

# DIALIGHT



FULL PERIOD RESULTS 2024

INVESTOR PRESENTATION JULY 2024





# EXECUTIVE SUMMARY

## KEY PROGRESS SO FAR

- *We are 5 months in role*
- *Lots of positive change has happened already – details follow.*
- *We have a willing team who welcome positive change and want to learn and grow*

## FINANCIAL PERFORMANCE

- *Total group net revenue of \$226.0m for 15-months to 31/3/24 (\$209.8m for 12-months to 31/12/22)*
- *Underlying operating loss \$4.6m*
- *Non-underlying costs of \$25.6m*

## MOVING FORWARD

- *There is still lots to do and it is still early days*
- *Market conditions remain tough, self-help is key*
- *Focusing on strengthening customer relationships and partnerships.*
- *Strong medium-term potential*

## TRAFFIC DISPOSAL

- *Divested Traffic segment in July 2024*

# THE GROUP'S CORE STRENGTHS REMAIN VALID

- Premium product with strong brand awareness in our core markets
- Our industry leading 10-year warranty is based on our low maintenance mechanical design
- Our in-house designed power supplies offer protection against environmental contaminants and vibration related failures
- Strong access to customers, distributors and contractors within our main markets
- Capability of our people
- 1/3 of global emissions are from the industrial sector, offering us good growth potential



# BUSINESS COMPONENTS

## LIGHTING

- Remains the core of our business
- Focused on harsh and hazardous industrial applications
- A mix of maintenance (MRO) and capital projects



## COMPONENTS

- Diverse customer base with high degree of order visibility
- Consistently profitable and cash generative
- Sub-scale cyclical operation with potential to grow



## OBSTRUCTION

- Profitable with high margins
- Good relationships with distributors
- Exploring partnership model to enable future investment in product line



## VEHICLE

- Leader in North America bus market
- Reviewing appropriate operating structure to maximise benefits
- Production mainly across Roxboro and Ensenada



## TRAFFIC

**DIVESTED IN JULY 2024**



# **TRANSFORMATION UPDATE**



# A GOOD BUSINESS WITH POTENTIAL TO UNLOCK GREATER VALUE

- Strategy execution and transformation programme are making good progress
- Potential to realise growth and improved profitability

Transformation in progress for c.5 months focused around 4 key pillars:

## 1. WINNING HEARTS & MINDS



Engaging the team

## 2. SALES TRANSFORMATION



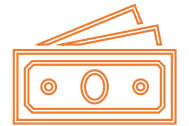
Feed the machine

## 3. OPERATIONS TRANSFORMATION

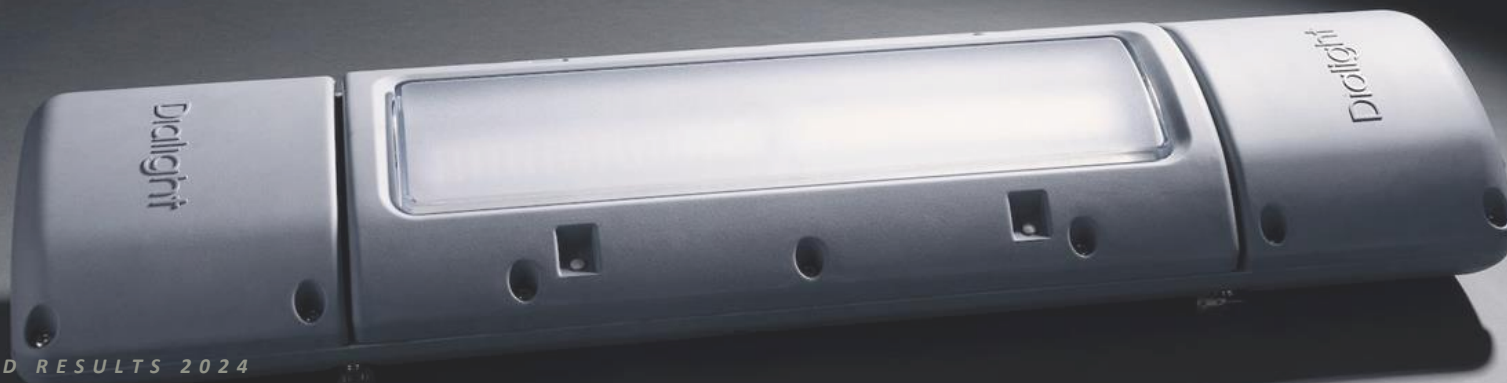


A well-oiled machine

## 4. MARGIN IMPROVEMENT & CASH GENERATION



Cost control / Self-help



# 1. WINNING HEARTS AND MINDS

- **Transparent and frequent communications with entire Dialight team**
  - In person meetings (Town Hall, Roundtable, 1:1, Skip level)
  - Email information updates
  - Blog progress updates
- **Team feedback sought, with submitted ideas evaluated and implementation plans agreed**
  - Engineering Change request process review underway
  - Demand planning process review underway
  - Driven by team members from across the business working together
- **Sales, operations and finance working very closely together**
- **Focusing on improving our service to customers**
- **66 people have exited the business, creating opportunities for upskilling and individual growth, 33 hires made**

- **CORE VALUES HAVE BEEN DEVELOPED AND ENDORSED BY SENIOR MANAGEMENT**
- **THEN “CASCADED” THROUGHOUT THE ORGANISATION WITH GOOD BUY-IN**

# 2. SALES TRANSFORMATION APPROACH



- A lot of change already – we are recruiting a VP Global Sales and Sales Operations Leader, whilst also creating a Sales Operations team to improve the efficiency of our sales operation



- Top line growth is the key to our future success, particularly to the short-term recovery of the business. We are transforming globally to ensure all teams are using the same tools and approach, breaking down silos and improving collaboration



- Generating more orders with greater predictability through better internal organisation and effective partnerships with customers



- Investing in our sales team, including better training and more regular reviews. The group is also reviewing target driven sales representative and distributor bonus schemes, which will demand more disciplined sales performance



- Reviewing the global make up of our team and ensuring we have the right structure to capitalise on the opportunities we have identified. This efficiency will allow us to reinvest in salespeople and sales support



# 3. OPERATIONS TRANSFORMATION APPROACH

- Appointed a new COO – Rizwan Ahmad
- Full end to end process review underway to streamline working practices, reduce costs and increase efficiency:
  - Strong team engagement
  - Specialist external support
- Consolidation of sites deferred, given much higher risk and cost than originally considered

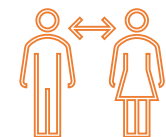
**AND**

- Good opportunities to improve production flows across and within current sites
- Continue to implement increased automation to eliminate waste and counter inflationary pressure



# 4. MARGIN IMPROVEMENT AND CASH GENERATION

- Reduce financial leverage and improve working capital KPIs
- Reviewing all OPEX costs to reduce expenditure
- Strong CAPEX scope and cost review and control
- Relentless focus on inventory reduction and control:
  - In lock step with the Operations and Sales Transformations
  - Rationalise product portfolio and focus R&D on high growth niches
- Policy upgrades and disciplined implementation
- Net headcount removed, with upskilling of key positions (66 people out and 33 people in)





# CONCLUSIONS

- Good progress in a short period of time
- Excellent engagement from teams across the business
- Global markets remain tough, focus is on self-help and “getting the basics” right
- Change is hard but understood and supported:
  - Team realises it is necessary
  - It creates opportunities for people to develop and grow
- Much more work to do; however, the team is focused behind the same direction

Initial signs of progress are appearing





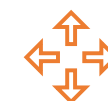


# FINANCIAL REVIEW

CAROLYN ZHANG

# OVERVIEW

- Group revenues in the 15-month period were \$226.0m. Underlying operating loss was \$4.6m, with non-underlying costs of \$25.6m
- Net debt at the period end was \$16.4m, following the \$12.0m equity raise in October
- 80% of company revenue is USD, reporting currency now USD
- Year-end changed to 31<sup>st</sup> March
- Q5 revenue of period was in line
- Positive momentum moving forward and a clear strategy



# INCOME STATEMENT

	15-month period ending 31 March 2024	12-month period ending 31 December 2022
	US \$m	US \$m
<b>Revenue</b>	<b>226.0</b>	<b>209.8</b>
Cost of sales	(155.9)	(142.4)
<b>Underlying gross profit</b>	<b>70.1</b>	<b>67.4</b>
<i>Gross margin %</i>	<i>31.0%</i>	<i>32.1%</i>
Underlying overheads	(74.7)	(61.2)
<b>Underlying operating (loss) / profit</b>	<b>(4.6)</b>	<b>6.1</b>
Non underlying items	(25.6)	(3.3)
<b>Operating (loss) / profit</b>	<b>(30.2)</b>	<b>2.8</b>

## REVENUE

- Against a strong comparative period

## GROSS MARGIN

- 1.1% reduction compared to 2022
- Largely due to lower fixed cost leverage owing to production inefficiencies and minimum wage increases in Mexico

## Overheads

- 33% of revenue compared to 29% last period mainly due to inflation and lower than expected revenue

## UNDERLYING OPERATING (LOSS) / PROFIT

- (\$4.6m) underlying loss in the period

## NON-UNDERLYING ITEMS

- See slide 17



# LIGHTING PERFORMANCE

	15-month period ending 31 March 2024	12-month period ending 31 December 2022
	US \$m	US \$m
Net revenue	171.1	149.6
<b>Underlying gross profit</b>	<b>57.6</b>	<b>50.2</b>
<i>Gross margin %</i>	33.7%	33.6%
Underlying overheads	(50.8)	(41.7)
<b>Underlying operating profit</b>	<b>6.8</b>	<b>8.5</b>



## REVENUE

- Customers continued to exercise tight controls over spending, given economic uncertainty
- EMEA had a strong sales period, building strong relationships with key distributors
- Seeking to expand similar strong relationships in the North America market

## GROSS MARGIN

10bps / \$7.4m increase due to:

- Cost reduction projects
- Normalisation of freight costs
- Partially offset by inefficiencies in labour and lower fixed cost leverage in production costs

# SIGNALS & COMPONENTS PERFORMANCE

	15-month period ending 31 March 2024	12-month period ending 31 December 2022
	US \$m	US \$m
Net revenue	54.9	60.2
<b>Underlying gross profit</b>	<b>12.5</b>	<b>17.2</b>
<i>Gross margin %</i>	22.8%	28.6%
Underlying overheads	(12.3)	(10.3)
<b>Underlying operating profit</b>	<b>0.2</b>	<b>6.9</b>



## REVENUE

- OE underperformance contributed to majority of the revenue miss
- Strong 2022 performance in OE was due to a large opening order book
- Improvement in Vehicle performance

## GROSS MARGIN

580bps / (\$4.7m) reduction due to:

- Product mix
- Increase in materials costs
- Partially offset by inefficiencies in labour and lower fixed cost leverage in production costs

# NON-UNDERLYING COSTS

	15-month period ending 31 March 2024	12-month period ending 31 December 2022
	US \$m	US \$m
① Litigation costs	(2.3)	(1.7)
② Impairment of goodwill	(11.2)	-
③ Transformation project	(4.5)	-
④ Business disposal costs	(3.5)	-
⑤ Impairment of capitalised development costs	(4.1)	(1.6)
<b>Total</b>	<b>(25.6)</b>	<b>(3.3)</b>

- 1) \$1.9m of Sanmina related legal expenses and \$0.4m for contractual litigation case relating to the use of IP
- 2) Impairment following review of lighting segment
- 3) Costs not considered part of the underlying performance of the business
- 4) Divestment of the Traffic business - \$3.0m inventory and \$0.5m impairment of development projects
- 5) Based on value in use assessments carried out

**FY25 non-underlying costs are forecast to be significantly lower, with transformation activity normalising**



# CASHFLOW

<b>Net Debt</b>	<b>US \$m</b>	<b>US \$m</b>
<b>Opening balance 01 January 2023</b>		<b>(25.4)</b>
<b>Inflows</b>		
Operating cash flows before movements in working capital	<b>3.0</b>	
Equity raise	<b>12.0</b>	
Movements in inventory	<b>15.7</b>	<b>30.7</b>
<b>Outflows</b>		
Movements in working capital excluding inventory	<b>(5.4)</b>	
Capital expenditure including intangible assets	<b>(6.8)</b>	
Interest and tax paid	<b>(6.7)</b>	
Repayment of lease liabilities	<b>(2.9)</b>	
Repurchase of own shares	<b>(0.1)</b>	<b>(21.9)</b>
Foreign exchange		<b>0.2</b>
<b>Closing balance 31 March 2024</b>		<b>(16.4)</b>

## REDUCTION IN NET DEBT

- Shareholder equity raise contributed \$12.0m inflow in the year
- Inventory reduction of \$12.7m in the year and \$3.0m of write-off relating to the traffic divestment
- Capex of \$6.8m includes continued investment into new product development plus maintenance CAPEX

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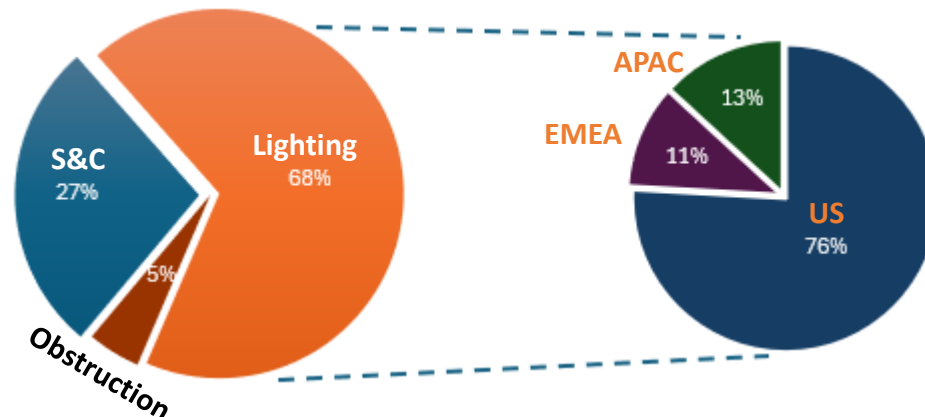
# APPENDICES



# LED LIGHTING REMAINS THE CORE OF OUR BUSINESS

- 68% of group revenues
- Focused on harsh & hazardous industrial applications
- A mix of maintenance (MRO) and capital projects
- Direct specification sale to end users through distributors
- 74 sales heads with dedicated engineering teams
- Key initiatives to help mitigate tough global markets conditions include:
  - Focus on building customer relationships
  - Targeting multi year CAPEX projects
  - Opportunities for Lighting Design As A Service (LDAAS)

**% OF 3<sup>RD</sup> PARTY REVENUE FOR THE 15 MONTHS ENDING 31 MARCH 2024**



# 1. BUILDING A STRONG CULTURE

## Customer Focus

## Operational Excellence

## Financial

## People

## Continuous Innovation

### We Are Customer Centric

- Make it easy to work with Dialight
- Build trust through integrity and transparency
- Engage with each customer to understand their goals and help them to achieve them

### Delivering Value In Everything We Do

- Be accountable for delivering value by mitigating risk and identifying opportunities for improvement
- Simplify and connect processes to improve efficiency and productivity
- Build a sustainable supply chain to meet stakeholder expectations
- Improve service and quality and reduce waste

### Creating Stakeholder Value

- Optimize access to capital, capital efficiency, and working capital
- Analyze finances thoroughly to improve margins and drive smart business decisions
- Deliver sustainable profitability
- Provide reporting based on integrity and transparency
- Expect accountability

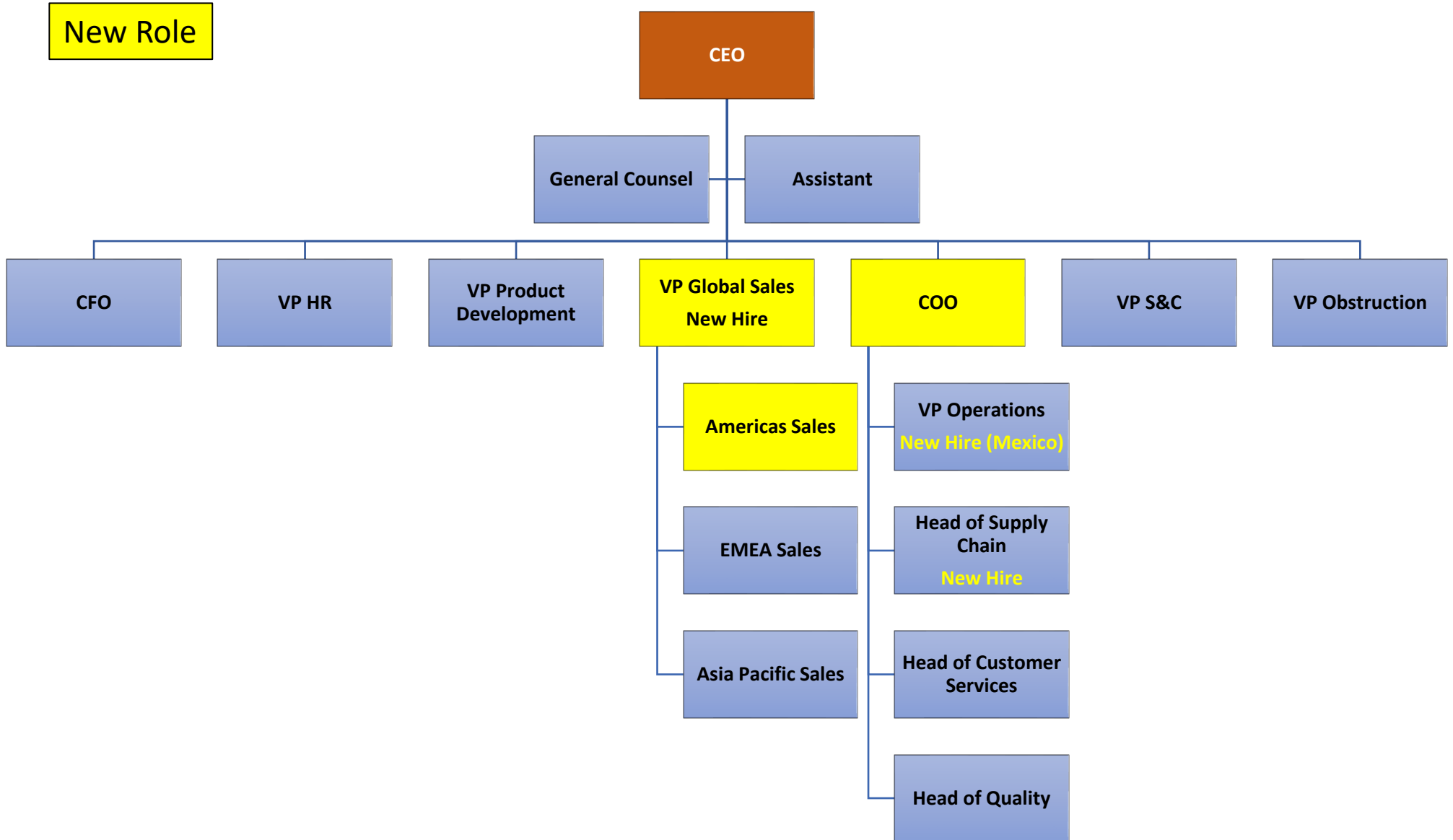
### Empowerment and Accountability

- Expect accountability of yourself and others for delivering on commitments
- Treat each other with respect, care, and empathy
- Support a culture of innovation, collaboration, continuous learning, and professional development
- Learn from mistakes and avoid repeating them
- Act as a team with a single goal
- Listen, learn and contribute

### Driving Transformational Change

- Be adaptable in the face of change and have a long-term view
- Have the courage to express your ideas and question the conventional way of doing things
- Be open to new ideas and ways of thinking, and look for a better, sustainable approach
- Develop and implement disruptive ideas that increase value to our business

# EXECUTIVE COMMITTEE STRUCTURE





# SANMINA UPDATE

- **Mediation Meeting on 1 July 2024 in NY:**
  - No progress
- **Pre-trial Hearing on 2 July 2024 in NY**
  - Scene set for trial
  - Motions in Limine overall positive for Dialight
  - Judge suggest mediation rather than trial
    - No serious engagement from Sanmina
- **Trial began 15 July 2024 in NY**
  - Juror issued forced mis-trial
  - Re-trial schedule for 9<sup>th</sup> September 2024

# TRAFFIC UPDATE

- On 29<sup>th</sup> July 2024, Dialight entered into an agreement with Leotek Electronics USA LLC for the sale of the Traffic business
- Gross proceeds have been agreed as \$5.8m, with transaction and other costs of \$0.3m resulting in a net receipt of \$5.5m
- The disposal is part of the management's strategic decision to divest non-core businesses



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