DIALIGHT PLC

Full year results 2017

Summary of analysts' presentation by:

Marty Rapp, Chief Executive Officer

Fariyal Khanbabi, Chief Financial Officer

Marty Rapp, Dialight's Chief Executive, began by summarising the year.

In 2015, we outlined a plan to rebuild our operations to enable scalable and cost efficient production. This plan included transitioning to outsourced manufacturing, streamlining our product portfolio and moving to common product platforms.

Whilst much has been achieved, problems in execution of our outsource manufacturing transfer resulted in a poor year for reported financial results. Our results were adversely affected by reduced production output from our manufacturing partner principally as a result of procurement planning issues and delays in the new product launches of High Bay and Area Light.

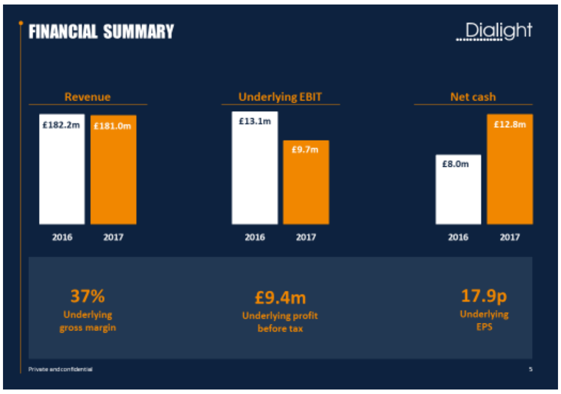
I have been on board as the full time Group Chief Executive since the 8 January 2018. I have visited each of our Lighting manufacturing locations and have spent time at our manufacturing partner site in Guadalajara, Mexico. The whole management team is very focused on resolving the issues we have and ensuring the Group has a robust and scalable manufacturing platform.

At the current time we have a significant level of order backlog. As our delivery performance improves we expect this to reduce. We are taking aggressive action to address these operational issues. We are confident these will be significantly improved by the end of H1 2018 and we will start to see the benefits in the second half of the year. We have the right products and a market with good growth prospects; it is incumbent on us to better serve our customers in order to maximise the opportunities open to us as a Group.

We must not forget that Dialight remains the market leader in industrial LED lighting, building on the largest installed base in that market. The market we operate within is largely unpenetrated and the company believes that it is well positioned with the right products, global scale and financial strength to continue to be the leader in this space despite the short term issues we are facing.

Fariyal Khanbabi, Chief Financial Officer reviewed the year's financial performance.

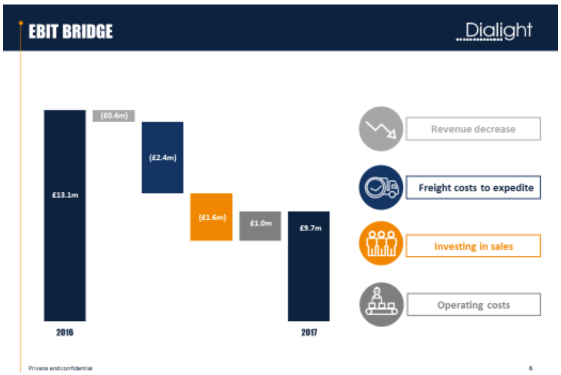
We have had a challenging year operationally. Our revenue was impacted by our inability to deliver orders on time. We generated £181m of revenue (in line with prior year on a reported currency basis) but 4% down on a constant currency basis. The operational issues resulted in extra costs causing short-term margin contraction and led to a reduction in underlying EBIT to £9.7m.



The issues we encountered in 2017 were mainly at the gross margin level and can be seen clearly in the EBIT bridge.

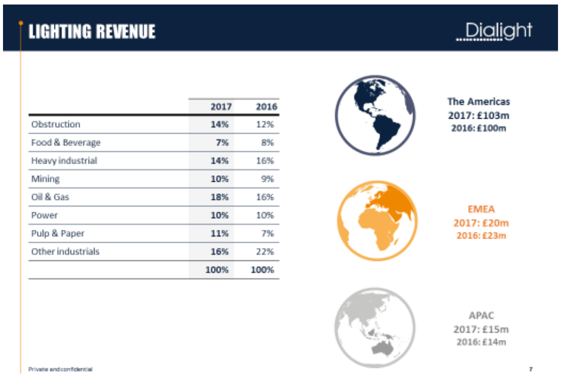
The delays we encountered with manufacturing products resulted in late orders having to be expedited by airfreight in order to mitigate some of the delays. We continued to invest in sales training and upskilling and enhancing our sales force in order to be well positioned to generate market growth once the supply issues are resolved.

We have made some operating cost savings mainly as a result of no management incentives being paid for 2017.



Lighting revenue at constant currency was 4% lower year on year. On a geographic basis, revenue was lower in both the Americas and EMEA with APAC being the only region to show continued growth. The US and EMEA were impacted by customers deferring orders as existing orders were not being fulfilled. The APAC business was less impacted as Australia in particular is a more resilient market and they supply a more standard range of products which are kept in stock.

We continue to diversify our end markets and saw some growth in oil and gas revenue (up 2% to 18%) as the increasing oil price has breathed some life into this sector. Mining increased by 1%, mainly in Australia and there was significant progress in Pulp & Paper with a large European roll-out programme increasing revenue by 4% over the prior year.



The lighting segment represents 76% of the Group revenue and 74% of the Group's underlying segmental operating profit.

Revenues were 1% higher (4% lower at constant currency) compared to the prior year. The production delays adversely impacted the level of on time delivery and this resulted in lower revenues across all territories except Australia.

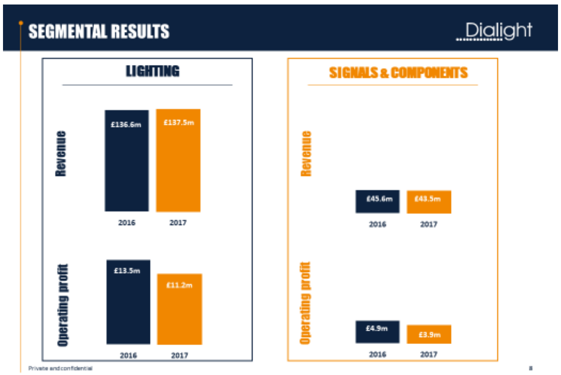
Gross margin contracted by 200 basis points to 40%. The major elements of the decrease were:

- Increased freight costs due to late deliveries
- Our manufacturing partner was not able to make the more bespoke higher margin products
- And we continued to operate our in house facility below capacity which resulted in inefficiencies.

Operating costs increased by 2% as a result of additional headcount. The overall result was a reduction of 17% to £11.2m

Signals and Components revenue grew by £2.4m (8%) on a continuing operations basis. The prior year contained £5.5m of revenue from the European Components business which we closed in 2016. This resulted in a reported revenue decline of £2.1m.

Gross margin increased by 200bps, due to continuous improvement programmes at our own facilities in Mexico and Malaysia. These programmes are critical in mitigating the price erosion within these end markets.



Dialight has undergone a two year period of significant transformation. We have incurred a number of one off items in the year as we transferred the majority of Lighting products to our manufacturing partner. We also took the opportunity to review our fixed assets nearing the end of their lives in our own Mexico factory. In addition we accelerated the lives of some development projects. These costs amounted to £6.4m for the year with a cash impact of £5.2m.

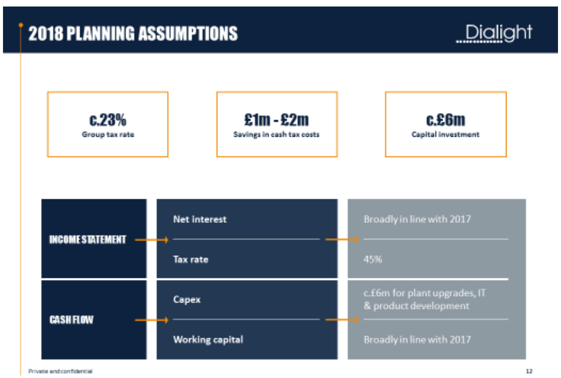
£m	2017	2016
Employee severance and restructuring costs	(0.3)	5.3
Intangible asset impairment	1.2	5.1
Tangible asset impairment and disposals	0.9	(0.2)
Inventory write down	-	3.7
Production transfer costs	4.6	2.4
Other	-	0.1
Non-underlying costs	6.4	16.4
Total cash impact	5.2	4.9

We have a strong balance sheet supported by good working capital management. We ended the reporting period with cash of £12.8m, an increase of £4.8m from the end of 2016. The major driver for increased cash was a reduction in inventory of £6.8m due to the transition to our outsourced manufacturing model.

The existing £25m credit facility with HSBC (expires 2021) remains undrawn. Our continued cash generation together with the HSBC facility gives the Group considerable financial flexibility to invest in long-term growth.

Our strong balance sheet allows us to re-invest £4m to £5m per annum in a combination of production equipment and new product development.

The Board continues to expect a H2 weighting to the Group's trading performance for the year ending 31 December 2018. As a result of the US tax legislation changes which have been effective from 1 January 2018. We anticipate the effective tax rate for 2018 will be in the low twenties before discrete tax items. We expect our capital expenditure to be in the region of £6m for 2018.



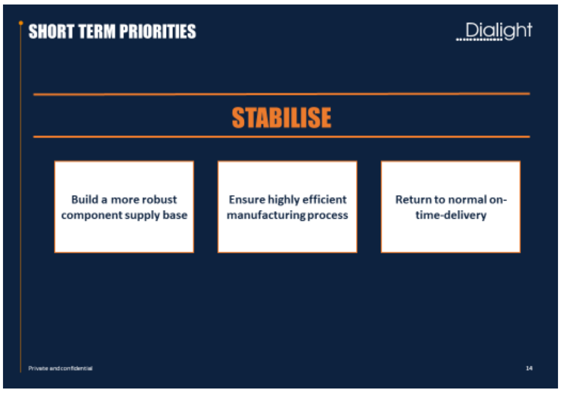
Marty Rapp reviewed the operational and strategic progress of the Group in more detail.

We faced, and continue to face, substantial challenges in our transition to our manufacturing partner. Our near-term focus is to get our delivery times back to normal, then build a robust operational platform.

The product requirements for the market we serve result in a low volume/high mix product portfolio. In addition, given the variety of our customers and applications and the difficulty in accurately predicting future demand to the part number level, our forecasts of required raw materials change significantly over time. In order to address this issue we platform engineered all of our product lines to reduce the sku count and thereby simplify the forecasting process. The concept of platform engineering and building to a sub assembly level was, with the benefit of hindsight, not fully recognised by our manufacturing partner.

Our internal manufacturing and supply chain processes have evolved over time to efficiently and effectively accommodate these complexities. These factors have been a new challenge for our manufacturing partner that had been underestimated.

Our complete focus is on ensuring we get delivery times back to normal with a manufacturing process that is stable and efficient.



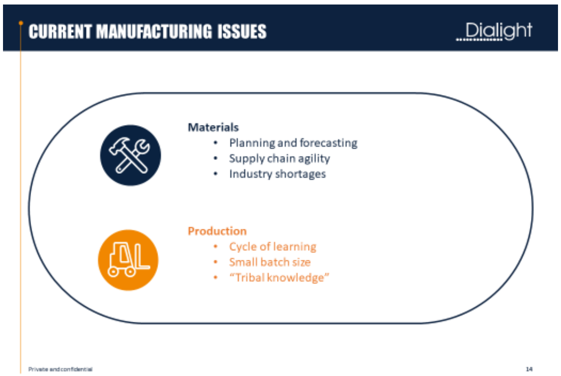
The biggest issue affecting production continues to be having materials available when required. The majority of the issue has been related to materials not being ordered in time and/or sufficient quantities. This was compounded by industry wide material shortages of some of our critical components, which we estimate to be the cause of about 15% of our late order performance.

A further issue stemming from platform engineering concept relates directly to the manufacturing process itself. Our manufacturing partner operates in a small batch-size environment, resulting in a more job-shop approach rather than a large scale manufacturing process and as a consequence has lost productivity due to frequent changeovers. There are nuances in scheduling lines to maximise throughput and minimise changeovers that come with experience. Our joint challenge is to increase the speed of learning.

The issues that we face came to the forefront in Q4 2017 as our two largest product lines transferred to our manufacturing partner. With the benefit of hindsight we placed an over-reliance on their ability to ramp up in our busiest quarter of the year and under-estimated the difficulties of the transition.

Our objective is to do whatever is possible to increase the output of our production and this means helping our manufacturing partner to learn faster. There is something I'm calling the "Dialight DNA" that exists in our people and organisation that is a set of skills and behaviours evolved over years to handle our product mix with speed and efficiency. We need to actively transfer this knowledge to our manufacturing partner.

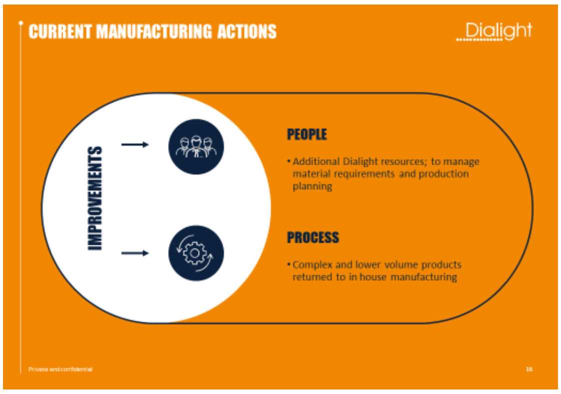
This is a complex situation and my summary may not be perfect given my short tenure as CEO, but I believe we understand the issues and are taking the right actions.



We have taken two key steps in order to address these short term challenges. First, we have significantly increased the level of support we are providing at the plant level to our manufacturing partner. We now have a group of our most experienced supply chain and production management employees nearly full time on-site until we have sustainable performance at acceptable levels. Their mission is to review every raw material line item, side by side with our manufacturing partner employees, and take immediate action to relieve the shortages. They will also review the production planning schedule to help ensure that the lines are scheduled as efficiently as possible and that we are using raw materials to the maximum advantage.

The second key step is the removal of complexity from our manufacturing partner by transferring the more complex product types back to our Ensenada, Mexico facility, where we have retained assembly capabilities. We feel this will significantly help the overall production throughput at our manufacturing partner.

Our complete focus is on ensuring we get delivery times back to normal with a manufacturing process that is stable and efficient. We need to make our overall fulfilment process more robust by multi-sourcing key components to reduce the impact of shortages by a single supplier. This is the key to building a robust operational platform.

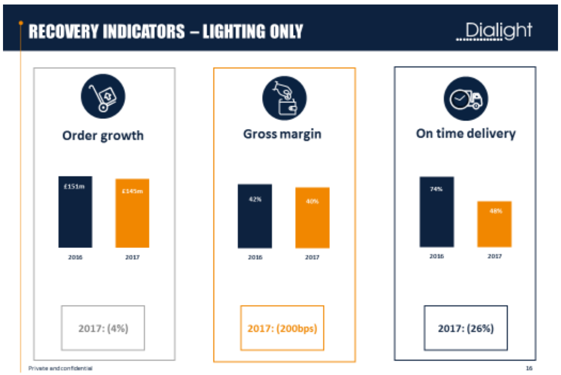


In 2015 we issued targets on revenue growth, gross margin and cash conversion for 2018. We have already achieved the latter two but revenue growth has been impacted by operational issues and we do not expect to see 25% revenue growth in 2018.

It is important as we navigate through these operational challenges that you have a way to measure our recovery. In addition to on-time delivery, we believe order growth is the other essential indicator to track now. Our order growth was impacted by our operational challenges in 2017 and a number of orders in the fourth quarter had to be turned away as we were unable to meet the delivery requirements. These customers were not lost but certain discrete projects were.

We expect to realise the full benefit of the outsourcing strategy once the short term challenges are dealt with. These improvements will be seen in the gross margin line

As we return to normalcy, on time delivery will be a lead indicator of the progress we are making. At the end of December 2017 48% of our products were shipping on time. We expect to see significant improvements by the end of the current year.



We have a clear operational plan for the company, and we will resume additional actions to position us optimally for the future once we get our late orders in the normal range.

Despite the short term challenges we must not forget that Dialight remains well positioned in a growing market. We remain the market leader in terms of our technology and continue to have a strong balance sheet and remain cash positive.

Customers convert to LED lighting and buy Dialight's products because it remains the most efficient way to drive down energy usage. We are delivering the next generation of lighting solutions that not only reduce energy consumption further but create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving rapid return on investment.

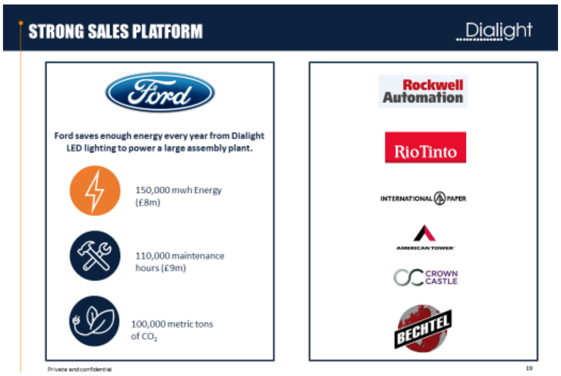
We also recognise the opportunity to drive corporate-wide LED conversion programmes. The majority of Dialight's targeted strategic customers have a public commitment to sustainability, including carbon footprint reduction and energy saving programmes. Driving awareness of the economic benefits as well as the sustainability and safety benefits of our lighting at the corporate level can change the perception of our lighting away from just maintenance cost savings.

In addition, Dialight products are being built with upgradeable and integrated controls. Our customers can optimise their lighting solution through direct lighting controls. The value for customers is that they will be able to take advantage of their built-in network of intelligent lighting to provide access to a wide array of sensors and applications in safety and productivity.

We launched major upgrades to our High Bay and Area Light product lines. Controls enablement is a significant feature of the High Bay upgrade. This allows customers to use them as data harvesting points that can relay information to the facility control system for added safety and security. These products also provide customers with greater energy efficiency and global certifications.

Growth requires the right products, the preferred distribution channels, and experienced sales teams. Dialight has built its strongest capabilities in the U.S. providing a model that can be scaled around the world. Europe represents an advanced customer base and significant opportunity, yet has been under served by Dialight. Our new product road map will include the breadth of product features and certification requirements needed in Europe. With strong sales teams and a number of newly signed distributor partners, Dialight is well positioned to begin to seize the European opportunity.

Dialight's Australian team has proven to be very successful in driving growth and building capabilities in the region. Extending that leadership with strong local support into South East Asia represents a significant opportunity for growth.



In summary, once we have rebuilt the foundations of a robust and scalable manufacturing platform, we will pivot our attention to driving revenue growth.

The industrial LED opportunity remains largely untapped as the conservative customer base has sought low-risk, proven solutions. Dialight's 10 years of experience has earned a predominant position and we have an installed product base of over one million products. With the aim of improving our quality of earnings we have demonstrated our ability to sell across industrial sectors and reduce our reliance on oil and gas markets. This initiative has continued despite the operational challenges that we have faced.

Dialight will use its ability to deploy new technology to drive a shift in spending and accelerate adoption of LED technology in industrial customers.

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 remain excited by the Group's prospects over the medium to long term and are confident of delivering future growth.

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