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

Half year results 2022

Strategic initiatives driving continued recovery

Dialight plc (LSE: DIA.L), the global leader in sustainable LED lighting for industrial applications, announces its half year results for the period ended 30 June 2022.

Financial summary	H1 2022 £m	H1 2021 £m
Revenue	**80.8**	60.2
Underlying profit from operating activities	**3.1**	1.5
Profit from operating activities	**2.3**	0.8
Profit for the period	**1.2**	0.1
Statutory EPS – basic and diluted	**3.7p**	0.2p
Net debt – Pre-IFRS	**(20.2)**	(12.0)

Key points

- Revenue growth of 27% at constant currency over the prior period comparator, driven by strong demand for Lighting and Opto-Electronic products (34% at reported currency)
- Gross margin maintained at 35%, despite raw material availability and input cost pressures, with price increases successfully implemented, which make an increasing contribution over the second half
- Underlying operating profit doubled to £3.1m, representing a margin of 3.8%, up 110bps year-on-year at constant currency (130bps at reported currency)
- Strong customer demand, with Lighting orders up 28% and total orders up 10% (at constant currency) was coupled with good progress on key strategic initiatives:
  - Initial large project orders delivered by the strategic sales team
  - Further new distribution and specifier relationships established
  - Successful new product launches
- Substantial order book, 4% ahead of last year and marginally ahead of December 2021
- Inventory increase of £7.6m in H1, with £4.5m driven by foreign exchange movements, £1.3m due to component price increases and £1.8m increased holdings of critical components
- Net debt at 30 June 2022 of £20.2m (1.3x LTM EBITDA), driven by higher inventory levels and foreign exchange movements on USD borrowings, which is expected to reduce by year end
- Strong commercial momentum and continued operational execution provide confidence in delivering good progress in 2022, with the Board's expectations for the full year unchanged

Fariyal Khanbabi, Group Chief Executive, said:

"The first half of 2022 has seen continued strong sales and a resilient operating performance, with profit doubling to £3.1m compared to the prior year. We expect further strong revenue growth with modest gross margin improvement in H2 as price increases and efficiency improvements offset headwinds including inflation and supply chain constraints. Our confidence in growth is underpinned by a clear organic growth strategy, robust order book, an excellent pipeline of projects and our customers increasingly focused on their need to deliver against their sustainability targets. Our full year expectations for delivery of meaningful progress in our turnaround remain unchanged. Longer term, we see significant opportunity to be captured as the established leader in the growing heavier industrial lighting market."

Half year results presentation
The slides of the interim results 2022 presentation can be found at:
http://ir.dialight.com/reports-presentations-and-results/reports-and-presentations/

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Clive Jennings – Chief Financial Officer

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, Mexico, Malaysia, Singapore, Australia, Germany and Dubai. To find out more about Dialight, visit www.dialight.com.

Notes:

1. Net debt excludes lease liabilities under IFRS 16
2. Constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.
3. 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 are 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

The first half of 2022 saw a significant increase in revenue, driven by volume growth particularly with Lighting and Opto-Electronic products. Group orders increased by 17% (10% at constant currency) which has helped maintain a record order book for the Group. Despite the ongoing supply and cost headwinds, the Group maintained 35% gross margins through sustainable price increases coupled with actions taken to actively manage component shortfalls. The Group remains on track to deliver significant year on year growth and improved profitability.

The increased volumes reflect a combination of recovery in our end markets together, we believe, with an improving market share, as well as expanding our market reach. The Maintenance, Repair and Operations (MRO) market remains robust, but we have been very encouraged to see customers proceeding with larger capex projects, despite increasing construction costs. Like many industries, we expect continuing supply chain disruption and cost inflation to continue over the next 12 months but are confident we will navigate these challenges by adjusting inventory levels, leveraging increased production volumes, and managing costs tightly. The price increases implemented to date will continue to protect margins, and the lag effect means the benefits will accelerate through the second half of the year.

Results

Overall Group revenues in H1 2022 were 27% higher than the prior year (34% reported currency).

Underlying operating profit doubled to £3.1m, compared to £1.5m in H1 2021. This reflected strong drop through from increased revenues, having held gross margins at 35% despite challenges from significant cost inflation and supply chain disruption. Our focus on strong cost controls continues.

Lighting only order growth in H1 2022 was 28% (reported currency 37%) and represented c.71% of first half revenues. The majority of Lighting order growth was generated in our core US market which increased by 36% (reported currency 46%), with EMEA increasing by 21% (reported currency 29%). APAC increased by 1% (reported currency 7%) against a strong comparative performance in 2021 with first half trading also impacted from continued COVID-19 lockdowns. Our newly created strategic sales team has already signed several multi-million-dollar orders for delivery in the second half and has a strong prospect pipeline that will benefit 2023. Obstruction orders fell by 23% (reported currency -18%) as higher steel prices have led to lower levels of tower construction.

Signals & Components is a high-volume business operating within highly competitive markets. The good performance of this division in 2021 continued in the first half of 2022 with revenue growth of 14% (reported currency 22%) and represented c.29% of first half revenues. Within this division, opto-electronic component sales have continued to be strong, fueled by growing demand in the electronics market related to home-working, but traffic and vehicle sales were lower. In line with expectations, orders were 13% lower (reported currency -7%) as demand for opto-electronic products has returned to normalised levels following exceptionally strong demand during COVID-19.

We enter the second half with a Group order book higher than both June and December 2021, with a greater weighting to Lighting. On-time delivery at 78% was ahead of 2021 and above, we believe, the current industry standard.

Improvements in our operational performance helped maintain gross margin and successfully mitigate significant inflation, particularly related to component cost, as well as wage, increases. H1 saw over £1m invested to a rapid improvement programme to upgrade machinery and increase sub-assembly automation in our Mexico factory. This increased overall capacity and will support future growth. Investment will continue in H2 at a similar level, focused on further sub-assembly automation and replacement of end-of-life production tooling.

Inventory increased by £7.6m in the first half, with critical component holdings up by £3.1m (constant currency) to ensure availability, which we see as important to our long-term success. Component price increases and a £4.5m impact of foreign exchange rates on USD denominated inventory drove the remainder of the increase. We anticipate an inventory reduction by the year end but expect to maintain above average raw material and WIP stocks until shipping and lead times for raw materials return to more normal levels.

Global industry-wide shortages of key components are severely impacting our supply chain along with significant inflation and continued challenges in shipping times and cost. Microchip availability is particularly problematic as suppliers struggle to deliver either on time or in the required volumes, with orders now placed for the whole of 2023. We have focused considerable resources to sourcing and testing alternative components and suppliers, which has enabled us to successfully overcome shortages, albeit at a financial cost. These shortages and global inflation have led to significant raw material cost increases that we have been partially able to pass on through higher selling prices although there is a lag to fully recovering this. While these challenges are expected to continue for some time, we continue to mitigate their impact, including implementing additional dual sourcing strategies and localising key component supply chains.

We continue to invest in product development and improvement with £1.7m spent in H1. H2 will see a similar spend with two new major product launches planned; a new Prosite High Mast / High Output Floodlight and the battery backup for the Area Light. Other developments are underway that will deliver cost reductions for existing products and processes, a new more efficient power supply, improved wireless options and products able to withstand volatile organic compounds.

Market conditions

The macro-economic backdrop presents considerable uncertainty at the moment and Dialight has taken an active approach to targeting market niches with more resilient demand dynamics and where growth is driven by structural, safety and sustainability factors.

The Group's natural resource markets in oil & gas and mining are expected to show continued solid demand in the short to medium term. Global energy market shortages have seen an expansion in oil extraction activity, with US on shore drilling up 60% year over year, and with 3 times the number of rigs in service from 2 years ago. Mining customers are benefitting from the demand for Lithium and Nickel in battery production, which should benefit Group customers in Australia.

Legislative changes that ban the purchase of fluorescents will take effect in the EU (2023), Australia (2025) and several US states (2025). The inability to order replacement fluorescent lamps will require customers to transition to LED, providing a significant opportunity for Dialight. In addition, increasing investor and Board level engagement on ESG will drive companies to identify net zero projects, with upgrades to lower carbon and energy consumptive lighting solutions being viewed as a short lead-time projects.

The Group is also seeing increasing success, led by the strategic sales term, in expanding its customer base into a wider range of process industries including aerospace, electric vehicle and food & beverage. Facilities in these markets can be very significant in scale and often have demanding operational requirements which lend themselves to Dialight's highly engineered product range.

Strategy

Dialight's core strengths centre around our products and a long history of innovation within the industrial lighting markets. Our fixtures meet the needs of our customers to enhance safety, reduce energy and maintenance costs and critically, help them achieve their corporate objectives of being carbon net zero. Our products also provide the best cost of ownership to industrial customers, with paybacks based on energy savings and maintenance cost avoidance. Our in-house custom designed power supply is the key to our market leading 10-year warranty and field reliability. Our optimised optics ensure improved light illumination, providing uniformity and quality whilst enabling our customers to use fewer lights to illuminate the target area. Their integrated design significantly reduces the burden of installation and maintenance. Our products have the ability to withstand extreme environmental conditions such as very high or low temperatures, humidity, high vibration, and corrosive environments. The addition of sensors and controls brings an additional element to the value proposition for our customers.

Our overall strategy is focused on organic growth underpinned by product innovation. We have three key objectives:

- **Convert our core heavy and harsh industrial markets** - which has low levels of LED conversion. We believe that sustainability will be a major driver in the conversion to LED and this has accelerated post COVID-19 with a return to corporate discretionary spend. Dialight will continue to grow its leading position through market share gains in MRO together with capex projects as the market recovers.
- **Expand our market reach** - by leveraging corporate sustainability goals and our differentiated products. We continue to identify and successfully engage with new key accounts through our strategic sales team, in addition to developing new routes to market. In particular, increased targeting of EPC/engineering firms and electrical contractors. We are continuing to work on strengthening our branding and focusing on vertical market applications, with good progress made during H1.
- **Product innovation** - we continue to lead the market in innovation. Our next generation of technology is heavily focused on building on the sustainability needs of our customers, with the goal to have the first fully recyclable industrial LED lighting fixture. Our "source and sell" initiative will address the 20% of the customer lighting schedule that is not highly specified. This initiative protects our market leading position with key strategic accounts and increases our relevancy to the large accounts we are targeting.

Strategy execution in H1

Organic growth remains a key focus, both in terms of MRO but more importantly capex projects as end customers increase their expenditure on lighting. The focus in H1 has been on delivering for customers, expanding our market reach and developing strategic relationships. This encompasses three strands:

Strategic sales focus

The new strategic sales team are focused on building relationships with key large corporates, primarily in the US. This is a longer-term activity particularly focused on new customers, so prospects will take time to turn into initial orders and then preferred supplier status. The team have already won several multi-million-dollar orders for major US corporates for delivery in H2 and into 2023. They also have a sizeable pipeline of opportunities which should lead to further orders in H2 for 2023 delivery, including in the new verticals we are targeting.

Expanding routes to market

Expanding our market reach is key to wider penetration and growth of our market share. In H1 we have added over 75 new distributors and over 40 new consulting engineer and contractor relationships in Lighting. Signals & Components have added a new major distributor which we expect will generate over $5m annual revenue in the medium term.

Enhanced product range through innovation

In the period the sales team have delivered 27% growth in orders with capex projects accounting for 35% of orders (up from 29%). Our new product platforms launched in the past 2 years are expected to further strengthen our position within our heavy industrial verticals. These product platforms are the Ultra-Efficiency High Bay, the GRP Linear, the new Bulkhead, and new Flood lights. In addition, we have launched two Source and sell product lines (Wall-Packs and emergency lighting), with two more planned for H2.

Purpose and sustainability

We are actively working to deepen and accelerate the industrial evolution to greener solutions through our cutting-edge technology. As a company we are committed to being net zero by 2040. Creating a safer, cleaner, healthier future for everyone is the cornerstone of our approach to sustainability. We are focused on ensuring we can continue to serve our markets in a sustainable way over the long-term. Our products are well positioned to play a positive role in society, addressing issues which are fundamental to human wellbeing, are long-term in nature, and of global reach: ensuring safety in industrial environments while addressing key environmental challenges. We believe that lighting has a critical role to play in helping businesses' journey to become net zero. Our customers rightly expect us to continue to provide leadership in this area, through developing high quality, reliable and innovative products.

Our sustainability strategy dovetails with our operational ethos and coupled with a business purpose that has always been centred on climate change, means that it is a natural extension of our existing growth strategy. During the half we made progress with training programmes run for all sales staff to align with our revenue growth strategy and increased focus on large corporate customers. This will be extended to operational and engineering staff in H2. Ahead of submitting our formal Science Based targets (SBT) next year, work is underway to analyse the major sources of Scope 1 and Scope 2 emissions by process at a factory level to quantify the potential for reductions and any associated capital investment required.

The Greenhouse Gas (GHG) inventory for 2021 has now been verified and contains only minor changes to the draft numbers published in our 2021 Annual Report. These will be published as part of our ESG Report during H2.

As part of our goal to produce the first Net Zero lighting fixture for the industrial market, research and analysis on potential new materials which would reduce the size, weight and environmental impact of new fixtures has been on-going and we are obtaining customer feedback on the experimental product design before moving to the next stage of development.

We are also concentrating on the end of life of our products and how they can be recycled. This is in two parts: firstly, partnering with companies that can recycle the product, and secondly using recyclable materials. The level of recycling that can be achieved varies across recycling processes, but our UK partner can recycle up to 96% of the components of the fixture. There are no similar schemes in the Americas or Australia currently, but nonetheless, we have recycling partners that can process the aluminium in these locations. Given the long life of our products we expect that this ability will be enhanced over the coming years and programmes like Waste from Electrical and Electronic Equipment (WEEE) will be introduced globally by the time many of our long-life fixtures reach end of life.

Analysis conducted by FTSE Russell on the nature of Dialight products and their environmental benefits results in 100% of Dialight revenue now being classified as Green Revenue using their classification criteria, and we are pleased that this is recognised through our London Stock Exchange Green Economy Mark.

People are at the heart of our business. We recognise that the skill and commitment of our employees plays a large part in the success of our company, and we recognise that each person has their own individual contribution to make. It is through our people that we will progress our strategy and ensure that we realise the

potential for growth. Developing a high performing and inclusive culture is a key enabler in our ability to deliver strategic growth. Engaged, motivated, empowered and appropriately skilled employees are integral to our success. We support all our people by creating a safe, inclusive environment, where every individual can work and contribute to the development of the business.

We are very proud of our Dialight Foundation, a non-profit arm of our company dedicated to helping the communities we operate within, with a focus on supporting children and women's causes. With the overwhelming support from our employees around the world, the Foundation makes a meaningful difference in the lives of so many and we continue to build on this initiative.

Full year guidance for 2022

The first half of 2022 has seen continued strong sales and a resilient operating performance, with profit doubling to £3.1m compared to the prior year. We expect further strong revenue growth with modest gross margin improvement in H2 as price increases and efficiency improvements offset headwinds including inflation and supply chain constraints. Our confidence in growth is underpinned by a clear organic growth strategy, robust order book, an excellent pipeline of projects and our customers increasingly focused on their need to deliver against their sustainability targets. Our full year expectations for delivery of meaningful progress in our turnaround remain unchanged. Longer term, we see significant opportunity to be captured as the established leader in the growing heavier industrial lighting market.

Fariyal Khanbabi, Group Chief Executive

FINANCIAL REVIEW

H1 2022 saw Group underlying operating profit more than double to £3.1m with strong revenue growth of 34% to £80.8m (27% at constant currency), driven by strong customer demand and a robust order book at the start of the year. The gross profit margin was maintained at 35% with the backdrop of a challenging supply chain causing shortages managed by the partial benefit of price increases complimenting the operational efficiencies and strong cost control. The Group delivered a reported profit from operating activities of £2.3m, an improvement of £0.2m over the full year 2021 profit of £2.1m.

The underlying operating profit bridge for the year-on-year movement (in constant currency) is:

Underlying EBIT bridge	£m (unaudited)
Underlying EBIT H1 2021	**1.5**
Revenue increase impact	**6.0**
Gross margin improvements	**1.2**
Impact from material, freight and labour cost inflation	**(1.2)**
Additional sales commission	**(1.8)**
Headcount costs and bonus provision	**(1.6)**
Foreign exchange	**(0.6)**
Travel and other costs	**(0.4)**
Underlying EBIT H1 2022	**3.1**

Increased revenue drove a £6m increase in underlying operating profit. We are pleased that we maintained the gross margin performance despite the headwinds. This was due to an increased weighting to sales of high margin Lighting products and operational leverage due to increased production volumes. Offsetting these improvements were increases in raw material and freight costs plus higher Mexican employment costs (mainly minimum wage rates). These are being passed onto customers through higher selling prices for new orders or negated through improved factory efficiency. Higher selling prices had limited impact on H1 revenues, and it will not be until 2023 that the benefits are fully realised. Selling, General and Administrative costs increased to support the near and longer-term growth in revenue and as a percentage of revenue were at a similar level to last year.

Lighting revenue grew by 40% (33% at constant currency), with our core US market seeing increased levels of project and MRO business. EMEA and Asia grew revenue with customer demand increasing as COVID-19 restrictions eased and delayed projects re-commenced, but Australia revenue was lower following a strong performance in 2021, continued restrictions impacting site access and larger projects being delayed. These restrictions are now starting to ease, and performance is expected to improve in H2.

Signals & Components performed well with revenue up 22%, (14% at constant currency) despite disruptions in the supply chain, driven by strong demand for opto-electronic product.

Net debt increased by £4.5m to £20.2m following increases in raw material inventory and adverse movements in the USD exchange rate, with the Group having access to £6.5m in undrawn facilities and £2.3m in cash at 30 June.

Currency impact

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which in H1 2022 comprised 81% of the Group's revenue. The average rate for GBP to USD moved significantly from 1.39 in H1 2021 to 1.30 in H1 2022, with the closing rate falling from 1.38 to 1.21. As a result, we present revenue movements on a constant currency and actual currency basis to show business performance without the impact of FX movements.

Lighting segment

Lighting	H1 2022 £m	H1 2021 £m	Variance %	H1-21 at constant currency £m	Constant currency variance %
Revenue	**57.1**	40.8	+40.0%	42.9	+33.1%
Gross profit	**20.1**	15.1	+33.1%	15.8	+27.2%
Gross profit %	**35.2%**	37.0%	(180bps)	36.8%	(160bps)
Overheads	**(16.2)**	(12.8)	(26.6%)	(13.5)	(20.0%)
Underlying EBIT	**3.9**	2.3	+69.6%	2.3	+69.6%

The Lighting segment saw continued strong growth in H1 2022, with revenue up 40%. Lighting represents 71% of the Group's revenue, and consists of two main revenue streams, large retrofit projects and on-going Maintenance, Repair and Operations (MRO) spend. We are seeing an increasing level of larger orders from customers, with capex projects accounting for 35% of H1 orders (2021: 29%).

US revenues saw strong growth of 38% (at constant currency) as we continued to gain market share in the MRO market, saw an increase in the number of sales to retrofit projects and started to see orders generated from the strategic sales team. Margins reduced in the period due to the challenges of increased material and freight costs negated in part by the operational efficiencies resulting from the capital investment.

EMEA revenue grew by 33% (at constant currency) as COVID-19 restrictions lifted, with order growth at 21%. Strong cost controls continue and the region has seen an improved performance that has been offset by the fall in the USD: Euro exchange rates.

Australia suffered from lockdowns and close contact rules that reduced the ability of contractors and our sales teams to get on site, which reduced both sales (14%) and (27%) order intake. With the relaxation of rules, we are seeing enquiry and MRO rates starting to normalise although increased prices are leading to some projects being re-quoted.

Asia, our smallest region, has seen revenue grow by 124% as restrictions lifted with higher order growth at 217%. Activity levels remain excellent, with a number of larger projects under discussion.

The period saw an increasing share of revenue coming from customers in industrial, power generation and pulp & paper verticals which has helped diversify the Group's revenue base, albeit oil & gas and mining still account for 40% of Lighting revenue (down from 50% in 2021).

Gross margins came under pressure from significant component price increases and a lack of availability, especially for aluminium, microchips, electrical components, and freight. This was offset by the benefits from better fixed overhead absorption (higher production volumes) and cost saving programmes on key products. Sale prices for new orders were raised on two occasions but there is a lag before their benefits are realised in revenue and the overall impact saw margin falling to 35.2%, a reduction of 180 bps on 2021.

Operating costs were £3.4m higher than prior period with higher sales and marketing (including commissions) to support the strong revenue growth as well as engineering costs to support sourcing and testing of alternative critical components. As a percentage of sales, overheads fell from 31% of revenue to 28% in H1 2022.

This resulted in an underlying operating profit of £3.9m compared to a profit of £2.3m in 2021.

Signals & Components

Signals & Components	H1 2022 £m	H1 2021 £m	Variance %	H1-22 at constant currency £m	Constant currency variance %
Revenue	**23.7**	19.4	+22.2%	20.8	+13.9%
Gross profit	**8.1**	6.1	+32.8%	6.5	+24.6%
Gross profit %	**34.2%**	31.4%	+280bps	31.3%	+290bps
Overheads	**(4.5)**	(3.8)	(18.4%)	(4.0)	(12.5%)
Underlying EBIT	**3.6**	2.3	+56.5%	2.5	+44.0%

Signals & Components is a high-volume business operating within highly competitive markets. There are three main elements to this business: traffic lights, opto-electronic (OE) components and vehicle lights.

The segment has continued to perform strongly with revenue up by 22% and by 14% at constant currency, helped by the strong order book caried forward from 2021. OE sales have seen the greatest growth year-to-date but as expected, customer demand has returned to normal demand levels despite supply chain shortages of microchips and other specialised components. Distributors are starting to tighten management of their inventory, which is driving a reduction in orders compared to 2021. The order book has reduced since December, but we still enter H2 with substantial visibility.

Traffic sales were below 2021 as expected, with severe material constraints and a lack of major project bids. In May we announced the first price increase for a number of years, to offset material and labour cost increases and maintain margins. Vehicle sales were slightly ahead of last year, with the key bus market challenged by a continued drop in ridership levels, soft demand, labour shortages, and critical material shortages slowing their bus production. Recent production rates have slowed at all three major OEMs by more than 50%.

Gross margin at 34.2% was 280 bps above the 31.4% seen last year. This continued improvement resulted from revenue growth in higher margin products, price increases implemented to offset material and labour cost increases, and increased production volumes leading to better absorption of fixed production costs. Overheads increased by £0.7m to £4.5m but fell as a percentage of revenue.

The improved revenue and gross margin resulted in an underlying operating profit of £3.6m compared to £2.3m in H1 2021.

Unallocated costs

Unallocated costs comprise costs not directly attributable to a segment and therefore not allocated to those segments. In H1 2022 they were £4.4m, an increase of £1.3m on the prior period. The key increases were foreign exchange movements, increased travel and employee variable pay.

Non-underlying costs

Costs of £0.8m were incurred in the period in relation to the ongoing litigation with Sanmina. Following unsuccessful mediation at the beginning of the year, Sanmina has lodged a motion for summary judgement to dismiss the majority of Dialight's claim and the decision from the judge is expected in late Q3/Q4 2022. Dialight has submitted a strong rebuttal to the dismissal motion and expects that the case will go to trial in 2023. Further announcements will be made as and when appropriate. (See also note 11 to the financial statements.)

Inventory

We increased our inventory of critical components by £3.1m (constant currency) during H1 2022 to mitigate the continuing impact of critical component shortages coupled with lead times extending well into 2023. Microchip and castings supplies are the largest problems, with uncertainty of supply in terms of quality, quantity and timing of delivery a major operational challenge.

Inflation and foreign exchange have also increased the value of inventory held, with significant raw material price rises across numbers of key components and movements in exchange rates since December 2021 increasing inventory by c. £4.5m.

We continue to keep inventory levels and future commitments under close review but will continue to maintain above average raw material and WIP stocks until lead times on both availability and shipping times for raw materials return to more normal levels. Full year inventory is not expected to increase and lead times are anticipated to remain at current levels until 2023.

Capital expenditure

During H1 2022, the Group invested £3.5m in capital expenditure (2021: £1.9m) with the focus on new product development and factory capacity / automation.

New product development expenditure of £1.7m included the new Prosite High Mast / High Output Floodlight, next generation Highbay, new battery back-up systems, and other enhancements to our existing product range.

Capital expenditure of £1.8m was focused on increasing automation of sub-assemblies in our Mexico factories, tooling for new or existing products, investment in capacity through production transfer to Malaysia, essential health and safety works in Mexico and completing the replacement of the Roxboro factory roof.

Purchase of minority interest

In May, the Group acquired a further 12.5% of Dialight ILS Australia Pty Ltd for £1m (satisfied by issuing 266,958 new ordinary shares of 1.89 pence) and a cash payment of up to £100,000. This increased our shareholding to 87.5%, with the balance owned by a current senior employee.

Cash and borrowings

The Group ended H1 2022 with net debt of £20.2m, an increase of £4.5m from December 2021. Net debt excludes liabilities related to the adoption of IFRS 16 Leases, as these are excluded for covenant testing purposes.

The roll forward of net debt was as follows:

Net Debt	£m
Opening balance 01 January 2022	**(15.7)**
Underlying EBITDA *	6.5
Inventory increase	(3.1)
Net working capital excluding inventory	(2.1)
Investment in R&D	(1.7)
Maintenance capex/other	(1.8)
Non underlying cost (see note 3)	(0.8)
Interest & tax paid	(1.2)
Foreign exchange	(0.3)
Closing balance at 30 June 2022	**(20.2)**

*EBITDA profit comprises underlying operating profit of £3.1m with depreciation of property, plant, and equipment of £1.5m and amortisation of £1.9m added back

The main factors behind the increase in net debt were:

- Increased inventory to mitigate the impact of continuing global industry-wide commodity shortages and above normal shipping times
- Increased capital investment into new product development, improving factory capacity and maintenance (see earlier capital expenditure section)
- An increase in trade receivables resulting from the timing of shipments weighted to the end of the quarter and a number of expected customer receipts being received after the period end
- The translation of USD denominated borrowing back into Sterling has increased debt by £0.3m due to adverse movements in the £: USD exchange rate exchange (from 1.35 to 1.21).

Gross bank debt was £22.5m offset by cash in hand of £2.3m (see note 9 for further details on bank borrowings). The interest expense of £0.7m is analysed in note 4 and is expected to be at a slightly higher level in H2 2022 due to an increase in interest rates.

Banking and covenants

The Group's financing arrangements consist of a £25m revolving credit facility (RCF) with HSBC (which matures in July 2025 and contains options for two one-year extensions) plus a £10m facility with HSBC maturing June 2023 (comprising £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan). In accordance with the Group's strong ESG commitment, the RCF facility is a sustainability linked loan.

The Group has repaid £6m of the £10m facility (£2m during the half year) in accordance with the terms of the loan. Borrowings under the CLBILS scheme cannot be re-borrowed so the total borrowing facilities of the Group are now £29m. The remaining £4m will be repaid in equal instalments over the next 12 months.

The Group's banking covenants are tested quarterly and the Group was fully compliant with its banking covenants during the period. The covenant tests comprise leverage and interest cover basis, with the CLBILS loan having an additional adjusted cashflow to debt service covenant that has been waived until December 2022.

The trailing 12-month leverage multiple is 1.3x EBITDA and is expected to reduce towards 1x by the end of December, with interest cover at over 8x. The Group expects to continue being fully compliant with all covenants at the year-end testing date.

Tax

The tax charge of £0.4m for the half year to 30 June 2022 reflects the anticipated effective tax rate of 25.0% for the year ending 31 December 2022. Non-underlying items have been taxed using the relevant tax rates. The effective tax rate is higher than the current UK tax rate of 19.0% due to the level of Group profits in the US which has an effective tax rate of 24.0% with the remaining profit coming from countries with an average tax rate of 28%.

Capital management and dividend

The Board's policy is to have a strong capital base to maintain customer, investor, and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 30 June 2022 this equated to £69.5m (2021: £56.8m).

In H1 2022 our focus was to accelerate the rate of profitable revenue growth whilst navigating unprecedented global supply chain disruption. Distributions are not permitted under the terms of the CLBILS facility whilst there is debt outstanding, with the last repayment due in June 2023. Therefore, the Board is not declaring an interim dividend payment for 2022 (2021: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase.

Clive Jennings, Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2022

	Note	6 months ended 30 June 2022 (unaudited) Total £'m	6 months ended 30 June 2021 (unaudited) Total £'m	12 months ended 31 December 2021 (audited) Total £'m
Revenue	2	**80.8**	60.2	131.6
Cost of sales		**(52.6)**	(39.0)	(84.6)
Gross profit		**28.2**	21.2	47.0
Distribution costs		**(12.6)**	(10.2)	(21.3)
Administrative expenses		**(13.3)**	(10.2)	(23.6)
Profit from operating activities	2	**2.3**	0.8	2.1
Underlying profit from operating activities		**3.1**	1.5	4.5
Non underlying items	3	**(0.8)**	(0.7)	(2.4)
Profit from operating activities		**2.3**	0.8	2.1
Financial expense	4	**(0.7)**	(0.7)	(1.4)
Profit before tax		**1.6**	0.1	0.7
Income tax charge	5	**(0.4)**	-	(0.4)
Profit for the period		**1.2**	0.1	0.3
Profit for the period attributable to:				
Equity owners of the Company		**1.2**	-	0.1
Non-controlling Interests		**-**	0.1	0.2
Profit for the period		**1.2**	0.1	0.3
Earnings per share				
Profit per share basic and diluted	6	**3.7p**	0.2p	0.9p

The accompanying notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2022

	6 months ended 30 June 2022 (unaudited) £'m	6 months ended 30 June 2021 (unaudited) £'m	12 months ended 31 December 2021 (audited) £'m
Other comprehensive income (expense)			
Exchange difference on translation of foreign operations	7.9	(0.8)	0.7
Income tax on exchange differences on transactions of foreign operations	-	-	-
	7.9	(0.8)	0.7
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	-	-	2.5
Income tax on remeasurement of defined benefit liability	-	-	(0.5)
	-	-	2.0
Other comprehensive income (expense) for the period, net of tax	**7.9**	(0.8)	2.7
Profit for the period	**1.2**	0.1	0.3
Total comprehensive income (expense) for the period	**9.1**	(0.7)	3.0
Attributable to:			
- Owners of the parent	**9.1**	(0.8)	2.8
- Non-controlling interests	-	0.1	0.2
Total comprehensive income (expense) for the period	**9.1**	(0.7)	3.0

The accompanying notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2022 (unaudited)

	Note	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Own Shares £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2022		0.6	0.5	10.0	2.2	(0.7)	47.0	**59.6**	0.6	**60.2**
Profit for the period		-	-	-	-	-	1.2	**1.2**	-	**1.2**
Other comprehensive income:										
Foreign currency translation differences, net of taxes		-	-	7.9	-	-	-	**7.9**	-	**7.9**
Remeasurement of defined benefit liability, net of taxes		-	-	-	-	-	-	**-**	-	**-**
Total other comprehensive income		-	-	7.9	-	-	1.2	**9.1**	-	**9.1**
Total comprehensive income for the period		-	-	7.9	-	-	1.2	**9.1**	-	**9.1**
Transactions with owners, recorded directly in equity:										
Share-based payments		-	-	-	-	-	0.3	**0.3**	-	**0.3**
Issue of own shares		-	-	-	-	0.2	(0.2)	**-**	-	**-**
Repurchase of own shares		-	-	-	-	(0.1)	-	**(0.1)**	-	**(0.1)**
Non-controlling interest transaction	13	-	-	-	-	-	0.4	**0.4**	(0.4)	**-**
Total transactions with owners		-	-	-	-	0.1	0.5	**0.6**	(0.4)	**0.2**
Balance at 30 June 2022		0.6	0.5	17.9	2.2	(0.6)	48.7	**69.3**	0.2	**69.5**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2021 (unaudited) and the year ended 31 December 2021 (audited)

	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Own Shares £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2021	0.6	0.5	9.3	2.2		44.3	**56.9**	0.4	**57.3**
Profit for the period	-	-	-	-	-	-	**-**	0.1	**0.1**
Other comprehensive income:									
Foreign currency translation differences, net of taxes	-	-	(0.8)	-	-	-	**(0.8)**	-	**(0.8)**
Total other comprehensive (expense)	-	-	(0.8)	-	-	-	**(0.8)**	-	**(0.8)**
Total comprehensive (expense) / income for the period	-	-	(0.8)	-	-	-	**(0.8)**	0.1	**(0.7)**
Transactions with owners, recorded directly in equity:									
Share–based payments, net of tax	-	-	-	-	-	0.2	**0.2**	-	**0.2**
Total transactions with owners	-	-	-	-	-	0.2	**0.2**	-	**0.2**
Balance at 30 June 2021	0.6	0.5	8.5	2.2	-	44.5	**56.3**	0.5	**56.8**

	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Own Shares £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total Equity £'m**
Balance at 1 January 2021	0.6	0.5	9.3	2.2	-	44.3	**56.9**	0.4	**57.3**
Profit for the year	-	-	-	-	-	0.1	**0.1**	0.2	**0.3**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes	-	-	0.7	-	-	-	**0.7**	-	**0.7**
Remeasurement of defined benefit pension liability, net of taxes	-	-	-	-	-	2.0	**2.0**	-	**2.0**
Total other comprehensive income	-	-	0.7	-	-	2.0	**2.7**	-	**2.7**
Total comprehensive income for the year	-	-	0.7	-	-	2.1	**2.8**	0.2	**3.0**
Transactions with owners, recorded directly in equity:									
Share-based payments	-	-	-	-	-	0.6	**0.6**	-	**0.6**
Re-purchase of own shares	-	-	-	-	(0.7)	-	**(0.7)**	-	**(0.7)**
Total transactions with owners	-	-	-	-	(0.7)	0.6	**(0.1)**	-	**(0.1)**
Balance at 31 December 2021	0.6	0.5	10.0	2.2	(0.7)	47.0	**59.6**	0.6	**60.2**

CONDENSED CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

As at 30 June 2022

	Note	**30 June 2022 (unaudited) £'m**	30 June 2021 (unaudited) £'m	31 December 2021 (audited) £'m
Assets				
Property, plant, and equipment		**13.7**	11.5	12.0
Right of use assets		**11.1**	9.3	11.3
Intangible assets		**23.1**	21.0	21.4
Deferred tax assets		**1.6**	2.2	1.3
Employee benefits		**3.8**	1.1	3.9
Other receivables		**5.3**	4.6	4.7
Total non-current assets		**58.6**	49.7	54.6
Inventories	8	**50.0**	36.0	42.4
Trade and other receivables		**27.8**	19.3	26.2
Income tax recoverable		**1.2**	1.0	1.2
Cash and cash equivalents		**2.3**	3.0	1.2
Total current assets		**81.3**	59.3	71.0
Total assets		**139.9**	109.0	125.6
Liabilities				
Trade and other payables		**(32.7)**	(23.2)	(32.9)
Provisions		**(0.8)**	(1.1)	(0.6)
Tax liabilities		**(1.2)**	(1.4)	(1.7)
Lease liabilities		**(1.2)**	(1.8)	(1.2)
Borrowings	9	**(4.0)**	(8.0)	(4.0)
Total current liabilities		**(39.9)**	(35.5)	(40.4)
Provisions		**(1.3)**	(1.2)	(1.3)
Borrowings	9	**(18.5)**	(7.0)	(12.9)
Lease liabilities		**(10.7)**	(8.5)	(10.8)
Total non-current liabilities		**(30.5)**	(16.7)	(25.0)
Total liabilities		**(70.4)**	(52.2)	(65.4)
Net assets		**69.5**	56.8	60.2
Equity				
Issued share capital		**0.6**	0.6	0.6
Merger reserve		**0.5**	0.5	0.5
Other reserves		**19.5**	10.7	11.5
Retained earnings		**48.7**	44.5	47.0
		69.3	56.3	59.6
Non-controlling interests		**0.2**	0.5	0.6
Total equity		**69.5**	56.8	60.2

The accompanying notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2022

	6 months ended 30 June 2022 (unaudited) £'m	6 months ended 30 June 2021 (unaudited) £'m	12 months ended 31 December 2021 (audited) £'m
Operating activities			
Profit for the period	**1.2**	0.1	0.3
Adjustments for:			
Financial expense	**0.7**	0.7	1.4
Income tax expense	**0.4**	-	0.4
Share–based payments	**0.3**	0.2	0.6
Depreciation of property, plant, and equipment	**1.5**	1.5	3.1
Depreciation of right of use assets	**0.9**	1.1	2.2
Amortisation of intangible assets	**1.9**	1.5	3.5
Operating cash flow before movements in working capital	**6.9**	5.1	11.5
(Increase) in inventories	**(3.1)**	(4.0)	(9.6)
Decrease (increase) in trade and other receivables	**0.8**	0.8	(5.8)
(Decrease) increase in trade and other payables	**(2.9)**	1.9	11.1
Increase (decrease) in provisions	**0.2**	(0.4)	(0.8)
Pension contributions in excess of the income statement charge	**(0.2)**	(0.2)	(0.4)
Cash generated by operations	**1.7**	3.2	6.0
Income taxes paid	**(0.5)**	(0.2)	(0.6)
Interest paid	**(0.7)**	(0.7)	(1.4)
Net cash generated by operations	**0.5**	2.3	4.0
Capital expenditure	**(1.8)**	(0.3)	(2.1)
Capitalised expenditure on development costs	**(1.7)**	(1.6)	(3.2)
Purchase of software and licenses	**-**	-	(0.3)
Net cash used in investing activities	**(3.5)**	(1.9)	(5.6)
Financing activities			
Drawdown of bank facility	**8.2**	0.4	4.2
Repayment of bank facility	**(4.0)**	(2.0)	(4.0)
Re-purchase of own shares	**(0.1)**	-	(0.7)
Repayment of lease liabilities	**(1.0)**	(1.2)	(1.7)
Net cash / (outflow) generated from financing activities	**3.1**	(2.8)	(2.2)
Net increase / (decrease) in cash and cash equivalents	**0.1**	(2.4)	(3.8)
Cash and cash equivalents at beginning of period	**1.2**	5.3	5.3
Effect of exchange rates	**1.0**	0.1	(0.3)
Cash and cash equivalents at end of period	**2.3**	3.0	1.2

The accompanying notes form an integral part of these interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2022 (unaudited)

1. Basis of preparation and principal accounting policies

Dialight plc (the Company) provide sustainable, energy efficient and intelligent LED lighting technologies driving towards a net zero economy. Its primary market is North America, with smaller operations in EMEA and the rest of the world.

The Company is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales under registration number 2486024. Its registered office is at Leaf C, Level 36, Tower 42, 25 Old Broad Street, London EC2N 1HQ.

This condensed consolidated interim financial information was approved for issue on 1st August 2022 and has not been audited.

Statement of compliance

This condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with UK-adopted International Accounting Standard 34 'Interim Financial Reporting' (IAS 34). The condensed consolidated interim financial information should be read in conjunction with the financial statements for the 12-month period ended 31 December 2021, which have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006

This condensed consolidated interim financial information for the period ended 30 June 2022, and the comparative information in relation to the period ended 30 June 2021, do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the 12-month period ended 31 December 2021 were approved by the Board of Directors on 27 March 2022 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498 of the Companies Act 2006.

Going concern

The consolidated financial information is prepared on a going concern basis which the Directors believe to be appropriate for the reasons stated below.

The Group has performed strongly during the period despite headwinds from raw material availability, inflation and FX movements. These headwinds are expected to reduce over the medium term and the Group has demonstrated its ability to mitigate their impact through efficiency improvements and price increases. It enters H2 with a strong order book and a good pipeline of projects that are expected to lead to further orders.

The Group's financing arrangements consist of a £25m revolving credit facility (RCF) with HSBC (which matures in July 2025 and contains options for two one-year extensions) plus a £10m facility with HSBC maturing June 2023 (comprising £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan). In accordance with the Group's strong ESG commitment, the RCF facility is a sustainability linked loan.

The Group has repaid £6m of the £10m facility (£2m during the half year) in accordance with the terms of the loan. Borrowings under the CLBILS scheme cannot be re-borrowed, so the total borrowing facilities of the Group are now £29m. The remaining £4m will be repaid in equal instalments over the next 12 months.

Based on the Group's cashflow forecasts and operating budgets, and assuming that trading does not deteriorate considerably from current levels, the directors believe that the Group will generate sufficient cash to meet its

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

requirements for at least 12 months from the date of approval of the interim financial information and will comply with all its banking covenants. Accordingly, the adoption of the going concern basis remains appropriate for the reasons stated below.

Sensitivity analysis

In assessing going concern, the Directors have prepared scenarios using the latest Group forecast for 2022/23 that incorporate the continuing impact from raw material, freight and wage inflation; further adverse FX movements and no improvement in the current global supply chain issues. The scenario modelling also includes the mitigating actions that can be taken to reduce the impact on the Group from these risks, as well as the potential for a negative outcome from the ongoing Sanmina litigation (see note 11).

In the base case scenario, consistent with current trading patterns, revenues continue at the current trajectory with impacts from the global supply disruption resulting in price inflation being mitigated by sales price increases and operational efficiencies (from the investments into new machinery and increased automation).

In a plausible downside scenario, the Directors have assumed that revenue growth is reduced by 10% and the anticipated reduction in inventory levels is only partially achieved. This scenario reflects the risks of (i) a general economic slowdown / recession, (ii) shortages of raw material resulting in the inability to fulfil customer orders and (iii) cancellation of existing customer orders. Inflation is assumed mitigated by the same actions as in the base case.

In both scenarios, the Group has mitigating actions can be put in place swiftly, including various temporary and permanent cost and cash reductions. Under both scenarios, the Directors consider that the Group will have sufficient funds to continue to meet its obligations for at least 12 months from the date of approval of these unaudited interim financial statements. Therefore, the adoption of the going concern principle in preparing these financial statements remains appropriate.

Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to total expected annual earnings.

Adoption of new and revised standards

The accounting policies adopted in the preparation of these unaudited condensed financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 December 2021.

During the period the Group has adopted the following new and revised standards and interpretations which have had no impact on these condensed consolidated financial statements:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

Estimates and judgements

In preparing these condensed financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applicable to the consolidated financial statements as at and for the year ended 31 December 2021.

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.

6 months ended 30 June 2022 (unaudited)	**Lighting**	**Signals & Components**	**Unallocated**	**Total**
	£'m	**£'m**	**£'m**	**£'m**
Revenue	**57.1**	**23.7**	**-**	**80.8**
Gross profit	**20.1**	**8.1**	**-**	**28.2**
Overhead costs	**(16.2)**	**(4.5)**	**(4.4)**	**(25.1)**
Underlying profit/(loss) from operating activities	**3.9**	**3.6**	**(4.4)**	**3.1**
Non-underlying items	**(0.8)**	**-**	**-**	**(0.8)**
Profit/(loss) from operating activities	**3.1**	**3.6**	**(4.4)**	**2.3**
Financial expense				**(0.7)**
Profit before tax				**1.6**
Taxation				**(0.4)**
Profit after tax				**1.2**

Other segmental data

Depreciation of property, plant, and equipment	**1.1**	**0.4**	**-**	**1.5**
Depreciation of right of use asset	**0.6**	**0.3**	**-**	**0.9**
Amortisation	**1.3**	**0.6**	**-**	**1.9**

2. Operating segments (continued)

6 months ended 30 June 2021 (unaudited)	Lighting	Signals & Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	40.8	19.4	-	60.2
Gross profit	15.1	6.1	-	21.2
Overhead costs	(12.8)	(3.8)	(3.1)	(19.7)
Underlying profit/(loss) from operating activities	2.3	2.3	(3.1)	1.5
Non-underlying items	(0.7)	-	-	(0.7)
Profit/(loss) from operating activities	1.6	2.3	(3.1)	0.8
Financial expense				(0.7)
Profit before tax				0.1
Taxation				-
Profit after tax				0.1

Other segmental data

Depreciation of property, plant, and equipment	1.0	0.5	-	1.5
Depreciation of right of use asset	0.7	0.4	-	1.1
Amortisation	1.0	0.5	-	1.5

Year ended 31 December 2021 (audited)	Lighting	Signals & Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	90.5	41.1	-	131.6
Gross profit	33.7	13.3	-	47.0
Overhead costs	(28.4)	(7.8)	(6.3)	(42.5)
Underlying profit/(loss) from operating activities	5.3	5.5	(6.3)	4.5
Non-underlying items	(2.4)	-	-	(2.4)
Profit/(loss) from operating activities	2.9	5.5	(6.3)	2.1
Financial expense				(1.4)
Profit before tax				0.7
Taxation				(0.4)
Profit after tax				0.3

Other segmental data

Depreciation of property, plant, and equipment	2.1	1.0	-	3.1
Depreciation of right of use asset	1.5	0.7	-	2.2
Amortisation	2.4	1.1	-	3.5

2. Operating segments (continued)

Geographical segments

The Lighting and Signals & 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

	6 months ended 30 June 2022 £'m (unaudited)	6 months ended 30 June 2021 £'m (unaudited)	12 months ended 31 December 2021 £'m (audited)
North America	**61.5**	44.9	101.0
EMEA	**7.3**	4.8	10.2
Rest of World	**12.0**	10.5	20.4
Revenue	**80.8**	60.2	131.6

3. Non-underlying items

The Group incurs cost and earns income that is non-recurring in nature or that, in the Director's judgement, need to be separately disclosed for users of the consolidated financial statements to obtain a full understanding of the financial information and the best indication of the underlying performance of the Group. The table below presents the components of non-underlying profit or loss recorded within administrative expenses.

	6 months ended 30 June 2022 £'m (unaudited)	6 months ended 30 June 2021 £'m (unaudited)	12 months ended 31 December 2021 £'m (audited)
Non-underlying items			
Costs related to manufacturing partner	**0.8**	0.7	2.9
Release of warranty provision	**-**	-	(0.3)
Release of litigation provision	**-**	-	(0.2)
Non-underlying costs recorded in administrative expenses	**0.8**	0.7	2.4

The Group has continued to progress its legal claim against its former manufacturing partner, Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement. During the period costs of £0.8m have been expensed (2021: £0.7m), with £2.9m in the year to December 2021. This comprised £2.4m of legal costs in preparing for litigation and a £0.5m provision against slow-moving inventory. This inventory was acquired at transition and was expected to be used within two years. This has not proved to be the case and whilst the cost was added to the legal counterclaim against Sanmina during 2021, the Directors have determined that provision was appropriate.

The warranty provision release of £0.3m related to the disposal of the Group's Wind business in 2019. All claims had been settled and the balance of the provision was therefore released. The litigation provision related to employment litigation cases where payment was no longer expected, with a provision release of £0.4m offset by £0.2m in legal costs incurred.

4. Financial expense

	6 months ended 30 June 2022 £'m (unaudited)	6 months ended 30 June 2021 £'m (unaudited)	12 months ended 31 December 2021 £'m (audited)
Interest expense on lease liabilities	0.2	0.3	0.5
Interest expense on financial liabilities	0.5	0.4	0.8
Net interest on defined benefit pension liability	-	-	0.1
Financial expense	0.7	0.7	1.4

5. Income tax expense

The tax charge of £0.4m for the period to 30 June 2022 reflects the anticipated effective tax rate of 25.0% for the year ending 31 December 2022. Non-underlying items have been taxed using the relevant tax rates. The effective tax rate is higher than the current UK tax rate of 19.0% due to the level of Group profits in the US which has an effective tax rate of 24.0%, with the remaining profit coming from countries with an average tax rate of 28%

6. Earnings per share (EPS)

The calculation of basic EPS at 30 June 2022 was based on a profit for the period of £1.2m (2021: £0.1m) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2022 of 32,574,576 (2021: 32,598,135), excluding the 156,063 own shares purchased by the Group.

Weighted average number of ordinary shares

	6 months ended 30 June 2022 '000 (unaudited)	6 months ended 30 June 2021 '000 (unaudited)	12 months ended 31 December 2021 '000 (audited)
Weighted average number of shares	32,575	32,598	32,393
Dilutive effect of share options	453	298	411
Diluted weighted average number of shares	33,028	32,896	32,804

Earnings per share are provided below as the Directors consider that this measurement of earnings per share gives valuable information on the performance of the Group.

	6 months ended 30 June 2022 Per share (unaudited)	6 months ended 30 June 2021 Per share (unaudited)	12 months ended 31 December 2021 Per share (audited)
Basic and diluted profit per share	3.7p	0.2p	0.9p

7. Dividends

There were no dividends declared or paid in the six months ended 30 June 2022. The Directors have not declared an interim dividend for 2022 (2021: nil).

8. Inventories

	6 months ended 30 June 2022 £'m (unaudited)	6 months ended 30 June 2021 £'m (unaudited)	12 months ended 31 December 2021 £'m (audited)
Raw materials and consumables	**24.7**	16.9	22.2
Work in progress	**11.8**	7.3	8.7
Finished goods	**13.2**	11.5	11.2
Spare parts	**0.3**	0.3	0.3
Total	**50.0**	36.0	42.4

Inventories to the value of £35.4m (30 June 2021: £25.8m) were recognised as expenses in the period. The inventory reserve at the balance sheet date was £3.9m, which represents 7% of inventory (31 December 2021 7%). Additional reserves of £0.6m were booked in the period.

The increase in inventory since December 2021 was driven by increased holdings of critical components (£3.1m at constant currency) to mitigate the continuing impact of critical component shortages coupled with lead times extending well into 2023. Microchip and castings supplies are the largest problems, with uncertainty of supply in terms of quality, quantity and timing of delivery a major operational challenge. Inflation and foreign exchange have also increased the value of inventory held, with significant raw material price rises across numbers of key components and movements in the £: USD exchange rates increasing inventory by c. £4.5m.

We continue to keep inventory levels and future commitments under close review but will continue to maintain above average raw material and WIP stocks until lead times on both availability and shipping times for raw materials return to more normal levels. This allows us to maintain supply, which we see as crucial to the future success of the Group. No further increase in lead times is anticipated, but the situation is not expected to improve before 2023.

9. Borrowings

The Group's financing arrangements consist of a £25m revolving credit facility (RCF) with HSBC (which matures in July 2025 and contains options for two one-year extensions) plus a £10m facility with HSBC maturing June 2023 (comprising £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan). In accordance with the Group's strong ESG commitment, the RCF facility is a sustainability linked loan.

The Group has repaid £6m of the £10m facility (£2m during the half year) in accordance with the terms of the loan. Borrowings under the CLBILS scheme cannot be re-borrowed so the total borrowing facilities of the Group are now £29m. The remaining £4m will be repaid in equal instalments over the next 12 months.

The Group's banking covenants are tested quarterly and the Group was fully compliant with its banking covenants during the period. The covenant tests comprise leverage and interest cover basis, with the CLBILS loan having an additional adjusted cashflow to debt service covenant that has been waived until December 2022. The Group expects to be fully compliant with all covenants at year-end.

9. Borrowings (continued)

	6 months ended 30 June 2022 £'m (unaudited)	6 months ended 30 June 2021 £'m (unaudited)	12 months ended 31 December 2021 £'m (audited)
Borrowings at the beginning of the period	**16.9**	16.7	16.7
Facility drawdown	**8.2**	0.4	4.2
Facility repayment	**(4.0)**	(2.0)	(4.0)
Impact of revaluing USD borrowings	**1.4**	(0.1)	-
Borrowings at the end of the period	**22.5**	15.0	16.9

10. Principal exchange rates

	6 months ended 30 June 2022	6 months ended 30 June 2021	12 months ended 31 December 2021
Average for the period			
US Dollar	**1.30**	1.39	1.38
Canadian Dollar	**1.65**	1.73	1.72
Euro	**1.19**	1.15	1.16
Mexican Peso	**26.32**	28.00	27.88

	30 June 2022	30 June 2021	31 December 2021
Spot rate			
US Dollar	**1.21**	1.38	1.35
Canadian Dollar	**1.57**	1.71	1.72
Euro	**1.16**	1.16	1.19
Mexican Peso	**24.47**	27.47	27.64

11. Contingencies

Sanmina litigation

As previously reported, Dialight sought to reach a negotiated conclusion of various outstanding matters and performance issues following the termination, in 2018, of the manufacturing services agreement (MSA) with its former manufacturing partner, Sanmina Corporation ("Sanmina").

The failure to reach a satisfactory resolution of these issues led to both parties issuing formal legal proceedings against the other on 20th December 2019 in the US District Court for the Southern District of New York.

11. Contingencies (continued)

The basis of the claim filed by Sanmina 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 counterclaims, and costs and losses suffered by Dialight. Dialight has sought external legal advice and is paying for the legal costs as incurred. As at 30 June 2022, Dialight has not made any provision for future legal costs. The claim filed by Dialight alleges that Dialight suffered significant costs and losses (with total potential damages of approximately $220m) as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into the MSA; (b) Sanmina breaching the terms of the MSA in a wilful 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 wilful misconduct in the performance of its duties owed to Dialight. If Sanmina's claim is successful, the range of outcomes could include the payment by Dialight to Sanmina of between $0 and $8.3m (excluding legal costs and judicial interest, but inclusive of $5.6m of Dialight 'escrow' monies held by Sanmina). If Dialight's claims are successful, the range of outcomes could include the payment by Sanmina to Dialight of between $0 and c. $220m (excluding legal costs and judicial interest).

Following unsuccessful mediation at the beginning of 2022, Sanmina has lodged a motion for summary judgement to dismiss elements of Dialight's claims / counter-claims and a decision from the court is expected in Q3/Q4 2022. Dialight has submitted a strong rebuttal to the dismissal motion and expects that the case will go to trial in 2023 (subject, potentially, to the timing impact of either party appealing any adverse judgment). Open court documents, including the pleadings in respect of the motion for summary judgment, can be accessed on the Public Access to Court Electronic Records (PACER) public access system for the U.S. District Court for the Southern District of New York (https://ecf.nysd.uscourts.gov/cgi-bin/ShowIndex.pl).

Defined benefit pension schemes

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within pension assets. 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.

Uncertainties under income tax treatment

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.

11. Contingencies (continued)

Employee claims

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.

12. Related party transactions

There have been no changes in the nature of related party transactions from those described in the 2021 Annual Report that could have a material effect on the financial position or performance of the Group in the period to 30 June 2022 (see also note 13 below).

13. Interests in other entities

Transaction with non-controlling interest

In May 2022, the Group acquired a further 12.5% share of its subsidiary Dialight ILS Australia Pty Ltd ('Dialight Australia') for consideration of £1m satisfied by issuing 266,958 shares and up to £0.1m in cash. This increased ownership to 87.5%. Immediately prior to the transaction, the carrying amount of the 25% non-controlling interest in Dialight Australia was £0.7m. The Group has recognised a decrease in non-controlling interest of £0.4m and decrease in equity attributable to the parent of £0.8m. Incremental costs that were directly related to changes in ownership interest were deducted from equity. The effect on Group equity is summarised as:

	6 months ended 30 June 2022 £m (unaudited)	6 months ended 30 June 2021 £m (unaudited)	12 months ended 31 December 2021 £m (unaudited)
Carrying amount of non-controlling interest acquired	**0.4**	-	-
Consideration paid to non-controlling interest	**(1.0)**		
Incremental costs directly attributable to the transaction	**(0.2)**	-	-
Excess of consideration paid less costs recognised in transactions with non-controlling interests within equity	**(0.8)**	-	-

There were no transactions with non-controlling interests in 2021.

14. Principal and emerging risks

The principal risks and uncertainties affecting the business activities of the Group for the remaining six months of 2022 remain as listed on pages 40 to 44 of the Annual Report for the year ended 31st December 2021 (which can be found at www.dialight.com).

A summary of the principal risks and uncertainties is set out below:

- **Organic growth** - The future success of the Group depends upon continued achievement of organic growth. There is a risk to growth if the product portfolio is not renewed, there is a failure to identify customer requirements (including pricing sensitivity and economic models), and there is excessive concentration in certain verticals and/or geographical markets.

14. Principal and emerging risks (continued)

- **Environmental and geological** - The Group's main manufacturing centre is in Mexico and its main market is North America. Any impediment to raw materials getting into Mexico or restrictions on finished goods entering North America related to natural disasters could have a large impact on profitability. Disruption to global markets and transport systems arising from geological, biological, or environmental events may impact the Group's ability to operate and the demand for its products.
- **Funding** - The Group has a net debt position and there is a risk related to liquidity. The Group has not paid a dividend since 2015. 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 US Dollar could cause profit and balance sheet volatility.
- **Production capacity and supply chain** - The Group operates a complex international supply chain (both inbound and outbound) which can be impacted by a range of risk factors including political disruption, border frictions, logistics challenges and other compliance issues. Supply chain challenges can in turn impact production capacity and efficiency – as well as other factors including investment in capacity, labour-supply issues and costs of production.
- **Cyber and data systems** - Disruption to business systems would have an adverse impact on the Group. The Group also needs to ensure the protection and integrity of its data. With the Group's dispersed international footprint and increased homeworking following COVID-19 there is greater risk of impact on IT infrastructure/communications between employees.
- **Product development strategy** - Inability to translate market requirements into profitable products. Failure to deliver technologically advanced products and to react to disruptive technologies.
- **Product risk** - The Group gives a 10-year warranty on 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.
- **Talent and diversity** - The Group performance is dependent on attracting and retaining high-quality staff across all functions.
- **Intellectual property** - Theft or violation of intellectual property ("IPR") by third parties or third parties taking legal action for IPR infringement.
- **Geo-political / macro-economic impacts** - The Group faces a range of external geo-political, socio-political and macro-economic risks which, after a period of relative calm in global markets, have recently emerged as significant potential disruptors.

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.

These will continue to be evaluated, monitored, and managed through the remainder of 2022 and beyond.

Directors' responsibilities

The Interim Report complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce a half-yearly financial report. The Interim Management Report is the responsibility of, and has been approved by, the directors.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34;
- the Interim Management Report includes a fair review of the important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R;
- the Interim Management Report includes a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R.

On behalf of the Board

Fariyal Khanbabi

Chief Executive Officer

The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 34 (IAS 34), defines the minimum content of an interim financial report, including disclosures, and identifies the accounting recognition and measurement principles that should be applied to an interim financial report.

Directors are also required to:

- select suitable accounting policies and then apply them consistently; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements under IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.