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Dialight PLC
27 February 2017

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Dialight plc

Full Year results 2016

Positioned for long-term sustainable growth

Dialight plc ("Dialight" or "the Group"), the leading LED lighting technology company, today announces its Preliminary Results for the year ended 31 December 2016.

Financial highlights	**2016 £m**	**2015 £m**
Revenue	**182.2**	161.4
Underlying gross profit	**69.5**	56.2
Underlying[1] operating profit	**13.1**	6.1
Underlying[1] basic EPS	**26.9p**	13.3p
Statutory loss from operating activities	**(3.3)**	(3.4)
Statutory loss before tax	**(3.8)**	(3.9)
Statutory EPS	**(8.4)p**	(6.4)p
Net cash/(debt)	**8.0**	(3.8)

Progress with plan to 'rebuild, lead and grow'

- Rebuild phase largely complete
- Growth initiatives underway
  - Higher quality sales teams with broader international presence
  - Three automation partnerships in progress, broadening our channels to market and value proposition
- Investment in product roadmap: 37 new products launched
- Revenues diversified, by sector and geography

Financial highlights

- Revenue up 13% (2% at constant currency)
- Lighting division order intake[3] up 8% at constant currency
- Underlying profit growth reflecting management action to reduce cost base and improve operating model
  - Profit in Lighting and Signals & Components grew by £6.7m and £2.2m respectively
- Operating model changes reflected in non-underlying items charge of £16.4m; additional £2 - £3m final costs in 2017
- Strong balance sheet supported by good working capital management and new five-year credit facility

Michael Sutsko, Group Chief Executive, said:

"2016 was a year of change for Dialight. We are making good progress with our three-year plan to return to sustainable profit growth. Phase one of the plan, to rebuild our operating model, is largely complete. The sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offer real value to our customers. This progress underpinned our encouraging financial performance in challenging market conditions.

Phase two of the plan - growth initiatives to capture the long-term opportunity in LED lighting - is underway, and on track to deliver against our strategic plan. We remain confident of the Group's prospects for 2017 and over the medium to long-term, based on current FX rates."

Results presentation:

A presentation to analysts and investors will be held today at 10.00 GMT at Investec Bank Plc's offices at, 2 Gresham Street, London EC2V 7QP, United Kingdom. The presentation and an audiocast will be made available on the company's website, www.dialight.com.

Contacts:
Dialight Plc
Michael Sutsko - Group Chief Executive
Tel: +44 (0)203 058 3542
Fariyal Khanbabi - Group Finance Director
Tel: +44 (0)203 058 3542
MHP Communications
Tim Rowntree / Jamie Ricketts
Tel: +44 (0)20 3128 8100

About Dialight:

Dialight (LSE: DIA.L) is a global leader in energy efficient LED lighting for industrial applications. Dialight's LED products and solutions enable sustainability for our customers through lower energy usage, carbon dioxide emissions and maintenance requirements, as well as improving safety.
The company is headquartered in the UK with operations in the USA, UK, Denmark, Germany, Malaysia, Singapore, Australia, Mexico and Brazil. www.dialight.com.

Notes:

1. Underlying operating profit (Underlying EBIT) is defined as profit before interest, tax and non-underlying items.
2. The financial information for the year ended 31 December 2016 has been derived from the audited financial statements of Dialight plc for that year.
3. Order intake is the value of orders received in a given period
4. Cautionary Statement: This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Dialight plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Dialight plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Dialight plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. This announcement contains inside information on Dialight plc.

OVERVIEW

We have executed phase one of our plan to rebuild, lead and grow Dialight to capture the industrial LED market opportunity. This strategy is progressing well and has fundamentally improved the Group's operating model, positioning it for long term sustainable growth. This progress is reflected in our financial results.

The need for enhanced light and energy management - via controls and sensors - drives demand for our products. This plays to Dialight's strengths and differentiators: proven technology and a market leading position in industrial markets built over a decade as a group purely focused on LED lighting.

In the year, we delivered an increase in underlying profit and cash flow on revenue growth of 13% (2% at constant currency). This was a particularly encouraging result in the context of uncertain market conditions. Group revenue was £182.2m (2015: £161.4m), including a favourable currency exchange impact of £17.9m. The US and Europe, which generate the majority of our revenues, were broadly flat on a constant currency basis. Underlying operating profit increased to £13.1m (2015: £6.1m), including a favourable exchange impact of £1.5m. Our lighting order intake for 2016 was up 8% to £139.8m (at constant currency) over 2015, reflecting early signs of progress in our strategic initiatives. Non-underlying costs totalled £16.4m (2015: £9.5m); further details are provided in the Financial Review section.

The first phase of our plan - to rebuild Dialight - is almost complete. Our operating model supports scalable and cost efficient production. By switching to 'platform engineering' (standardising the design of our product parts to be used as the foundation for all of our finished products), we have fundamentally improved supply chain management and streamlined our operations. Platform engineering our products reduces the number of discrete product lines, which in turn has improved forecast accuracy for manufacturing planning and reduced inventory. During 2016, 10 out of 12 product groups moved to platform engineering. The remaining two will follow in mid-2017.

The shift to platform engineering has enabled us to secure a manufacturing partnership with Sanmina (a Fortune 500 company with 44,000 employees worldwide based in 25 countries), giving us greater focus on our design capability. This first phase of the switch to a manufacturing partnership is progressing well, and supports our drive for scalable operations. Three product lines were transferred during 2016, with the balance to be completed by during 2017. We have closed our factory in Newmarket, UK and are in the process of scaling back the facilities in Mexico.

Innovation in the LED industrial market is increasingly combining lighting systems with network sources, into a single platform. This moves beyond energy and cost savings to providing meaningful improvements in safety and productivity. Dialight is capturing this trend by adding industrial automation systems and enabling the "Internet of Things" into its product portfolio. This allows factory owners to control individual systems within their plants via a single platform, and to collect data as part of the evolution towards smart buildings.

Three automation partnerships are now underway with Rockwell Automation, Honeywell Tridium and INEM (controls and maintenance system for Obstruction Lighting allowing connectivity with network operations centres).

Further growth initiatives are underway. With continued expansion of our distributor coverage, 47 new distributors were added in 2016. We have also continued to invest in our product roadmap to maintain our technological lead; 37 new products were launched. We have refocused our commercial teams to diversify our sector and geographic exposure and increase the sales to strategic accounts. This has seen a reduction in the reliance on the oil and gas sector from 24% of revenue in 2015 to 16% in 2016. We have a higher quality sales team with broader international experience which has increased our revenue per sales head from £1.2m in 2014 to £1.5m in 2016 (at constant currency).

Dialight has a strong balance sheet supported by good working capital management and a new five-year credit facility. The Group's continued focus on working capital management delivered net cash from operations of £16.3m (2015: £8.7m). We continued to invest in long-term growth with net investment in capital expenditure of £3.9m (2015: £3.3m). The critical part of our strategy to rebuild for long-term growth resulted in non-underlying costs of £16.4m. These costs were predominately non-cash with £5.1m relating to intangible assets. Further details are in the Financial Review. We finished the year with net cash of £8.0m and the Group refinanced its existing revolving credit facility of £25.0m with HSBC for a further 5 years ensuring significant financial flexibility.

Board changes
The Board is committed to the delivery of the Group's strategy. In light of the Group's plan for future growth, we reviewed the composition of the Board to ensure that it has the correct balance of skills, experience and knowledge. As a result we are pleased to appoint David Thomas, Martin L. Rapp and Gaelle Hotelier.

Market conditions
The Group has the world's largest installed base in heavy industrial LED lighting, with over 750,000 LED fixtures worldwide. Dialight fixtures have contributed to a reduction of 1.1 billion kWh of energy consumption. There is 97% of the industrial lighting market available for conversion to LED. The US and global industrial markets continued to be challenging, led by the oil and gas sector. To counter this, Dialight's efforts to develop new opportunities have been successful and we have seen an 8% increase at constant currency in the lighting order intake compared to 2016. There was continued growth in non-US markets with Australia up 15% and Brazil up 129%.

Growth prospects
We have demonstrated success in rebuilding the Group's operational capabilities. We now expect growth to be driven by

- greater adoption of LED lighting by industrial firms globally;
- innovative solutions that increase the return on investment for our customers;
- focus on additional ways to add value by integration with automation controls and building deeper relationships with end customers.

Outlook
2016 was a year of change for Dialight. We are making good progress with our three-year plan to return to sustainable profit growth. Phase one of the plan, to rebuild our operating model, is largely complete. The sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offer real value to our customers. This progress underpinned our encouraging financial performance in challenging market conditions.

Phase two of the plan - growth initiatives to capture the long-term opportunity in LED lighting - is underway, and on track to deliver against our strategic plan. We remain confident of the Group's prospects for 2017 and over the medium to long-term, based on current FX rates.

FINANCIAL REVIEW
In the year, we delivered an increase in underlying profit and cash flow on revenue growth of 13% (2% at constant currency). This was in the context of challenging market conditions. Group revenue was £182.2m (2015: £161.4m), including a favourable currency exchange impact of £17.9m. The US and Europe, which generate the majority of our revenues, were broadly flat on a constant currency basis. Underlying operating profit increased to £13.1m (2015: £6.1m), including a favourable exchange impact of £1.5m. Our Lighting order intake for 2016 was up 8% (at constant currency) over 2015, reflecting early signs of progress in our strategic initiatives.
The significant increase in the Group's underlying profit was a result of the fundamental shift in Dialight's operating model, which has reduced costs and enabled scalable, efficient production:

- Procurement programmes resulting in £2.7m improvement in cost of sales
- Production efficiencies of £1.7m from lower operating costs at the Mexico plant including direct labour savings of £0.5m
- Freight cost savings of £1.0m due to a new freight contract being negotiated at the start of the year
- Headcount savings of £1.6m due to the headcount reduction programme of 2015

Currency impact
Dialight reports its results in Sterling. Our major trading currency is the US Dollar with 70% of revenue denominated in US Dollars. The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas company results into Sterling and this is the major currency exposure. Transactional exposure is more limited with natural hedging on revenue and purchases mitigating the majority of the currency risk.

The strengthening of the US dollar in the second half of the year has been the main driver for the currency impact. The average rate for the US Dollar against Sterling has moved from 1.53 in 2015 to 1.36 in 2016.

The performance of each business segment is reviewed individually below. Allocation of overheads in each segment was based on directly attributed costs plus an allocation based on segmental revenue.

Lighting segment

Lighting	2016 £m	2015 £m	Variance
Revenue	**136.6**	120.6	+13%
Gross profit	**57.4**	48.3	+19%
Gross profit %	**42%**	40%	+200bps
Overheads	**(43.9)**	(41.5)	(6%)
Underlying EBIT	**13.5**	6.8	+99%

The Lighting segment represented 75% of the Group's revenue and 73% of the Group's underlying segmental EBIT.

Revenues were 2% higher (at constant currency) compared to the prior year. Overall there has been a rise in order intake of 8% compared to last year (at constant currency). There was continued growth in non-US markets with Australia up 15% and Brazil up 129% compared to the prior year. We have increased market penetration within key vertical markets and the top three market verticals now account for 42% of revenue compared to 54% in the prior year.
Gross margin increased to 42% with operational inefficiencies from 2015 being eliminated and better commodity management lowering our input costs. Overheads were in line with the prior year. This resulted in the overall underlying EBIT in the Lighting segment being doubled.

Signals and components

Signals and Components	2016 £m	2015 £m	Variance
Revenue	**45.6**	40.8	+12%
Gross profit	**12.1**	7.9	+53%
Gross profit %	**27%**	19%	+800bps
Overheads	**(7.2)**	(5.2)	(38%)
Underlying EBIT	**4.9**	2.7	+81%

Signals and Components are high-volume businesses operating within highly competitive markets. There is significant competition from low-cost producers but margins improved by 8% as traffic production was relocated from the US to Mexico. There was some increase in overheads due to impairment of development costs as product lines became obsolete. Overall there was an improvement in underlying EBIT of £2.2m (81%).

Central overheads

Central overheads are not allocated to these segments. In 2016 they amounted to £5.3m, an increase of £1.9m from 2015. The main increases related to management incentives and Board transition costs.

Non-underlying costs

The Group incurs costs and earns income that is non-underlying in nature or that is otherwise considered to not be reflective of the underlying performance of the business. In the assessment of performance of the components of the Group, management examines underlying performance which removes the impact of non-underlying costs and income. The table below presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

Non-underlying costs	2016 £m	2015 £m
Employee severance and restructuring costs	**5.3**	1.8
Intangible asset impairment	**5.1**	1.0
Disposal of tangible assets	**(0.2)**	-
Inventory costs	**3.7**	6.0
Executive director replacement costs	**-**	0.8
Production transfer costs	**2.4**	-
Settlement of legal case	**-**	(0.5)
Other	**0.1**	0.4
Non-underlying costs recorded in administrative expenses and cost of sales	**16.4**	9.5
Total cash impact	**4.9**	2.4

The non-underlying costs in 2016 relating to our strategic initiatives amounted to £16.4m with cumulative cost savings of approximately £12m expected over the next two years. The strategic initiatives will be completed in 2017 and the final costs relating to this will be £3.0m.

The Group is substantially advanced on a programme of product platform re-engineering and transferring lighting product assembly to its manufacturing partner. As part of these programmes the UK production facility was closed in September 2016. It has also been announced that the Mexican production facility will be reduced in scale by mid-2017. The £5.3m costs of redundancy relating to staff at both of these plants have been recognised in 2016.

The product lines that were manufactured exclusively in the UK production facility were reviewed to assess the viability of transfer to our manufacturing partner. The review concluded that the European Traffic business was no longer viable and production would cease. This has resulted in a goodwill impairment of £4.0m. There has been a full review of all product lines and any development and patent costs associated with obsolete product lines have been impaired, resulting in a further charge of £1.1m. The total charge for intangible asset impairment is £5.1m, all of which is a non-cash cost.

As part of the fundamental shift in Dialight's operating model, the UK production facility and assets have been sold resulting in a profit of £0.2m.

The switch to platform engineering which standardises the design of our product parts to be used as the foundation of all our finished goods has resulted in some of our inventory being obsolete. This amounted to £3.7m in the year; we expect a further £1.0m of obsolete inventory in 2017.

The transfer of lighting assembly to our manufacturing partner incurred set up costs relating to project management, legal costs, and dedicated engineering time; this amounted to £2.4m. The final phase of this will be completed during 2017 and the balance of the costs will be £2.0m.

Finance arrangements

The Group re-negotiated its revolving credit facility with HSBC Bank plc during the year. The new facility is for £25m with a further £25m "accordion" feature and has a five-year term. The Group has no borrowings against the facility at the balance sheet date and is fully compliant with its covenant requirements. This ensures significant financial flexibility.

The Board is not proposing a final dividend payment for 2016 (2015: nil). The Group has a clear capital allocation discipline and is committed to returning any excess funds to our shareholders via either a future dividend or a share repurchase.

Michael Sutsko, Group Chief Executive
Fariyal Khanbabi, Group Finance Director
27 February 2017

Principal Risks and Uncertainties

The Board is responsible for identifying the nature and extent of the risks the Group has to manage in order to successfully pursue its growth strategy and generate shareholder value over the long term.

The Board uses a risk framework which is designed to support the process for identifying, evaluating and managing both financial and non-financial risk. The Group has identified the following key risks. This is not an exhaustive list but rather a list of the most material risks facing the Group. The impact of these risks, individually or collectively, could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. As a result these risks are actively monitored and managed, as detailed below:

STRATEGIC OBJECTIVE	RISK CATEGORY	RISK DESCRIPTION	IMPACT	MITIGATION
Rebuild	Production capacity	Production capacity needs to be scalable in line with growth Concentration of Lighting production at a single third party location reduces control and changes the order fulfilment process	Inability to fulfil demand due to lack of product availability	The Group has partnered with a world class manufacturing partner in order to ensure scalability of operations on a global scale The Group has developed new processes to ensure that order fulfilment will be unaffected. Our manufacturing partner has a business continuity plan in place to deal with significant production disruptions
	Operational program risk	There is a risk that operational capability could be impacted during the period of transformation of the products and production platforms and changes to demand planning process	Inability to supply existing markets on a timely basis Unforeseen liabilities	The Group has robust plans and controls to ensure that changes are seamless. This is monitored and reviewed regularly to ensure milestones are being met
	IT systems	The Group uses IT systems to operate and control its business, any disruption to this would have an adverse impact on the business. The Group also needs to ensure the protection and integrity of its data	Inability to supply customers Loss of revenue and significant business disruption Loss of commercially sensitive information	The Group is continually reviewing its IT systems to ensure that they are robust and scalable in line with the expansion of the business. There are back-ups built into all Group systems and the spread of systems offers good protection from individual events 3rd party suppliers are used to provide data protection software
	Political conditions	The Group's main manufacturing plant is in Mexico and its main market is North America. Proposed import tariffs could impact the Group's business model. Brexit has introduced uncertainty to the level of tariff on goods imported from Europe	Reduced financial performance Loss of market share Unforeseen liabilities	The Group is preparing contingency plans for alternative production locations in the event that significant import tariffs to North America are introduced The Group is considering production locations within the EU
Lead	Succession planning and staff calibre	Group performance is dependent on attracting and retaining high quality staff across all functions	Without good calibre staff, the Group will find it difficult to expand and achieve its strategic goals	Group's development programmes enhance the skills of executives and middle managers Comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development Considerable time is spent assessing middle and senior management in order to identify succession plans
	Intellectual property	Theft or violation of intellectual property (IP) by third parties or third parties taking legal action for IP infringement	Proprietary technology used by competitors leading to loss of market share Unforeseen liabilities	All intellectual property is protected by patents and potential violations are pursued through legal process Patent office screening used to avoid infringing existing patents
	Market trends	To continue to lead the market, the Group must be able to identify where customer demand is trending and ensure we have the products to match. The Group's sales strategy is based on the cumulative LED	Loss of market share Lower margins and revenue	Feedback from customers is fed through a product strategy board to evaluate market intelligence Internal and external marketing resource are used to review market trends and ensure the Group's products remain at the forefront of the market

		adoption rate being 6% in industrial lighting markets by 2019		
	Compliance	The Group needs to ensure that as the business expands, proper controls are put in place to ensure compliance with regulatory requirements relating to tax, trade and general code of conduct	Fines and penalties for non-compliance	The Group uses 3rd party specialists to deal with local fiscal requirements Requirements on material traceability will be provided through our manufacturing partner's systems Training is provided for all staff on bribery/corruption legislation
	Reputational	Corporate profile and products need to retain brand equity	Loss of market share	Corporate profile is protected using external advisors Brand quality is central to the product development and product build quality is rigorously imposed is rigorously imposed
Grow	Competition	Failure to deliver technologically advanced products or to execute sales strategy could result in loss of market share	Loss of market share Lower margins and revenue	The Group continually invests in research and development to push the boundaries of product development. The Group develops new products based on an ROI process to mitigate the risk of abortive expenditure
	Economic conditions	The Group's operations are located across a number of jurisdictions which exposes the Group to a range of economic conditions	Reduced financial performance Loss of market share Unforeseen liabilities	The Group's geographic diversity limits its exposure to economic risk in any one country The Group does not have significant operations, cash or assets in economically uncertain regions
	Supply chain	The Group's ability to supply high quality finished goods is dependent on having a robust supply chain	Unable to meet customer demand through failure of a key supply chain partner Delays in meeting customer demand	The Group has an on-going programme to ensure that all critical components have dual suppliers and dual components specified Critical suppliers are subject to due diligence and on-going monitoring
	Funding	The Group needs to ensure that it has access to sufficient cash in order to fund working capital and expansion	Curtailed trading Inability to execute M&A opportunities	The Group has an undrawn £25m revolving credit facility (RCF) with an additional accordion feature for another £25m
	Foreign exchange	Foreign currency risk is the most significant treasury-related risk for the Group. In times of significant volatility this can have a material impact on performance	Volatile financial performance arising from translation of profit from overseas operations Most of the Groups profit earned is not in the reporting currency	The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US dollars. As the business expands geographically, the use of forward contracts will be reviewed to limit operational exposure on a selected currency basis Translational exposure is not currently hedged but the Group reports key financial indicators on an actual and constant currency basis

Consolidated income statement

For the year ended 31 December 2016

	Twelve months	Twelve months

	Note	ended 31 December 2016 Underlying £'m	Non-underlying £'m	Total £'m	ended 31 December 2015 Underlying £'m	Non-underlying £'m	Total £'m
Revenue	2	182.2	-	182.2	161.4	-	161.4
Cost of sales		(112.7)	(3.7)	(116.4)	(105.2)	(6.0)	(111.2)
Gross profit		69.5	(3.7)	65.8	56.2	(6.0)	50.2
Distribution costs		(32.7)	-	(32.7)	(30.7)	-	(30.7)
Administrative expenses		(23.7)	(12.7)	(36.4)	(19.4)	(3.5)	(22.9)
Profit/(loss) from operating activities	2	13.1	(16.4)	(3.3)	6.1	(9.5)	(3.4)
Financial income		-	-	-	-	-	-
Financial expense		(0.5)	-	(0.5)	(0.4)	(0.1)	(0.5)
Net financing expense	4	(0.5)	-	(0.5)	(0.4)	(0.1)	(0.5)
Profit/(loss) before income tax		12.6	(16.4)	(3.8)	5.7	(9.6)	(3.9)
Income tax (expense)/credit	5	(3.9)	4.9	1.0	(1.3)	3.2	1.9
Profit/(loss) for the year		8.7	(11.5)	(2.8)	4.4	(6.4)	(2.0)
Loss for the year attributable to:							
Equity owners of the Company				(2.8)			(2.0)
Non-controlling interests				-			-
Loss for the year				(2.8)			(2.0)
Earnings per share							
Basic	7			(8.4p)			(6.4p)
Diluted	7			(8.4p)			(6.3p)

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 £'m	2015 £'m
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange difference on translation of foreign operations	11.3	2.2
Income tax on exchange difference on translation of foreign operations	(0.9)	(0.4)
	10.4	1.8
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of defined benefit pension liability	(1.5)	0.7
Income tax on remeasurement of defined benefit pension liability	0.3	(0.1)
	(1.2)	0.6
Other comprehensive income for the year, net of tax	9.2	2.4
Loss for the year	(2.8)	(2.0)
Total comprehensive income for the year	6.4	0.4
Attributable to:		
Owners of the parent	6.4	0.4
Non-controlling interests	-	-
Total comprehensive income for the year	6.4	0.4

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Note	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	Total £'m	Non-controlling interests £'m	Total equity £'m
Balance at 1 January 2016		0.6	1.4	5.0	2.2	61.0	70.2	(0.1)	70.1
Loss						(2.8)	(2.8)	-	(2.8)
Other comprehensive income									
Foreign exchange translation differences, net of tax				10.4			10.4		10.4
Remeasurement of defined benefit pension liability, net of tax						(1.2)	(1.2)		(1.2)
Total other comprehensive income				10.4		(1.2)	9.2		9.2
Total comprehensive income for the year				10.4		(4.0)	6.4		6.4
Transactions with owners, recorded directly in equity									
Share-based payments, net of tax						0.6	0.6		0.6
Dividends									
Total contributions by and distributions to owners						0.6	0.6		0.6

Balance at 31 December 2016		0.6	1.4	15.4	2.2	57.6	77.2	(0.1)	77.1

Balance at 1 January 2015		0.6	1.4	3.2	2.2	65.5	72.9	(0.1)	72.8
Loss		-	-	-	-	(2.0)	(2.0)	-	(2.0)
Other comprehensive income									
Foreign exchange translation differences, net of tax		-	-	1.8	-	-	1.8	-	1.8
Remeasurement of defined benefit pension liability, net of tax		-	-	-	-	0.6	0.6	-	0.6
Total other comprehensive income		-	-	1.8	-	0.6	2.4	-	2.4
Total comprehensive income for the year		-	-	1.8	-	(1.4)	0.4	-	0.4
Transactions with owners, recorded directly in equity									
Share-based payments, net of tax		-	-	-	-	0.1	0.1	-	0.1
Dividends	6	-	-	-	-	(3.2)	(3.2)	-	(3.2)
Total contributions by and distributions to owners		-	-	-	-	(3.1)	(3.1)	-	(3.1)
Balance at 31 December 2015		0.6	1.4	5.0	2.2	61.0	70.2	(0.1)	70.1

At 31 December 2016 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") was nil (2015: 9,606). The market value of these shares at 31 December 2016 was £nil (2015: £43,227)

Consolidated statement of total financial position

At 31 December 2016

	Note	2016 £'m	2015 £'m
Assets			
Property, plant and equipment		15.9	16.1
Intangible assets		15.4	20.0
Deferred tax assets		3.5	0.1
Total non-current assets		34.8	36.2
Inventories		31.4	26.9
Trade and other receivables		40.0	35.5
Asset held for sale		2.0	-
Cash and cash equivalents	9	8.0	5.5
Total current assets		81.4	67.9
Total assets		116.2	104.1
Liabilities			
Trade and other payables		(31.3)	(22.9)
Provisions	8	(3.8)	(0.8)
Tax liabilities		(1.9)	(0.3)
Borrowings		-	(9.3)
Total current liabilities		(37.0)	(33.3)
Employee benefits		(1.3)	(0.1)
Provisions	8	(0.8)	(0.6)
Total non-current liabilities		(2.1)	(0.7)
Total liabilities		(39.1)	(34.0)
Net assets		77.1	70.1
Equity			
Issued share capital		0.6	0.6
Merger reserve		1.4	1.4
Other reserves		17.6	7.2
Retained earnings		57.6	61.0
		77.2	70.2
Non-controlling interests		(0.1)	(0.1)
Total equity		77.1	70.1

Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016 £'m	2015 £'m
Operating activities			
Loss for the year		(2.8)	(2.0)
Adjustments for:			
Financial income	4	-	-

Financial expense	4	0.5	0.5
Income tax credit	5	(1.0)	(1.9)
Share-based payments		0.6	0.1
Depreciation of property, plant and equipment		3.1	2.8
Amortisation of intangible assets		4.0	3.1
Impairment losses on intangible assets and goodwill		5.1	1.0
Gain on disposal of tangible assets		(0.2)	-
Legal settlement		1.3	-
Operating cash flow before movements in working capital		10.6	3.6
(Increase)/decrease in inventories		(0.2)	6.4
(Increase)/decrease in trade and other receivables		(1.5)	3.1
Increase/(decrease) in trade and other payables		5.0	(4.1)
Increase in provisions	8	2.9	0.2
Pension contributions in excess of the income statement		(0.5)	(0.5)
Cash generated from operations		16.3	8.7
Income taxes received/(paid)		0.3	(3.9)
Interest paid	4	(0.5)	(0.4)
Net cash generated from operating activities		16.1	4.4
Investing activities			
Contingent consideration		-	(0.3)
Capital expenditure		(3.9)	(3.3)
Sale of fixed assets		0.9	-
Capitalised expenditure on development		(2.1)	(2.5)
Net cash used in investing activities		(5.1)	(6.1)
Financing activities			
Dividends paid	6	-	(3.2)
(Repayment)/drawdown of bank facility		(9.5)	2.4
Payment of upfront loan facility costs		-	-
Net cash (used in)/generated from financing activities		(9.5)	(0.8)
Net (decrease)/increase in cash and cash equivalents		1.5	(2.5)
Cash and cash equivalents at beginning of year		5.5	7.9
Effect of exchange rates on cash held		1.0	0.1
Cash and cash equivalents at end of year	9	8.0	5.5

Notes to the consolidated financial statements

For the year ended 31 December 2016

1. Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are carried at fair value.

The Directors have a reasonable expectation that the Company has sufficient resources to continue in existence for a period no shorter than 12 months from the date of this report. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2016, will be posted to shareholders on 17 March 2017, and delivered to the registrar after the Annual General Meeting on 20 April 2017.

Use of estimates, judgements and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements. The process of preparing the Group's financial statements inevitably requires the Group to make estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have the most significant effect on the amounts included in the consolidated financial statements are as follows:

Goodwill

Each year the Group reviews the carrying values of its goodwill balances by carrying out impairment tests. These tests require estimates and judgements to be made of the value in use of its cash generating units ("CGUs") which are dependent on key assumptions such as future cash flows and future growth rates of the CGUs, and discount rates.

Uncertainties associated with the current economic environment or the Group's ability to carry out its strategic plans could impact key assumptions made as part of this review. Where these uncertainties present a material risk to the carrying value of goodwill, sensitivity analysis is carried out on the relevant CGUs.

Development and patent costs

The Group capitalises development costs and patents provided they meet all criteria set out in the respective accounting policy. Costs are only capitalised where management is satisfied as to the ultimate commercial viability of the projects concerned based on available information. The capitalised costs are amortised over the useful economic life, which is determined based on the reasonable commercial prospects for the resultant product.

Inventory provision

The Group operates in an environment of technological change, presenting the risk of obsolete inventory. Inventory is reviewed by operational and financial management on a regular basis, product by product, and the level of provision required is assessed against historical and forecast use for that product.

Other

Warranty

The Group offers performance warranties on many of its products. A provision is made for the expected costs of future warranty claims relating to past product sales. This provision is estimated based on historical trends for returns, internal knowledge of product performance characteristics and the expected costs of remedying warranty-returned products. This information is reviewed by management regularly. Actual returns may be materially higher or lower than these estimates, which may have a material impact on the adequacy of the provision for warranty claims.

Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in this note to all periods presented in these consolidated financial statements.

The Group has adopted a number of standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016. There was no material impact on the financial performance or position of the Group.

Adoption of new and revised standards

A number of new standards, amendments to standards and interpretations, including IFRS 9 Financial Instruments, and IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning after 1 January 2018) and IFRS 16 Leases (effective for annual periods beginning after 1 January 2019) have not been applied in preparing these consolidated financial statements.

The Group is currently assessing the impact of IFRS 9, IFRS 15 and IFRS 16 but believes that none of these will have a material impact on the financial statements, but may require some further disclosure. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Operating segments

The Group has two reportable operating segments. These segments have been identified based on the internal information that is supplied regularly to the Group's chief operating decision maker for the purposes of assessing performance and allocating resources. The chief operating decision maker is considered to be the Group Chief Executive.

The two reportable operating segments are:

- Lighting, which develops, manufactures and supplies highly efficient LED lighting solutions for hazardous and industrial applications in which Lighting performance is critical and includes anti-collision obstruction lighting; and
- Signals and Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components and highly efficient LED signalling solutions for the traffic and signals markets.

There is no inter-segment revenue.

All revenue relates to the sale of goods. Segment gross profit is revenue less the costs of materials, labour, production and freight that are directly attributable to a segment. Overheads comprise operations management, selling costs plus corporate costs, which include share-based payments.

There are no individual customers representing more than 10% of revenue.

Reportable segments

2016	Lighting £'m	Signals and Components £'m	Total £'m
Revenue	136.6	45.6	182.2
Underlying gross profit	57.4	12.1	69.5
Overheads	(43.9)	(7.2)	(51.1)
Segment results	13.5	4.9	18.4
Unallocated expenses			(5.3)
Underlying operating profit			13.1
Non-underlying expense			(16.4)
Operating loss			(3.3)
Net financing expense			(0.5)
Loss before tax			(3.8)
Income tax expense			1.0
Loss after tax			(2.8)

2015	Lighting £'m	Signals and Components £'m	Total £'m
Revenue	120.6	40.8	161.4
Underlying gross profit	48.3	7.9	56.2
Overheads	(41.5)	(5.2)	(46.7)
Segment results	6.8	2.7	9.5
Unallocated expenses			(3.4)
Underlying operating profit			6.1
Non-underlying expense			(9.5)
Operating loss			(3.4)
Net financing expense			(0.5)
Loss before tax			(3.9)
Income tax expense			1.9
Loss after tax			(2.0)

Other segmental data

	2016			2015		
	Lighting £'m	Signals and Components £'m	Total £'m	Lighting £'m	Signals and Components £'m	Total £'m
Depreciation	2.3	0.8	3.1	2.2	0.6	2.8
Amortisation	3.3	0.7	4.0	2.5	0.6	3.1
Gain on disposal of tangible assets	(0.2)	-	(0.2)	-	-	-
Impairment losses on intangible asset write-down	1.1	4.0	5.1	0.7	0.3	1.0

Geographical segments

The Lighting and Signals and Components segments are managed on a worldwide basis but operate in four principal geographical areas: North

America, UK, Europe and Rest of World. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods. All revenue relates to the sales of goods.

Sales revenue by geographical market

Reconciliations of reportable segment profit or loss

	2016 £'m	2015 £'m
Total profit for reportable segments	18.4	9.5
Unallocated amounts:		
Overheads	(5.3)	(3.4)
Non-underlying expense	(16.4)	(9.5)
Net financing expense	(0.5)	(0.5)
Loss before tax	(3.8)	(3.9)

3. Non-underlying income/(expense)

The Group incurs costs and earns income that is non-recurring in nature or that is otherwise considered to not be reflective of the underlying performance of the business. In the assessment of performance of the business units of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income.

The table below presents the elements of non-underlying profit or loss recorded within cost of sales:

	2016 £'m	2015 £'m
Inventory costs	(3.7)	(6.0)
Non-underlying costs recorded in cost of sales	(3.7)	(6.0)

The table below presents the elements of non-underlying profit or loss recorded within administrative expenses:

	2016 £'m	2015 £'m
Employee severance and restructuring costs	(5.3)	(1.8)
Intangible asset impairment	(5.1)	(1.0)
Disposal of tangible assets	0.2	-
Production transfer costs	(2.4)	-
Executive Director replacement costs	-	(0.8)
Settlement of legal case	-	0.5
Other	(0.1)	(0.4)
Non-underlying costs recorded in administrative expenses	(12.7)	(3.5)

The non-underlying costs in 2016 relating to our strategic initiatives amounted to £16.4m with cumulative cost savings of approximately £12m over the next two years. The strategic initiatives will be completed in 2017 and the final costs relating to this will be £3.0m.

The Group is substantially advanced on a programme of product platform re-engineering and transferring lighting product assembly to its manufacturing partner. As part of these programmes the UK production facility was closed in September 2016. It has also been announced that the Mexican production facility will be reduced in scale by mid-2017. The £5.3m costs of redundancy relating to staff at both of these plants have been recognised in the year.

The product lines that were manufactured exclusively in the UK production facility were reviewed to assess the viability of transfer to our manufacturing partner. The review concluded that the European Traffic business was no longer viable and production would cease. This has resulted in a goodwill impairment of £4.0m. There has been a full review of all product lines and any development and patent costs associated with obsolete product lines have been impaired, resulting in a further charge of £1.1m. The total charge for intangible asset impairment is £5.1m which is a non-cash cost.

As part of the fundamental shift in Dialight's operating model, the UK production facility and assets have been sold resulting in a profit of £0.2m

The switch to platform engineering which standardises the design of our product parts to be used as the foundation of all our finished goods has resulted in some of our inventory being obsolete. This amounted to £3.7m in the year, we expect a further £1.0m of obsolete inventory in 2017.

The transfer of lighting assembly to our manufacturing partner incurred set up costs relating to project management, legal costs, and dedicated engineering time; this amounted to £2.4m. The final phase of this will be completed by mid-2017 and the balance of the costs will be £2.0m.

The table below presents the components of non-underlying profit or loss recorded within finance income/(expense):

	2016 £'m	2015 £'m
Net interest on defined benefit liability	-	(0.1)
Non-underlying costs recorded in finance expense	-	(0.1)

4. Net financing (expense)/income

Recognised in profit and loss

	Year ending 31 December 2016			Year ending 31 December 2015		
	Underlying £'m	Non-underlying £'m	Total £'m	Underlying £'m	Non-underlying £'m	Total £'m
Net interest on defined benefit liability	(0.2)	-	(0.2)	-	(0.1)	(0.1)
Interest expense on financial liabilities	(0.3)	-	(0.3)	(0.4)	-	(0.4)
Net financing expense recognised in the consolidated income statement	(0.5)	-	(0.5)	(0.4)	(0.1)	(0.5)

5. Income tax (income)/expense

Current tax expense

Recognised in the income statement

	2016 £'m	2015 £'m
Current tax (income)/expense		
Current year	3.3	(0.7)
Adjustment for prior years	(0.3)	(0.9)
	3.0	(1.6)
Deferred tax (income)/expense		
Origination and reversal of temporary differences	(2.1)	(0.4)
Adjustment for prior years	(1.7)	-
Reduction in tax rate	(0.2)	0.1
Recognition of previously unrecognised losses	-	-
Change in recognised deductible timing differences	-	-
Income tax income	(1.0)	(1.9)

Reconciliation of effective tax rate

	2016 %	2016 £'m	2015 %	2015 £'m
Loss for the year		(2.8)		(2.0)
Total income tax income		(1.0)		(1.9)
Loss excluding income tax		(3.8)		(3.9)
Income tax using the UK corporation tax rate	(20.0)	(0.8)	(19.6)	(0.8)
Effect of tax rates in foreign jurisdictions	23.7	0.9	12.8	0.5
Increase/(reduction) in tax rate	(5.3)	(0.2)	(7.9)	(0.3)
Non-deductible expenses	36.8	1.4	17.1	0.7
Current year losses for which no deferred tax is recognised	-	-	(1.8)	(0.1)
Recognition of tax effect of previously unrecognised losses	(7.9)	(0.3)	(7.7)	(0.3)
Adjustment for prior years	(52.6)	(2.0)	(24.3)	(1.0)
Non-taxable income	5.6	0.2	-	-
Research and development credits	(2.6)	(0.1)	(3.4)	(0.1)
Other	(2.6)	(0.1)	(12.7)	(0.5)
	(24.9)	(1.0)	(47.5)	(1.9)

The effective tax rate credit for the Group is 24.9%, a reduction on the prior year tax credit of 47.5%. The prior year tax credit was positively impacted by losses allowed in the year giving rise to the inflated tax credit. The tax credit for 2016 was in line with the Group distribution of profit/(loss) and the tax charge/(credit) associated to the jurisdiction they operate in. The rate in the year has been reduced by non tax deductible items relating to the impairment of goodwill offset by previously unrecognised losses and accelerated capital allowances.

Tax recognised directly in equity

	2016 £'m	2015 £'m
Employee benefits	(0.3)	(0.1)
Other	0.9	(0.4)

The UK tax authorities have reduced the UK rate of Corporation Tax from 1 April 2017 to 19% and by a further 2% to 17% from 1 April 2020. No further UK corporation tax rate reductions have been announced. As such, the UK timing differences have been recognised at the rate at which the timing differences are expected to unwind. The Groups effective tax rate will continue to be impacted by the tax rates enacted in the various jurisdictions in which it operates. The deferred tax assets/(liabilities) have now all been recognised with previously unrecognised losses being utilised in the year. The deferred tax asset at 31 December 2016 have been calculated based on a rate of 17%. There are no deferred tax assets/(liabilities) that have not been recognised.

6. Dividends

After the balance sheet date no dividends were proposed by the Directors and there are no income tax consequences for the Company.

Final proposed dividend	2016 £'m	2015 £'m
Nil pence per ordinary share (2015: nil pence)	-	-

During the year the following dividends were paid:

	2016 £'m	2015 £'m
Final - nil pence (2014: 9.8 pence) per ordinary share	-	3.2
Interim - nil pence (2015:nil pence) per ordinary share	-	-
	-	3.2
Dividends accrued on shares awarded under the PSP and deferred share scheme but not yet vested	-	-
Total (amount shown in the consolidated statement of changes in equity)	-	3.2

7. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2016 was based on a loss for the year of £2.8m (2015: loss of £2.0m) and the weighted average number of ordinary shares outstanding during the year of 32,503,348 (2015: 32,503,258).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2016 was based on a loss for the year of £2.8m (2015: loss of £2.0m) and the weighted average number of ordinary shares outstanding during the year of 32,777,907 (2015: 32,731,992) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016	2015

	'000	'000
Weighted average number of ordinary shares	32,503	32,503
Effect of share options in issue	275	229
Weighted average number of ordinary shares (diluted)	32,778	32,732

Underlying earnings per share is highlighted below as the Directors consider that this measurement of earnings gives valuable information on the performance of the Group.

	2016 Per share	2015 Per share
Basic earnings	(8.4p)	(6.4p)
Underlying basic earnings*	26.9p	13.3p
Diluted earnings	(8.4p)	(6.3p)
Underlying diluted earnings*	26.7p	13.2p

* Underlying earnings excludes non-underlying items as explained in note 10 and allocates tax at the appropriate rate (see note 5).

8. Provisions

	Warranty £'m	Restructuring £'m	Total £'m
			£'m
Balance at 1 January 2016	1.4	-	1.4
Effects of foreign exchange movement	0.2	0.1	0.3
Provisions made during the year	1.4	5.0	6.4
Provisions used during the year	(1.2)	(2.3)	(3.5)
Balance at 31 December 2016	1.8	2.8	4.6

The warranty provision relates to sales made over the past five years. The provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years. The restructuring provision relates to redundancy costs and production transfer costs (see note 3) and will all be utilised within one year.

	Total 2016 £'m	Total 2015 £'m
Due within one year	3.8	0.8
Due between one and five years	0.8	0.6
	4.6	1.4

The warranty provision is based on estimates made from historical warranty data associated with similar products.

9. Cash and cash equivalents

	2016 £'m	2015 £'m
Cash and cash equivalents in the statement of total financial position	8.0	5.5
Cash and cash equivalents in the statement of cash flows	8.0	5.5

10. Reconciliation to non-gaap performance measures

	2016 £m	2016 £m
Gross profit	65.8	50.2
Non-underlying items (see note 3)	3.7	6.0
Underlying gross profit	**69.5**	**56.2**
Loss from operating activities	(3.3)	(3.4)
Non-underlying items (see note 3)	16.4	9.5
Underlying operating profit/Underlying EBIT	**13.1**	**6.1**
Loss from operating activities	(3.3)	(3.4)
Non-underlying items (see note 3)	16.4	9.5
Depreciation of property, plant and equipment	3.1	2.8
Amortisation of intangible assets	4.0	3.1
Adjusted underlying EBITDA	**20.2**	**12.0**
Loss from operating activities	(3.3)	(3.4)
Non-underlying items (see note 3)	16.4	9.5
Depreciation of property, plant and equipment	3.1	2.8
Amortisation of intangible assets	4.0	3.1
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) per Consolidated statement of cash flows	3.3	5.4
Movements in working capital related to non-underlying	(2.5)	(1.7)
Adjusted operating cash flow	**21.0**	**15.7**

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