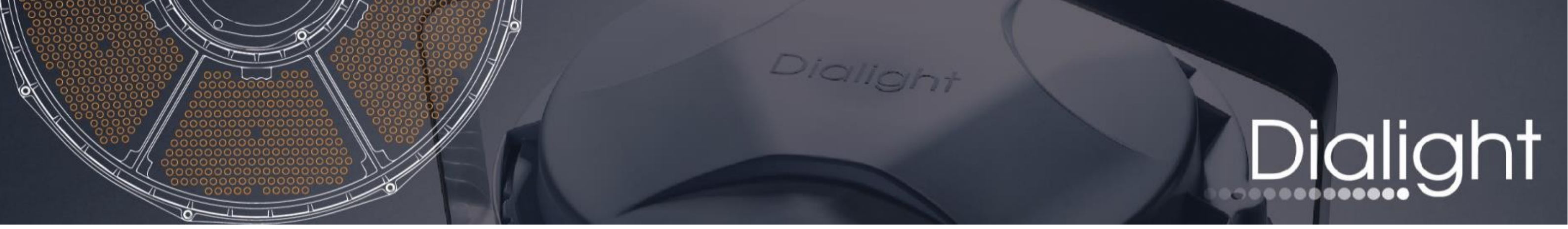

Dialight plc
("Dialight" or "the Group")

Full year results 2019

Dialight plc (LSE: DIA.L), the global leader in sustainable LED lighting for industrial applications, announces its full year unaudited results for the year ended 31 December 2019.

Financial summary	2019 Unaudited £m	2018 Audited £m
Revenue	**151.0**	169.6
Proforma unaudited operating profit[1]	**5.2**	8.0
Proforma unaudited basic EPS	**5.8p**	17.3p
Non-underlying costs and proforma unaudited costs	**16.5**	0.4
Statutory (loss)/profit from operating activities	**(11.3)**	7.6
Statutory EPS – basic	**(49.8p)**	16.4p
Net (debt)/cash[3]	**(16.5)**	(2.9)

Key points

- Statutory loss for the period reflects substantial costs of exiting from our outsource manufacturer
- FY 19 proforma operating profit[2] within the guidance range
- Operational footprint and performance materially improved
- Sales recovery gaining momentum but challenging markets
- Technological leadership remains strong with sustainability benefits to our customers even more relevant
- Strengthened product development

Fariyal Khanbabi, Group Chief Executive, said:

"From a financial perspective 2019 was disappointing, in large part due to the significant costs (£10.2m) associated with exiting from our outsource manufacturer, as previously highlighted. However, we continued to make investments in operations and new products (£12.8m) to better position us for future growth. Our operations in Mexico and Malaysia are now performing well and our product development continues at pace.

Most of our end markets are likely to remain challenging short-term, exacerbated by the possible impacts of the COVID-19 virus. Nonetheless, in 2020 we continue to target a materially improved trading performance, with a strong focus on sales and new product development, and again with an H2 weighting and we expect a significant reduction in our year-end net debt.

The longer-term prospects from the ongoing conversion to industrial LED lighting remain strong and the sustainability benefits to our customers are even more relevant."

Results presentation:

Dialight will host an audio cast and conference call for analysts and investors at 09:00 today, details of which can be found below.

Link: https://webcasting.brrmedia.co.uk/broadcast/5e68dd399672d83b98778c0d

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About Dialight:

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications**.** Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and 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 a rapid return on investment.

The company is headquartered in the UK with operations in the USA, UK, Germany, Malaysia, Singapore, Australia, Mexico, Dubai and Brazil. www.dialight.com.

Notes:

1. Defined as excluding non-underlying items of £6.3m (2018: £0.4m) and proforma unaudited costs of £10.2m.
2. On 19 November 2019, a full year proforma operating profit range of £5m-£8m after adjustment for non-underlying costs of c.£6m in addition to those reported in August 2019 was provided in our trading update.
3. Net debt excludes lease liabilities under IFRS 16
4. Constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.
5. 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

Climate change poses a significant challenge for business. Investing in sustainability initiatives is a critical imperative for key stakeholders, including employees. Dialight is in a privileged position to be able to help its customers in this regard. The company's LED products provide lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance. In addition, our new products are designed with field replaceable parts, which continues to solidify our commitment to sustainability.

Our technology remains best in class, stemming from designing our own power supplies. Dialight is the only pure play LED lighting company in the hazardous industrial market, with many years of experience. We have been the pioneer within this market and continue to be the technological leader. The Group is built on a very strong US sales team with a strong channel to market and long-term relationships with our distributors and end customers that span the last decade.

The financial performance of the Group was adversely impacted by the significant costs (£10.2m) associated with exiting from our former outsource manufacturer. These were short term and were incurred whilst our own facilities became fully operational. We have upgraded, expanded and geographically diversified our operational footprint. Our operations are fully recovered and we have sufficient capacity to support our long-term growth plans. One of the key actions to demonstrate to the market that we have recovered has been to hold finished goods inventory in our plant in Tijuana. These are high running items that we are able to ship within 24 hours, improving our service levels to our customers.

In the second half of the year, we focused on rebuilding customer and distributor confidence from this stronger operational base. The sales team have good visibility of the potential sales pipeline but predicting the timing of orders remains challenging as the typical order cycle is between four to eight weeks with no long-term contracts. We are achieving strong win rates for projects in the US, which demonstrates we are recovering our lost market share. In addition, former customers are returning to Dialight and requesting retrofits of competitor equipment showing our quality proposition remains strong.

Our focus on product development continues with developing new products to fill the gaps in our product portfolio with a specific focus on meeting regional differences. The technologies that we have developed in 2019 such as our new power supply are being used to upgrade parts of our existing product range and, which will result in significant cost reductions.

Business performance

Our 2019 financial results were disappointing due in large part to the significant costs (£10.2m) associated with exiting from our outsource manufacturer. The Group achieved revenues of £151.0m and a proforma unaudited operating profit of £5.2m for the year ended 31 December 2019, within our previously disclosed guidance. Our proforma unaudited gross margin was in line with the previous year. We incurred additional costs for machining and painting while our own facility in Tijuana, Mexico ramped up which have been classified as non-recurring. We have also taken steps to right size the group so we have a leaner cost structure, which resulted in severance charges of £1.1m in H2 2019. After the one-off costs of in-sourcing and other non-recurring costs, the Group made an operating loss of £11.3m.

Dialight finished the year with net debt of £16.5m, an increase of £13.6m in the year reflecting the capital expenditure on our new facilities (£6.8m) and third-party costs for producing sub-assemblies and internal ramp costs (£6.1m), which position us well for the future.

The hybrid model was successful as a tool for exiting Sanmina and getting the new Penang facility operational faster. As our operational performance improved on a sustainable basis, we have eliminated the use of third-party vendors and have in-sourced all painting and machining in Mexico. With more of our processes vertically integrated, this has given us flexibility and ultimately will drive costs down. We have deferred in-sourcing in Penang; it will require further investment, which we will make once we see volumes increase in EMEA and APAC.

Our US orders were down 7% compared to 2018. The operations of the Group were not fully recovered until the start of Q4 2019 which impacted revenue in the US. This region has a very solid foundation, with a well-established channel strategy and a strong sales team. It is important as we grow regionally to continue to invest in our largest market, where there remains a significant amount of growth opportunity.

Orders in EMEA were 21% lower than 2018. We have specific products being developed for this region that will support growth. However, the key to success in this region is developing a better route to market and emulating the channel strategy we have in the US. We have deployed additional resources from our US team to help execute these initiatives.

Asia achieved 2% order growth at constant currency. The Australian market is heavily driven by mining and the downturn in their end markets had a significant impact on orders for the year. Australia was down 11% year on year.

Our Obstruction business consists of lighting systems for cell phone towers in the US. We are currently in the process of upgrading our beacons and our integrated obstruction software system, which is scheduled to launch in Q2 2020. These are necessary steps to rejuvenate the Obstruction business after insufficient investment in prior years. This is in conjunction with a sales strategy aimed at widening the customer base as we have a high customer concentration with two key accounts. Orders were 10% below 2018 at constant currency.

The Signals and Components business was impacted by a downturn in the component product lines. This business sells exclusively through distribution channels, and the distributors have cited excess inventory as the reason for reduced order intake. The decline stabilised in Q4 but we are not expecting any recovery until the second half of 2020. This business had an order decline of 19% at constant currency compared to 2018 but was able to largely maintain the EBIT levels of last year.

Strategy

The industrial lighting market is still estimated to be at low levels of conversion to LED. Cost savings from high-energy efficiency and maintenance along with safety, health, and environmental benefits and regulations are the main drivers of positive adoption. There are still some growth inhibiting factors such as initial cost of investment and industrial technical standards that are slowing full-fledged adoption.

Some of the significant industry trends that will continue to shape the LED lighting industry in the next generation of products are:

- Smaller and denser form factors
- Easier installation methods
- Connected lighting
- Lighting type and quality as an influencer on health and safety

Last year our product roadmap was focused on the EMEA and APAC region. The three products we developed in 2019 represent 40% of the expanded market we have targeted. This year we are ensuring that we have sufficient product development time dedicated to the US market. We are also concentrating on minor product enhancements to improve performance and reduce costs in our existing product lines. These product modifications will help us regain our lost market share in our core market and, by providing enough differentiation between the products, protect against cannibalisation as we enter adjacent markets.

The technology and engineering functions have been merged within Dialight and we have shifted the focus to develop a portfolio of next generation technologies in advance of the next generation of luminaire design. As the market moves to high-energy efficient, lower cost, smaller weight/size and easier to install fixtures, we have centered our technology around achieving these market drivers. The two areas to highlight here relate to power supplies and integrated controls. We are moving our technology to reduce the size of the power supply and enable it to be field programmable, hence reducing the overall size of the luminaire and SKU count of the modules.

We still believe that controls will be a major driver in accelerating market adoption. However, the cost of adding connectivity remains a barrier to adoption. If we can offer a fixture with controls capability that is at a similar price to one without, whilst maintaining our gross margin, then it makes the controls buying decision for the customer irrelevant. They will purchase a fixture that has controls even if they choose not to adopt them immediately. By making our controls field programmable, we can offer that functionality after the installation.

The key to success within the Group's operations is a sustainable supply chain. Our products are complex with a large variety of SKUs and therefore managing the supply chain is not straightforward. The strategic imperative for our supply chain team has been integrated into the New Product Development process so they are able to influence the components used in new products. They are also focused on negotiating key supplier agreements and more actively managing those relationships while ensuring we have no single-sourced components. In terms of execution, the supply chain will be locally sourced around the manufacturing plants with supply chain teams embedded into the factories.

Full year guidance for 2020

Most of our end markets are likely to remain challenging short-term, exacerbated by the possible impacts of the COVID-19 virus. Nonetheless, in 2020 we continue to target a materially improved trading performance, with a strong focus on sales and new product development, and again with an H2 weighting and we expect a significant reduction in our year-end net debt.

Our focus remains on rebuilding customer and distributor confidence and, with our new products, we are confident that we have the foundations in place for modest levels of revenue growth this year. We expect gross margin recovery in 2020 and we are targeting exiting the year at 40% Lighting gross margins. Our target inventory levels for year-end 2020 are £38-£40m, which includes finished goods inventory in the US of £4.0m.

We expect our capital expenditure to be in the region of c£2m together with c£5m of capitalised development costs. We expect net debt to reduce during 2020. The tax rate for the year is expected to be c.26%.

The COVID-19 outbreak is an evolving situation and its potential impacts on supply and demand are hard to assess, c.6% of our supply chain is currently exposed to China. However, there can be no certainty on the outbreaks future impact on our activities; hence, we are taking measures to ensure that we are prepared for all possible eventualities. Should conditions relating to COVID-19 worsen, we have measures at our disposal to reduce the impact on our business including, but not limited to, capex postponement and cost reductions. The potential impact of these have been highlighted in our going concern statement.

The longer-term prospects from the ongoing conversion to industrial LED lighting remain strong and the sustainability benefits to our customers are even more relevant. We remain excited by the Group's prospects over the medium to long term and are confident of delivering further progress.

FINANCIAL REVIEW

The Group has had a year of change following the exit from our outsourced manufacturing contract in Q4 2018, when we brought all final assembly of Lighting back in-house. We used a hybrid-manufacturing model to ensure a rapid and controlled exit from Sanmina, which came at a significant cost to the business.

Group revenue was 11% behind 2018 at £151.0m and was 14% lower on a constant currency basis. This impact was mainly a result of our operational recovery not being fully complete until Q4 2019. This was compounded by a weakening in some of our end-markets. Signals and Components had a poor year as a result of its component lines, which were down by £5.1m in the year.

Gross margin on a statutory basis was 29.0%, which is a reduction of 6.5% on 2018. The reduction in gross margin predominately relates to the additional cost for sub-assembly production at third party vendors as part of the hybrid-manufacturing model. On a proforma unaudited basis gross margins, were in line with the previous year.

The results of the Group can be summarised as follows:

Proforma unaudited operating profit (Proforma unaudited EBIT bridge)	2019 Unaudited £m
Underlying EBIT 2018*	8.0
Impact of revenue reduction	(5.3)
Lower distribution costs	2.0
Lower administrative costs	0.5
Proforma unaudited operating profit (Proforma unaudited EBIT) (see page 28)	**5.2**

*The equivalent measure for 2019 consists of unaudited adjustments and is referred to as proforma unaudited operating profit (see note 13)

The reduction in the Group's proforma unaudited operating profit (Proforma unaudited EBIT) from £8.0m in 2018 to £5.2m in 2019 is due to:

- £5.3m gross margin impact of the revenue reduction, offset by;
- £2.0m reduction in distribution costs due to lower sales commissions and reductions in headcount; and
- £0.5m reduction in administrative expenses due to headcount reduction

Currency impact

Dialight reports its results in GBP. Our major trading currency is the US Dollar, which in 2019 comprised 86% of the Group's revenue (2018: 80%). The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas results into Sterling and this is the major currency exposure. Transactional exposure is where the currency of sales or purchases differ from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk.

The average rate for the US Dollar against Sterling strengthened by 3.8% compared to the prior year, with the rate moving from 1.33 in 2018 to 1.28 in 2019. Based on the current mix of currencies, a 1% movement of the US Dollar relative to Sterling changes revenue by £1.3m and EBIT by £0.1m.

Lighting

The results for Lighting can be summarised as follows:

Lighting	2019 Unaudited £m	2018 Audited £m	Variance
Revenue	**111.5**	125.0	(11%)
Gross profit	**41.5**	47.1	
Gross profit %	**37%**	38%	-100bps
Overheads *	**(34.5)**	(38.6)	+11%
Proforma unaudited operating profit (Proforma unaudited EBIT)	**7.0**	8.5	(18%)

- *Overheads excluding audited non-underlying costs of £6.3m*

The Lighting segment represented 74% (2018: 74%) of the Group's revenue and 62% (2018: 65%) of the Group's proforma unaudited segmental operating profit. Revenues were 11% lower (13% lower at constant currency) compared with the prior year.

Revenue in the US was 9% lower, we did see some early signs of recovery but this has been hampered by the slowdown in the global markets. The uncertainty of the trading relationship between China and the US was a significant headwind for 2019, which resulted in a deferral of orders. During the year, we opened a distribution centre in Tijuana, Mexico, which carries high running variants of finished goods and allows us to fulfil orders for the US within 24 hours. This has helped to recover customer confidence and is a key part of our strategy to support growth in the US market, which comprises 77% of our Lighting revenue.

Revenue in the APAC business was 1% lower with Asia being 73% higher year on year offset by Australia at 18% lower than 2018. The Australian business had a significant number of orders related to the mining sector deferred. Revenue in EMEA was 27% lower year on year and resulted in some significant personnel changes in order to address the problem. We have launched the round Reliant High Bay during the year and the new GRP Linear towards the latter end of the year. These products are aimed at the European and APAC markets and are now made in the new Malaysia facility. In addition, there is a revised sales strategy for EMEA, which is key to generating growth in the region but will take some time to be fully effective.

Proforma unaudited gross margin declined by 100 bps to 37.2%. If we exclude the prior year credit on inventory provisions, the margin was flat year on year. In 2019, we have attributed costs of £10.2m with the use of the hybrid model. Overheads were lower in 2019 with reduced sales commissions and the benefit of redundancies. The overall result was a reduction of £1.5m in the proforma unaudited operating profit (Proforma unaudited EBIT).

Signals and Components

Signals and Components	2019 Unaudited £m	2018 Audited £m	Variance
Revenue	**39.5**	44.6	(11%)
Gross profit	**12.6**	13.2	
Gross profit %	**32%**	30%	+200bps
Overheads	**(8.3)**	(8.7)	5%
EBIT	**4.3**	4.5	(4%)

Signals and Components is a high-volume business operating within highly competitive markets. Revenue was 11% lower year on year (15% at constant currency) with the components market seeing over-supply particularly in H1. We saw some recovery in this business in H2 and there was a 200bps improvement in gross margin as more shared production costs were borne by the Lighting division in Malaysia, which resulted in an EBIT of £4.3m, 4% lower than 2018.

Central overheads

Central overheads comprise of costs not directly attributable to a segment and are therefore unallocated. In 2019, these costs amounted to £6.1m, an increase of £1.1m compared to 2018. The increase relates to significantly increased audit fees, recruitment costs and other professional services.

Non recurring costs

In the assessment of performance of the Group in prior periods, management removed the impact of outsourcing costs. In the current year, we have removed the impact of in-sourcing costs. In the judgement of the Directors, these items are separately disclosed due to the nature and value from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of underlying performance of the Group.

The table below presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

	2019 Unaudited £m	2018 Audited £m
Costs to exit outsource contract		
Costs to move equipment from outsource manufacturer's site	0.9	-
Costs to move inventory from outsource manufacturer's site	3.2	-
Additional costs from using 3rd party vendors to make sub-assemblies and internal ramp up costs	6.1	-
Unaudited costs recorded in cost of sales	**10.2**	-
Non-underlying costs		
Redundancy costs	1.1	-
Loss on disposal of subsidiary	2.5	-
Write-off receivable from outsource manufacturer	2.7	-
Increased pension liability from GMP capitalisation	-	0.4
Non-underlying costs recorded in administrative expenses	**6.3**	0.4
Total non-recurring costs	**16.5**	0.4
Total cash impact	11.8	-

Proforma unaudited costs

The costs of exiting the outsource contract of £10.2m are in line with previous market guidance. We do not expect any further costs in 2020 related to this. These costs arose directly from the decision to exit our outsource manufacturing contract in September 2018. We had to pay £0.9m for the removal of our CNC machines and paint line from the former outsource manufacturer's premises and then transported and re-installed and calibrated at our Tijuana plant. We also incurred costs of £3.2m to move inventory that we purchased from our former outsource manufacturer to our own facilities in Mexico and Malaysia. In addition, the exit resulted in the local supply chain in Malaysia not being in place for Lighting products. We incurred additional costs to airfreight materials in order to ensure production was not impacted.

The exit also resulted in the acquisition of a new facility in Tijuana, Mexico that is used primarily to carry out machining and painting functions. This took most of the year to get to full capacity as we didn't receive our equipment back from the former outsourcer until Q2 and we then had to get it all installed, tested, certified and fully staffed at a cost of £2.1m. These costs of ramping up lasted until the end of Q3. At the same time, using the hybrid model, we were paying smaller third-party vendors to make sub-assemblies. This resulted in higher prices and payments that covered their overheads and profit margin, generating £3.9m of additional costs that have been treated as non-recurring. The total costs of exit of £10.2m are management's best estimate of these costs.

Non-underlying costs

Redundancy costs of £1.1m relate to various initiatives during the year to deal with areas of the business that were not performing well and also to right-size the cost base. The loss on disposal of subsidiary relates to the sale of the Group's Wind business in Denmark in September 2019 and the exit from that operational site. The loss comprised of two elements, £0.8m loss in the year (prior to sale) and £1.7m loss at the point of sale. The business had been in decline for two years following the loss of a major customer. The revenue for this business was £4.4m in 2018 generating a profit of £nil and prior to the sale in 2019, it had revenue of £1.9m and generated a loss of £0.8m.

In the prior year, the charge within administrative expenses related to a one-off increase in pension liabilities arising from Guaranteed Minimum Pension (GMP) equalisation.

Pension costs

The company has two defined benefit pension schemes, both of which are closed to new entrants. The aggregate scheme surplus is £2.3m, an increase of £1.9m in the year. The net surplus has increased due to a combination of the return on plan assets and changes in demographic assumptions, offset by the impact of a reduction in the discount rate. The cash cost in the current year was £0.5m and this will reduce as part of the triennial funding valuation that is in currently in progress.

Tax

There is a tax charge of £3.7m in the year on a loss before tax of £12.5m. The normalised tax rate (tax rate before adjustments) for the Group is 21% in the year and based on a loss, this would generate a tax credit of £2.6m. The bridge from an expected tax credit of £2.6m to a tax charge of £3.7m is as follows:

- the de-recognition of the deferred tax assets on previously recognised losses in the European Lighting business due to poor performance, results in a tax charge of £4.5m. We do not anticipate this business making sufficient taxable profits in the short-term to utilise the losses
- we have not recognised any deferred tax asset on £1.0m of losses in the current year
- there is a non-deductible loss of £0.5m on the disposal of Denmark A/S, the former European Wind business which was sold in September 2019

The cash payment for tax in 2019 was £0.5m (2018: £1.7m).

Inventory

Inventory (excluding spare parts)	2019 Unaudited £m	2018 Audited £m
Raw materials and sub-assemblies	28.5	29.2
Finished goods	17.2	16.8
	45.7	**46.0**

The total movement on inventory (on an actual currency basis) was a reduction of £0.3m year on year. Raw materials and work in progress reduced by £0.7m with £0.6m sold as part of the disposal of our Danish subsidiary. There was an increase of £1.3m related to new products launched by the Group which was offset by a comparable unwind of inventory. Finished goods inventory increased by £0.4m with the main movements being the addition of a distribution centre in Tijuana, Mexico to further improve lead times to the North American market, adding £3.8m to Lighting inventory. At the same time, the new production facility in Malaysia has reduced lead times to APAC and this has lowered Lighting inventory by £2.7m. Our end of February 2020 inventory levels was £3.1m lower than the year-end position.

Cash flow

The Group's net debt position increased by £13.6m in the year from net debt of £2.9m at 31 December 2018 to net debt of £16.5m at 31 December 2019.

The roll forward of net debt is as follows:

Net debt roll forward	£m Unaudited	£m Unaudited
Net debt at 31 December 2018		(2.9)
Inflows		
Proforma unaudited EBITDA	10.1	
Net working capital movement	2.0	12.1
Outflows related to exit from outsource manufacturer		
Logistical cost of exit and premium from 3rd party vendors	(10.2)	
Investment in operating facilities	(6.8)	(17.0)
Other outflows		
Investment in new products	(6.0)	
Redundancy costs and disposal of subsidiary	(1.6)	
Other	(1.1)	
		(8.7)
Net debt at 31 December 2019		(16.5)

There were inflows of operating cash of £12.1m in the year. The most significant was from our proforma unaudited EBITDA of £10.1m from trading when we exclude all costs related to the exit of our former outsource manufacturer. In addition to this, there was a favourable net working capital movement of £2.0m.

There was a small increase in inventory year on year but this includes £3.8m of finished goods that we have added in the US as an investment in our recovery. We have undertaken a detailed review of our inventory and we are satisfied that the obsolescence risk is low. There was a net inflow from receivables and payables as we ensured collections were kept current.

There were outflows of £17.0m related to the exit from our former outsource manufacturer and investment in internal capacity. It cost £4.1m to move equipment and materials because of the exit. It cost a further £6.1m in premiums paid to 3rd party vendors to produce sub-assemblies and internal ramp up costs. In addition, we invested £6.8m in two new operating facilities as a result of the exit.

There were other outflows of £8.7m, which consisted of £6.0m on product development, £1.6m for redundancies and disposal of the loss-making subsidiary in Denmark.

Banking

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group has a multi-currency revolving credit facility with HSBC of £25m. This has been renewed on 25 February 2020 for a further 3 years to February 2023 with the option to add on 2 further years. As part of renewing our bank facility, we have agreed with HSBC that all non-recurring items were added back for covenant calculation purposes measured on a quarterly basis. The Group had net debt of £16.5m at the balance sheet date (2018: net debt £2.9m) and remains fully compliant with its covenant requirements.

We are fully compliant with our banking covenants at 31 December 2019, which are as follows:

Ratio	Calculation	Actual	Threshold
Leverage ratio	Net debt: proforma unaudited EBITDA	1.63x	<3.0x
Interest cover	Proforma unaudited EBITDA: interest expense	16.83x	>4.0x

Capital management and dividend

The Board's policy is to maintain a strong capital base in order to maintain customer, investor and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 31 December 2019, this equated to £67.8m (2018: £85.1m).

The Board is not proposing any final dividend payment for 2019 (2018: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase.

Fariyal Khanbabi

Group Chief Executive

16 March 2020

COVID-19

As a result of the COVID-19 pandemic, the Group has conducted an assessment on the potential financial and operational risks to the business. While the Group is yet to experience any significant impact from the virus, there may be an impact on revenue, supply chain and operating facilities if the situation worsens.

Since the announcement of COVID-19, the Group has monitored the potential impact on the supply chain, with a particular focus on raw material supply. Approximately 6% of our supply chain is directly reliant on Chinese components. However, we are aware there may be a potential for shortages in materials globally.

The Group relies on a large direct labour force in our facilities in Mexico and Malaysia for production and inventory management. Currently, both countries are reporting very few cases of the virus, and therefore at present, our facilities have not seen any significant impact as a result of the virus. The Group has taken action to mitigate the spread of infection at our facilities through enhanced cleaning processes and the provision of hand sanitiser in common areas. As part of the 2020 strategy, the Group has increased the level of finished goods held in our regional distribution centres which will mitigate the risk in the short term against labour shortages and subsequent production delays.

Although we have not seen a reduction in order levels currently, there may be an impact on order intake if the situation worsens. The Group has a duty of care towards all employees, and therefore we expect some of our staff to be required to self-isolate and a lower level of sales visits to take place than anticipated. There is also the potential for some customers to prohibit contractors from entering their sites restricting installations.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	Twelve months ended 31 December 2019 (Unaudited) £'m	Twelve months ended 31 December 2018 (Audited) £'m
Revenue	2	**151.0**	169.6
Cost of sales		**(107.1)**	(109.3)
Gross profit		**43.9**	60.3
Distribution costs		**(27.2)**	(30.4)
Administrative expenses		**(28.0)**	(22.3)
(Loss)/profit from operating activities	2	**(11.3)**	7.6
Financial expense	4	**(1.2)**	(0.2)
(Loss)/profit before tax		**(12.5)**	7.4
Income tax expense	5	**(3.7)**	(2.1)
(Loss)/profit for the period		**(16.2)**	5.3
(Loss)/profit for the period attributable to:			
Equity owners of the Company		**(16.1)**	5.2
Non-controlling Interests		**(0.1)**	0.1
(Loss)/profit for the period		**(16.2)**	5.3
(Loss)/earnings per share			
Basic	6	**(49.8)p**	16.4p
Diluted	6	**(49.8)p**	16.1p

Alternative Performance Measures – Operating (loss)/profit and proforma unaudited operating profit			
Statutory (loss)/profit from operating activities		**(11.3)**	7.6
Non-underlying items			
Redundancy costs	3	**1.1**	-
Loss incurred on disposal of business	3	**2.5**	-
Write-off of receivables from outsource manufacturer	3	**2.7**	-
Increase in pension liability for GMP equalisation	3	**-**	0.4
Operating (loss)/profit		**(5.0)**	8.0
Proforma unaudited adjustments			
Costs to move equipment from outsource manufacturer's site	3	**0.9**	-
Costs to move inventory from outsource manufacturer's site	3	**3.2**	-
Additional costs from using 3rd party vendors to manufacture sub-assemblies and internal ramp-up costs	3	**6.1**	-
Proforma unaudited operating profit		**5.2**	8.0
Proforma unaudited earnings per share			
Basic	6	**5.8p**	17.3p
Diluted	6	**5.8p**	17.0p

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 Unaudited £'m	2018 Audited £'m
Other comprehensive (expense)/ income		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**(2.6)**	4.2
Income tax on exchange difference on translation of foreign operations	**(0.1)**	(0.3)
	(2.7)	3.9
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of defined benefit pension liability	**1.6**	(0.6)
Income tax on remeasurement of defined benefit pension liability	**(0.3)**	0.1
	1.3	(0.5)
Other comprehensive (expense)/income for the year, net of tax	**(1.4)**	3.4
(Loss)/profit for the year	**(16.2)**	5.3
Total comprehensive (expense)/ income for the period	**(17.6)**	8.7
Attributable to:		
- Owners of the parent	**(17.5)**	8.6
- Non-controlling interest	**(0.1)**	0.1
Total comprehensive (expense)/ income for the period	**(17.6)**	8.7

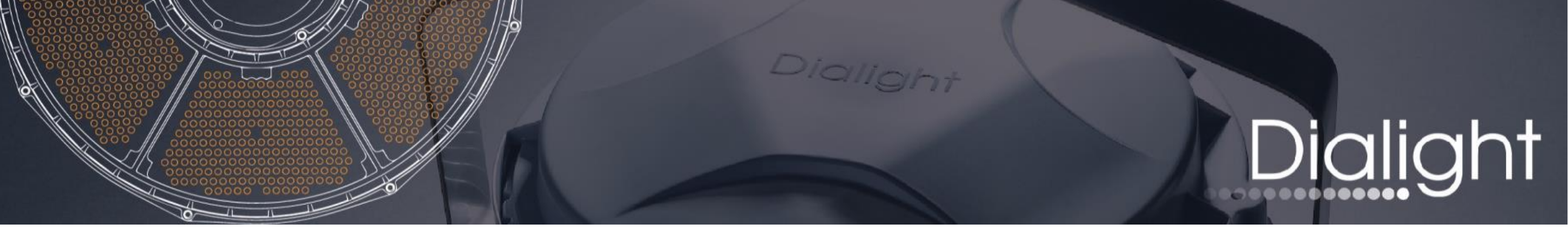
The accompanying Notes are extracted from the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Unaudited)

	Share capital	Merger reserve	Translation reserve	Capital redemption reserve	Retained earnings	**Total**	Non-controlling interests	**Total Equity**
	£'m	£'m	£'m	£'m	£'m	**£'m**	£'m	**£'m**
Balance at 1 January 2019	0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**
Loss for the year	-	-	-	-	(16.1)	**(16.1)**	(0.1)	**(16.2)**
Other comprehensive (expense)/income:								
Foreign exchange translation differences, net of taxes	-	-	(2.7)	-	-	**(2.7)**	-	**(2.7)**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	1.3	**1.3**	-	**1.3**
Total other comprehensive (expense)/income	-	-	(2.7)	-	1.3	**(1.4)**	-	**(1.4)**
Total comprehensive expense for the period	-	-	(2.7)	-	(14.8)	**(17.5)**	(0.1)	**(17.6)**
Transfer of merger reserve	-	(0.9)	-	-	0.9	**-**	-	**-**
Transactions with owners, recorded directly in equity:								
Share-based payments	-	-	-	-	0.3	**0.3**	-	**0.3**
Total transactions with owners	-	-	-	-	0.3	**0.3**	-	**0.3**
Balance at 31 December 2019	0.6	0.5	11.6	2.2	52.5	**67.5**	0.3	**67.8**

	Share capital	Merger reserve	Translation reserve	Capital redemption reserve	Retained earnings	**Total**	Non-controlling interests	**Total Equity**
	£'m	£'m	£'m	£'m	£'m	**£'m**	£'m	**£'m**
Balance at 1 January 2018	0.6	1.4	10.4	2.2	61.2	**75.8**	0.3	**76.1**
Profit for the year	-	-	-	-	5.2	**5.2**	0.1	**5.3**
Other comprehensive income/(expense):								
Foreign exchange translation differences, net of taxes	-	-	3.9	-	-	**3.9**	-	**3.9**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	(0.5)	**(0.5)**	-	**(0.5)**
Total other comprehensive income/(expense)	-	-	3.9	-	(0.5)	**3.4**	-	**3.4**
Total comprehensive income for the period	-	-	3.9	-	4.7	**8.6**	0.1	**8.7**
Transactions with owners, recorded directly in equity:								
Share–based payments	-	-	-	-	0.3	**0.3**	-	**0.3**
Total transactions with owners	-	-	-	-	0.3	**0.3**	-	**0.3**
Balance at 31 December 2018	0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**



CONDENSED CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

As at 31 December 2019

	2019 Unaudited £'m	2018 Audited £'m
Assets		
Property, plant and equipment	**15.6**	14.7
Right of use assets	**12.2**	-
Intangible assets	**21.3**	16.5
Deferred tax asset	**1.7**	5.3
Employee Benefits	**2.3**	0.4
Other Receivables	**4.7**	0.2
Total non-current assets	**57.8**	37.1
Inventories	**45.7**	46.0
Inventories – spare parts	**0.4**	0.1
Trade and other receivables	**23.8**	36.7
Income tax recoverable	**1.1**	1.2
Cash and cash equivalents	**0.5**	2.2
Total current assets	**71.5**	86.2
Total assets	**129.3**	123.3
Liabilities		
Trade and other payables	**(28.4)**	(30.0)
Provisions	**(0.9)**	(1.0)
Tax liabilities	**(1.5)**	(1.6)
Lease liabilities	**(1.6)**	-
Total current liabilities	**(32.4)**	(32.6)
Provisions	**(1.4)**	(0.5)
Borrowings	**(17.0)**	(5.1)
Lease liabilities	**(10.7)**	-
Total non-current liabilities	**(29.1)**	(5.6)
Total liabilities	**(61.5)**	(38.2)
Net assets	**67.8**	85.1
Equity		
Issued share capital	**0.6**	0.6
Merger reserve	**0.5**	1.4
Other reserves	**13.8**	16.5
Retained earnings	**52.6**	66.2
	67.5	84.7
Non-controlling interests	**0.3**	0.4
Total equity	**67.8**	85.1

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 Unaudited £'m	2018 Audited £'m
Operating activities		
(Loss)/profit for the period	**(16.2)**	5.3
Adjustments for:		
Financial expense	**1.2**	0.2
Income tax expense	**3.7**	2.1
Share-based payments	**0.3**	0.3
Depreciation of property, plant and equipment	**2.6**	3.1
Depreciation of right of use assets	**1.7**	-
Amortisation of intangible assets	**2.0**	1.5
Loss on disposal of property, plant and equipment	**0.1**	-
Loss on disposal of business	**1.7**	-
Pension charge for GMP equalisation	**-**	0.4
Operating cash flow before movements in working capital	**(2.9)**	12.9
Increase in inventories	**(1.9)**	(19.6)
Decrease/(increase) in trade and other receivables	**8.8**	(1.2)
(Decrease)/increase in trade and other payables	**(0.3)**	1.8
Increase/(decrease) in provisions	**0.4**	(0.8)
Pension contributions in excess of the income statement charge	**(0.5)**	(0.5)
Cash generated by/(used in) operations	**3.6**	(7.4)
Income taxes paid	**(0.6)**	(1.7)
Interest paid[2]	**(1.1)**	(0.2)
Net cash generated by/ (used in) operating activities	**1.9**	(9.3)
Investing activities		
Capital expenditure	**(6.8)**	(3.1)
Capitalised expenditure on development	**(6.0)**	(3.3)
Purchase of software and licenses	**(0.3)**	-
Disposal of business	**(0.5)**	-
Net cash used in investing activities	**(13.6)**	(6.4)
Financing activities		
Drawdown of bank facility	**11.9**	5.1
Repayment of lease liabilities[1]	**(1.8)**	-
Net cash generated from financing activities	**10.1**	5.1
Net decrease in cash and cash equivalents	**(1.6)**	(10.6)
Cash and cash equivalents at beginning of year	**2.2**	12.8
Effect of exchange rates on cash held	**(0.1)**	-
Cash and cash equivalents at end of year	**0.5**	2.2

Following the adoption of IFRS 16 from 1 January 2019, the Group has classified:

1. cash payments for the principal portion of lease payments as financing activities;
2. cash payments for the interest portion of lease payments as operating activities consistent with the presentation of interest payments chosen by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Unaudited)

1. Basis of preparation and principal accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019. The financial information for 2018 is derived from the statutory accounts for 2018 which have been delivered to the registrar of companies. The auditor has reported on the 2018 accounts; their report was (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. The statutory accounts for 2019 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement, is expected to include a key audit matter emphasising a material uncertainty related to going concern as referred to below and will be delivered to the registrar of companies in due course.

(b) Consolidated basis of preparation

The financial statements have been prepared on the going concern basis.

In the year ended 31 December 2019 the Group recorded an operating loss for the year of £11.3m. This has been principally as a result of the termination of the outsourcing arrangements with Sanmina. The Group has now brought all production back in house and is focused on building sales momentum. In addition, the Group has recently renewed its banking facilities with HSBC of £25m until February 2023. As part of renewing our bank facility, we have agreed with HSBC that all non-recurring items were added back for covenant calculation purposes. The covenants are tested quarterly and are as follows:

Ratio	Calculation	Threshold
Leverage ratio	Net debt: proforma unaudited EBITDA	<3.0x
Interest cover	Proforma unaudited EBITDA: interest expense	>4.0x

In assessing the going concern assumptions, the Board has undertaken a rigorous assessment of the forecast outturns and assessed identified downside risks and mitigating actions. The downside risks include a number of severe but plausible scenarios incorporating underperformance against the business plan, execution risk, unexpected cash outflows and customer attrition.

The broader political and economic uncertainty coupled with the potential future impact on the Group of the recent COVID-19 outbreak has been factored into the scenarios considered as part of the Group's adoption of the going concern basis. The Group has also considered what mitigating actions are available to it in the event that such downside scenarios arise. The Group believes that it has sufficient mitigating actions available to it that it could address almost all such downside scenarios. Under these severe but plausible scenarios there is a risk of breaching the Group's financial covenants, unless a waiver agreement is reached with the lender within the going concern period.

The above situation gives rise to a material uncertainty, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and in such circumstances, it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. Reflecting the Board's confidence, the Group therefore continues to adopt the going concern basis in preparing its financial statements.

1.Basis of preparation and principal accounting policies (continued)

(c) 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 these consolidated financial statements are as follows:

Significant judgements

Termination of outsource manufacturing agreement

We have sought to reach a negotiated conclusion on various outstanding matters following the termination of the manufacturing services agreement with our former outsourced manufacturing partner, Sanmina Corporation. On Friday, 20th December 2019, both parties issued legal proceedings against the other, with Sanmina claiming up to £8m against Dialight and Dialight counter claiming up to £190m against Sanmina. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and residual inventory they allege they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. Existing GAAP precludes us from holding accounts receivable balances that relate to this claim so they have been impaired. However, this has no impact on the legal claim. In the unlikely event that Sanmina's claim is successful, the range of outcomes could be £0 - £8m. Management have assessed the claim in conjunction with external legal advice and the judgement is that we are confident of the merits of our legal position. Therefore, the matter is disclosed as a contingent liability.

Significant estimates

Inventory reserve

The overall level of inventory in the Group has remained static year on year but as part of the preparation for exit of the outsource contract, it had increased in H2-18 when we purchased an excess of Lighting raw materials and sub components that have been unwinding during 2019. We were selective in the inventory purchased and all materials were inspected when received, to ensure they were in good condition. Although we have more inventory than we would like, it is all usable in current products that are being sold. In previous years, the Lighting inventory reserve was calculated based on the ageing of inventory with all items greater than 12 months being reserved. As a result of the strategic decision to purchase additional inventory, using the prior year ageing policy would have resulted in a charge that would not have been representative of potential obsolescence. Therefore, the Group revised the basis of estimate for reserving raw materials and sub components so that these are now only reserved after 24 months. The revision did not result in a release in excess provision from the prior year. In addition to the ageing basis, inventory is reviewed regularly by operational and financial management to ensure that it is usable. Estimation is applied to the expected usage of individual parts.

The inventory reserve at 31 December 2018 was £4.7m (9.3% of inventory) and £2.5m of this was utilised in 2019 when we disposed of old, fully-reserved inventory, and £0.3m was removed as part of the sale of Dialight A/S. The inventory reserve at 31 December 2019 is £2.1m, which represents 4.4% of gross inventory. If the reserve remained at 9.3% of inventory, the 2019 reserve would be £4.7m.

Development and patent costs

The Group capitalises development costs and patent costs provided they meet all criteria in the respective accounting policy. Costs are only capitalised when management apply judgement that they are satisfied as to the ultimate commercial viability of the projects based on review of the relevant business case. The capitalised costs are amortised over the expected useful economic life, which is determined based on the reasonable commercial prospects of the product and a comparison to similar products being sold by the Group.

1.Basis of preparation and principal accounting policies (continued)

The Group has £11.8m (2018: £6.5m) of development and patent costs that relate to the current product portfolio and new products expected to launch in 2020. Management have reviewed all of these for impairment using the expected revenues from the Board approved 3-year plan to complete a value in use calculation on a product-by-product basis giving a total headroom of £294m and their judgement is that that there is no impairment. The total impact on headroom from the sensitivities that we have run is as follows; a 10% reduction in revenue would reduce headroom to £267m, a 10% reduction in margin would reduce headroom to £217m, an increase in WACC of 1% would reduce headroom to £287m, the combined impact of all three would be a reduction in headroom to £193m.

Inventory - absorbed overhead costs

The valuation of inventory, requires the use of judgement in the amount of costs to be absorbed into inventory valuation. There are two elements of cost over which this judgement is applied:

Firstly, in relation to the amount of production overheads that are included in the inventory valuation. The pools of cost related to production comprise labour and direct overheads attributable to the production process. They are assessed to ensure that costs not related to production are excluded. We use the weighted average inventory turns calculated by comparing the level of inventory on hand with the amount of production by month. This gives the number of days of overhead that should be absorbed in inventory. Management uses their judgement in the assessment of the calculation and in the current year made allowance for the in-sourcing of a significant element of sub component production by changing the weighting applied to be based on the number of sub components used. This changed the number of days from 70 days in the prior year (when 80% of sub components were made externally) to 93 days in the current year (when 90% of sub components are made internally) due to in-sourcing. The value of directly attributable costs over which judgement was exercised was £6.3m (2018: £5.2m) and this represents 14% (2018: 11%) of the inventory value. For every day that the estimate of the days used for the overhead absorbed changes, it changes the calculation by £63k.

Secondly, in relation to the amount of freight costs that are included in the inventory valuation. The costs represent transportation costs for raw materials and the labour cost of the buyers placing the orders. The cost is absorbed into inventory by comparing the level of inventory on hand with the amount of material costs in the cost of sales. This gives the number of days of freight costs that are capitalised. Costs of transporting finished goods to distribution centres on a global basis are included in the inventory valuation until the associated finished goods have been sold outside the Group. The value of freight costs over which judgement was exercised was £2.4m (2018 £2.2m) and this represents 5% (2018: 4%) of the inventory value. For every day that the estimate of the days used for the freight costs absorbed changes, it changes the calculation by £17k.

(d) Adoption of new and revised standard/ interpretations and amendments

A number of new standards and amendments to the standards, with an effective date of 1 January 2019, have been adopted but have no material impact on the Group. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRC 4. The impact of IFRS 16 is a right of use asset of £12.2m has been created and a lease liability of £12.3m, a dilapidation reserve of £0.3m resulting in a profit after tax impact of £0.4m.

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 Officer.

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 & Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components and highly-efficient LED signaling solutions for the traffic and signals markets.

There is no inter–segment revenue and there are no individual customers that represent more than 10% of 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 includes share-based payments.

Segmental assets and liabilities are not reported internally and are therefore not presented below.

Reportable segments

2019 (Unaudited)	Lighting	Signals and Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	111.5	39.5	-	151.0
Statutory gross profit	31.3	12.6	-	43.9
Unaudited non-recurring costs	10.2	-	-	10.2
Proforma unaudited gross profit	41.5	12.6	-	54.1
Overhead costs*	(34.5)	(8.3)	(6.1)	(48.9)
Proforma unaudited operating profit/(loss)	7.0	4.3	(6.1)	5.2
Audited non-recurring costs	(6.3)	-	-	(6.3)
Unaudited non-recurring costs	(10.2)	-	-	(10.2)
Statutory (loss)/profit from operating activities	(9.5)	4.3	(6.1)	(11.3)
Financing expense				(1.2)
Loss before tax				(12.5)
Income tax expense				(3.7)
Loss after tax				(16.2)

- *Overheads excluding audited non-underlying costs of £6.3m*

2. Operating segments (continued)

2018 (Audited)	Lighting	Signals and Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	125.0	44.6	-	169.6
Gross Profit	47.1	13.2	–	60.3
Overhead costs	(38.6)	(8.7)	(5.0)	(52.3)
Underlying operating profit	8.5	4.5	(5.0)	8.0
Increase in pension liability for GMP equalisation	–	–	(0.4)	(0.4)
Statutory profit from operating activities	8.5	4.5	(5.4)	7.6
Financing expense				(0.2)
Profit before tax				7.4
Income tax expense				(2.1)
Profit after tax				5.3

Other segmental data

	Lighting	Signal & components	Total	Lighting	Signals & components	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	£'m	£'m	£'m	£'m	£'m	£'m
Depreciation of property, plant and equipment	1.9	0.7	2.6	2.3	0.8	3.1
Depreciation of right of use assets	1.3	0.4	1.7	-	-	-
Amortisation	1.5	0.5	2.0	1.1	0.4	1.5

There were no impairment losses on tangible or intangible assets or write–downs in the current or prior year.

Geographical segments

The Lighting, Signals and Components segments are managed on a worldwide basis, but operate in three principal geographic areas, North America, EMEA 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 sale of goods.

Sales revenue by geographical market

	2019 Unaudited £'m	2018 Audited £'m
North America	117.8	124.1
EMEA	12.6	20.3
Rest of World	20.6	25.2
	151.0	169.6

3. Non–recurring costs

In the assessment of performance of the Group in prior periods, management removed the impact of outsourcing costs. In the current year, we have removed the impact of in-sourcing costs. In the judgement of the Directors, these items are separately disclosed due to the nature and value from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of underlying performance of the Group. The table below presents the components of non–underlying profit or loss recorded within cost of sales and administrative expenses.

	2019 Unaudited £'m	2018 Audited £'m
Non-underlying costs:		
Redundancy costs	**1.1**	-
Loss on disposal of subsidiary	**2.5**	-
Write-off receivable from outsource manufacturer	**2.7**	-
Increased pension liability from GMP capitalisation	**-**	0.4
Non-underlying costs recorded in administrative expenses	**6.3**	0.4
Proforma unaudited costs		
Costs to move equipment from outsource manufacturer's site	**0.9**	–
Costs to move inventory from outsource manufacturer's site	**3.2**	–
Additional costs from using 3rd party vendors to make sub–assemblies and internal ramp up costs	**6.1**	–
Unaudited costs recorded in cost of sales	**10.2**	–
Total non-recurring costs	**16.5**	0.4
Total cash impact	**11.8**	-

Non–underlying costs

Redundancy costs of £1.1m relate to various initiatives during the year to deal with areas of the business that were not performing well and also to right-size the cost base. The loss on disposal of subsidiary relates to the sale of the Group's Wind business in Denmark in September 2019 and the exit from that operational site. The loss comprised of two elements, £0.8m loss in the year (prior to sale) and £1.7m loss at the point of sale. The business had been in decline for two years following the loss of a major customer. The revenue for this business was £4.4m in 2018 with a profit of £nil, and in the period of ownership in 2019, it had revenue of £1.9m and generated a loss of £0.8m. The net assets and the net loss on disposal of Dialight A/S were as follows:

	2019 Unaudited £'m
Property, plant and equipment	**0.1**
Current assets	**1.3**
Current liabilities	**(0.7)**
Net assets of the business disposed of	**0.7**
Loss on disposal of the business	**(1.7)**
Total consideration paid	**(1.0)**
Satisfied by:	
Cash received	**0.1**
Disposal costs paid	**(0.6)**
Net cash paid	**(0.5)**
Provision for warranties	**(0.4)**
Accrued disposal costs	**(0.1)**
Total consideration paid	**(1.0)**

3. Non-recurring costs (continued)

We have impaired accounts receivable with our former outsource manufacturer as existing GAAP precludes us from holding these receivables on the balance sheet. However, this has no impact on validity of these as part of our legal claim.

In the prior year, the charge within administrative expenses related to a one-off increase in pension liabilities arising from Guaranteed Minimum Pension (GMP) equalisation.

Proforma unaudited costs

There were costs in 2019 that arose directly from the decision to exit our outsource manufacturing contract in September 2018. We had to pay £0.9m for the removal of our CNC machines and paint line from the former outsource manufacturer's premises and then transport them and have them re-installed and calibrated at our Tijuana plant. There were no equivalent costs in the prior year.

We also incurred costs of £3.2m to move inventory that we purchased from our former outsource manufacturer and transport it to our own facilities in Mexico and Malaysia. In addition, the exit resulted in the local supply chain in Malaysia not being in place for Lighting products and we incurred additional expense to airfreight materials in order to ensure production was not impacted.

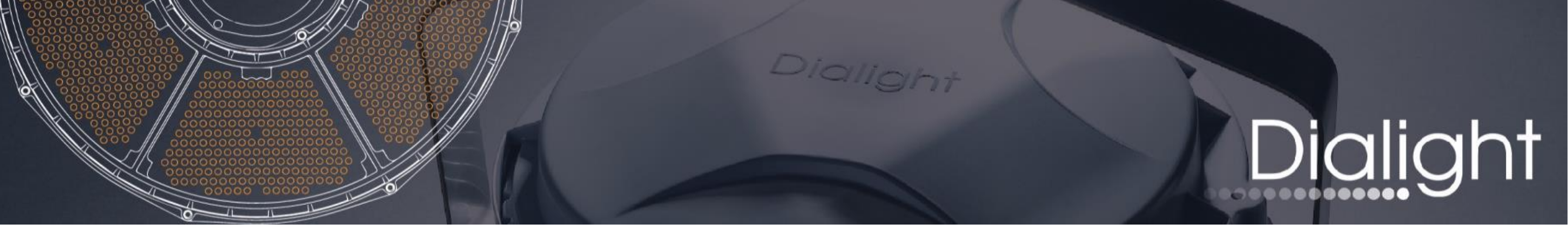
The exit also resulted in the acquisition of a new facility in Tijuana, Mexico that is used primarily to carry out machining and painting functions. It took most of the year to get this facility to full capacity as we didn't receive our equipment back from the outsourcer until Q2 and we then had to get it all installed, tested, certified and fully staffed at a cost of £2.2m. These costs of ramping up lasted until the end of Q3. Whilst we ramped up our own facility, we were paying smaller third-party vendors to make sub-assemblies. This resulted in higher prices and payments that covered their overheads and profit margin. We have calculated the additional costs relating to this at £3.9m and treated this as non-recurring.

The costs of exit of £10.2m are management's best estimate of the costs. Due to their subjective nature and their similarity to standard manufacturing processes, it is difficult to audit them so we are presenting them as proforma unaudited costs.

4. Net financing expense

Recognised in profit and loss

	2019 Unaudited £'m	2018 Audited £'m
Net interest on defined benefit liability	**0.1**	–
Interest expense on financial liabilities other than lease liabilities	**0.5**	0.2
Interest expense on lease liabilities	**0.6**	–
Net financing expense	**1.2**	0.2



5. Tax charge

	2019 Unaudited £'m	2018 Audited £'m
Current tax expense		
Current year	**0.6**	2.1
Adjustment for prior years	**(0.1)**	0.2
	0.5	2.3
Deferred tax expense		
Origination and reversal of temporary differences	**(0.9)**	(0.4)
Adjustment for prior years	**(0.4)**	0.1
Reduction in tax rate	**–**	0.1
De-recognition of deferred tax assets in respect of European losses	**4.5**	–
	3.2	(0.2)
Total tax charge	**3.7**	2.1

Reconciliation of effective tax rate

	2019 Unaudited %	2019 Unaudited £'m	2018 Audited %	2018 Audited £'m
(Loss)/profit for the year		**(16.2)**		5.3
Total income tax charge		**3.7**		2.1
(Loss)/profit before income tax		**(12.5)**		7.4
Income tax using the UK corporation tax rate	**(19.0)**	**(2.4)**	19.0	1.4
Non–deductible loss on disposal of a business	**4.0**	**0.5**	–	–
Effect of tax rates in foreign jurisdictions	**-**	**-**	5.8	0.4
Increase in tax rate	**-**	**-**	0.9	0.1
Non-deductible expenses	**1.6**	**0.2**	-	-
Current year losses for which no deferred tax is recognised	**8.0**	**1.0**	-	-
De-recognition of deferred tax previously recognised	**35.9**	**4.5**	-	-
Adjustment for prior years	**(4.0)**	**(0.5)**	3.9	0.3
Research and development credits	**(0.8)**	**(0.1)**	(2.0)	(0.2)
Recovery of foreign taxes suffered	**3.9**	**0.5**	-	-
Other adjustments	**-**	**-**	0.8	0.1
	29.6	**3.7**	28.4	2.1

The effective tax rate for the year is 29.6% compared with 28.4% in the prior year and compared with the standard rate of 19.0% (2018: 19.25%) in the UK.

The normalised tax rate for the Group in the year is 21.0% (tax rate before adjustments), and based on a pre-tax loss of £12.5m this would generate a tax credit of £2.6m. However, in the year there is a tax charge of 29.6%. The difference of 48.6% is due to the following factors:

- The de-recognition of the deferred tax assets on previously recognised losses in the European Lighting business, resulting in a tax charge of £4.5m (charge of 35.9%). We do not anticipate this business making sufficient taxable profits in the short-term to utilise the losses;
- The non-recognition of any deferred tax asset on £1.0m of losses arising in the current year (charge of 8%);

5. Tax charge (continued)

- A non-deductible loss of £0.5m (charge of 4.0%) on disposal of Denmark A/S, the former European Wind business which was sold in September 2019; and

Tax recognised directly in equity

	2019 Unaudited £'m	2018 Audited £'m
Employee benefits	**0.3**	(0.3)
Other	**0.1**	0.1

Current tax

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation. Set out below are details in respect of the significant jurisdictions where the Group operates and the factors that influenced the current and deferred taxation in those jurisdictions.

UK

The UK companies are subject to a corporate tax rate of 19.0% (2018: 19.25%). No UK corporation tax rate reductions have been announced. There are no UK timing differences recognised at 31 December 2019.

US

The majority of the Group's profits arise in the US where the corporation tax rate is 21% (2018: 21%).

6. (Loss)/earnings per share

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share ("EPS") at 31 December 2019 was based on a loss for the year of £16.2m (2018: profit £5.3m) and the weighted average number of ordinary shares outstanding during the year of 32,536,701 (2018: 32,527,708).

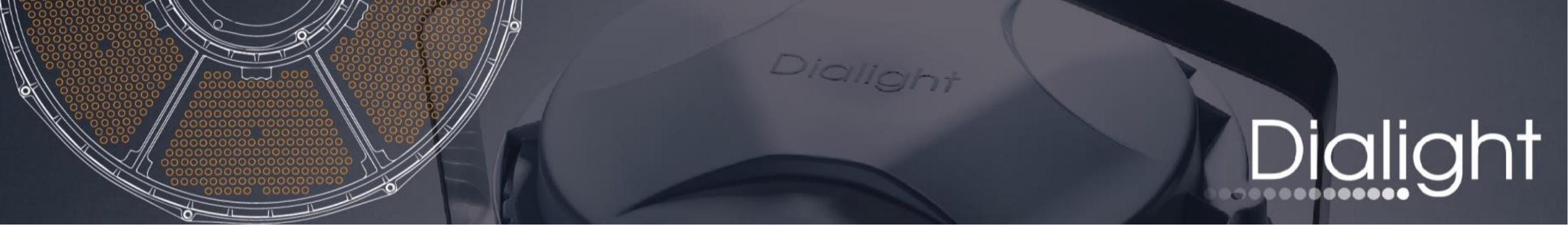
Diluted (loss)/earnings per share

The calculation of diluted EPS at 31 December 2019 was based on a loss for the year of £16.2m (2018: profit £5.3m) and the weighted average number of ordinary shares outstanding during the year of 32,536,701 (2018: 33,006,459) was calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 Unaudited Number '000	2018 Audited Number '000
Weighted average number of ordinary shares	**32,537**	32,528
Effect of share options in issue	**–**	479
Weighted average number of shares (diluted)	**32,537**	33,007

	2019 Unaudited Per share	2018 Audited Per share
Basic (loss)/earnings	**(49.8)p**	16.4p
Diluted (loss)/earnings	**(49.8)p**	16.1p



6. (Loss)/earnings per share (continued)

Basic proforma unaudited earnings per share

The calculation of basic pro forma unaudited earnings per share at 31 December 2019 was based on a profit for the year of £1.9m (2018: profit £5.7m) – see below – and the weighted average number of ordinary shares outstanding during the year of 32,536,701 (2018: 32,527,708).

Diluted proforma unaudited earnings per share

The calculation of diluted pro forma unaudited earnings per share at 31 December 2019 was based on a profit for the year of £1.9m (2018: profit £5.7m) and the weighted average number of ordinary shares outstanding during the year of 32,619,806 (2018: 33,006,459).

Proforma unaudited earnings

	2019 Unaudited £'m	2018 Audited £'m
Proforma unaudited operating profit	**5.2**	8.0
Financial expense	**(1.2)**	(0.2)
Proforma unaudited profit before tax	**4.0**	7.8
Tax charge on proforma unaudited profit before tax	**(2.1)**	(2.1)
Proforma unaudited profit for the year	**1.9**	5.7

Weighted average number of ordinary shares (diluted)

	2019 Unaudited Number '000	2018 Audited Number '000
Weighted average number of ordinary shares	**32,537**	32,528
Effect of share options in issue	**83**	479
Weighted average number of shares (diluted)	**32,620**	33,007

	2019 Per share	2018 Per share
Basic proforma unaudited earnings	**5.8p**	17.3p
Diluted proforma unaudited earnings	**5.8p**	17.0p

7. Provisions

	Warranty £'m	**Lease-restoration £'m**	**Total £'m**
Balance at 1 January 2019	**1.5**	**-**	**1.5**
Lease restoration cost in respect of right of use assets recognised at 1 January 2019 on adoption of IFRS 16	**-**	**0.1**	**0.1**
Provisions made during the year	**2.2**	**0.2**	**2.4**
Provisions used during the year	**(1.6)**	**-**	**(1.6)**
Provision not required	**(0.1)**	**-**	**(0.1)**
Balance at 31 December 2019 (unaudited)	**2.0**	**0.3**	**2.3**

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.

7. Provisions (continued)

The table below provides a breakdown of the provisions into their short–term and long–term portions:

	2019 Unaudited £'m	2018 Audited £'m
Due within one year	**0.9**	1.0
Due within one and five years	**1.2**	0.5
Due after five years	**0.2**	-
	2.3	1.5

8. Dividends

There were no dividends declared or paid in the 12 months ended 31 December 2019.

9. Cash and cash equivalents

	2019 Unaudited £'m	2018 Audited £'m
Cash and cash equivalents	**0.5**	2.2

10. Borrowings

On 25 February 2020 the Group renewed its revolving credit facility with HSBC for a further 3 years to February 2023, with the option to extend for an additional 2 years. The covenants attached to the facility relate to net debt to EBITDA ratio and interest cover. As part of renewing our bank facility, we have agreed with HSBC that all non-recurring items were added back for covenant calculation purposes. Net debt is defined for covenant purposes as excluding the impact of IFRS 16 leases. During the year and subsequently, the Group has operated within those covenants.

11. Principal exchange rates

	2019 Unaudited Average rate	2019 Unaudited At balance sheet date	2018 Audited Average rate	2018 Audited At balance sheet date
US dollar	**1.28**	**1.32**	1.33	1.27
Euro	**1.14**	**1.18**	1.13	1.11
Canadian dollar	**1.69**	**1.72**	1.73	1.74
Mexican Peso	**24.56**	**24.93**	25.63	25.02

12. Related party transactions

The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries has been eliminated on consolidation.

13. Reconciliation to non-GAAP performance measures

	2019 Unaudited £'m	2018 Audited £'m
(Loss)/profit from operating activities	**(11.3)**	7.6
Non-recurring costs (see note 3)	**16.5**	0.4
Proforma unaudited operating profit (EBIT)	**5.2**	8.0
(Loss)/profit from operating activities	**(11.3)**	7.6
Non–recurring costs (see note 3)	**16.5**	0.4
Depreciation of property, plant and equipment	**2.6**	3.1
Amortisation of intangible assets	**2.0**	1.5
Share based payments	**0.3**	0.3
Proforma unaudited EBITDA	**10.1**	12.9
(Loss)/profit from operating activities	**(11.3)**	7.6
Non-recurring costs (see note 3)	**16.5**	0.4
Depreciation of property, plant and equipment	**2.6**	3.1
Amortisation of intangible assets	**2.0**	1.5
Share based payments	**0.3**	0.3
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	**6.6**	(19.0)
Proforma unaudited operating cashflow	**16.7**	(6.1)

Lighting segment

	2019 Unaudited £'m	2018 Audited £'m
Revenue	**111.5**	125.0
Statutory gross profit	**31.3**	47.1
Unaudited non-recurring costs	**10.2**	-
Proforma unaudited gross profit	**41.5**	47.1
Proforma unaudited gross profit %	***37.2%***	*37.7%*
Overheads	**(34.5)**	(38.6)
Proforma unaudited operating profit	**7.0**	8.5

14. Contingencies

As previously reported, we have sought to reach a negotiated conclusion of various outstanding matters following the termination of the manufacturing services agreement with our former outsource manufacturer, Sanmina Corporation. On Friday, 20th December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before 2021. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and to residual inventory, which they allege that they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. The Group has sought external legal advice and is confident of the merits of its legal position, however in the unlikely event, that Sanmina's claim is successful, the range of outcomes could be £0 - £8m.

The claim filed by Dialight alleges that Dialight suffered significant costs and losses with total damages exceeding £190m suffered as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into a manufacturing

14. Contingencies (continued)

services agreement (MSA); (b) Sanmina breaching the terms of the MSA in a willful and/or grossly negligent manner (for example in respect of their failure to appropriately manage supply chain and inventory levels and to deliver product on time and free of workmanship defects); and, (c) Sanmina's gross negligence and/or willful misconduct.

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within pension asset. As part of the negotiations regarding closure, the Company agreed to grant a parent company guarantee in respect of all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of Dialight Europe Limited, the principal employer, to make payments in the Scheme up to a maximum amount equal to the entire aggregate liability, on the date on which any liability under the guarantee arises, of every employer (within the meaning set out in Section 318 of the Pensions Act 2004 and regulations made thereunder) in relation to the

Scheme, were a debt under Section 75(2) of the Pensions Act 1995 to have become due on that date. No provision has been made in relation to this contingency.

The Group operates in certain jurisdictions that are unstable or have changing political conditions, giving rise to occasional uncertainty over the tax treatment of items of income and expense. In addition, from time to time certain tax positions taken by the Group are challenged by the relevant tax authorities, which carry a financial risk as to the final outcome. The Directors have considered the potential impact arising from these uncertainties and risks, on the Group's tax assets and liabilities, both recognised and unrecognised, and believe that they are not material to the Financial Statements.

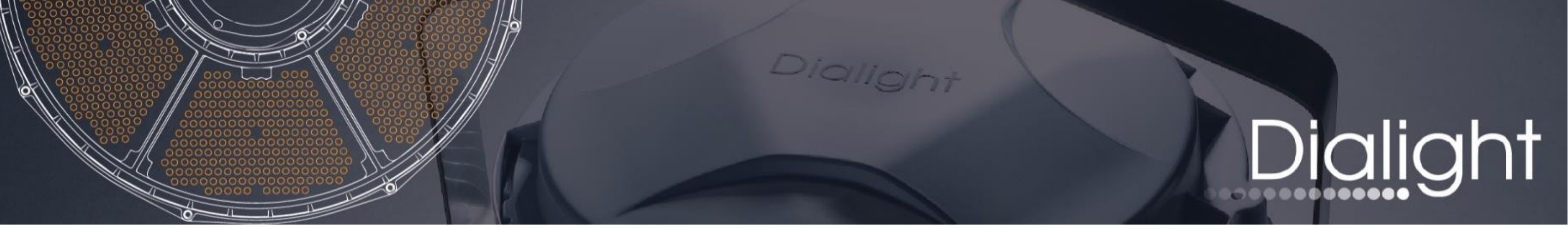
The Group has received two claims from former employees in France and, whilst recognising the inherent risks of employee-related litigation in France, the Directors believe that these two claims are without merit and will be robustly defended, and are not considered likely to result in any material outflow of funds from the Group.

15. Principal and emerging 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.

- **Production capacity & supply chain** – The procurement planning process is dependent on the accuracy of sales forecast to ensure adequacy of component supply. The Group needs to maintain a robust supply chain. Production capacity needs to be sufficient to ensure current orders can be fulfilled in a timely manner. There are risks to production capacity by having concentration of production in a single location for the manufacture of Lighting products.
- **IT systems** – The Group uses IT systems to operate and control its businesses: any disruption would lead to an adverse impact on the business. The Group also needs to ensure the protection and integrity of its data.
- **Geo-political conditions & macro-economic impact** – The Group's main manufacturing plants are in Mexico and its main market is in North America. Whilst competitors may experience tariff impacts on goods imported from China to the US, there may be some impact on our supply chain for components and on the wider economic climate. The Group has limited operations in countries with unstable political climates. Raised levels of global political and economic uncertainty may impact our major markets. Disruption to global markets and transport systems arising from geological, biological (in particular the COVID-19 risk), economic and/or political events may impact the Group's ability to operate and demand for its products.
- **Succession planning and staff caliber** – The Groups performance is dependent on attracting and retaining high quality of staff across all its functions.
- **Intellectual property** – Theft or violation of intellectual property by third parties or third parties taking legal action for infringements may have an adverse impact on the Group.
- **Market trends and competition** – To continue to lead the market, the Group must be able to identify customer demands and ensure its product portfolio match their requirements. Failure to deliver technologically advanced products and to react to disruptive technologies and economic models or to execute on our sales strategy could result in loss of market share.
- **Product development strategy** – The Group needs to ensure it can deliver new products to the market in a timely manner and to originate, and execute on, the product development strategy.
- **Product-related reputational & financial risk (including liquidity)** – The Group gives a ten-year warranty on its Lighting products which are installed in a variety of high-risk environments. Risks could arise in relation to product failure and harm to individuals and damage to property. The Group has a net debt position and there is a risk related to liquidity.
- **Foreign exchange** – The Group reports in Sterling; however, the majority of its revenues and its cost base are in US Dollars. Fluctuations in exchange rates between Sterling and the US Dollar could cause profit and balance sheet volatility. The identification of risks and opportunities, the development of action plans to manage the risks and maximise the opportunities, and the continual monitoring of progress against agreed key performance indicators (KPIs) are integral parts of the business process and core activities throughout the Group.



About Dialight

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications. Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and 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 a rapid return on investment.

The company is headquartered in the UK with operations in the USA, UK, Germany, Malaysia, Singapore, Australia, Mexico and Brazil.

The web site of the Group is as follows: www.dialight.com

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.