Dialight plc

Full year results 2016

Summary of analysts' presentation by:

Michael Sutsko, Chief Executive

Fariyal Khanbabi, Chief Financial Officer

Positioned for long-term sustainable growth

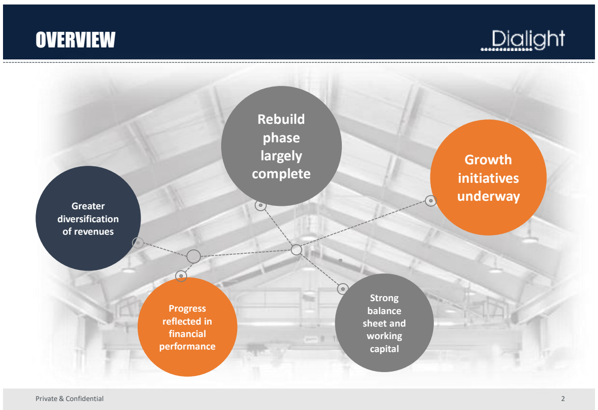
Michael Sutsko, Dialight's Chief Executive, began by summarising the highlights of the year.

In 2015, we outlined a clear plan to improve our business and build towards sustainable, profitable growth. The plan is in three phases: *rebuild*, *lead* and *grow*.

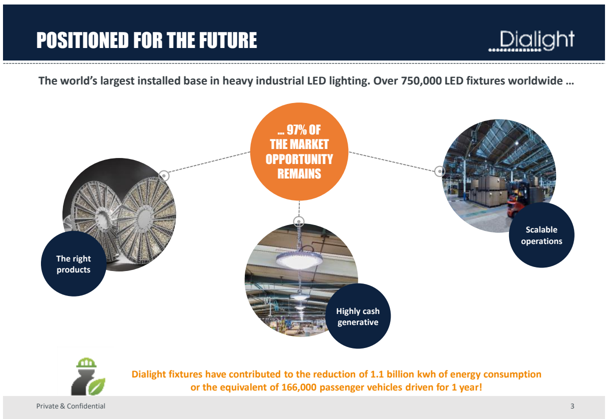
Phase one is to *rebuild* our operations to enable scalable and cost efficient production. This is now almost complete. The shift to outsourced manufacturing, a streamlined product portfolio and common production platforms is progressing well. The fundamental improvement in our operating model is reflected in our financial results and notably in our profit growth.

Phase two of our plan is to continue to *lead* our market and technology, through a product roadmap and better use of sales channels.

Phase three is to *grow* with a diverse customer base and capture the £50bn LED lighting market opportunity.



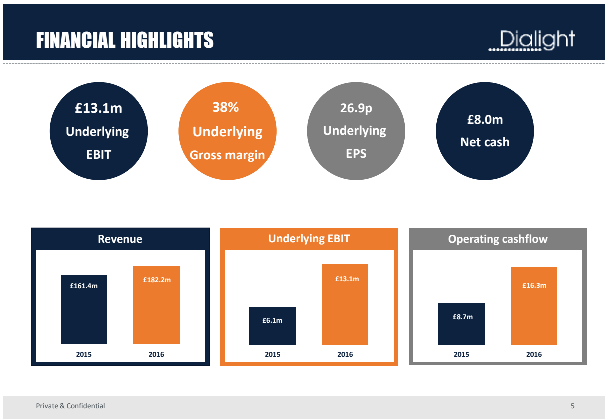
Dialight remains the market leader in industrial LED lighting building on the largest installed base in that market. With 97% of the market remaining to covert to LEDs, the company believes that it is well positioned with the right products, global scale and financial strength to continue to be the leader in this space.



Customers convert to LED lighting and buy Dialight's products because it makes good economic sense; saving maintenance and energy costs, and improving safety. They are also motivated by an increasing mandate to be more sustainable and consider the long-term effects their business has on the planet and its inhabitants. Dialight is driving not only to improve the payback on this investment, but also to support our customers' sustainability initiatives and to be an example as well.

Fariyal Khanbabi, Chief Financial Officer reviewed the year's financial performance.

We delivered a strong set of results in a backdrop of uncertain market conditions. Notably, we grew EBIT from £6.1m in 2015 to £13.1m in 2016.



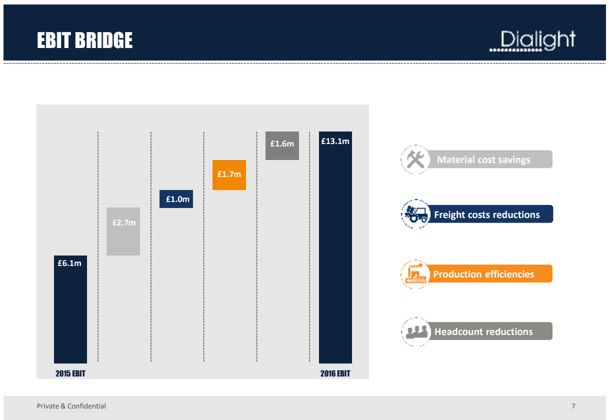
The strong progress in 2016 can be demonstrated more clearly in our EBIT bridge.

The significant increase in operating profit was a result of the fundamental shift in Dialight's operating model, which has reduced costs and enabled scalable, cost efficient production.

Reducing material costs delivered cost savings of £2.7m. Production efficiencies resulted in a saving of £1.7m. Our facility in Mexico now runs at 50% of the labour force of 2015, and our site in Newmarket was successfully closed and sold.

A new freight contract was signed at the beginning of 2016 and this has delivered savings of £1.0m.

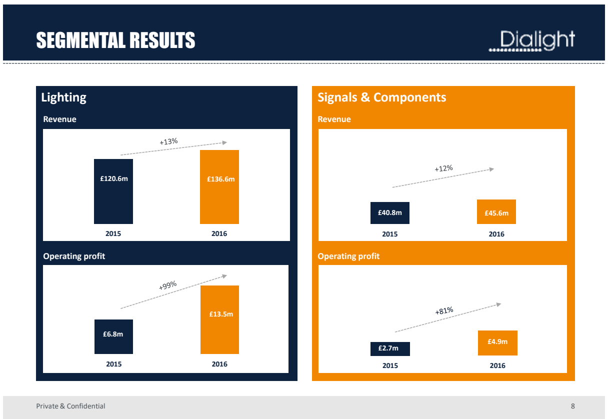
The actions taken in 2015 to reduce global headcount by 12 % have delivered saving of £1.6m in the current year.



Our lighting division saw profit growth of 99%. This division continues to be our focus as we build a flexible operational platform to capture the significant growth opportunity within the industrial LED market. We have the leading market position within the US and 21% market share in the rest of the world. We continue to diversify our end markets and geographies, reducing our exposure to the oil and gas market from 24% of revenue in 2015 to 16% in 2016. Our top three vertical markets now account for 42% of revenue compared to 54% in the prior year.

Lighting has benefited from gross margin improvements as Mexico has improved efficiency and we have reduced our input prices.

Signals and Components grew profits strongly, benefitting from the relocation of traffic production from the US to Mexico. This resulted in an 800bps improvement in gross margin. This market is highly competitive and our progress reflects our ability to offset downward market pressure on pricing.



Dialight has undergone a significant transformation.

The first step in the process has been to platform engineer all of our lighting products. This allows us to reduce the number of parts that we hold enabling improved sales forecasting and lowering inventory levels. This process is key in the move to a manufacturing partnership. This has been a learning curve for us and as such we will incur costs of £2.5m in 2016 and 2017 that we did not anticipate relating to the transition.

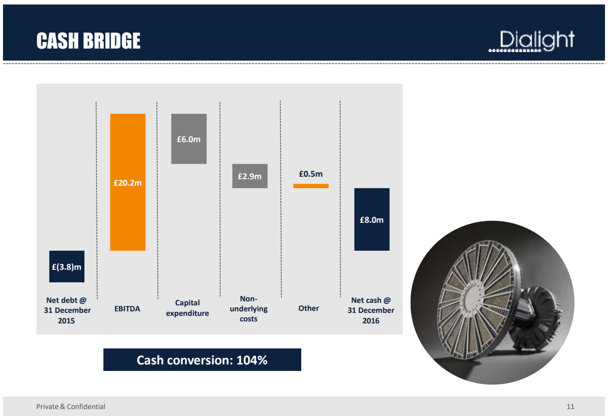
The shift to platform engineering and outsourced manufacturing has resulted in some of our product lines being obsolete. This can be seen in our impairment of intangible assets, and inventory obsolescence of £3.7m in 2016.

The change in operating model has resulted in us closing our long standing facility in Newmarket in September, and the downsizing of our Mexico facility to only produce Signals & Components products.

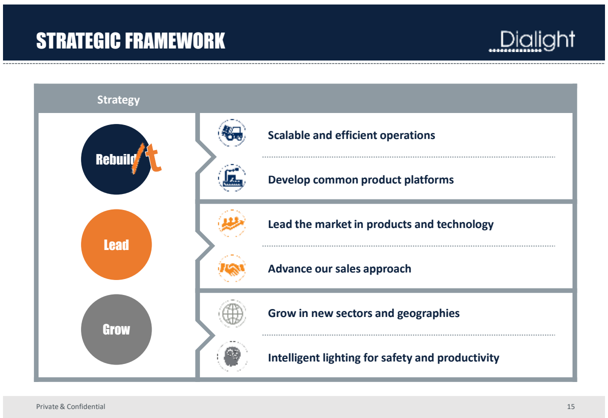
The total cash expense of these non-underlying costs was £4.9m, with £2.9m incurred in 2016 and the balance in 2017.

£m	2016	2015
Employee severance and restructuring costs	5.3	1.8
Intangible asset impairment	5.1	1.0
Inventory costs	3.7	6.0
Production transfer costs	2.4	-
Other	(0.1)	0.7
Non-underlying costs	16.4	9.5
Total cash impact	4.9	2.4

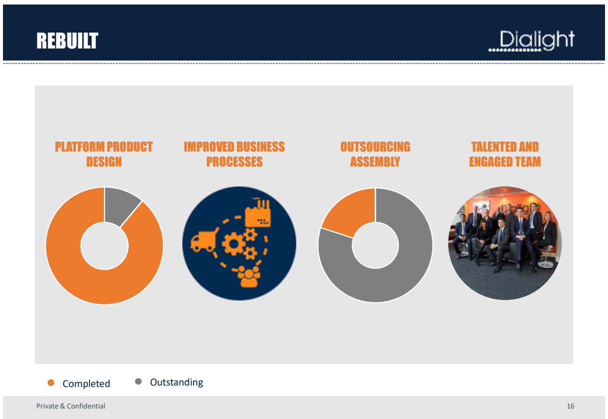
Turning to cash, we finished the year with net cash of £8.0m. We have refinanced our existing £25m credit facility with HSBC for a further five years. This was done at reduced pricing and wider covenant thresholds. Our cash generation together with our new HSBC facility gives the Group considerable financial flexibility to invest for long-term growth.



Michael Sutsko reviewed the strategic progress of the Group in more detail.

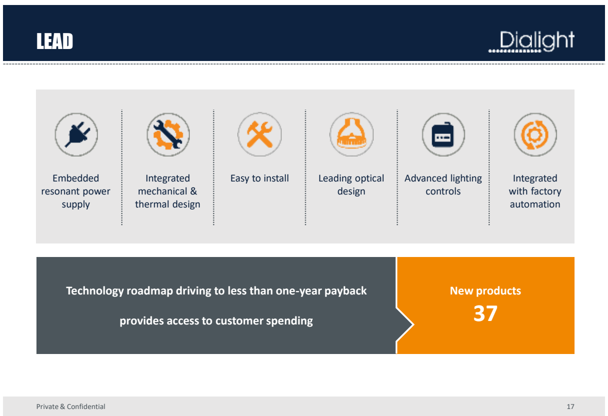


In 2016, we have largely completed execution on the initiatives to rebuild a scalable organisation. In this "rebuilt" Dialight, we have re-engineered our product lines to a platform concept. This is part of our shift from a large number of designs and high levels of inventory to products that are built to a configure-to-order scheme. Dialight can now meet our customers' widely varying individual project requirements of power, light quality and installation – at lower service cost and greater speed. Significant headway has been made in migrating production to a Sanmina facility with the remainder of products intended to be transferred by mid-2017. This partnership will allow Dialight to access some of the best electronics assembly capabilities and grow together with Sanmina's extensive global footprint.

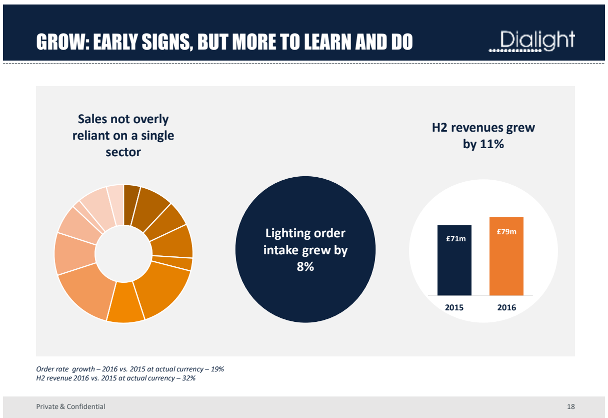


Improvements in our business processes and the engagement of our leadership teams were key enablers to success in the year.

Dialight has earned its market leading position through its close market channels and leading technology. As the business went through changes in structure, it was important to maintain our leadership position. Dialight delivered thirty-seven new products in 2016 as part of a long term roadmap to move to a less than one-year payback for customers. Dialight's ability to deploy new technology through its roadmap is expected to drive a shift in spending and accelerate adoption of LED technology in industrial customers. Dialight will lead the way with technology that optimises energy, lifetime and maintenance, and safety and productivity.



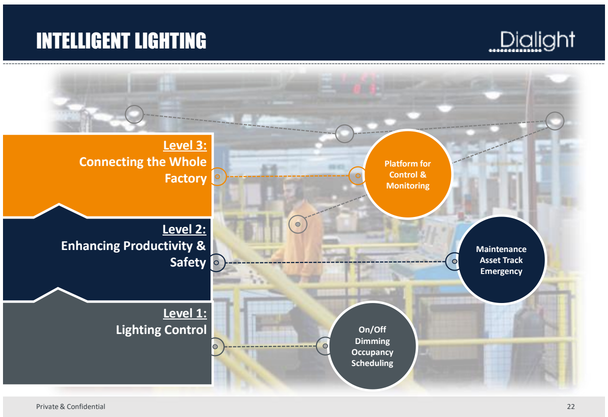
With significant efforts to rebuild a scalable operation and maintain product leadership, Dialight has set out to clearly lay the groundwork to drive revenue growth built on these unique capabilities. In 2016, we saw the initial signs of success despite a challenging industrial market condition. On a constant currency basis, Lighting orders grew by 8% and second half Lighting revenues by 11%. Our quality of earnings also improved as we demonstrated our ability to sell across industrial sectors and reduce our reliance on oil and gas markets.



In addition to our new product roadmap, previously highlighted, we have made great strides in collaborating with world leading industrial and facility automation companies as well as with our own strategic customers. Dialight announced three automation partnerships in 2016. Early in the year we become the first lighting company to be a Rockwell Encompass Partner. Additionally, compatibility with Honeywell's Tridium system will give Dialight interoperability with their leading building automation platform. Dialight's INEM system for obstruction lighting allows customers to access critical information at their often remote sites and integrate that with their network operations centres. Stand-alone lighting controls, which Dialight offers, are fit for purpose for offices, retail, and light industrial and warehouse environments. Industrial customers find an easier and more robust solution by being able to control their lighting through well-known and established systems. Dialight's "open architecture" approach allows us to partner with our customers and their automation systems to provide a more robust solution.

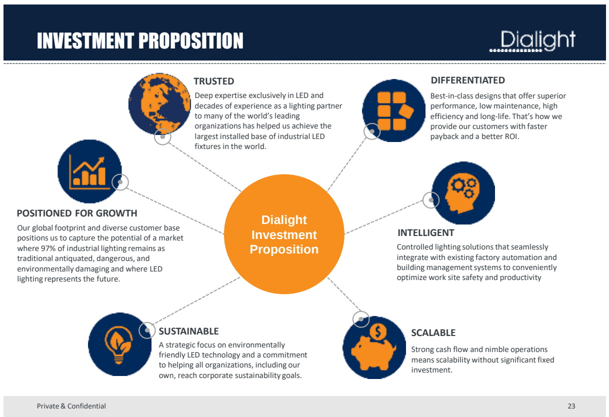
Dialight's customers are focused on sustainability as well as increasing their bottom line. There is increasing awareness of the payback benefits of installing Dialight lighting; as well as the increased productivity, safety, and environmental impact of making the change. This is a long-term market driver for the adoption of industrial LED lighting. Dialight will co-present at the U.S Department of Energy's "Better Plants" summit in May of 2017 focusing on how Dialight has helped Ford have achieved their 2020 reduction target on energy consumption.

As Dialight begins to focus on growth, the next level of customer value will come in the area of controls. At its basic level, Dialight's lighting controls systems can provide enhanced lifetime, safety and energy savings through features like dimming, occupancy sensing, daylight harvesting, or scheduling.



As our customers install arrays of connected lights they are concurrently installing robust, powered and connected network nodes in locations with a critical vantage point throughout their factories. This network enabled high ground can provide Dialight with a second level of value creation for our customers. Lights can be integrated into the daily functioning of the factory to be an enhanced platform for applications such as maintenance, emergency management, or asset tracking.

This "intelligent lighting" can further provide a built-in network for a wide range of industrial companies wishing to deploy sensor and control networks, but are currently limited by the challenge of network deployment. Dialight's partnerships with leading factory automation companies further enhances the value of the network of intelligent lights as they become integrated into the systems that have a proven track record.



In summary, 2016 was a year of change for Dialight. We are making good progress with our three-year plan to return to sustainable profit growth. Phase one of the plan, to rebuild our operating model, is largely complete. The sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offer real value to our customers. This progress underpinned our encouraging financial performance in challenging market conditions.

Phase two of the plan – growth initiatives to capture the long-term opportunity in LED lighting – is underway, and on track to deliver against our strategic plan. We remain confident of the Group's prospects for 2017 and over the medium to long-term, based on current FX rates.

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