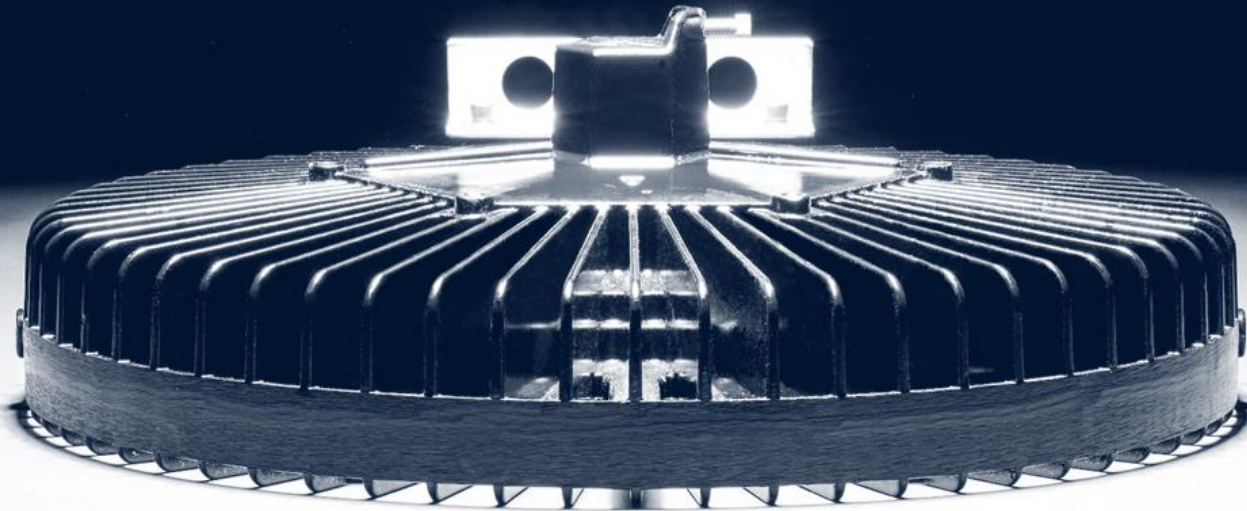


# 2018 HALF YEAR RESULTS

30 JULY 2018

.....Dialight



## OPERATIONAL ISSUES HIGHEST PRIORITY IN H1

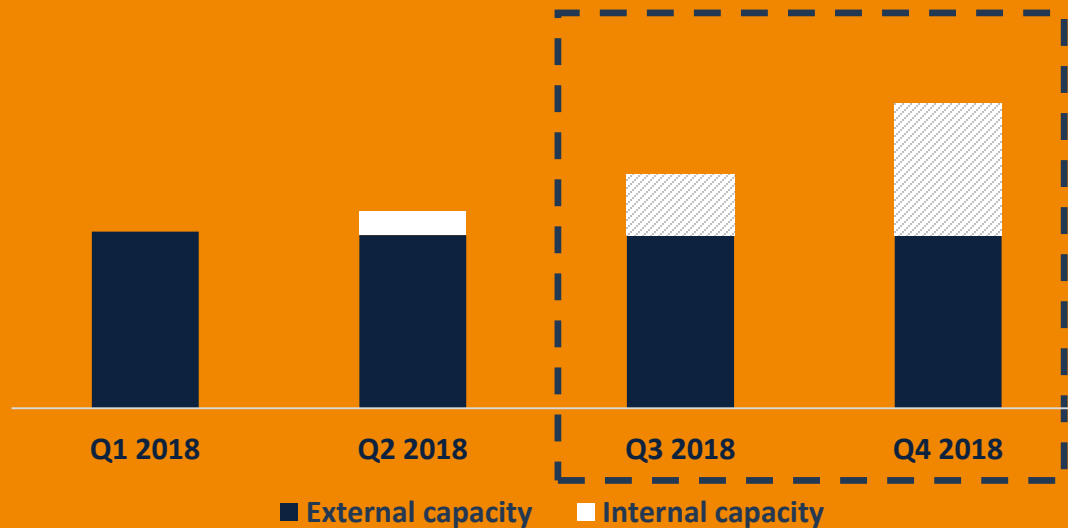


## TRANSITION FROM RECOVERY TO GROWTH

# OPERATIONAL HIGHLIGHTS



**REDUCED LATE  
ORDERS BY 60%**



**SIGNIFICANT  
INCREASE IN Q4  
PRODUCTION  
CAPACITY**

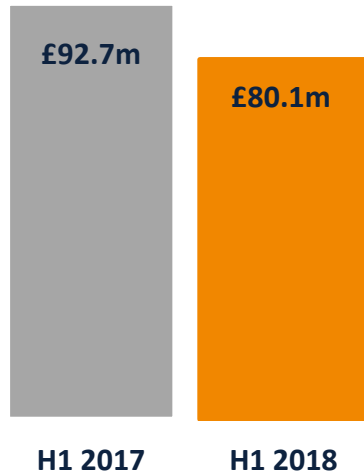
# FINANCIAL REVIEW **FARIYAL KHANBABI**

Private and confidential

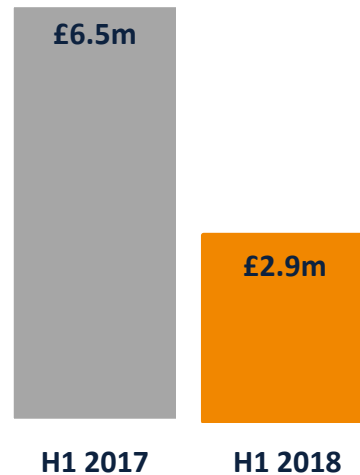


# FINANCIAL SUMMARY – H1 AS EXPECTED

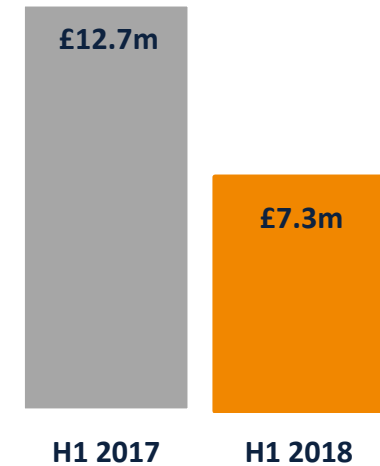
## Revenue



## Underlying EBIT



## Net cash



**35%**

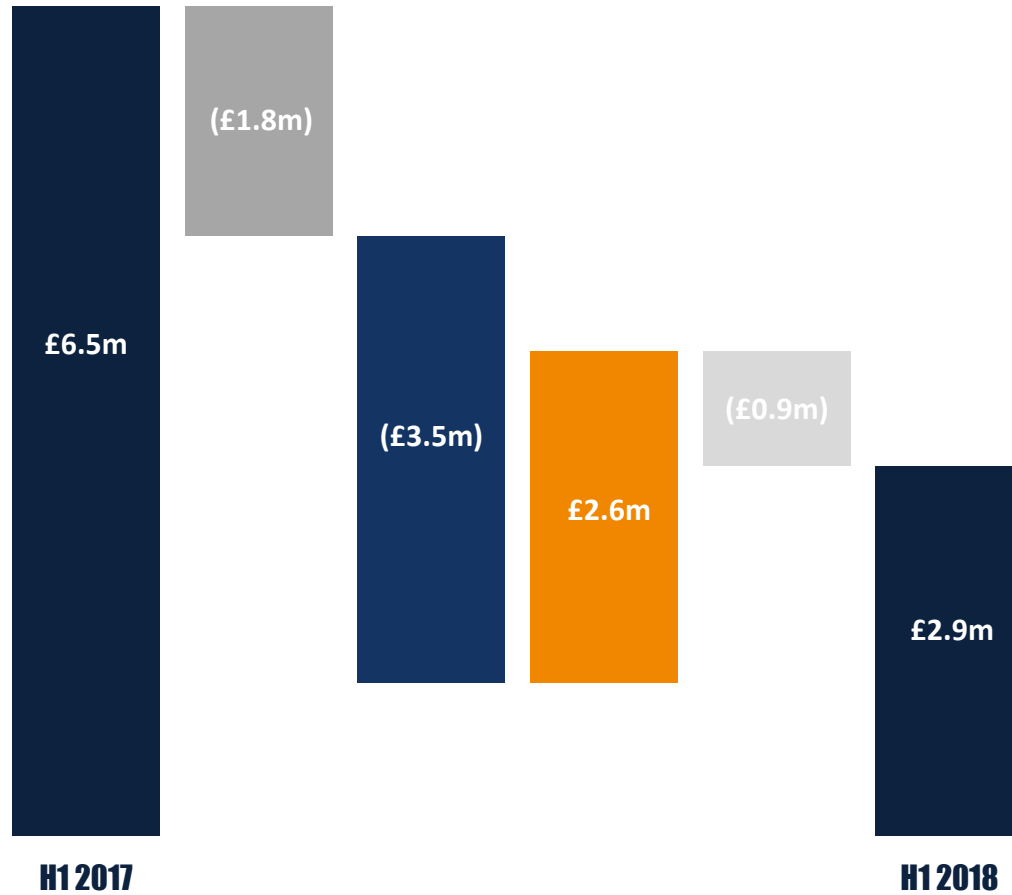
Underlying  
gross margin

**£2.8m**

Underlying profit  
before tax

**6.4p**

Underlying  
basic EPS



Impact of revenue decrease



Dual running costs



Operating costs



Foreign exchange

## Lighting

£m	Reported currency		
	H1 2018	H1 2017	Variance
Revenue	59.3	72.4	(18%)
<b>Gross Profit</b>	<b>22.0</b>	<b>30.6</b>	<b>(28%)</b>
Gross margin	37%	42%	-500bps
Overheads	(18.7)	(23.1)	19%
<b>EBIT</b>	<b>3.3</b>	<b>7.5</b>	<b>(56%)</b>

## Reported currency

H2 2017	Variance
65.1	(9%)
<b>23.7</b>	<b>(7%)</b>
36%	+100bps
(20.0)	7%
<b>3.7</b>	<b>(11%)</b>

## Gross margin bridge



**Duplicate plant  
running costs  
(220bps)**



**Skilled labour force  
retention  
(120bps)**



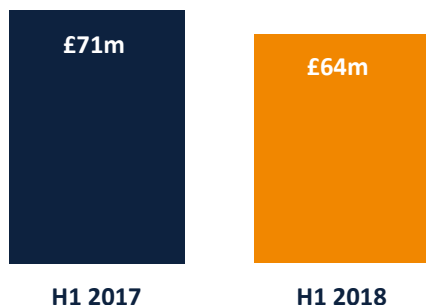
**Raw material  
handling fees  
(110bps)**



**Increased freight  
charges  
(50bps)**



## Order intake



(18%)

## The Americas

- Operational issues impacted lead times
- Large projects not bid for
- Lower distributor inventory
- Continued strength of sales team



+22%

## EMEA

- Narrow product range served from inventory on hand
- New sales team
- Increased distribution partners



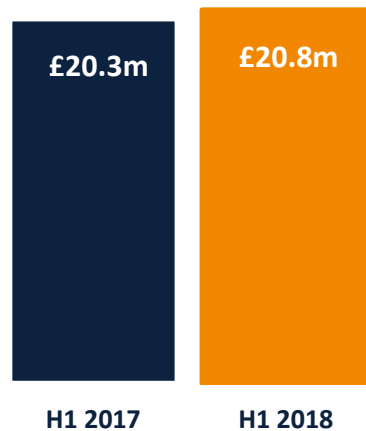
+24%

## APAC

- Narrow product range served from inventory on hand
- Strong sales team
- Increased distribution partners



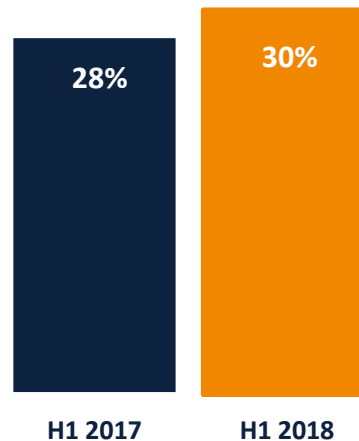
## Revenue



**2%**  
Revenue growth

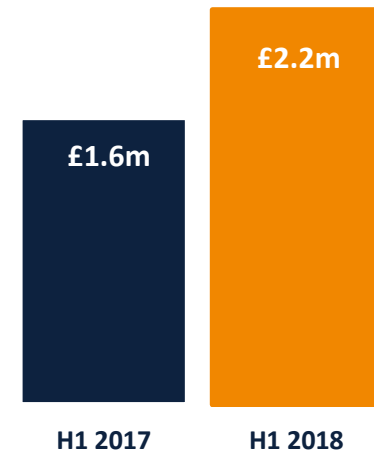
**12%**  
At constant currency

## Gross margin



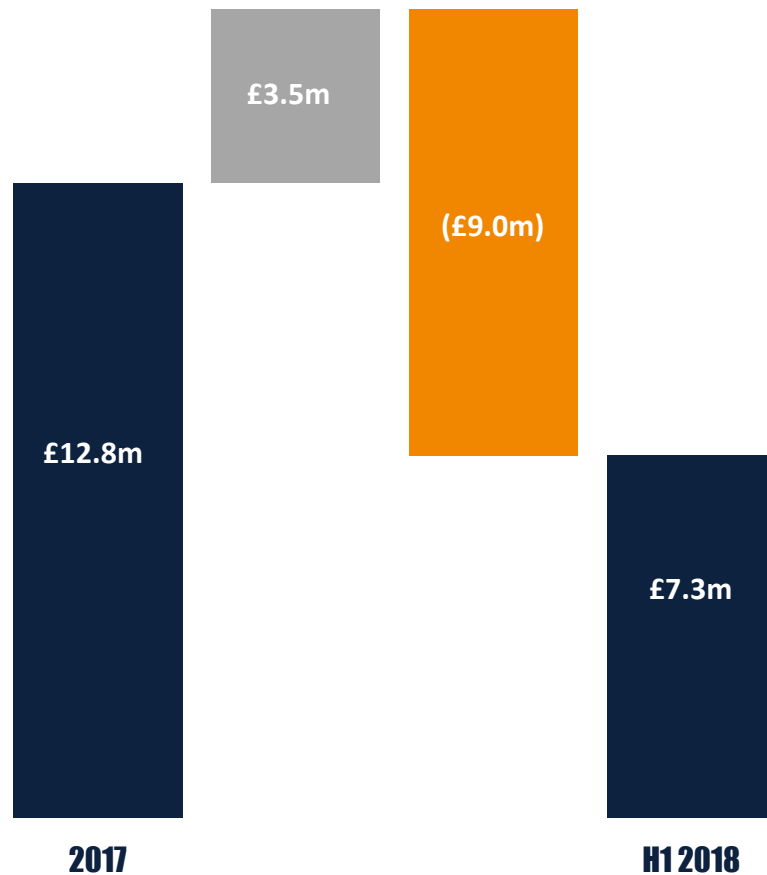
**200 bps**  
Improvement in gross margin

## Underlying EBIT



**38%**  
Improvement in EBIT

**69%**  
At constant currency



Operating cash



Inventory increase

Raw material increase  
due to Ensenada  
commencing High Bay  
production

# H2 2018 PLANNING ASSUMPTIONS

**c.25%**  
Group tax rate

**£1m - £2m**  
Savings in cash tax costs

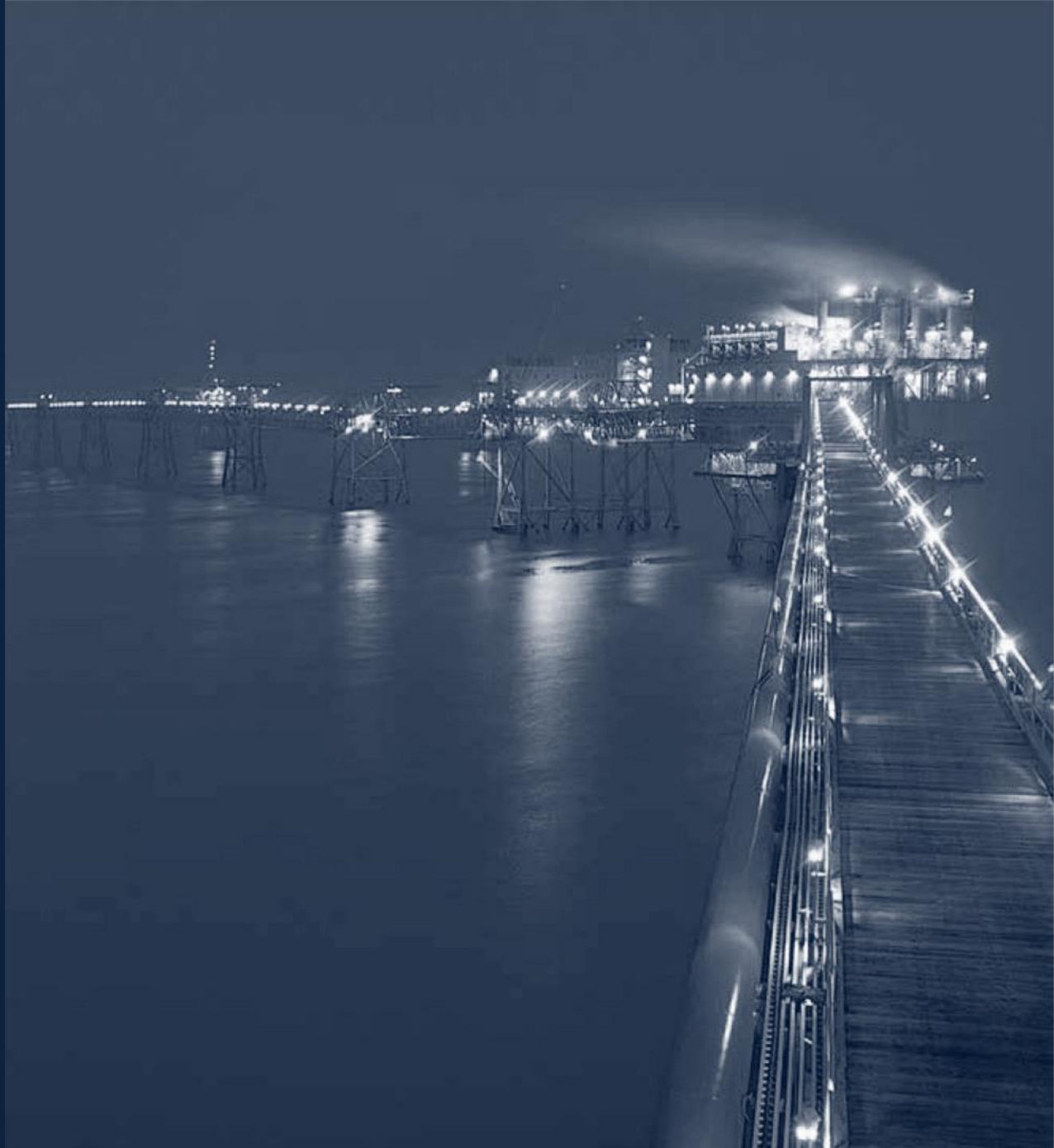
**c.£7m**  
Capital investment



# **BUSINESS REVIEW**

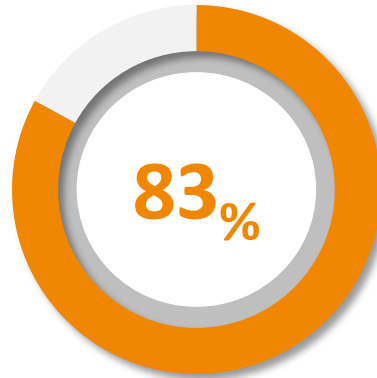
## **MARTY RAPP**

Private and confidential

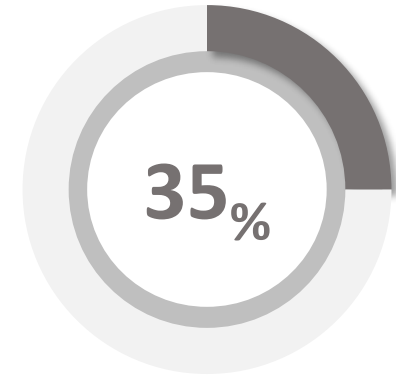




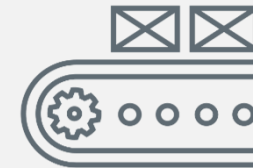
% improvement in level of late orders



On time delivery at Ensenada

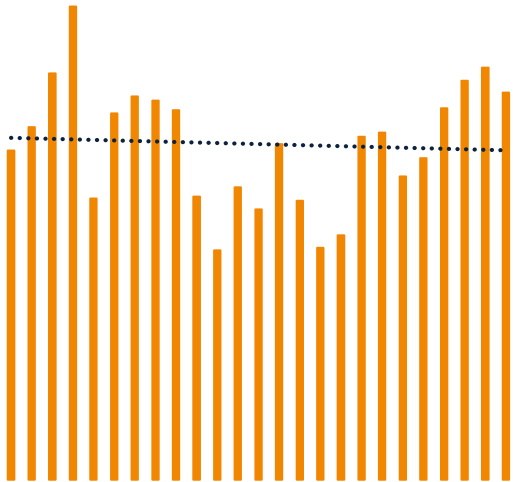


% increase in total lighting production volumes



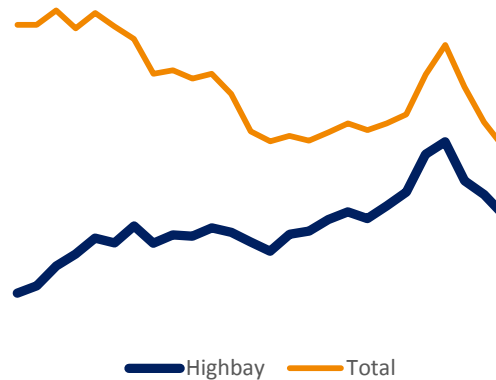
**Currently producing, 37% lighting volume at Ensenada; available capacity to move all remaining assembly operations if required**

## Weekly production units H1 2018



Production units remains flat over  
H1 2018

## Overdue units H1 2018

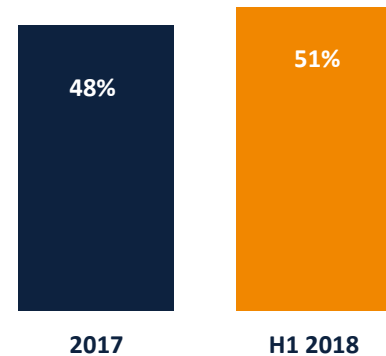


Product lines transferred early  
2017 returning to normal on time  
delivery

High Bay line overdues increasing,  
improvement in June from transfer  
to Ensenada

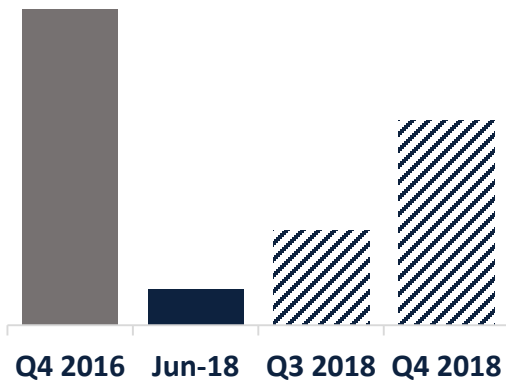


## On time delivery



H1 2018: 3%  
improvement

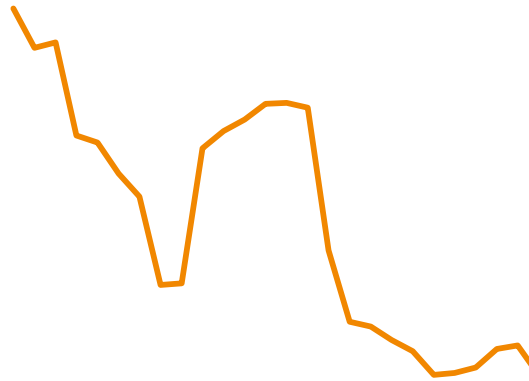
## Production units



Capacity for all lighting assembly

Multiple suppliers of sub assemblies

## Overdue units H1 2018

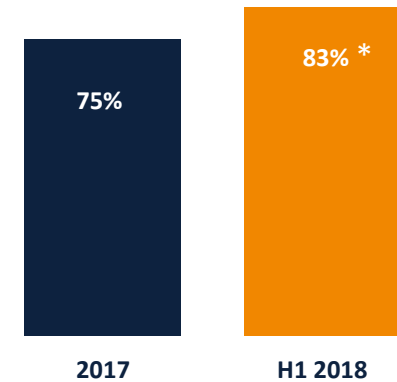


High Bay production commenced in June 2018

Overdue orders transferred from manufacturing partner in April 2018



## On time delivery



H1 2018: 8% improvement

\* On time delivery for June 2018



## PEOPLE

- Upgraded operations leadership
- Labour force skilled in complex assembly process
- Enhanced sustaining engineering on site



## PROCESSES

- Improved shop floor controls – upgraded manufacturing practices
- Improved Sales and Operations Planning process
- Improved visibility and response to Key Performance Indicators





**Initial  
assumptions**



**Outsourcing**



**Hybrid**

**Labour efficiencies**  
Reduce assembly times  
by 45%

**Material cost savings**  
Reduction of 10%

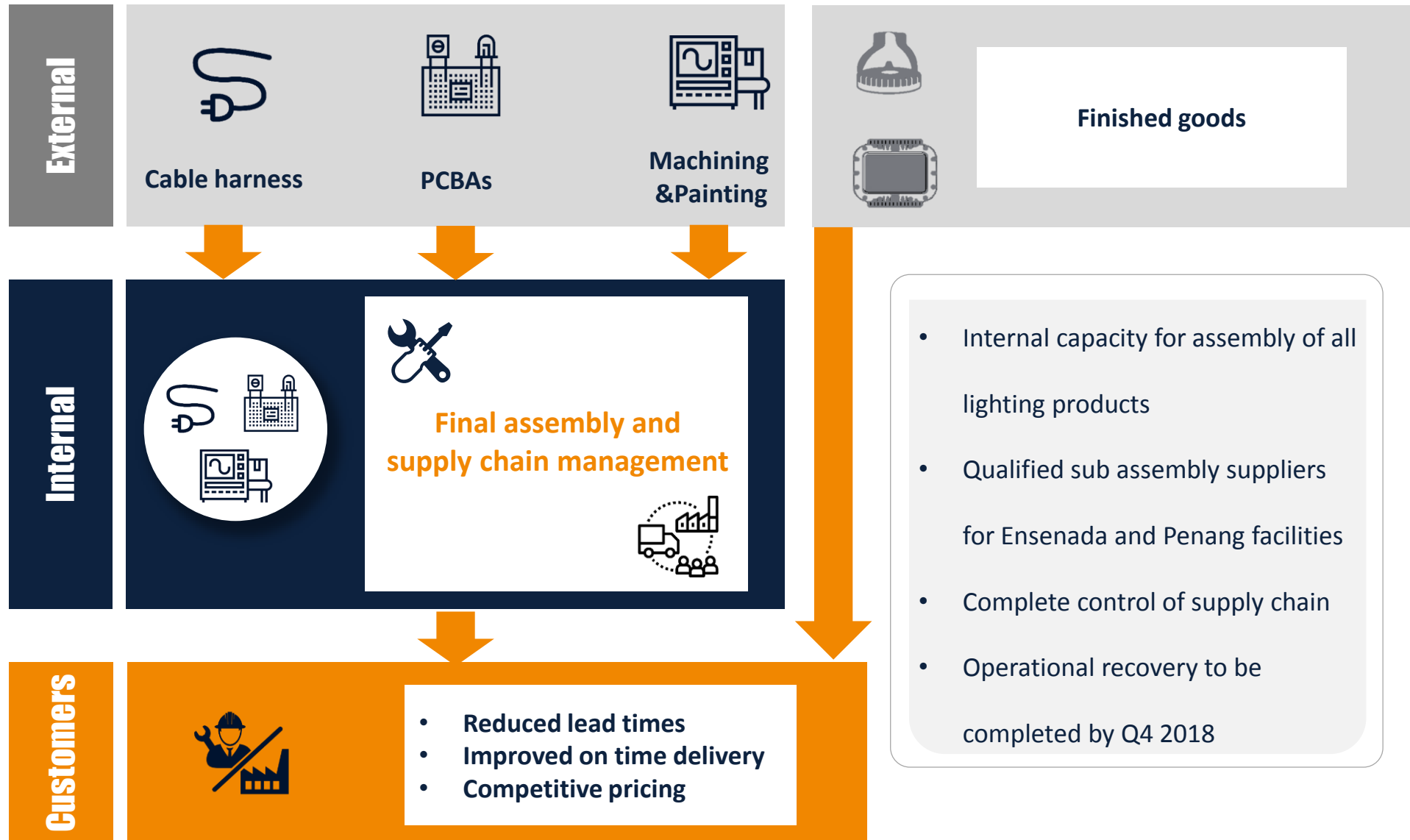
Increased assembly time  
by 20%

Dialight material cost  
reductions only

Increased on time  
delivery targeted at  
90%

Improved gross  
margins >40%

# HYBRID MANUFACTURING MODEL



From



To



## Current Business

- Inwardly focused
- Centralised functions
- Move to contract manufacturing impacted product leadership position
- Strong market dynamics
- Leader in small profitable niche

## Future Direction

- Strongly positioned for fast growth
- Leaders in innovation
- Adjacent products to enhance customer offering
- Regional approach
- Leader in larger market

## OPERATIONS

- Regional assembly facilities
- Global purchasing with local delivery
- Fulfilment from regional hubs
- Regional customer service

## ENGINEERING

- Global technology leadership deployed regionally
- Dialight design rules
- Increase speed to market

## SALES

- Outstanding customer experience
- Global coordination for global customers
- Continued regional teams

## PRODUCT MANAGEMENT

- Globally coordinated
- Regionally focused
- Regionally specified products



# OPPORTUNITY – EXTEND PRODUCT RANGE TO OUR EXISTING CUSTOMERS

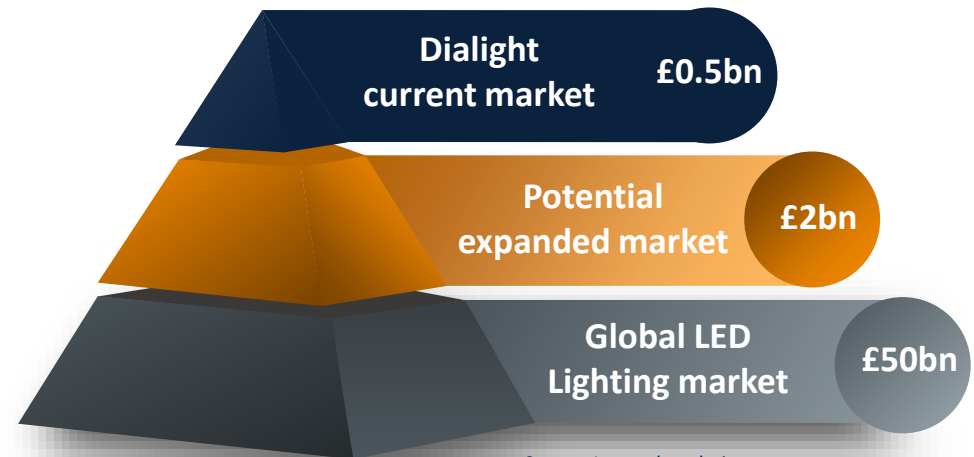
Dialight



Core product offering in hazardous environments of the heavy industrial space

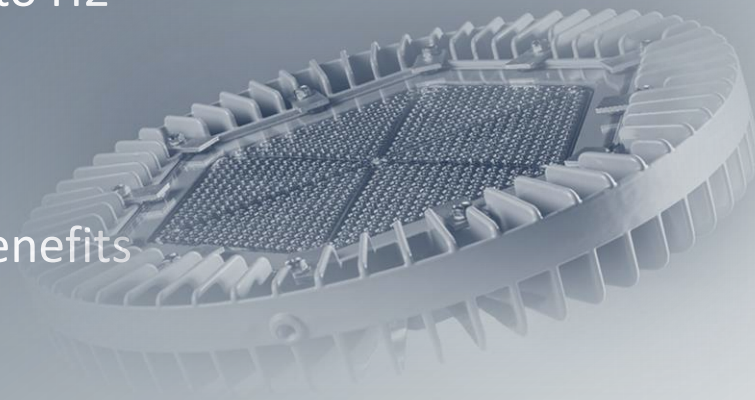


Expand our offering to provide a more competitive product for the lighter industrial areas of our existing customers



Source: Internal analysis  
Per annum

- Corrective actions yielding results, benefits in H2
- Transfer to own facilities running efficiently - good on time delivery
- Reliance on manufacturing partner significantly reduced
- As previously guided, 2018 results heavily weighted to H2
- Industrial LED market opportunity largely untapped
- Compelling market proposition with sustainability benefits
- Aggressive approach from recovery to growth



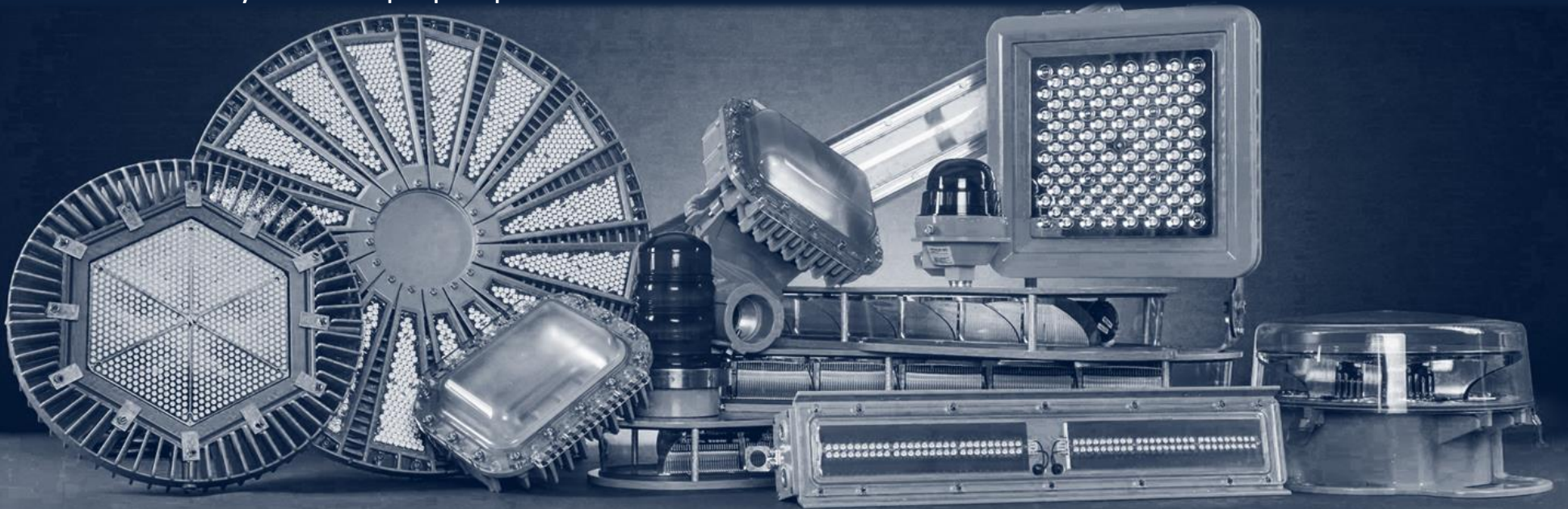


# Questions



We have taken targeted actions to improve our operational performance, reducing late orders significantly since the start of the year. This improvement is primarily due to moving an increasing proportion of our product assembly back in-house. On-time delivery and cost performance of our internal assembly are both excellent. I am now confident that as we move toward our traditionally heavy fourth quarter we will be able to deliver our products on time and in the quantities needed. As previously guided, our results for 2018 will be heavily weighted to H2 reflecting the continued resolution of our operational issues.

Our market proposition remains compelling with the sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offering real value to our customers. We are now resuming a more aggressive approach to delivering growth, as we transition from recovery to growth. We remain excited by the Group's prospects for the future.





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# INCOME STATEMENT

£m	Variance			
	H1 2018	H1 2017	Reported	Constant Currency
<b>Revenue</b>	<b>80.1</b>	<b>92.7</b>	<b>(14%)</b>	<b>(7%)</b>
Cost of goods sold	(51.8)	(56.5)		
<b>Gross Profit</b>	<b>28.3</b>	<b>36.2</b>	<b>(22%)</b>	<b>(16%)</b>
Distribution costs	(15.0)	(17.4)		
Administrative expenses	(10.4)	(12.3)		
<b>Underlying EBIT</b>	<b>2.9</b>	<b>6.5</b>	<b>(55%)</b>	<b>(49%)</b>
Non-underlying costs	-	(2.4)		
Finance expense	(0.1)	(0.1)		
<b>Profit before tax</b>	<b>2.8</b>	<b>4.0</b>		
Tax	(0.7)	(1.4)		
<b>Profit after tax</b>	<b>2.1</b>	<b>2.6</b>		
Underlying EPS	6.4p	12.8p		

	H1 2018	H1 2017
Obstruction	14%	13%
Food & Beverage	8%	7%
Heavy industrial	13%	14%
Mining	11%	9%
Oil & Gas	20%	18%
Power	8%	8%
Pulp & Paper	10%	8%
Other industrials	16%	23%
	100%	100%

Signal & components £m	Actual currency			Constant currency	
	H1 2018	H1 2017	Variance	H1 2017	Variance
Revenue	20.8	20.3	2%	18.6	12%
Direct costs	(14.5)	(14.7)		(13.5)	
<b>Gross Profit</b>	<b>6.3</b>	<b>5.6</b>	<b>13%</b>	<b>5.1</b>	<b>24%</b>
Gross margin	30%	28%	+200bps	27%	+300bps
Overheads	(4.1)	(4.0)	(3%)	(3.8)	8%
<b>EBIT</b>	<b>2.2</b>	<b>1.6</b>	<b>38%</b>	<b>1.3</b>	<b>69%</b>

£m	
Net cash at 31 December 2017	12.8
EBITDA	5.1
Net working capital excluding inventory	3.1
Increase in inventory	(9.0)
Capex	(2.3)
Taxes	(1.2)
Provisions and other movements	(1.2)
<b>Net cash at 30 June 2018</b>	<b>7.3</b>