EDISON

discoverIE Group

Trading update

Continued order strength drives upgrades

Tech hardware & equipment

discoverIE's trading update for the four months to 31 January 2022 confirmed a continuation of the strong trading momentum reported in H122 and management expects FY22 underlying EPS for continuing operations to be ahead of board expectations, despite ongoing supply chain issues. We have upgraded our underlying diluted EPS forecasts by 4% in FY22 and 2% in FY23.

Year end	Revenue (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/20	297.9	27.3	25.1	2.97	34.9	0.3%
03/21	302.8	28.3	23.4	10.15	37.4	1.2%
03/22e	371.9	37.3	28.8	10.75	30.4	1.2%
03/23e	391.2	39.4	29.6	11.15	29.6	1.3%

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Continuing operations only (PBT and diluted EPS for FY20 are Edison estimates until further data are reported).

Continued strong momentum in H222 to date

Orders in the four-month period were up 18% y-o-y on an organic basis and up 30% versus two years ago. The order book at the end of January was £216m, over 65% higher than a year and two years ago. Revenue was 34% higher y-o-y at constant exchange rates (CER), with organic growth of 20% y-o-y and 17% versus two years ago. For the 10 months to the end of January (10M22), organic order growth was 42% y-o-y and 32% versus 10M20; 10M22 revenue growth was 28% year-on-year CER and, on an organic basis, 17% y-o-y and 12% versus 10M20. The Vertec SA disposal completed in January and management expects the Acal BFi disposal to complete this quarter – both are already accounted for as discontinued operations. Net debt/underlying EBITDA at the end of January was 0.9x on a pro forma basis (ie treating both disposals as completed, annualising acquisitions), well below the target range of 1.5–2.0x.

Upgrading forecasts

discoverIE also disclosed its new divisional structure, with the business split into two groups: Magnetics & Controls and Sensing & Connectivity. The new structure aligns business units by technology area, enabling greater collaboration between business units and giving better visibility to the group's growth initiatives (the management and structure of each business unit is unchanged). Our revised forecasts reflect the new structure and better than expected revenue and orders year to date; underlying diluted EPS increases by 4% in FY22 and 2% in FY23.

Valuation: Reflects growth potential

While the stock trades towards the upper end of its peer group on a P/E basis, the focus on strategic growth markets supports sustained organic revenue growth and we see potential for upside to earnings through expansion of operating margins and accretive acquisitions. The disposal of the Custom Supply business provides the company with resources to fund further acquisitions and frees up management to fully focus on the growth of the Design & Manufacturing businesses.

10 February 2022

Price	**875p**
Market cap	**£830m**

Net debt (£m) at end H122	75.6
Shares in issue	94.8m
Free float	96%
Code	DSCV
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(13.7)	(12.2)	25.0
Rel (local)	(14.4)	(14.9)	8.9
52-week high/low		1262p	610p

Business description

discoverIE is a leading international designer and manufacturer of customised electronics to industry, supplying customer-specific electronic products and solutions to original equipment manufacturers.

Next events

FY22 trading update	April 2022

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

Edison profile page

discoverIE Group is a research client of Edison Investment Research Limited

Changes to forecasts

Exhibit 1: Changes to forecasts

£m	FY22e old	FY22e new	Change	y-o-y	FY23e old	FY23e new	Change	y-o-y
Revenues	365.9	371.9	1.6%	22.8%	388.1	391.2	0.8%	5.2%
Gross margin	38.0%	38.0%	(0.0%)	(0.0%)	38.0%	38.0%	0.0%	0.0%
EBITDA	52.0	54.0	3.9%	22.7%	56.5	56.9	0.8%	5.4%
EBITDA margin	14.2%	14.5%	0.3%	(0.0%)	14.6%	14.5%	(0.0%)	0.0%
Underlying operating profit	38.0	39.1	2.9%	26.9%	41.2	41.8	1.5%	7.0%
Underlying operating margin	10.4%	10.5%	0.1%	0.3%	10.6%	10.7%	0.1%	0.2%
Normalised operating profit	40.4	41.5	2.7%	30.0%	43.2	43.8	1.5%	5.6%
Normalised operating margin	11.0%	11.2%	0.1%	0.6%	11.1%	11.2%	0.1%	0.0%
Underlying PBT	33.6	34.9	3.9%	28.3%	36.6	37.4	2.3%	7.3%
Normalised PBT	36.0	37.3	3.6%	31.8%	38.6	39.4	2.1%	5.7%
Normalised net income	26.6	27.6	3.6%	27.9%	28.4	29.0	2.1%	5.1%
Normalised diluted EPS (p)	27.8	28.8	3.6%	22.9%	28.9	29.6	2.1%	2.8%
Underlying diluted EPS (p)	25.9	26.9	3.9%	19.6%	27.4	28.1	2.3%	4.3%
Reported basic EPS (p)	15.1	16.1	6.9%	19.2%	13.3	13.9	4.9%	(13.6%)
Dividend per share (p)	10.8	10.8	0.0%	5.9%	11.2	11.2	0.0%	3.7%
Net (debt)/cash	(42.8)	(42.0)	(1.9%)	(11.0%)	(38.8)	(37.1)	(4.5%)	(11.7%)
Net debt/EBITDA (x)	0.9	0.8			0.8	0.7		

Source: Edison Investment Research

Exhibit 2: Financial summary

£m	2020	2021	2022e	2023e
Year end 31 March	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	297.9	302.8	371.9	391.2
Cost of Sales	(197.8)	(187.7)	(230.6)	(242.5)
Gross Profit	100.1	115.1	141.3	148.7
EBITDA	43.6	44.0	54.0	56.9
Operating Profit (before am, SBP and except.)	31.6	31.9	41.5	43.8
Operating Profit (before am. and except.)	29.8	30.8	39.1	41.8
Amortisation of acquired intangibles	(9.0)	(11.1)	(14.5)	(16.5)
Exceptionals	(4.3)	(2.6)	(7.8)	(3.0)
Share-based payments	(1.8)	(1.1)	(2.4)	(2.0)
Operating Profit	16.5	17.1	16.8	22.3
Net Interest	(4.3)	(3.6)	(4.2)	(4.4)
Profit Before Tax (norm)	27.3	28.3	37.3	39.4
Profit Before Tax (FRS 3)	12.2	13.5	12.6	17.9
Tax	(3.3)	(4.0)	(3.3)	(4.7)
Profit After Tax (norm)	21.8	21.6	27.6	29.0
Profit After Tax (FRS 3)	8.9	9.5	9.3	13.2
Discontinued operations	5.4	2.5	5.6	0.0
Net income (norm)	21.8	21.6	27.6	29.0
Net income (FRS 3)	14.3	12.0	14.9	13.2
Ave. Number of Shares Outstanding (m)	84.0	88.8	92.6	94.8
EPS - normalised & diluted (p)	25.1	23.4	28.8	29.6
EPS - underlying, diluted (p)	23.5	22.5	26.9	28.1
EPS - IFRS basic (p)	17.0	13.5	16.1	13.9
EPS - IFRS diluted (p)	16.5	13.0	15.5	13.4
Dividend per share (p)	3.0	10.2	10.8	11.2
Gross Margin (%)	33.6	38.0	38.0	38.0
EBITDA Margin (%)	14.6	14.5	14.5	14.5
Operating Margin (before am, SBP and except.) (%)	10.6	10.5	11.2	11.2
discoverIE adjusted operating margin (%)	10.0	10.2	10.5	10.7
BALANCE SHEET				
Fixed Assets	236.4	245.0	277.5	262.4
Intangible Assets	182.2	191.2	222.3	206.3
Tangible Assets	46.3	45.9	47.3	48.2
Deferred tax assets	7.9	7.9	7.9	7.9
Current Assets	197.4	183.6	215.6	225.1
Stocks	68.4	67.7	81.5	85.7
Debtors	90.1	84.9	102.9	108.2
Cash	36.8	29.2	29.4	29.3
Current Liabilities	(103.6)	(107.8)	(130.4)	(136.6)
Creditors	(94.0)	(102.2)	(124.8)	(131.0)
Lease liabilities	(5.3)	(4.8)	(4.8)	(4.8)
Short term borrowings	(4.3)	(0.8)	(0.8)	(0.8)
Long Term Liabilities	(129.7)	(112.0)	(97.0)	(82.7)
Long term borrowings	(93.8)	(75.6)	(70.6)	(65.6)
Lease liabilities	(14.7)	(16.7)	(16.1)	(15.5)
Other long term liabilities	(21.2)	(19.7)	(10.3)	(1.6)
Net Assets	200.5	208.8	265.7	268.2
CASH FLOW				
Operating Cash Flow	48.0	56.8	42.4	51.5
Net Interest	(3.7)	(3.1)	(3.6)	(3.8)
Tax	(6.4)	(7.2)	(9.7)	(10.4)
Capex	(6.3)	(3.9)	(8.5)	(8.5)
Acquisitions/disposals	(73.6)	(20.5)	(52.7)	(7.0)
Financing	53.9	(6.6)	46.7	(6.7)
Dividends	(8.1)	(2.8)	(9.5)	(10.2)
Net Cash Flow	3.8	12.7	5.2	4.9
Opening net cash/(debt)	(63.3)	(61.3)	(47.2)	(42.0)
HP finance leases initiated	0.0	0.0	0.0	0.0
Other	(1.8)	1.4	0.0	0.0
Closing net cash/(debt)	(61.3)	(47.2)	(42.0)	(37.1)

Source: discoverIE, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by discoverIE Group and prepared and issued by Edison, in consideration of a fee payable by discoverIE Group. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.