

# DIALIGHT PLC

INTERIM RESULTS 2022



Dialight

The background is a dark, monochromatic image of an industrial facility. A prominent feature is a tall, dark smokestack in the center-right, which is emitting a thick, white plume of smoke that rises and spreads across the top of the frame. The rest of the image is filled with faint, dark silhouettes of industrial structures, pipes, and possibly other smokestacks, creating a complex, layered texture. The overall mood is industrial and powerful.

**OUR STRATEGY IS WORKING**  
**WE ARE EXECUTING WELL**  
**WE ARE EXCITED ABOUT THE FUTURE**

# OUR STRATEGY



## ORGANIC GROWTH

Grow our market leading position by continuing conversion of our core heavy and harsh industrial markets and introducing source and sell products that complement our product range



## INNOVATION

Pushing technological boundaries to support our environmental targets and support our customers in meeting their sustainability needs



## EXPANDED REACH

Identify and engage with new key accounts through strategic sales team. Develop new routes to market such as EPC / engineering firms, contractors and increasing our digital footprint

## UNDER PINNED BY

OPERATIONAL  
EXCELLENCE

SUPPLY CHAIN  
MANAGEMENT

# STRATEGY EXECUTION IN H1



## PEOPLE

- Deliver on zero harm for our people and the environment
- Accelerate purpose driven culture
- Create talent and capabilities needed for the future

## ORGANIC GROWTH

- Lighting orders up 28% YoY
- Capex projects now 35% of Lighting orders
- 2 Source and Sell products launched – 2 more in pipeline
- New Prosite Floodlight in 2023
- VOC\* resistant Highbay in testing



## EXPAND MARKET REACH

- Over 75 new distributor relationships added
- Over 40 new consulting engineer / contractors
- New S&C distributor added targeting \$5m pa revenue in medium term

## DEVELOP STRATEGIC RELATIONSHIPS

- Strategic sales team already delivering multi-million \$ orders for shipment in H2 and 2023
- Significant order pipeline
- Early success in securing preferred supplier status with target accounts



# H1 FINANCIAL HIGHLIGHTS

## CONTINUED STRONG REVENUE GROWTH



- Revenue up 27% (ccy)
- Lighting revenue +33% - capex projects increasing
- Order book higher than June and December 21
- First significant orders from strategic sales team - more to come

## GROSS MARGIN MAINTAINED



- 35% margin maintained
- Prices raised - will benefit H2 and 2023
- Confident significant cost inflation will be successfully offset
- Supply chain performed well given circumstance
- Operating profit £3.1m

## BALANCE SHEET / CASHFLOW



- Continued NPD and factory automation investment
- Inventory increase to ensuring availability and due to FX and inflation - aim to reduce by year end
- Net debt expected to be circa 1x EBITDA at December

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# FINANCIAL REVIEW

CLIVE JENNINGS



# INCOME STATEMENT

		Actual	Constant currency
	HY-22	HY-21	HY-21
	£m	£m	£m
Revenue	80.8	60.2	63.7
Cost of sales	(52.6)	(39.0)	(41.4)
Gross profit	28.2	21.2	22.3
Gross margin %	34.9%	35.2%	35.0%
SG&A	(25.1)	(19.7)	(20.6)
Underlying EBIT	3.1	1.5	1.7
Non-underlying costs	(0.8)	(0.7)	(0.7)
EBIT	2.3	0.8	1.0

## REVENUE

- Revenue up 27% (ccy)
- Lighting up 33% and Signals & Components up 14%
- Expect similar H2 revenue growth given substantial order book

## GROSS MARGIN

- Gross margin held at 35% despite significant cost inflation and supply chain disruption
- Increasingly confident inflation will be offset by increased selling prices and factory efficiency

## SG&A

- 31% of revenue – down 120bps YoY (ccy)
- Increase driven by revenue linked activity mainly sales & marketing

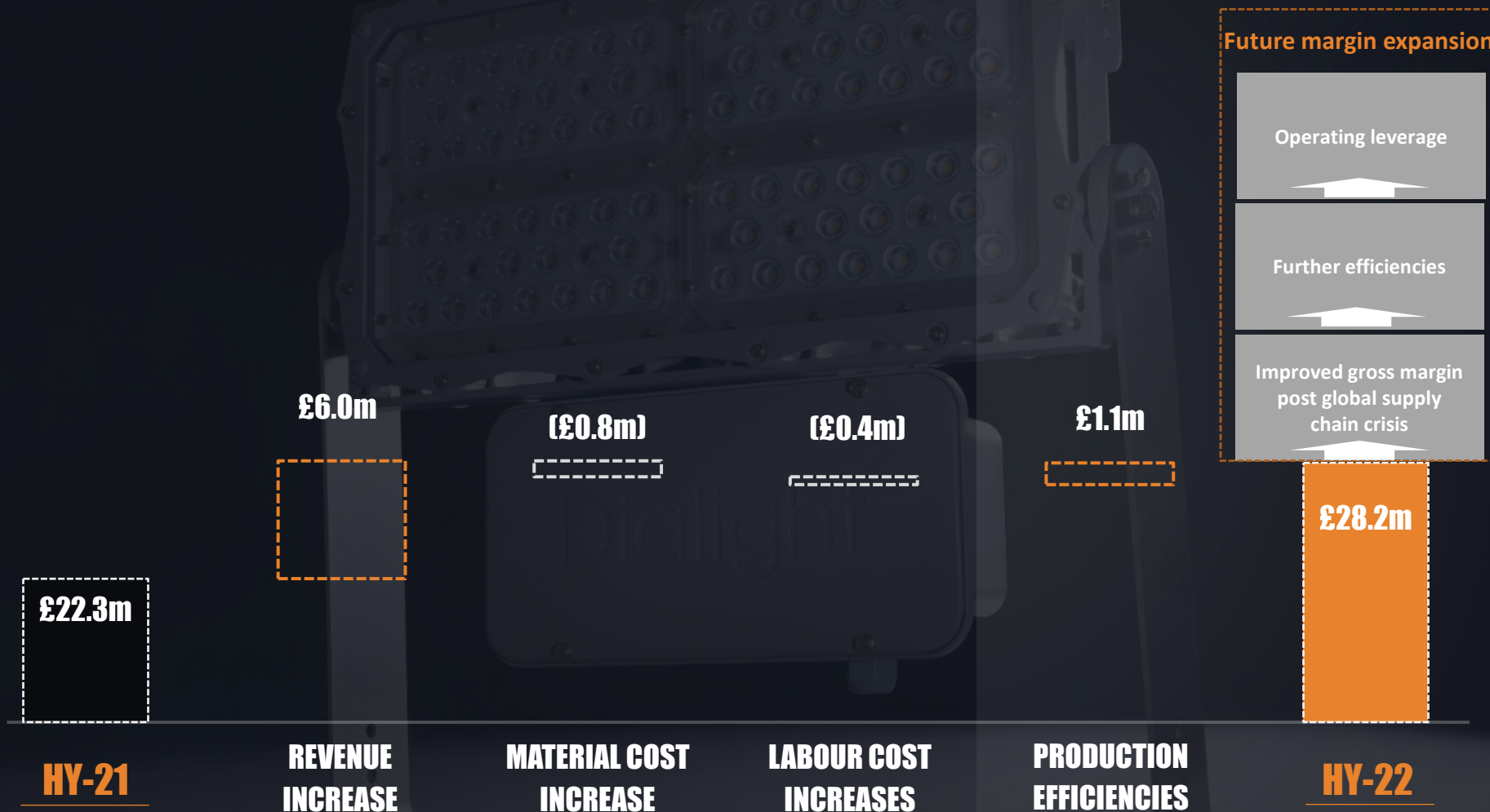
## UNDERLYING EBIT

- Doubled to £3.1m
- H1 margin of 3.8% - up 110bps YoY (ccy)

## NON-UNDERLYING ITEMS

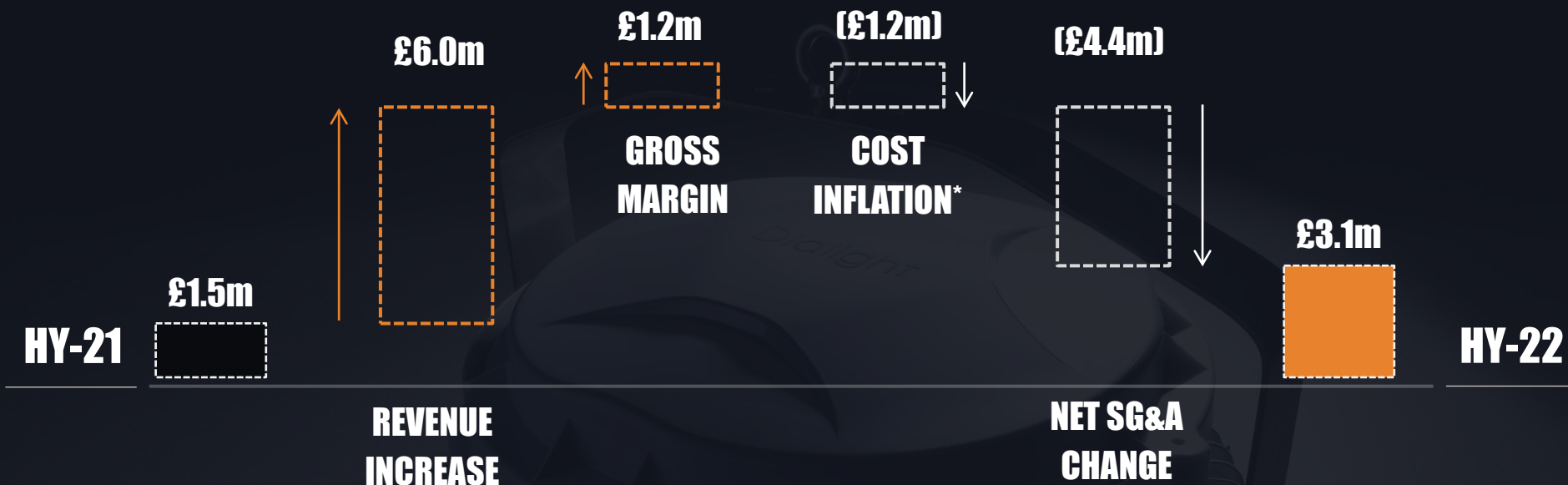
- Litigation costs with former manufacturing partner

# GROSS PROFIT BRIDGE (CCY)





# UNDERLYING EBIT BRIDGE (CCY)



  
**NET SG&A  
CHANGE**

£1.8m  
*Additional sales  
commissions*

£1.6m  
*Headcount &  
Bonus  
provisions*

£0.6m  
*Foreign  
exchange*

£0.4m  
*Travels and  
other costs*

# SEGMENT PERFORMANCE

## LIGHTING

£m (Actual)	HY-2022	HY-2021	Variance
Revenue	57.1	40.8	+40%
<b>Gross Profit</b>	<b>20.1</b>	<b>15.1</b>	<b>+33%</b>
Gross margin	35.2%	37.0%	(180)bps
Overheads	(16.2)	(12.8)	(27%)
<b>Underlying EBIT</b>	<b>3.9</b>	<b>2.3</b>	<b>+70%</b>

## SIGNALS & COMPONENTS

£m (Actual)	HY-2022	HY-2021	Variance
Revenue	23.7	19.4	+22%
<b>Gross Profit</b>	<b>8.1</b>	<b>6.1</b>	<b>+33%</b>
Gross margin	34.2%	31.4%	+280bps
Overheads	(4.5)	(3.8)	(18%)
<b>Underlying EBIT</b>	<b>3.6</b>	<b>2.3</b>	<b>+57%</b>

## REVENUE

- Strong CCY growth with US +38%; EMEA +33%; Asia +124%
- Australia CCY -14% due to COVID-19 restrictions but now improving
- Capex orders increased to 35% (2021 29%)
- Good order take from strategic sales team

## GROSS MARGIN

- Price increases and cost reduction programmes only partially offset significant inflation in key components, high freight and reduced availability

## REVENUE

- Growth of 14% in CCY driven by continued demand for OE and strong order book at December 2021
- OE order levels returning to normal following strong 2021 and high inventory in distributor network
- Traffic still weak with lack of major project bids and Vehicle hampered by low bus ridership

## GROSS MARGIN

- 280bps improvement with increased prices, focus on higher margin products and increased production volumes / leverage

# NET DEBT

	£m	
<b>Net debt at 31 December 2021</b>		<b>(15.7)</b>
<b>Inflows</b>		
Underlying EBITDA		6.5
<b>Outflows</b>		
Net working capital (excl. inventory)	(2.1)	
Increase in inventory	(3.1)	
Investment in new products	(1.7)	
Maintenance capex/others	(1.8)	
Non-underlying costs	(0.8)	
Interest and tax paid	(1.2)	
FX	(0.3)	<b>(11.0)</b>
<b>Net debt at 30 June 2022</b>		<b>(20.2)</b>

## UNDERLYING EBITDA

- Higher EBITDA, up £2m on H1 2021

## WORKING CAPITAL

- Inventory increase due to continuing supply concerns and significant increases in key component costs
- Trade receivables higher as shipments focused to end of quarter and expected receipts received early July

## CAPEX

- Continued investment into new products (Floodlight, battery backup, new power supply)
- Investment into SMT automation and new tooling

## BORROWING CAPACITY

- £4m balance on CLBILS loan repayable over next 12 months (£2m repaid in H1)
- £25m RCF to July 2027 (3+1+1)

# 2022 ASSUMPTIONS

## INCOME STATEMENT

**NET INTEREST**

**Small increase in H2**

**TAX RATE**

**Effective tax rate c.25%**

## CASH FLOW

**CAPEX**

**c.£4m production capex  
c.£4m product development**

**WORKING CAPITAL**

**Targeted inventory reduction  
Net debt at 1x EBITDA**

**H2 weighting as in previous years**

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# BUSINESS REVIEW

FARIYAL KHANBABI



# STRUCTURAL TRENDS FOR FUTURE GROWTH



**c.80%**

**of global GDP committed to net zero by 2050**

The industrial sector accounts for 1/3 of global emissions

LED lighting has 2/3 fewer carbon emissions vs. legacy lighting

Companies seeking more environmentally friendly products to help meet their net zero commitments



## GROWTH MARKETS

driven by decarbonisation of transport and growing population

## LEGISLATION CHANGES

governments keen to drive change

**2023**

ban on all fluorescent lighting in EMEA



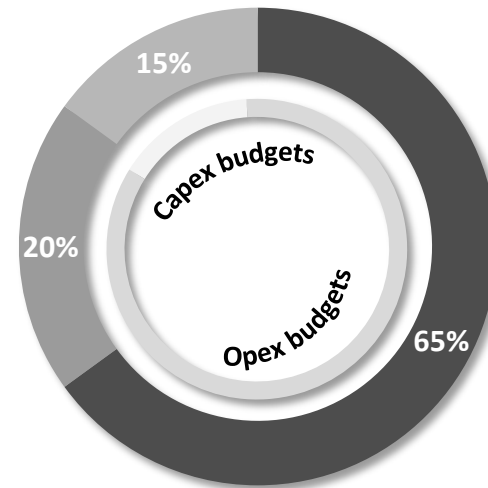
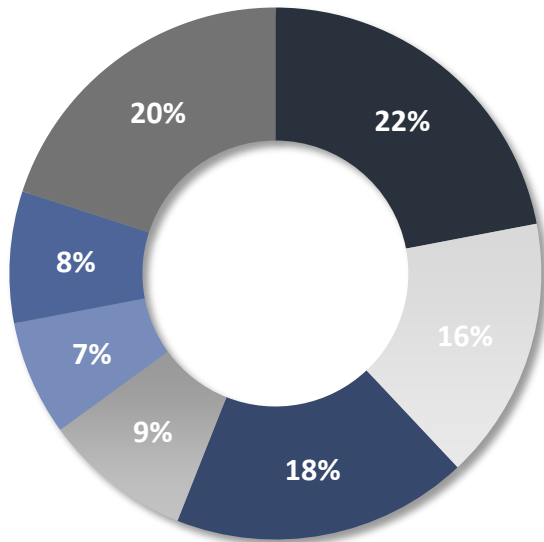
**To improve the world we live in through intelligent LED lighting technologies. We enable industrial customers to reduce their carbon footprint while maximising the safety and productivity of their facilities**

Dialight

# LIGHTING END MARKET EXPOSURES

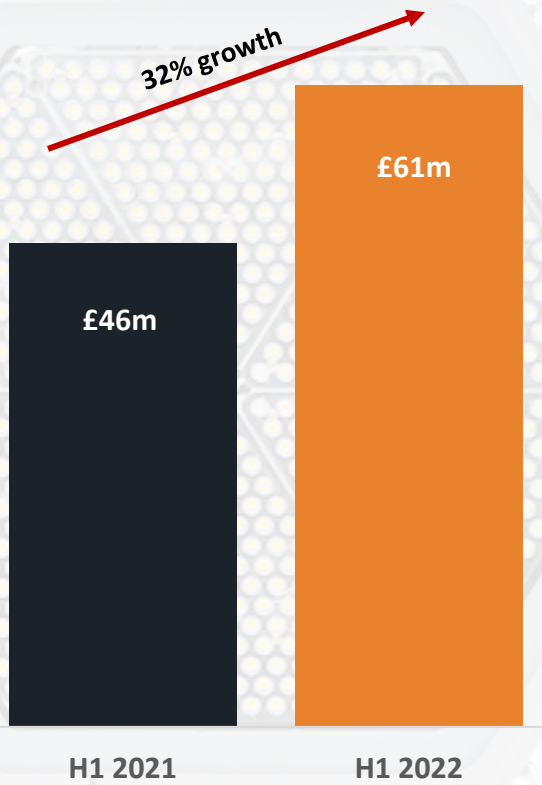
Diverse end markets, driven by significant requirement for infrastructure upgrade

65% of Group Revenue generated from annual maintenance and operational budgets



# LIGHTING ORDER PERFORMANCE YEAR-ON-YEAR

## Orders



## AMERICAS

- +46% (+36% CCY)
- Continuing MRO gains
- Increased capex projects
- Growing strategic sales

## EMEA

- +29% (+21% CCY)
- Improved performance as restrictions lifted

## APAC

- -22% Australia (-27% CCY) due to Covid-19 lockdowns, now improving
- Asia +239% (+217%)

## OBSTRUCTION

- Orders -18% (-23% CCY)
- High steel prices slowed tower construction



# PRODUCTS LAUNCHED



Area Light 90° Bracket



SafeSite Bulkhead – Zone 1 & 2



ProSite Floodlight – Zone 2

## SOURCE & SELL PRODUCTS



DuroSite® Full Cut-Off Wallpack



LED Emergency & Exit Lighting



DuroSite® High Bay



DuroSite® NSF Linear

# SIGNALS & COMPONENTS



## MARKET CONDITIONS

- Strong Opto-Electronic (OE) demand returned to normal levels but enter H2 with significant order book
- Vehicle market flat on low demand from key bus market
- Traffic down due to lack of major projects bids
- Price rises implemented to maintain margins

## BUSINESS PERFORMANCE (ccy)

- Revenue up 14% – record sales in 2021 and 2022 to date
- Gross margin +290bps to 34% as mix moved to higher margin OE products
- Underlying EBIT £3.6m +44%



## STRATEGIC FOCUS

- Increase NPD – 7 launched and 10 under evaluation
- Increase digitisation - website covers 70% of active SKUs
- Legacy product re-design to SMT increasing automation / capacity
- Continue to expand sales channel, targeting EMEA/Asia

# OPERATIONAL PERFORMANCE



## EQUIPMENT INVESTMENT

- £1m investment to upgrade machinery
- Increasing overall capacity

## CONTINUED INVESTMENT IN SUPPLY CHAIN

- Engineering resources dedicated to alternate supplies
- Reduced single source components
- Localisation of key components

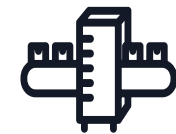


## BOTTLENECK REDUCTION

- Completed rapid improvement programme to ease bottlenecks in manufacturing
- Improved efficiency

## AUTOMATION

- Increased automation of sub assemblies
- Further investment planned for 2023 to increase capacity and efficiency
- Improved lead times



**78%**  
**On Time Delivery**

*Above current industry standard*



**3 week**  
**Lead times**



**Strong H&S record**

# SUPPLY CHAIN

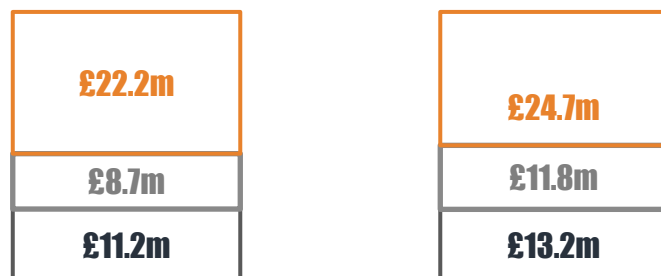
**34% of REVENUE**

**33% of REVENUE**

**INVENTORY £m**

**£42.1m**

**£49.7m**



**Dec-21**

**Jun-22**

Finished Goods  
  Sub Assembly  
  Raw Materials

**£7.6m increase in H1, including:**

**£4.5m FX impact**

**£1.3m inflation impact**

**£1.8m increase to safeguard production**



**SKU reduction**

Reducing complexity



**VMI/Consignment inventory**

Safeguarding against shortages



**Localising supply**

Utilising local suppliers to reduce lead times/risk



**Improved planning systems**

Refining process to drive targeted inventory reductions

**TARGETING CONTROLLED INVENTORY REDUCTION**

# NET ZERO JOURNEY BY 2040



## Emissions (excluding use phase)

- Base year 2020
- Full inventory completed for 2020 and 2021 and verified
- **Scope 1 & 2**            **1%\***
- **Scope 3**                **10%\***

## SBTi Timetable

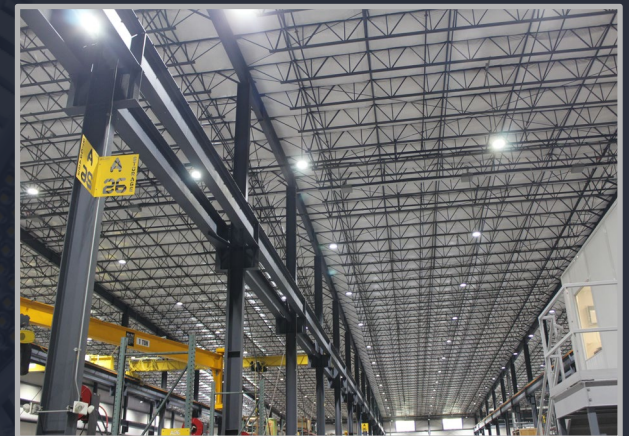
- **H1-22** Assessment of Scope 1 and 2 emissions by process
- **H2-22** Scope 3 assessments
- **H1-23** Formal target to be submitted to SBTi
- **H2-23** Agreed plan published
- **To 2030** Implement SBTi actions

## Emissions (from use phase)

- Base year 2020
- Not verified yet as subjective calculation regarding assumptions on hours of use per vertical segment
- **Scope 3**                **89%\*\***

## Net Zero by 2040

- Use of R&D annually to deliver energy efficiency improvements
- Net Zero product development
- Residual emissions require decarbonisation of grid



\* Of total emissions (excluding use phase)    \*\* Based on Dialight internal calculations

# SOCIAL RESPONSIBILITY

## Our people

- Safety continues to be a key priority, both physical and Covid related
- Dialight Foundation hardship fund supported vulnerable staff

## People in our Supply Chain

- On-going ESG surveillance of Top 30 suppliers
- Supplier localisation

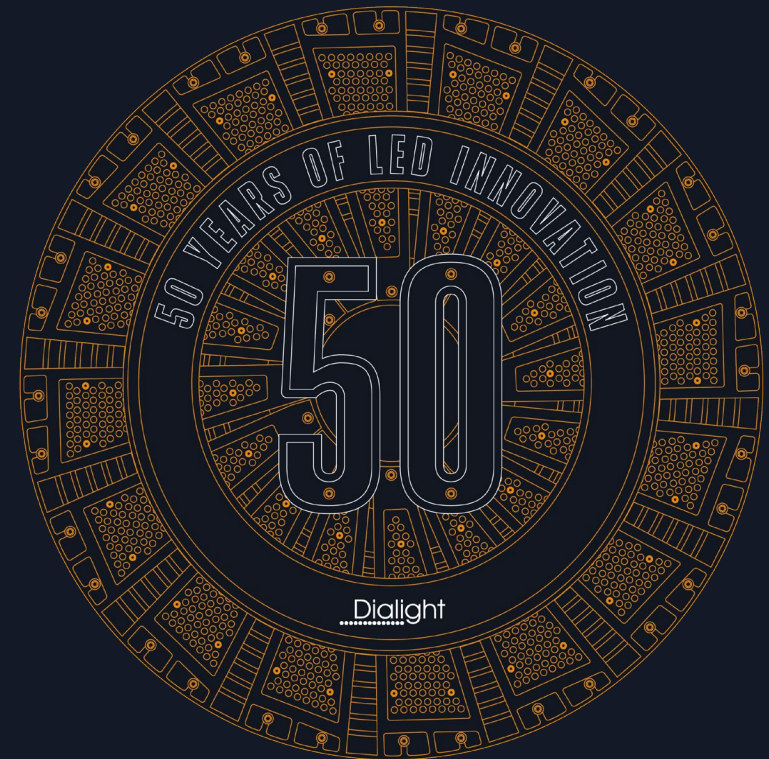


## Communities where we operate

- Renewed sponsorship of Women's Earth Alliance (WEA) grassroots accelerator program for 2022 in Mexico
- Continued support to Orphanage in Ensenada, Mexico
- Assessing new non-profit community partners in EMEA and Australia

# KEY MESSAGES

- Our markets are underpinned by long term sustainability, safety and regulatory drivers
- Specifically, Net Zero commitments and recent legislative changes
- We are delivering on our strategy focused on organic growth through expanding market reach and product innovation
- Increasing confidence in delivering significant revenue and margin growth over the medium to longer term



# APPENDIX





# OVERVIEW

## LED INDUSTRIAL LIGHTING

### MARKET PENETRATION

- Cumulative penetration of industrial LED lighting is still low, enabling strong growth potential for some years to come

### THE LED ADVANTAGE

- Low energy consumption
- Long lifetime
- Enhanced versatility

### MARKET ADOPTION DRIVERS

- Return on investment and total cost of ownership, utilising energy and maintenance cost savings
- Health, safety and wellbeing
- Increased government focus on climate change with evolving environmental policies
- Achieving ESG targets set by Corporates

### MARKET SEGMENTS

- Direct specification sale to end users, transacting through distributors
- Distributor inclusion enables simplified contracting and increases customer reach as many distributors possess large supply contracts
- Projects are a mix of maintenance (MRO) spending characterised by small volume purchases over long periods of time, or capital projects



## SIGNALS & COMPONENTS

### OVERVIEW

- Dialight has operated in these well established markets since 1938
- Sales channels comprise of six in-house sales staff and a well established web platform
- Greater visibility of sales pipeline with orders being placed up to six months in advance
- Significantly lower investment in R&D and capex

### OPTOELECTRONICS

- Diverse end customers with over 40,000 globally
- Strong distribution network, operating with 7 of the top 10 distributors

### VEHICLE

- Products designed for transit bus market in North America
- Dialight is the 'standard' at three largest OEMs

### TRAFFIC

- Supply traffic signals in North America
- Highly commoditised, mature market with high LED adoption rate
- Sales focused on cyclical replenishment

# SEGMENTS

Lighting £m	Actual currency			Constant currency	
	HY-2022	HY-2021	Variance	HY-2021	Variance
Revenue	57.1	40.8	+40%	42.9	+33%
<b>Gross Profit</b>	<b>20.1</b>	<b>15.1</b>	<b>+33%</b>	<b>15.8</b>	<b>+27%</b>
Gross margin	35.2%	37.0%	(180)bps	36.8%	(160)Bps
Overheads	(16.2)	(12.8)	(27%)	(13.5)	(20%)
<b>EBIT</b>	<b>3.9</b>	<b>2.3</b>	<b>+70%</b>	<b>2.3</b>	<b>+70%</b>

Signal and Components £m	Actual currency			Constant currency	
	HY-2022	HY-2021	Variance	HY-2021	Variance
Revenue	23.7	19.4	+22%	20.8	+14%
<b>Gross Profit</b>	<b>8.1</b>	<b>6.1</b>	<b>+33%</b>	<b>6.5</b>	<b>+25%</b>
Gross margin	34.2%	31.4%	+280bps	31.3%	+290bps
Overheads	(4.5)	(3.8)	(18%)	(4.0)	(13%)
<b>EBIT</b>	<b>3.6</b>	<b>2.3</b>	<b>+57%</b>	<b>2.5</b>	<b>+44%</b>