

discoverIE Group

Dividend and M&A back on the agenda

H121 trading update

discoverIE reported resilient trading through H121, with a revenue decline of 6% y-o-y, noting that sales in target markets performed significantly ahead of other sectors. Order intake improved through Q2 and the book-to-bill ratio for September was above 1x. With increased confidence in its outlook and a strong balance sheet, the company intends to reinstate the dividend with interims in November and has resumed its M&A strategy with the acquisition of a high margin US sensors business.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/19	438.9	28.4	28.4	9.6	22.5	1.5
03/20	466.4	34.6	31.8	3.0	20.1	0.5
03/21e	460.5	28.8	23.7	10.4	27.0	1.6
03/22e	494.8	36.2	29.9	10.7	21.4	1.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Book-to-bill ratio above 1x since September

H121 revenue declined 6% y-o-y on a reported and constant exchange rate (CER) basis and 8% on an organic CER basis. Design and Manufacturing (D&M) revenue was 3% lower (CER) and 7% lower on an organic CER basis while Custom Supply declined 10% y-o-y (CER). Order intake has improved through Q221, with September orders ahead of sales and up 6% organically year-on-year and October orders at a similar level and ahead of sales. The book-to-bill ratio for H121 increased to 0.97:1 in Q2 from 0.85:1 in Q1, resulting in an H121 book-to-bill of 0.91:1. The company announced its intention to resume paying a dividend and expects to declare an interim dividend when it reports interims on 30 November.

Back on the acquisition trail

discoverIE has acquired the trade and assets of Phoenix America, a US-based designer and manufacturer of magnetically actuated sensors, for \$11.0m/£8.5m in cash with a three-year cash earn-out of up to \$1.5m/£1.2m. The business will operate within the Variohm business cluster in the D&M division. In CY19, Phoenix generated revenue of \$6.4m/£4.9m and adjusted operating profit of \$1.25m/£1.0m (20% margin vs FY20 D&M margin of 13%). discoverIE had reduced net debt to a gearing ratio (net debt/EBITDA) of 1.05x at the end of H121 from 1.25x at end FY20; on a pro-forma basis, this deal increases the gearing back to 1.25x at end H121 leaving plenty of headroom for further cash-funded acquisitions. We plan to update our forecasts with interim results.

Valuation: Focus returns to long-term strategy

The stock has bounced back 69% from the low it reached in March and is up 12% year-to-date. discoverIE continues to trade at a c 23% discount to its peer group on a P/E basis. The stock is supported by a dividend yield approaching 2%. Aside from continuing recovery in customer demand, we view the key trigger for earnings and share price upside to be progress in increasing the weighting of the business towards the higher growth, higher margin D&M business, which in turn should move the company closer to its 12.5% medium-term operating margin target.

Electronic & electrical equipment

16 October 2020

Price **640p**

Market cap **£573m**

€1.10:\$1.29:£1

Net debt (£m) at end FY20 61.3

Shares in issue 89.5m

Free float 96%

Code DSCV

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 7.5 15.8 48.3

Rel (local) 8.5 18.6 76.6

52-week high/low 678p 378p

Business description

discoverIE is a leading international designer, manufacturer and supplier of customised electronics to industry, supplying customer-specific electronic products and solutions to original equipment manufacturers.

Next events

H121 results 30 November

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019	2020	2021e	2022e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		271.1	287.7	338.2	387.9	438.9	466.4	460.5	494.8
Cost of Sales		(186.7)	(195.1)	(227.2)	(261.2)	(293.9)	(309.7)	(306.3)	(327.5)
Gross Profit		84.4	92.6	111.0	126.7	145.0	156.7	154.3	167.2
EBITDA		16.6	19.8	24.3	29.3	37.0	50.9	46.0	53.6
Operating Profit (before am, SBP and except.)		14.0	17.0	20.6	25.2	31.8	38.9	33.8	41.2
Operating Profit (before am. and except.)		13.4	16.3	20.0	24.5	30.6	37.1	31.4	38.8
Amortisation of acquired intangibles		(2.1)	(2.8)	(3.9)	(4.9)	(5.9)	(9.0)	(11.0)	(11.0)
Exceptionals		(5.2)	(2.1)	(8.4)	(2.3)	(2.0)	(4.3)	(3.2)	(3.6)
Share-based payments		(0.6)	(0.7)	(0.6)	(0.7)	(1.2)	(1.8)	(2.4)	(2.4)
Operating Profit		6.1	11.4	7.7	17.3	22.7	23.8	17.2	24.2
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(4.3)	(5.1)	(5.1)
Profit Before Tax (norm)		12.4	15.2	17.8	22.6	28.4	34.6	28.8	36.2
Profit Before Tax (FRS 3)		4.3	9.4	4.8	14.6	19.3	19.5	12.0	19.1
Tax		(1.4)	(2.2)	(1.3)	(4.0)	(4.7)	(5.2)	(3.0)	(4.7)
Profit After Tax (norm)		10.0	11.8	13.6	17.1	21.5	27.6	21.7	27.4
Profit After Tax (FRS 3)		2.9	7.2	3.5	10.6	14.6	14.3	9.1	14.4
Ave. Number of Shares Outstanding (m)		57.6	63.3	65.4	70.8	73.0	84.0	89.1	89.5
EPS - normalised & diluted (p)		16.4	17.8	19.9	23.0	28.4	31.8	23.7	29.9
EPS - IFRS basic (p)		5.0	11.4	5.3	15.0	20.0	17.0	10.2	16.1
EPS - IFRS diluted (p)		4.8	10.9	5.1	14.2	19.4	16.5	9.9	15.7
Dividend per share (p)		7.6	8.1	8.5	9.0	9.6	3.0	10.4	10.7
Gross Margin (%)		31.1	32.2	32.8	32.7	33.0	33.6	33.5	33.8
EBITDA Margin (%)		6.1	6.9	7.2	7.6	8.4	10.9	10.0	10.8
Operating Margin (before am, SBP and except.) (%)		5.2	5.9	6.1	6.5	7.2	8.3	7.3	8.3
discoverIE adjusted operating margin (%)		4.9	5.7	5.9	6.3	7.0	8.0	6.8	7.8
BALANCE SHEET									
Fixed Assets		88.6	108.4	122.2	136.4	149.2	236.4	217.7	200.8
Intangible Assets		69.9	88.2	100.7	107.2	119.7	182.2	171.1	160.0
Tangible Assets		13.8	14.7	16.0	23.4	24.4	46.3	38.7	32.9
Deferred tax assets		4.9	5.5	5.5	5.8	5.1	7.9	7.9	7.9
Current Assets		127.3	128.3	147.1	165.9	179.1	197.4	212.4	226.8
Stocks		39.8	42.9	48.8	58.1	66.2	68.4	71.9	75.9
Debtors		60.2	65.5	77.3	84.6	88.7	90.1	97.2	103.0
Cash		26.7	19.9	21.0	21.9	22.9	36.8	41.2	45.8
Current Liabilities		(62.1)	(61.7)	(78.1)	(94.0)	(96.0)	(103.6)	(108.5)	(115.4)
Creditors		(61.9)	(60.9)	(77.1)	(87.6)	(94.3)	(94.0)	(98.9)	(105.8)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(5.3)	(5.3)	(5.3)
Short term borrowings		(0.2)	(0.8)	(1.0)	(6.4)	(1.7)	(4.3)	(4.3)	(4.3)
Long Term Liabilities		(61.1)	(73.1)	(68.7)	(81.5)	(97.6)	(129.7)	(114.0)	(95.3)
Long term borrowings		(45.5)	(57.2)	(50.0)	(67.9)	(84.5)	(93.8)	(88.8)	(83.8)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	(14.7)	(8.1)	(1.5)
Other long term liabilities		(15.6)	(15.9)	(18.7)	(13.6)	(13.1)	(21.2)	(17.1)	(10.0)
Net Assets		92.7	101.9	122.5	126.8	134.7	200.5	207.6	216.9
CASH FLOW									
Operating Cash Flow		6.6	14.6	20.5	21.7	30.0	48.0	38.4	48.8
Net Interest		(1.6)	(1.8)	(2.8)	(2.6)	(3.4)	(3.7)	(5.1)	(5.1)
Tax		(3.3)	(4.3)	(3.0)	(3.7)	(3.8)	(6.4)	(7.1)	(8.8)
Capex		(2.5)	(2.3)	(3.4)	(4.3)	(5.4)	(6.3)	(4.5)	(6.5)
Acquisitions/disposals		(37.3)	(19.8)	(11.8)	(25.4)	(22.4)	(73.6)	(3.0)	(3.0)
Financing		52.7	0.0	13.6	(1.5)	0.1	53.9	(6.6)	(6.6)
Dividends		(3.6)	(4.9)	(5.2)	(6.2)	(6.7)	(8.1)	(2.8)	(9.3)
Net Cash Flow		11.0	(18.5)	7.9	(22.0)	(11.6)	3.8	9.4	9.5
Opening net cash/(debt)		1.8	(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(61.3)	(51.9)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(31.8)	(0.6)	0.2	(0.4)	0.7	(1.8)	(0.0)	(0.0)
Closing net cash/(debt)		(19.0)	(38.1)	(30.0)	(52.4)	(63.3)	(61.3)	(51.9)	(42.3)

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia