £14.2m was £2.4m (+20%) higher than last year (H1 2017/18: £11.8m) and up £2.6m CER (+22%). The underlying operating margin of 11.1% was 0.2ppt higher than last year (H1 2017/18: 10.9%).

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 and transportation, building on its position in niche components for solar power and its established position in wind power.

Santon was acquired for an initial consideration of €27.0m (£23.7m) on a debt free, cash free basis together with a payment of €2.5m (£2.2m) for capital expenditure previously incurred on the automation of their production facilities. Additionally, contingent consideration of up to €10m (£8.8m) was payable for achievement of profit growth targets up to 31 December 2018 ("the First Contingent Payment") with up to a further €12.5m (£10.9m) payable for achievement of higher profit growth targets up to 31 December 2020 ("the Second Contingent Payment").

Sales in Santon's solar division slowed during the first half following changes to Chinese feed-in tariffs in the first quarter, as the market adapted. Since the end of September, orders in its solar division have recovered. The potential for the Chinese tariff reduction and the subsequent temporary drop in sales was anticipated in the acquisition price 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 First Contingent Payment now looks unlikely to be made.

Industrial division sales grew strongly during the first half and are expected to continue to grow, having recently won a number of new projects which are due for delivery in the second half of this year.

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 wider product, customer and territory base. A number of initiatives are underway to develop 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 strategic focus on structural growth markets with over 60% of its revenues being derived from medical and industrial sectors. Over 90% of its sales are to international markets, 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, will operate within the Group's D&M division whilst retaining its distinct brand identity.

Cursor Controls has been 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 for an underlying operating margin of 26%. 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 well, winning 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.

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 manufactured products from 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 complex and bespoke nature of the 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 the majority of Custom Supply 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 in Germany and the UK, 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 in the first half was good, generating 2% organic sales growth in the period and 4% growth in the second quarter, with good growth across Continental Europe. Excluding one large order shipment in the prior year, first half underlying organic growth was 6%. Growth also returned to the UK with sales up 1% for the period and up 5% in the second quarter. The divisional book to bill ratio for the period was 1.01.

Including translation movements, reported divisional revenue increased by 2% to £83.9m (H1 2017/18: £82.0m). Underlying operating profit of £3.9m was £0.6m (+18%) higher than last year (H1 2017/18: £3.3m) while the underlying operating margin was 4.6%, 0.6ppts higher than the same period last year, and well on the way to achieving our mid-term target margin for this division of 5%.

Target Markets

The Group focuses on four target markets, which accounted for 60% of Group turnover in the first half, up from 56% last year: renewable energy, transportation, medical and industrial connectivity. These are driving the Group's organic revenue growth well ahead of GDP and are a key focus of the acquisition strategy. During the period, D&M revenue from the Group's target markets grew by 13% organically compared to 6% in other markets. Growth in these markets is driven by increasing electronic content in products and the differentiation that our customised products create for customers. Our target markets are driven by fundamental structural growth factors.

i) Renewable Energy

Renewable energy pricing is fast approaching, and in some cases has fallen below, the cost of fossil fuels, driving widespread adoption. Wind energy farms are driven by increasing size and scale with the requirement for more powerful and efficient electronic equipment to enable them, whereas solar energy demand is driven by ease of distributed installation creating more and smaller systems. 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.

ii) Transportation

The transportation market offers many opportunities, particularly in vehicle electrification, mass transit and route vehicles, and logistics. In all areas of transportation, electronics content is increasing. 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.

iii) Medical

New technology is creating new applications and opportunities in medical equipment diagnostics, monitoring and control many of which require electronic equipment to facilitate it. A report by Research+Markets forecasts the global sales of medical electronics to grow by a CAGR of 6.8% between 2017 and 2022.

iv) Industrial Connectivity

Wireless technology is creating a revolution in the ability to monitor and control remotely. Smart metering, telematics equipment and general industrial communication applications are generating opportunities widely. 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**.**

Cross-selling

Cross-selling between Group businesses creates new sales opportunities in other Group customers, geographies and markets. It creates stronger, better customer relationships and typically generates higher gross margins due to the focus on higher value added product solutions.

It takes roughly three years for cross-selling to become established within an acquired business, due to project design lead-in cycles, but then proceeds to add a significant additional revenue channel, as evidenced by the Group's longer standing acquisitions of MTC and Myrra, which both now count intra Group cross-sales as one of their largest sources of revenue. In the first half of this year, cross-selling revenue increased by 17% year-on-year to £4.9m (H1 2017/18: £4.2m) as new designs and order book came into production. Cross-selling accounts for 2.3% of Group revenue.

With annualised cross-selling revenue of £9.7m, we expect to achieve our mid-term target of £10m p.a in the second half of the year.

Acquisitions

There are numerous opportunities to acquire businesses that will enhance, strengthen and build the Group. 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 an entrepreneurial culture with a decentralised structure.

The D&M division operates a decentralised structure with business units operating to pre-agreed business plans. 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;
- Developing and expanding the product range;
- Investing in management capability ('scaling up') and succession planning;
- Investment and efficiencies in manufacturing & infrastructure;
- Enabling growth with larger customers as a consequence of the stronger Group balance sheet;
- Finance and administrative support, such as treasury, banking, legal, pension, tax & insurance, risk & control; and
- Expanding the business through further acquisitions.

In February 2018, Santon was acquired and has been integrated into the D&M division, and in October this year, Cursor Controls was acquired. As with previous acquisitions, both are expected to benefit from the access they now have to the Group's broad customer base and international reach, creating new revenue opportunities from cross-selling within the Group.

Group Results

Revenue and Orders

Organic sales excluding acquisitions increased by 7% in the period to £211.7m, and with the Santon business adding 5% of acquired revenue, overall sales increased by 12% CER. Including a small translation impact of a slightly stronger Sterling on average during the period, reported revenues increased by 11% year-on-year. The impact of the temporary fall in Santon sales following changes in Chinese solar feed-in tariffs resulted in Group organic sales growth (including acquisitions) reducing to 3%.

Group orders increased by 13% CER to £217.8m with a positive book to bill ratio of 1.03.

The Group's order book increased by 18% CER and by 13% organically year-on-year, to reach another record period end high of £131m.

Gross Margin and Profit

Group gross margin improved during the first half to 33.0%, 0.8ppts higher than last year, with organic growth from both divisions. Gross profit grew by 14% and by 15% CER to £69.9m, as the Group continues to move up the value chain. The increase related to the acquisition of the higher margin Santon business, a combination of manufacturing and purchasing efficiencies, and in some cases, justifiable price increases to customers.

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

Group underlying operating costs increased by 13% CER. Excluding the impact of the Santon acquisition, underlying operating costs increased by 6% organically reflecting investment in D&M businesses to support strong revenue growth in the period and over the longer term. Underlying operating costs as a percentage of sales increased by 0.2ppts to 26.2% compared with last year.

£m	H1 2018/19	H1 2017/18	%
Organic operating costs	51.9	49.1	6%
Acquisition operating costs	3.5		
Underlying operating costs (CER)	55.4	49.1	13%
FX translation		0.3	
Underlying adjustments (see below)	6.4	3.4	
Reported operating costs	61.8	52.8	17%

£m	H1 2018/19	H1 2017/18
Selling and distribution costs	27.8	26.4
Administrative expenses	34.0	26.4
Reported operating costs	61.8	52.8

Group Operating Profit and Margin

Group underlying operating profit for the period was £14.5m, an increase of £2.7m (+23%) on last year, and up 25% CER, delivering a Group underlying operating margin of 6.8%, up 0.6ppts on last year.

Reported Group operating profit for the period (after accounting for the underlying adjustments discussed below) was £8.1m, compared with £8.4m last year.

£m	**H1 2018/19**			H1 2017/18		
	Operating profit	**Finance cost**	**Profit before tax**	Operating profit	Finance cost	Profit before tax
Underlying	14.5	(1.6)	12.9	11.8	(1.4)	10.4
Underlying adjustments						
Earn-out accruals	–	–	–	(1.1)	–	(1.1)
Acquisition expenses	(0.4)	–	(0.4)	–	–	–
Amortisation of acquired intangibles	(2.9)	–	(2.9)	(2.2)	–	(2.2)
Exceptional charge (US)	(2.9)	–	(2.9)	–	–	–
IAS 19 pension cost	(0.2)	(0.1)	(0.3)	(0.1)	(0.1)	(0.2)
Reported	8.1	(1.7)	6.4	8.4	(1.5)	6.9

Underlying Adjustments

Underlying adjustments for the period comprise acquisition costs of £0.4m (H1 2017/18: nil), the amortisation of acquired intangibles of £2.9m (H1 2017/18: £2.2m) and the IAS19 legacy pension cost of £0.3m (H1 2017/18: £0.2m).

The £0.7m increase in the amortisation charge since last year to £2.9m relates to the amortisation of intangibles acquired with Santon.

Following the period end, internal control processes identified a fraud, perpetrated against the Group in one of its US subsidiaries. Strong and decisive action has been taken to resolve the matter and the Group is expecting to recover the loss, which is also covered by insurance. Until then, a provision of £2.9m has been made in respect of the gross loss associated with this. On the basis that the loss is recovered, reported Group operating profit increased by 31%.

Financing Costs

Financing costs comprise underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £1.6m, together with an IAS19 legacy pension finance charge of £0.1m. For the half year, total finance costs were £1.7m (H1 2017/18: £1.5m).

Underlying finance costs for the period of £1.6m were £0.2m higher than last year due to increased debt levels following the acquisition on Santon on 1 February 2018.

Underlying Tax Rate

The underlying effective tax rate for the first half was 25%, 1% higher than last year's rate for the full year due to increasing profitability in higher tax jurisdictions.

The overall effective tax rate of 27% was higher than the underlying effective tax rate due to no tax relief on acquisition costs (within underlying adjustments above).

Profit Before Tax and EPS

Underlying profit before tax for the period increased £2.5m (+24%) to £12.9m compared with last year (H1 2017/18: £10.4m), driving growth in underlying EPS for the period of 24% to 13.0p (H1 2017/18: 10.5p). The increase in underlying EPS was slightly lower than the increase in underlying profit before tax due mainly to the increased underlying effective tax rate for the period.

After the underlying adjustments discussed above, reported profit before tax was £6.4m compared with £6.9m for last year with reported fully diluted earnings per share of 6.3p compared with 6.5p last year. On the basis that the exceptional US loss discussed above will be recovered, reported profit before tax and fully diluted earnings per share were up 35% and 40% respectively.

£m	**H1 2018/19**		**H1 2017/18**	
	PBT	**EPS**	**PBT**	**EPS**
Underlying	12.9	13.0p	10.4	10.5p
Underlying adjustments				
Earn-out accruals	–		(1.1)	
Acquisition expenses	(0.4)		–	
Amortisation of acquired intangibles	(2.9)		(2.2)	
Exceptional charge (US)	(2.9)		–	
IAS 19 pension cost	(0.3)		(0.2)	
Reported	6.4	6.3p	6.9	6.5p

Working Capital

Working capital at 30 September 2018 was £75.4m, equivalent to 17.3% of annualised second quarter sales at CER. This compares with working capital of £63.9m at 30 September 2017, 16.7% of last year's annualised second quarter sales. Of the £11.5m increase since last year, £5.3m results from strong organic growth in the D&M division and from the investment in inventory to drive expected growth levels for the second half of the year. The balance is the working capital of Santon, which was acquired in February 2018.

The D&M division working capital was 22% of sales and 13% in Custom Supply reflecting the higher D&M inventory requirements for raw materials as well as finished goods, and goods in-transit from Asia. In the first half of the year, D&M sales grew to 60% of Group sales from 57% of Group sales 12 months ago.

In anticipation of short term disruption at borders following Brexit, the Group is planning to increase inventory by £2m to £3m in the second half of the year. This will partly offset the natural reduction of inventory that should result following the expected second half sales growth.

Cash Flow

Net debt at 30 September 2018 was £62.6m, compared with £52.4m at 31 March 2018 and £37.6m at 30 September 2017. The increase of £25.0m since last year largely relates to the acquisition of Santon. Excluding spend on acquisitions, net debt reduced by £2.3m from last year.

	H1 2018/19	H1 2017/18	Last 12 Months
Net debt at 31 March	(52.4)	(30.0)	(37.6)
Free cash flow (see table below)	2.1	–	16.7
Acquisition related cash flow	(2.3)	(0.4)	(27.3)
Exceptional items	(2.9)	(0.7)	(4.0)
Legacy pension	(0.9)	(0.8)	(1.8)
Dividends	(4.7)	(4.3)	(6.6)
Executive options issuance	(1.1)	–	(2.6)
Foreign exchange impact	(0.4)	(1.4)	0.6
Net debt at 30 Sept	**(62.6)**	**(37.6)**	**(62.6)**

Net acquisition costs of £2.3m were mainly earn-out payments made in respect of Variohm.

Dividend payments increased by £0.4m (+7%) to £4.7m following the 6% increase of the final dividend last year and a 1% increase in the number of basic shares since last year, following exercises by executives giving rise to employers NIC costs of £1.1m in the period. Total dividend payments made in the last 12 months were £6.6m. The Group will continue to review the level of future dividend growth in relation to its policy of maintaining a long term dividend cover of 2 to 3 times underlying earnings per share.

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 the last 12 months, are shown below:

£m	H1 2018/19	H1 2017/18	Last 12 Months
Underlying profit before tax	**12.9**	**10.4**	**24.4**
Finance costs	1.6	1.4	2.8
Non-cash items*	3.0	2.2	5.6
Underlying EBITDA	**17.5**	**14.0**	**32.8**
Working capital	(10.2)	(9.0)	(5.3)
Capital expenditure	(1.9)	(1.6)	(4.6)
Operating cash flow	**5.4**	**3.4**	**22.9**
Finance costs	(1.6)	(1.4)	(2.8)
Taxation	(1.7)	(2.0)	(3.4)
Free cash flow	**2.1**	**–**	**16.7**

* Non-cash items are depreciation, amortisation and share based payments

Underlying EBITDA of £17.5m was 25% higher than last year. £10.2m was invested into working capital partly as a result of the strong growth in first half D&M sales (up 10% organically excluding acquisitions) and partly into inventory to support expected sales growth in the second half of the year. Typically, the Group benefits from greater operational cash generation in the second half of a year with inflows of working capital following utilisation of inventory built at the half year (H1 2017/18 saw an outflow of working capital of £9.0m in the first half followed by a reduction in working capital in the second half of £4.9m for a net investment of £4.1m for the year). Over the last 12 months, £5.3m has been invested in working capital to support strong organic sales growth of 9% in the second quarter, being annualised additional sales of £36m CER. This additional working capital equates to 14% of sales, below the average working capital for the Group of 17% for the period.

Capital expenditure of £1.9m was £0.3m higher than last year; investment of £3.5m is expected in the second half to support increased production capability in the D&M division. Tax payments were £0.3m lower in the first half compared with last year, due to an increased use of losses during this period.

The second half of last year generated £17.5m of operating cash totalling £22.9m over the last 12 months being 84% of underlying operating profit during that period, slightly below our 85% target. Over the last 5 years, the Group has achieved an average conversion rate of 100%. Our free cash conversion over the last 12 months was 91% of profit after tax, slightly ahead of our 90% target.

Banking Facilities

The Group has a 5-year £120m syndicated banking facility which extends to July 2021. In addition, the Group has a £30m accordion facility which it can use to extend the total facility up to £150m. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 30 September 2018 of £62.6m, the Group's gearing ratio was 1.85 times, being defined as net debt divided by underlying EBITDA (annualised for acquisitions).

Balance Sheet

Net assets of £133.0m at 30 September 2018 were £3.7m higher than at the end of the last financial year (31 March 2018: £129.3m). The increase primarily relates to the net profit for the period partly offset by the payment of last year's final dividend. The movement in net assets is summarised below:

£m	**H1 2018/19**
Net assets at 31 March 2018	129.3
Net profit after tax	4.7
Dividend paid	(4.7)
Currency net assets – translation impact	2.7
Gain on defined benefit scheme	0.5
Equity issue	0.1
Share based payments (inc tax)	0.4
Net assets at 30 Sep 2018	**133.0**

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the period by £1.2m, from £3.0m at 31 March 2018 to £1.8m at 30 September 2018. This mainly follows improvements in gilt and corporate bond rates during the period which has reduced the value of longer term pension liabilities. Annual payments of £1.7m are payable (growing by 3% each year in accordance with the plan agreed with the pension trustee in 2009) until March 2022. The latest triennial valuation process as at 31 March 2018, is underway.

Risks and Uncertainties

The principal risks faced by the Group are set out on pages 36 to 41 of the Group's Annual Report for year ended 31 March 2018, a copy of which is available on the Group's website: www.discovericplc.com. These risks include but are not limited to: instability in 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; loss of key personnel, product liability, liquidity and debt covenants; exposure to adverse foreign currency movements; and obligations in respect of a legacy defined benefit pension scheme.

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 its 5-year committed banking facility of £120m.

Summary and Outlook

The Group’s first half performance has been strong with underlying earnings per share increasing by 24%, driven by broad-based organic growth, the continued move towards higher value products and good operating leverage.

The organic growth of our established Design & Manufacturing businesses was 10% and reflects our focus on higher growth markets. The Custom Supply division delivered a good performance, with improving profitability being driven by operational efficiency and a return to growth in the UK.

Over 60% of Group revenue is now derived from our target markets of renewable energy, transportation, medical and industrial connectivity. Design wins have continued to grow strongly, increasing by 40% year-on-year, with 80% being in these target markets.

Trading in the second half has started well with further strong growth. We are on track to deliver full year earnings in line with our expectations and we have a healthy pipeline of acquisition opportunities being developed.

With a record order book and a high level of design wins together with the additional capability brought in with the recent acquisition of the higher margin Cursor Controls Group, we are well positioned for continued growth.

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

4 December 2018

Condensed consolidated income statement
for the six months ended 30 September 2018

	notes	**Unaudited six months ended 30 Sept 2018 £m**	Unaudited six months ended 30 Sept 2017 £m	Audited year ended 31 Mar 2018 £m
Revenue	4	**211.7**	190.2	387.9
Cost of sales		**(141.8)**	(129.0)	(261.2)
Gross profit		**69.9**	61.2	126.7
Selling and distribution costs		**(27.8)**	(26.4)	(54.5)
Administrative expenses (including exceptional items)		**(34.0)**	(26.4)	(53.7)
Operating profit	4	**8.1**	8.4	18.5
Finance revenue		**0.2**	0.1	0.4
Finance costs		**(1.9)**	(1.6)	(3.1)
Profit before tax		**6.4**	6.9	15.8
Tax expense	7	**(1.7)**	(2.0)	(4.0)
Profit for the period		**4.7**	4.9	11.8
Earnings per share				
Basic	9	**6.5p**	6.9p	16.7p
Diluted	9	**6.3p**	6.5p	15.8p

Supplementary income statement

Underlying Performance Measure	Notes	**Unaudited six months ended 30 Sept 2018 £m**	Unaudited six months ended 30 Sept 2017 £m	Audited year ended 31 Mar 2018 £m
Operating profit	4	**8.1**	8.4	18.5
Add: Acquisition costs	5	**0.4**	1.1	0.8
Exceptional items	5	**2.9**	–	–
Amortisation of acquired intangible assets	5	**2.9**	2.2	4.9
IAS 19 pension administrative charge		**0.2**	0.1	0.3
Underlying operating profit		**14.5**	11.8	24.5
Profit before tax		**6.4**	6.9	15.8
Add: Acquisition costs	5	**0.4**	1.1	0.8
Exceptional items	5	**2.9**	–	–
Amortisation of acquired intangible assets	5	**2.9**	2.2	4.9
Total IAS 19 pension charge	5	**0.3**	0.2	0.4
Underlying profit before tax		**12.9**	10.4	21.9
Underlying earnings per share				
Basic	9	**13.5p**	11.2p	23.4p
Diluted	9	**13.0p**	10.5p	22.3p

Condensed consolidated statement of comprehensive income
for the six months ended 30 September 2018

	Unaudited six months ended 30 Sept 2018 £m	Unaudited six months ended 30 Sept 2017 £m	Audited year ended 31 Mar 2018 £m
Profit for the period	**4.7**	4.9	11.8
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Re-measurement gain on defined benefit pension scheme	**0.6**	0.8	2.1
Deferred tax credit relating to defined benefit pension scheme	**(0.1)**	–	(0.3)
	0.5	0.8	1.8
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries	**2.7**	(0.4)	(3.5)
	2.7	(0.4)	(3.5)
Other comprehensive income/(loss) for the period, net of tax	**3.2**	0.4	(1.7)
Total comprehensive income for the period, net of tax	**7.9**	5.3	10.1

Condensed consolidated statement of financial position
at 30 September 2018

	Notes	**Unaudited at 30 Sept 2018 £m**	Unaudited at 30 Sept 2017 £m Restated*	Audited at 31 March 2018 £m Restated*
Non-current assets				
Property, plant and equipment		**24.0**	15.7	23.4
Intangible assets - goodwill		**78.2**	73.2	76.6
Intangible assets - other		**27.9**	25.7	30.2
Deferred tax assets		**6.4**	5.4	5.8
		136.5	120.0	136.0
Current assets				
Inventories		**64.8**	54.6	60.6
Trade and other receivables		**88.1**	75.8	84.6
Current tax assets		**1.1**	–	1.3
Cash and cash equivalents	11	**17.8**	15.3	21.9
		171.8	145.7	168.4
Total assets		**308.3**	265.7	304.4
Current liabilities				
Trade and other payables		**(77.5)**	(66.5)	(82.1)
Other borrowings	11	**(4.1)**	(2.3)	(6.4)
Current tax liabilities		**(5.2)**	(3.2)	(4.2)
Provisions		**(2.2)**	(2.3)	(0.9)
		(89.0)	(74.3)	(93.6)
Non-current liabilities				
Trade and other payables		–	(3.3)	(0.7)
Other borrowings	11	**(76.3)**	(50.6)	(67.9)
Pension liability		**(1.8)**	(5.0)	(3.0)
Provisions		**(1.4)**	(1.5)	(2.8)
Deferred tax liabilities		**(6.8)**	(5.9)	(7.1)
		(86.3)	(66.3)	(81.5)
Total liabilities		**(175.3)**	(140.6)	(175.1)
Net assets		**133.0**	125.1	129.3
Equity				
Share capital		**3.7**	3.5	3.6
Share premium account		**106.9**	108.9	106.9
Merger reserve		**2.9**	3.0	2.9
Currency translation reserve		**6.2**	6.6	3.5
Retained earnings		**13.3**	3.1	12.4
Total equity		**133.0**	125.1	129.3

*Prior Year Restatements

31 March 2018

1. In accordance with IFRS3, a measurement period adjustment has been made to the prior year. Figures have been restated relating to the Santon acquisition; refer to note 6 for details.

30 September 2017

2. Contingent consideration payable relating to acquisitions has been reclassified from provisions to trade and other payables.
3. Debt costs have been reclassified from cash and cash equivalents to other financial liabilities

Condensed consolidated statement of changes in equity
for the six months ended 30 September 2018

	Attributable to equity holders of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total Equity £m
At 1 April 2018	**3.6**	**106.9**	**2.9**	**3.5**	**12.4**	**129.3**
Profit for the period	–	–	–	–	**4.7**	**4.7**
Other comprehensive income	–	–	–	**2.7**	**0.5**	**3.2**
Total comprehensive income	–	–	–	**2.7**	**5.2**	**7.9**
Shares issued	**0.1**	–	–	–	**(0.1)**	–
Share-based payments	–	–	–	–	**0.5**	**0.5**
Dividends	–	–	–	–	**(4.7)**	**(4.7)**
At 30 September 2018 - unaudited	**3.7**	**106.9**	**2.9**	**6.2**	**13.3**	**133.0**
At 1 April 2017	3.5	106.0	2.9	7.0	4.4	123.8
Profit for the period	–	–	–	–	4.9	4.9
Other comprehensive income	–	–	–	(0.4)	0.8	0.4
Total comprehensive income	–	–	–	(0.4)	5.7	5.3
Share-based payments	–	–	–	–	0.3	0.3
Dividends	–	–	–	–	(4.3)	(4.3)
At 30 September 2017 - unaudited	3.5	106.0	2.9	6.6	6.1	125.1
At 1 April 2017	3.5	106.0	2.9	7.0	4.4	123.8
Profit for the period	–	–	–	–	11.8	11.8
Other comprehensive income	–	–	–	(3.5)	1.8	(1.7)
Total comprehensive income	–	–	–	(3.5)	13.6	10.1
Shares issued	0.1	0.9	–	–	–	1.0
Notional repurchase of share options	–	–	–	–	(1.5)	(1.5)
Share-based payments	–	–	–	–	2.1	2.1
Dividends	–	–	–	–	(6.2)	(6.2)
At 31 March 2018 - audited	3.6	106.9	2.9	3.5	12.4	129.3

Condensed consolidated statement of cash flows

for the six months ended 30 September 2018

	Notes	**Unaudited six months ended 30 Sept 2018 £m**	Unaudited six months ended 30 Sept 2017 £m	Audited year ended 31 Mar 2018 £m
Net cash (outflow)/inflow from operating activities	10	**(1.4)**	(0.3)	15.0
Investing activities				
Acquisitions of shares in subsidiaries and businesses		–	(0.1)	(24.6)
Acquisition related contingent consideration		**(2.0)**	–	(0.8)
Purchase of property, plant and equipment		**(1.7)**	(1.5)	(3.7)
Purchase of intangible assets - software		**(0.3)**	(0.1)	(0.6)
Proceeds from disposal of property plant and equipment		**0.1**	–	–
Interest received		**0.2**	0.1	0.4
Net cash used in investing activities		**(3.7)**	(1.6)	(29.3)
Financing activities				
Proceeds from borrowings		**7.6**	–	20.4
Repayment of borrowings		**(1.0)**	(0.1)	(1.5)
Dividends paid		**(4.7)**	(4.3)	(6.2)
Notional repurchase of shares		–	–	(1.5)
Net cash generated from/(used in) financing activities		**1.9**	(4.4)	11.2
Net decrease in cash and cash equivalents		**(3.2)**	(6.3)	(3.1)
Cash and cash equivalents at beginning of period		**16.2**	19.8	19.8
Net foreign exchange differences		**0.4**	(0.7)	(0.5)
Cash and cash equivalents at end of period		**13.4**	12.8	16.2

Reconciliation to cash and cash equivalents in the condensed consolidated statement of financial position				
Cash and cash equivalents shown above		**13.4**	12.8	16.2
Add bank overdrafts		**4.4**	2.5	5.7
Cash and cash equivalents in the condensed consolidated statement of financial position		**17.8**	15.3	21.9

Further information on the condensed consolidated statement of cash flows is provided in note 11.

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2018

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 2018 were authorised for issue by the Board of Directors on 4 December 2018. 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 2018 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 2018, which were prepared in accordance with IFRS as adopted by the European Union.

The results for the year ended 31 March 2018 are based on audited statutory 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 2018 ("FY18 Annual Accounts") are available on request from the Company's registered office or on its website.

After making 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 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 2018. 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 2018.

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 costs, exceptional items, amortisation of acquired intangible assets and the IAS19 pension administration 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.

Underlying EBITDA

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

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2018

Underlying profit before tax
"Underlying profit before tax" is defined as profit before tax excluding acquisition costs, exceptional items, amortisation of acquired intangible assets 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.

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 and the Strategic, Operational and Financial Review means at constant exchange rates ("CER"), and is shown both excluding acquisitions (Santon was acquired last financial year on 1 February 2018) and overall (including acquisitions).

Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group includes, where material, the profit or loss on disposal of property, investments or businesses and other financial assets, asset impairments and significant restructuring costs in exceptional items.

3. New accounting standards and financial reporting requirements

New standards effective in the current reporting period

The following standards, which have been issued by the IASB, became applicable for the current accounting period:

International Accounting Standards (IAS/IFRS/IFRIC)	
IFRS 9	Financial Instruments: Classification and measurement
IFRS 15	Revenue from Contracts with Customers

IFRS9: The main area of consideration for the Group is the impairment of trade receivables. Adoption does not have a material effect on the measurement and presentation of the Group Consolidated Financial Statements.

IFRS15: Adoption does not have a material effect on the measurement and presentation of the Group Consolidated Financial Statements. This reflects the relatively non-complex and largely standardised terms and conditions applicable to the Group's revenue contracts.

New standards not yet effective

IFRS 16, 'Leases' will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). The standard is effective for annual periods beginning on or after 1 January 2019. The Group will complete its assessment of the likely impact of IFRS 16 by 31

March 2019. The Group does not intend to early adopt IFRS 16. The new standard will result in most of the Group's current operating leases (as defined under IAS 17) being recognised on balance sheet. As at 31 March 2018, the Group had non-cancellable operating lease commitments of £15.8m (as shown in note 30 to the 2018 financial statements). The Group does not intend to restate prior year comparatives when the new standard is adopted, with lease asset values equal to lease liabilities at the date of transition in line with the 'simplified approach' under IFRS 16.

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

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 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.

Six months to 30 September 2018 - unaudited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	**127.8**	**83.9**	**–**	**211.7**
Underlying operating profit/(loss)	**14.2**	**3.9**	**(3.6)**	**14.5**
Acquisition costs	(0.4)	–	–	(0.4)
Exceptional items	(2.9)	–	–	(2.9)
Amortisation of acquired intangible assets	(2.9)	–	–	(2.9)
IAS 19 pension charge	–	–	(0.2)	(0.2)
Operating profit/(loss)	**8.0**	**3.9**	**(3.8)**	**8.1**

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2018

Six months to 30 September 2017 - unaudited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	108.2	82.0	–	190.2
Underlying operating profit/(loss)	11.8	3.3	(3.3)	11.8
Acquisition costs	(1.1)	–	–	(1.1)
Amortisation of acquired intangible assets	(2.2)	–	–	(2.2)
IAS 19 pension charge	–	–	(0.1)	(0.1)
Operating profit/(loss)	8.5	3.3	(3.4)	8.4

Year to 31 March 2018 - audited

	Design & Manufacturing £m	Custom Supply £m	Unallocated costs £m	Total operations £m
Revenue	222.6	165.3	–	387.9
Underlying operating profit/(loss)	24.2	7.5	(7.2)	24.5
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)	18.5	7.5	(7.5)	18.5

5. Underlying profit before tax

			Unaudited six months ended 30 Sept 2018 £m	Unaudited six months ended 30 Sept 2017 £m	Audited year ended 31 Mar 2018 £m
Profit before tax			**6.4**	6.9	15.8
Add back:	Acquisition costs	(a)	**0.4**	1.1	0.8
	Exceptional items	(b)	**2.9**	–	–
	Amortisation of acquired intangibles	(c)	**2.9**	2.2	4.9
	IAS19 pension costs	(d)	**0.3**	0.2	0.4
Underlying profit before tax			**12.9**	10.4	21.9

The tax impact of the underlying profit adjustments above is a credit of £1.5m (FY 2017/18: £1.3m).

a) £0.3m acquisition costs incurred primarily in relation to the acquisition of Cursor Controls (see note 14), and £0.1m of accrued contingent consideration costs relating to the acquisition of Contour.

   FY 2017/18 £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 were partially offset by a £0.7m net credit adjustment to contingent consideration for acquired businesses.

b) Following the period end, internal control processes identified a fraud, perpetrated against the Group in one of its US subsidiaries. Strong and decisive action has been taken to resolve the matter and the Group is expecting to recover the loss, which is covered by insurance. Until then, a provision of £2.9m has been made in respect of the gross loss associated with this.

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

d) Pension costs related to the Group's legacy defined benefit pension scheme (see note 12).

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2018

6. Business combinations

There were no new business combinations during the period.

The Santon acquisition completed on 1 February 2018 and the provisional accounting for the acquisition was reflected in the March 2018 financial statements. During the first half of this year, the acquisition date fair values have been reassessed in light of information and circumstances that existed at the acquisition date. The impact of the re-assessment has been to reduce the fair value of the acquired net assets by £1.4m and reduce the fair value of consideration transferred to the seller by £6.8m. As a result, the value of acquired intangibles including goodwill on acquisition has reduced by £8.2m to £12.2m.

The figures at 31 March 2018 have been restated to reflect the re-assessment above.

7. Taxation

The underlying tax charge for the period was £3.2m (H1 2017/18: £2.5m) giving an underlying effective tax rate on underlying profit before tax of 25% (H1 2017/18: 24%) which is slightly higher than the rate of 24% for FY 2017/18.

The tax credit in respect of the underlying adjustments was £1.5m (H1 2017/18: £0.5m). This gives an overall tax charge for the period of £1.7m (H1 2017/18: £2.0m) on profit before tax of £6.4m (H1 2017/18: £6.9m) which is an effective tax rate of 27%.

8. Dividends

The Directors have declared an interim dividend of 2.80 pence per share (H1 2017/18: 2.65 pence) payable on 14 January 2019 to shareholders on the register at 21 December 2018.

In accordance with IAS 10, this dividend has not been reflected in the interim results. The cash cost of the interim dividend will be £2.1m (H1 2017/18: £1.9m).

9. 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 2018 £m	Unaudited Six months ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Profit for the period	**4.7**	4.9	11.8
	No	No	No
Weighted average number of shares for basic earnings per share	**72,006,637**	70,688,381	70,797,217
Effect of dilution - share options	**2,503,447**	4,333,577	3,666,253
Adjusted weighted average number of shares for diluted earnings per share	**74,510,084**	75,021,958	74,463,470
Earnings per share - basic	**6.5p**	6.9p	16.7p
Earnings per share - diluted	**6.3p**	6.5p	15.8p

At the period end, there were 2.6 million ordinary share options in issue that could potentially dilute earnings per share in the future, of which 2.5 million are currently dilutive (30 September 2017: 4.8 million in issue and 4.3 million dilutive, 31 March 2018: 4.6 million in issue and 3.7 million dilutive).

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2018

Underlying earnings per share

Underlying earnings per share are calculated as follows:

	Unaudited Six months ended 30 Sept 2018 £m	Unaudited Six months ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Profit for the period	**4.7**	4.9	11.8
Acquisition costs	**0.4**	1.1	0.8
Exceptional items	**2.9**	–	–
Amortisation of acquired intangible assets	**2.9**	2.2	4.9
IAS 19 pension costs	**0.3**	0.2	0.4
Tax effects of acquisition costs, exceptional items, amortisation of acquired intangible assets and IAS 19 pension costs	**(1.5)**	(0.5)	(1.3)
Underlying profit for the period	**9.7**	7.9	16.6
	No	No	No
Weighted average number of shares for basic earnings per share	**72,006,637**	70,688,381	70,797,217
Effect of dilution - share options	**2,503,447**	4,333,577	3,666,253
Adjusted weighted average number of shares for diluted earnings per share	**74,510,084**	75,021,958	74,463,470
Underlying earnings per share - basic	**13.5p**	11.2p	23.4p
Underlying earnings per share - diluted	**13.0p**	10.5p	22.3p

10. Reconciliation of cash flow from operating activities

	Unaudited Six months ended 30 Sept 2018 £m	Unaudited Six months ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Profit for the period	**4.7**	4.9	11.8
Taxation expense	**1.7**	2.0	4.0
Net finance costs	**1.7**	1.5	2.7
Depreciation of property, plant and equipment	**2.3**	1.6	3.5
Amortisation of intangible assets	**3.2**	2.5	5.5
Acquisition related contingent consideration – earn-outs	–	(0.3)	–
Change in provisions	**0.1**	0.4	(3.5)
Pension scheme funding	**(0.9)**	(0.8)	(1.7)
IAS 19 pension administration charge	**0.2**	0.1	0.3
Equity-settled share based payment expense and associated taxes	**(0.7)**	0.3	0.7
Operating cash flows before changes in working capital	**12.3**	12.2	23.3
Increase in inventories	**(2.8)**	(5.1)	(7.7)
(Increase)/decrease in trade and other receivables	**(4.8)**	2.2	(0.6)
(Decrease)/increase in trade and other payables	**(2.6)**	(6.1)	6.7
Increase in working capital	**(10.2)**	(9.0)	(1.6)
Cash generated from operations	**2.1**	3.2	21.7
Interest paid	**(1.8)**	(1.5)	(3.0)
Net income taxes paid	**(1.7)**	(2.0)	(3.7)
Net cash (outflow)/inflow from operating activities	**(1.4)**	(0.3)	15.0

Notes to the interim condensed consolidated financial statements
for the six months ended 30 September 2018

11. Closing net debt

	At 30 Sept 2018 £m	At 30 Sept 2017 £m	At 31 Mar 2018 £m
Borrowings – current - overdrafts	**(4.4)**	(2.5)	(5.7)
Borrowings – current portion of long term debt	–	(0.1)	(1.0)
Borrowings – non current	**(76.8)**	(51.3)	(68.5)
Capitalised debt cost	**0.8**	1.0	0.9
Cash and cash equivalents	**17.8**	15.3	21.9
Closing net debt	**(62.6)**	(37.6)	(52.4)

Reconciliation of movement in cash and net debt

	Six months ended 30 Sept 2018 £m	Six months ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Net decrease in cash and cash equivalents	**(3.2)**	(6.3)	(3.1)
Proceeds from borrowings	**(7.6)**	–	(20.4)
Repayment of borrowings	**1.0**	0.1	1.5
Decrease in net cash before translation differences	**(9.8)**	(6.2)	(22.0)
Translation and other non-cash changes	**(0.4)**	(1.4)	(0.4)
Decrease in net cash	**(10.2)**	(7.6)	(22.4)
Net debt at beginning of the period	**(52.4)**	(30.0)	(30.0)
Net debt at end of the period	**(62.6)**	(37.6)	(52.4)

Supplementary information to the statement of cash flows

Underlying Performance Measure	**Six months ended 30 Sept 2018 £m**	Six months ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Decrease in net cash before translation differences	**(9.8)**	(6.2)	(22.0)
Add: Business acquisitions	**2.3**	0.4	25.4
Exceptional cash flow	**2.9**	0.7	1.8
Executive options issuance	**1.1**	–	–
Legacy pension scheme funding	**0.9**	0.8	1.7
Dividends paid	**4.7**	4.3	6.2
Notional repurchase of share options	–	–	1.5
Free cash flow	**2.1**	–	14.6
Net finance costs	**1.6**	1.4	2.6
Taxation	**1.7**	2.0	3.7
Operating cash flow	**5.4**	3.4	20.9

12. 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 Acal 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 2018.

The IAS 19 defined benefit pension scheme liability at 30 September 2018 was £1.8m (31 March 2018: £3.0m). The movement principally relates to the changes in actuarial movements and cash contributions in the period.

The liabilities of the defined benefit scheme are expected to increase in the future in relation to the guaranteed minimum pension equalisation. At present it is anticipated there is an inequality of benefits between male and female members who have a guaranteed minimum pension. Following the ruling in the High Court case on 26 October 2018, the Lloyds Banking Group case, certain legal and actuarial issues remain unresolved and the Company is taking further advice to determine the impact.

13. Exchange rates

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

	Six months ended 30 Sept 2018		Six months ended 30 Sept 2017		Year ended 31 March 2018	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
Euro	**1.1270**	**1.1314**	1.1341	1.1149	1.1430	1.1345
US dollar	**1.3046**	**1.3336**	1.3389	1.3273	1.4083	1.3261

14. Post balance sheet event

On 17 October 2018, subsequent to the period end, the company completed the acquisition of Cursor Controls Group via the acquisition of 100% of the share capital and voting equity interests of its holding company Castlegate 737 Limited (“Cursor Controls”). The group was acquired for an initial cash consideration of £19.0m on a debt free, cash free basis, before expenses, funded from existing debt facilities. 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.

15. 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 2018 interim results published on 4 December 2018 will not be sent to shareholders. The 2018 interim results and other information about discoverIE Group plc are available on the Company’s website at www.discovereplc.com.