Dialight plc

Half year results 2017

Summary of analysts’ presentation by:

Michael Sutsko, Chief Executive

Fariyal Khanbabi, Chief Financial Officer

Positioned for long-term sustainable growth

Michael Sutsko, Dialight's Chief Executive, began by summarising the highlights of the half year.

The transformation to a robust and scalable manufacturing platform has advanced significantly in the current year.

We have completed platform engineering; and nine out of twelve product lines have transferred to our manufacturing partner. The final three lines are taking slightly longer but are expected to be completed by the end of the year.

The shift in the Group's operating model is positioning us to capture the industrial LED market opportunity.

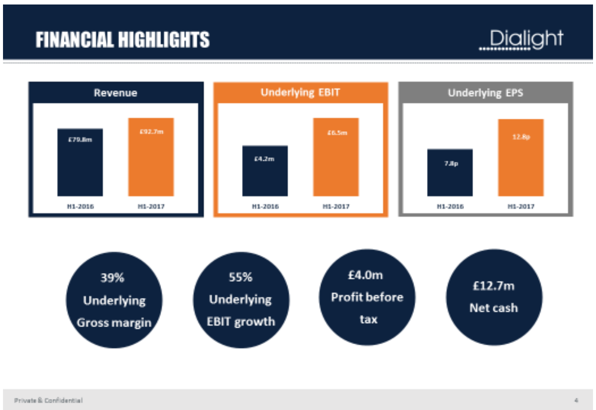
Purchase decisions in the industrial market are driven by payback and risk. Dialight products provide the best cost of ownership to heavy industrial customers with paybacks based on energy savings, maintenance cost avoidance and up to ten year's warranty.

We also recognise the opportunity to drive focus on 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 savings programmes. Additionally, customers place a premium on work place safety.

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 lighting away from just maintenance cost savings.

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

We have made strong progress against a backdrop of uncertain economic conditions. We grew EBIT from £4.2m in 2016 to £6.5m in 2017, with revenue growth of 16%. On a constant currency basis, EBIT grew by 21% on revenue growth of 3%.



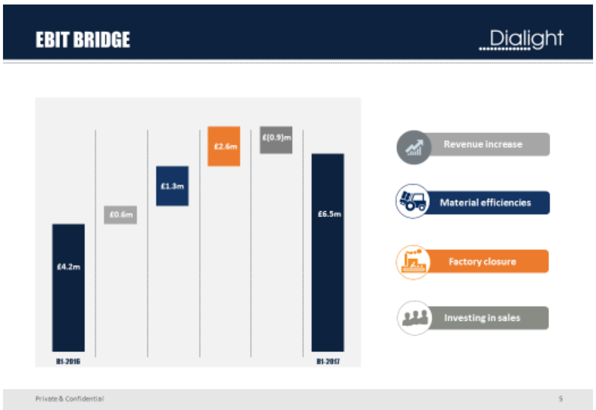
The progress made in the first half of 2017 can be demonstrated more clearly in our EBIT bridge.

The shift in the Group's operating model with platform engineering completed allows us to drive our increased purchasing power. This coupled with labour and productivity efficiencies from our manufacturing partner will continue to drive gross margin expansion.

The focus on commodity management delivered material costs savings of £1.3m.

Last year we closed our manufacturing plant in the UK and relocated the majority of production activity to Mexico. The strategic relocation of production activity from the UK to Mexico and further production efficiencies at the Mexico plant resulted in savings of £2.6m.

These benefits were partially offset by re-investment in upskilling our sales team, and continued investment in HR initiatives.



Lighting order intake grew 2% year on year at constant currency despite the impact of the transition delays, discussed below. Our customers have delayed placing orders pending new product launches. This has been partly mitigated by encouraging new business wins.

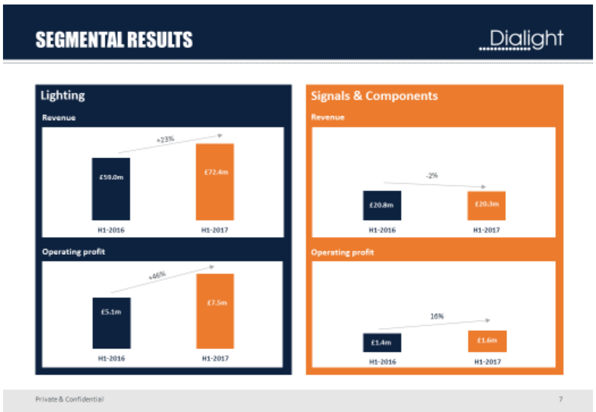
We continue to diversify our end markets and geographies, reducing our exposure to individual vertical markets. Oil and gas revenue as a percentage of total revenue was 3% lower than the previous half year at 18%. This was offset by growth in Mining, Power and Pulp & Paper.

We are focused on capturing the growth opportunity in the industrial LED market. The lighting division had profit growth of 47% and remains our primary focus.

Lighting has benefited from gross margin improvements as production relocation and efficiency improvements have lowered our cost base.

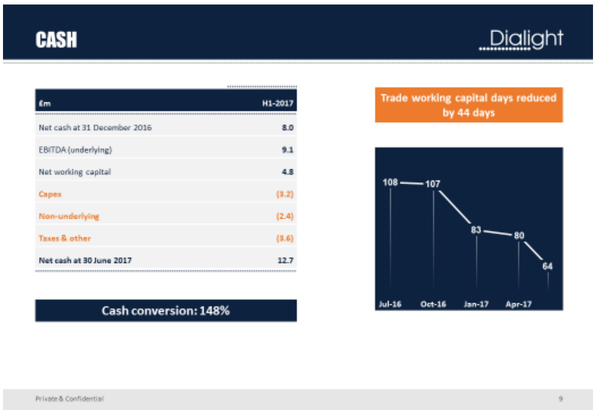
Signals and Components revenue grew by £2.4m on a continuing operations basis. The prior year contained £2.9m of revenue from the European Components business which ceased in H2 of 2016. This resulted in a reported revenue decline of £0.5m.

Gross margin increased by 400bps, benefitting from the relocation of traffic production from the US to Mexico. This market is highly competitive and the results show the ability to offset downward market pressure on pricing with cost reductions and efficiency improvements.



Dialight has undergone a significant transformation. We have built a platform that allows us to pivot our strategy towards revenue growth. As a result we have incurred a number of one off items. We are at the final stage of the transformation process and it has been a learning curve. The transfer to our manufacturing partner has taken slightly longer than previously expected, but will be completed by the end of the year. These costs amounted to £2.4m in the first half of 2017. We expect to incur further costs of up to £2.0m in the second half of the year

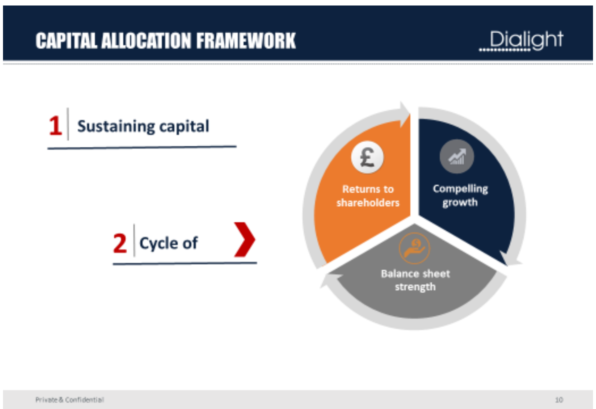
We have a strong balance sheet supported by good working capital management. We ended the reporting period with cash of £12.7m, an increase of £4.7m from the end of 2016. The existing £25m credit facility with HSBC (expires 2021) remains undrawn. Our continued cash generation together with the HSBC facility gives the Group considerable financial flexibility to invest in long-term growth.



Our capital allocation strategy is a balance between re-investing cash to deliver growth (organically or through acquisition) or return excess cash to shareholders while at the same time maintaining a strong balance sheet.

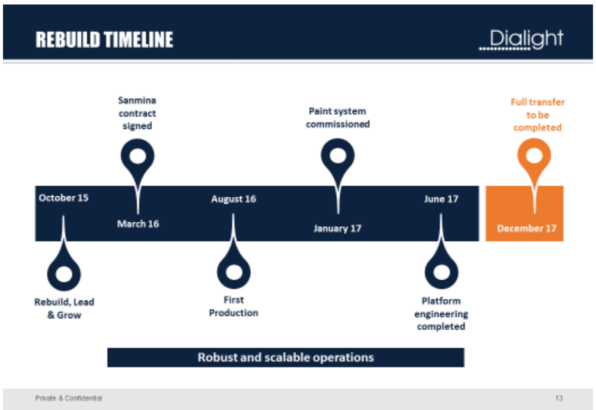
Our strong balance sheet allows us to re-invest £6 to £7m per annum in production equipment and new product development.

The costs of restructuring the business have been met from operating cash flow and we have seen the Group cash position improve over the past two years by £21m.



Michael Sutsko reviewed the strategic progress of the Group in more detail.

We are heavily focused on completing the total re-engineering of our product lines and transfer of our operational footprint to a global manufacturing partner. We are utilising the solid base to support growth.



We will create value for our shareholders in three principal ways: Firstly, we will drive growth through expanding capabilities in targeted regions using our technology roadmap to retain differentiation and improve our customers' payback period. The value proposition extends beyond lighting as integration with automation can enhance customers' productivity and safety.

Secondly, we will continue to use our operational capabilities to reduce costs. This coupled with labour and productivity efficiencies from our manufacturing partner will drive further gross margin expansion.

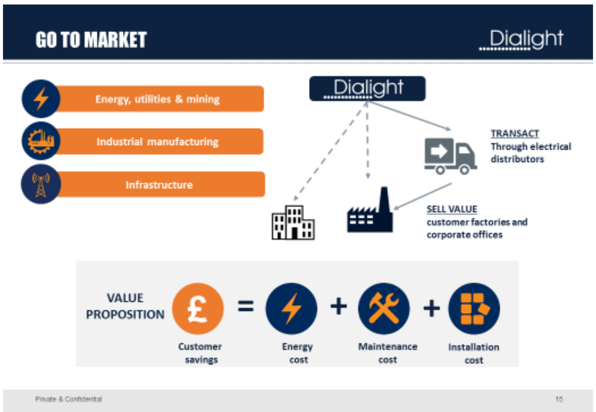
Finally, we will make investments in growing our strategic lighting business. As the whole business effectively generates cash, management will look to support the infrastructure of growth; accelerate strategic growth through acquired technologies and segmental expertise; or return cash to shareholders.

Dialight focuses on heavy industrial sectors. These include primary materials processing in areas like mining, refining, chemicals, metals and power generation; industrial processing in areas like paper, food and beverage, and automotive; and in infrastructure including illumination of telecom and wind energy structures.

The nature of the customer base typically includes large, global, capital intensive organisations. Dialight's sales force works closely with our customers at a local level and a corporate energy, safety and sustainability level to realise the value of converting to LED lighting. We transact our products through our customers accepted electrical distribution channels.

The value that heavy industrial customers receive encompass the traditional energy savings of an LED system, plus savings in maintenance and installation costs that can outweigh the energy savings.

Lighting in these sectors is safety critical and often operate in tough environments where maintenance is dangerous and expensive. Dialight's industry leading ten year warranty and proven engineering are the best fit to deliver this value proposition.



Growth requires the right products, the preferred distribution channels, and experienced selling teams.

Dialight has built its strongest capabilities in the U.S. providing a model that, with attention to the right regional differences, can be scaled around the world.

Europe represents an advanced customer base and significant opportunity, yet has been underserved by Dialight. Dialight's new product road map will include the breadth of product features and certification requirements needed in Europe. With a strong core of developing sales teams combined with a number of newly signed distributor partners, Dialight is well positioned to begin to seize European opportunities.

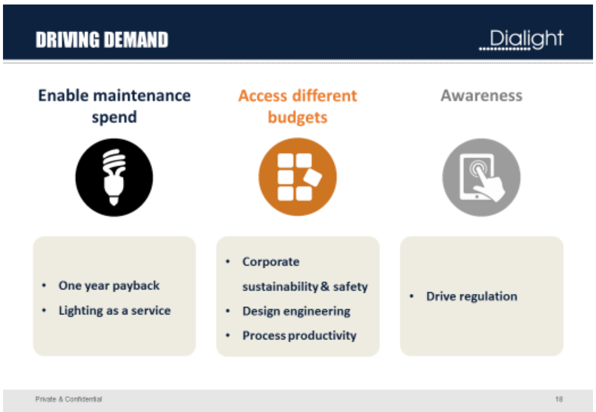
Dialight's Australian team has proven to be very successful in driving growth and building capabilities in the region. Extending that leadership with strong local support into South East Asia represents a significant opportunity for growth.

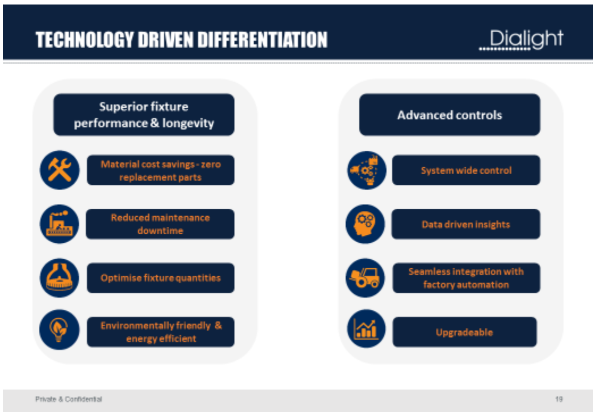
The industrial LED opportunity remains largely untapped as the conservative customer base has sought low-risk, proven solutions. Dialight's 10 years of experience has earned a predominant position to serve these sectors.

We utilise our technology advantage to produce products with the best efficiency, quality of light, and maintenance features that lead to reduced payback periods.

Faster payback allows delegated project spend at a lower level in the organisation. The goal is to have a payback period under one year.

Dialight has been successful at deploying lighting solutions at the factory level and has earned credibility at the corporate level. Dialight has been able to solve needs beyond maintenance requirements, working with engineering firms, corporate sustainability, energy and safety initiatives; and now, with factory automation partnerships, solutions to productivity and safety problems.





Dialight's technology and product roadmaps feature improvements in energy efficiency, longevity and electrical, optical, and mechanical features that reduce maintenance and installation costs. With a small investment, customers reduce their energy bill, reduce hazardous maintenance activities, improve the quality of lighting, and move to a more safe and sustainable organisation.

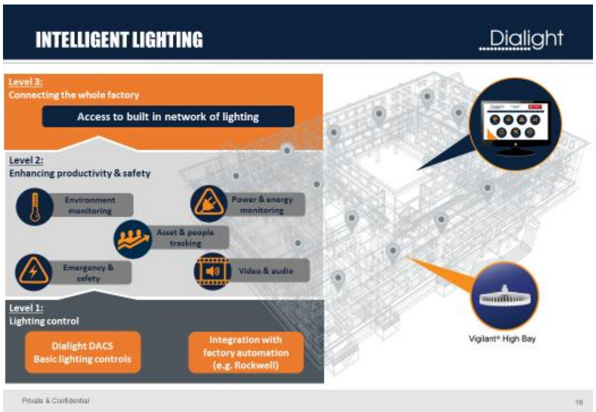
In addition, Dialight products will be built with the upgradeable and integrated controls. This will allow customers to install lights and ensure future compatibility. They can optimise their lighting solution through direct lighting controls. The real value for customers is that they will be able to 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.

As Dialight is able to deploy intelligent lighting in factories, the unique position creates tremendous opportunities to add value beyond the basic benefits of Dialight's LED lighting.

At the basic level, controlling the lights, either through Dialight's proprietary DACS system or through a system integrated with leading factory automation solutions like Rockwell's, customers can optimise their savings and light utility.

At the second level, the lights can be used in applications that provide productivity and safety solutions. They are a great platform for providing location, power and connectivity to people and asset tracking, energy monitoring, environment monitoring, emergency and safety indicating, and audio and video applications.

Finally, one of the economic barriers to deploying Industrial Internet of Things (IIoT) solutions is the cost to wire or otherwise connect multiple sensors. Dialight lighting solutions provide an already-installed network of power, protection and connectivity allowing IIoT solutions to be much more cost effectively deployed.

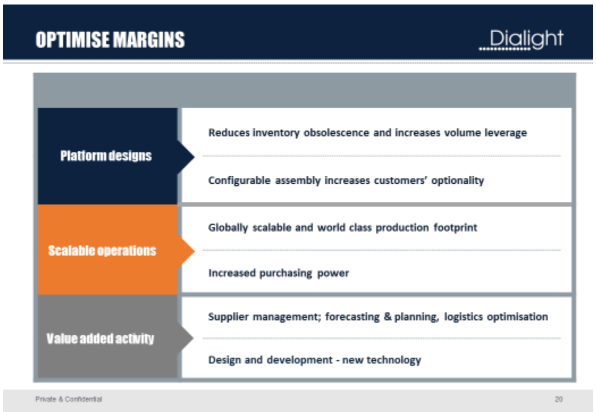


Dialight has created a robust operational base for profitable sustainable growth.

Platform engineering enables moving from a vast number of bespoke product SKUs to a ‘Common platform’ solution. This allows Dialight to offer a greater variety of configurations to meet specific customer needs. This platform reduces the number of raw materials, inventory levels and lead times required to serve our customers.

The move to a manufacturing partner has given Dialight access to the best in the world assembly technology. This model allows us to scale globally. This partnership will also allow Dialight to leverage larger purchasing power over raw materials while retaining direct control over the most critical parts.

Our increasingly talented team can now focus on high value activities including critical supply management and optimising our inputs with better forecasting, planning, and logistics management.



In summary, as we finalise the foundations of a robust and scalable manufacturing platform, we pivot our attention to driving revenue growth.

Our market proposition is 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 continued growth.