Operational footprint and performance materially improved with underlying gross margin maintained

Technological leadership remains strong with sustainability benefits to our customers even more relevant

Sales recovery gaining momentum but challenging markets

Strengthened product development
FINANCIAL REVIEW
Ronan Sheehy
Interim Group Finance Director
FINANCIAL HIGHLIGHTS

**Revenue**

<table>
<thead>
<tr>
<th>FY-18</th>
<th>FY-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>£169.6m</td>
<td>£151.0m</td>
</tr>
</tbody>
</table>

**Underlying EBIT**

<table>
<thead>
<tr>
<th>FY-18</th>
<th>FY-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>£8.0m</td>
<td>£5.2m</td>
</tr>
</tbody>
</table>

**Underlying EPS**

<table>
<thead>
<tr>
<th>FY-18</th>
<th>FY-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.3p</td>
<td>5.8p</td>
</tr>
</tbody>
</table>

36%
Underlying gross margin
(FY-18: 36%)

£16.5m
Net debt
(FY-18: Net debt £2.9m)

£16.5m
Non-recurring costs
(FY-18: £0.4m)

*Underlying excludes audited and unaudited non-recurring costs*
EBIT BRIDGE

FY-18

£8.0m

£1.2m

FY-19

£2.5m

£5.2m

Lighting revenue

S&C revenue

Operating cost savings
### Lighting

<table>
<thead>
<tr>
<th></th>
<th>Reported currency</th>
<th></th>
<th>Constant currency</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY-19</td>
<td>FY-18</td>
<td>Variance</td>
<td>FY-18</td>
</tr>
<tr>
<td>Revenue</td>
<td>111.5</td>
<td>125.0</td>
<td>(11%)</td>
<td>128.7</td>
</tr>
<tr>
<td>Underlying gross profit</td>
<td>41.5</td>
<td>47.1</td>
<td>(12%)</td>
<td>48.3</td>
</tr>
<tr>
<td>Gross margin</td>
<td>37%</td>
<td>38%</td>
<td>-100bps</td>
<td>38%</td>
</tr>
<tr>
<td>Overheads</td>
<td>(34.5)</td>
<td>(38.6)</td>
<td>11%</td>
<td>(39.8)</td>
</tr>
<tr>
<td>EBIT</td>
<td>7.0</td>
<td>8.5</td>
<td>(18%)</td>
<td>8.5</td>
</tr>
</tbody>
</table>

- Revenue down 11% as operations not fully recovered until Q4 2019 and challenges in certain end markets
- Underlying gross margin broadly flat
- Cost savings to mitigate impact of some of the revenue reduction
## NON-RECURRING COSTS

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>Reported Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£m</strong></td>
<td><strong>FY-19</strong></td>
</tr>
<tr>
<td>Additional costs for 3rd party vendors</td>
<td>6.1</td>
</tr>
<tr>
<td>Freight and handling - inventory</td>
<td>3.2</td>
</tr>
<tr>
<td>Removal cost - equipment</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Costs related to exit from outsource manufacturer</strong></td>
<td>10.2</td>
</tr>
<tr>
<td>Redundancy</td>
<td>1.1</td>
</tr>
<tr>
<td>Loss on disposal</td>
<td>2.5</td>
</tr>
<tr>
<td>Write-off receivable from outsource manufacturer</td>
<td>2.7</td>
</tr>
<tr>
<td>Pension (GMP Equalisation)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16.5</strong></td>
</tr>
<tr>
<td><strong>Cash impact</strong></td>
<td><strong>11.8</strong></td>
</tr>
</tbody>
</table>

### Costs related to exit from outsource manufacturer (£10.2m)
- Premium for using small local vendors & ramp-up costs for Tijuana Plant (£6.1m)
- Cost to move materials from outsource manufacturer (£3.2m)
- Removal and re-commissioning of paint line and CNC machines (£0.9m)

### Right-sizing costs base (£1.1m)
- Redundancies (£1.1m)

### Loss on disposal (£2.5m)
- European Obstruction business disposal

### Receivable write off (£2.7m)
- IFRS adjustment
**SIGNALS & COMPONENTS**

**Revenue**
- FY-18: £44.6m
- FY-19: £39.5m
- Revenue reduction: 11%

**Gross margin**
- FY-18: 30%
- FY-19: 32%
- Improvement in gross margin: 200 bps

**EBIT**
- FY-18: £4.5m
- FY-19: £4.3m
- Reduction in EBIT: 4%
**INVENTORY**

- **£6.7m reduction in sub assemblies and raw materials**
- **Increase in finished goods, will be maintained to support growth**
- **Continued focus on optimising inventory levels**
- **Expecting further progress during 2020**
# NET DEBT

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net debt at 31 December 2018</strong></td>
<td>(2.9)</td>
</tr>
<tr>
<td><strong>Inflows</strong></td>
<td></td>
</tr>
<tr>
<td>Underlying EBITDA</td>
<td>10.1</td>
</tr>
<tr>
<td>Net working capital</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Outflows non recurring</strong></td>
<td></td>
</tr>
<tr>
<td>Cost of exiting outsource manufacturer</td>
<td>(10.2)</td>
</tr>
<tr>
<td>Investment in operating facilities</td>
<td>(6.8)</td>
</tr>
<tr>
<td><strong>Other outflows</strong></td>
<td></td>
</tr>
<tr>
<td>Redundancy costs and disposal of subsidiary</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Investment in new products</td>
<td>(6.0)</td>
</tr>
<tr>
<td>Other</td>
<td>(1.1)</td>
</tr>
<tr>
<td><strong>Net debt at 31 December 2019</strong></td>
<td>(16.5)</td>
</tr>
</tbody>
</table>

- **£2.0m - Improvement in working capital**
- **£10.2m – Paying 3rd party vendors**
- **£6.0m - Investment in R&D**
- **£6.8m - Investment in new facilities**

RCF facility renewed for three years, net debt/EBITDA at 1.6x
2020 PLANNING ASSUMPTIONS

**INCOME STATEMENT**
- Net Interest
- Tax Rate: c.26%
- Broadly in line with FY-19

**CASH FLOW**
- Capex:
  - c.£2m operational capex
  - c.£5m product development
- Working capital
- Inventory level targeted at £38-40m
- H2 weighting as in previous years
2019 REVIEW

• Exited from outsource manufacturer; two new plants in Mexico & Malaysia

• Operational performance much improved from Q4, enhanced capability & capacity

• Lead times significantly reduced, overdue orders eliminated

• Focused on rebuilding customer & distributor confidence

• Positive customer response but tough conditions in certain markets

• Signals & Components challenging year
INVESTMENT CASE

POSITIONED FOR GROWTH
- Diverse customer base

DIFFERENTIATED
- Technological leadership

INTELLIGENT
- Integrated controls

TRUSTED
- Long term track record

SUSTAINABLE
- Environmentally friendly

SCALABLE
- Significant capacity
ENVIRONMENTAL, SOCIAL & GOVERNANCE

- Strong health & safety performance
- Board diversity
- Continue as a group to reduce carbon footprint

Dialight now qualifies for the Green Economy Mark and is part of the FTSE4Good Index
MARKET SEGMENTATION

CORE

HIGH TIER
Hazardous and heavy industrial
• Lower price erosion
• Lower volume growth
• Smaller market
• ~ 10 competitors

MID TIER
Light industrial and warehouse
• Lower cost
• Low - Med price erosion
• Larger market & growth
• ~ 30 competitors

LOW TIER
Light industrial
• Lowest cost
• High price erosion
• Highest volume growth
• Medium sized market
• > 200 Competitors

GROWTH

NOT TARGETED
OPERATIONAL PERFORMANCE

80% On time delivery %

3 WEEKS Lead time

70% Orders shipped in one day

Number of shifts

Physical space

Supply chain

Demand vs Supply (Units 000s)

2019

2020

Supply today annualised

Supply With Additional shifts

60% Additional capacity

Dialight
GROSS MARGIN IMPROVEMENT

2019 gross margin: 29%
Exiting 2020 gross margin: 40%

Increases:
- Reduced use of hybrid model
- Product cost reductions
- Material cost reductions
- Improved efficiency
OPERATIONS

PRODUCT DEVELOPMENT

SALES
PRODUCT DEVELOPMENT

Growing our core products
• Cost reductions
• Performance upgrades

New products
• Filling portfolio gaps

New technologies
• For the next generation of luminaires
• Integrated controls
**LIGHTING ORDER INTAKE**

**AMERICAS (7%)**
- US market impacted by US/China tariffs
- Oil & Gas end market down
- US well positioned despite these headwinds

**EMEA (21%)**
- New management team led by a member of US team
- Establishing stronger distribution network

**APAC (8%)**
- Australia down due to mining weakness
- Rest of Asia performing well

**OBSTRUCTION (10%)**
- New products to enter market during Q2 2020
- Focus on broadening customer base
IMMEDIATE SALES STRATEGY

• Weekly operational and lead time metrics
• Senior management engagement
• Consistent on time delivery and short lead times
• Continued expansion of routes to market
• New product launches
• Regionally specific products
Operational footprint and performance materially improved with underlying gross margin maintained

Technological leadership remains strong with sustainability benefits to our customers even more relevant

Sales recovery gaining momentum but challenging markets

Strengthened product development
OUTLOOK

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

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

- **Custom Power Supplies**: 10 year warranty
- **Latest LEDs & Advanced Optics**: Better light utilisation, fewer lights to illuminate
- **Integrated Design**: Reduced installation and maintenance time
- **Sensors & Controls**: Further value proposition for our customers
## Vertical Segments

<table>
<thead>
<tr>
<th>Sector</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obstruction</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Heavy industrial</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>Mining</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>24%</td>
<td>22%</td>
</tr>
<tr>
<td>Power</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>Pulp &amp; Paper</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Other industrials</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
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