Volex – Interim Results 2016/17

Nat Rothschild, CEO
Daren Morris, CFO
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Summary of H1 Results

- Consolidated revenue fell 12% to $166million (10% excluding Cu price reduction / FX negligible)
- H1 sales stable at 7% below H2 2016 level – EBIT margin up from 2.2% to 2.6%
- Pre-exceptional operating profits at $4.3million despite fall in sales, driven by cost reduction in power factories and a reduction in group-wide operating expenses
- Cash flow from operations increased from $2.5million to $11.3million*. Net cash position of $5.2million at end of H1 (PY net debt $5.4million)
- Decision to impair assets at our Shenzhen facility as a result of changes in demand from our largest customer – non cash charge of $6.2million
- Excluding decline in largest customer, revenue in H1 FY17 grew over H2 FY16

*Adjusting for timing differences in paying our trade creditors, the figure would be $6.8 million

Strategy for FY17 and beyond

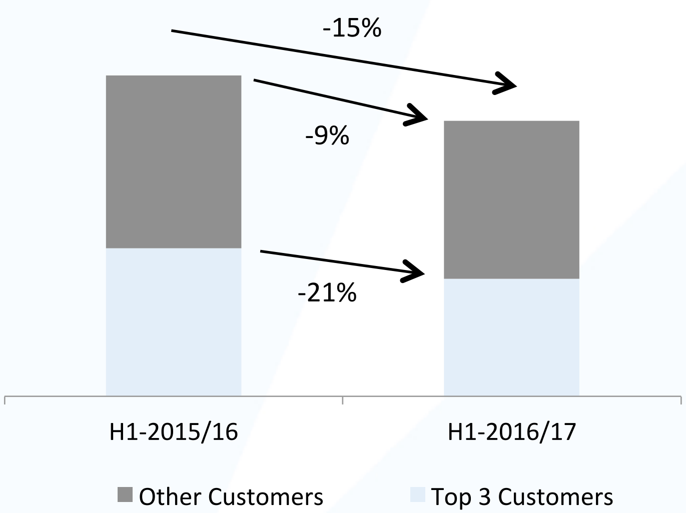
- Renew group inventory target of $35million by year end
- Introduce lean-manufacturing mentality into all sites. We are advanced in Tijuana and are implementing at our major power sites
- Complete JEMS JV to reduce our raw material costs (first safety approvals expected in Q3)
- Increase our factory loading by more aggressive pricing and potentially further consolidate our footprint to improve utilisation
- Improved use of engineering resources to develop new customers and products
- Re-finance credit facility before our next year-end

Financial Review

H1 Revenue Performance

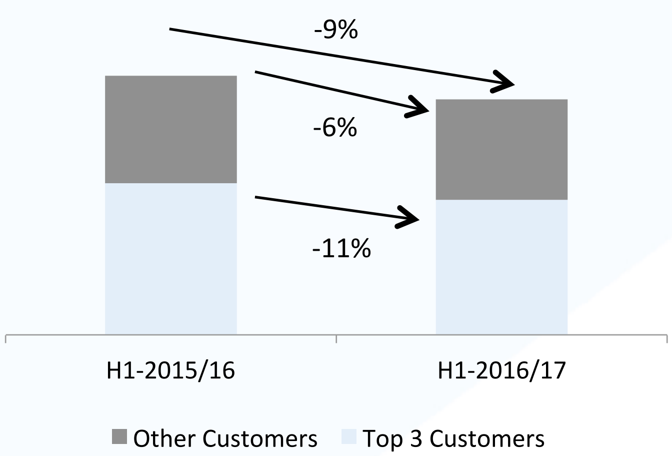
Volex

Powercord – HY2016 to HY2017



- Sales fell from $117 to $100 million
- Largest customers fell furthest
- Approximately $2m revenue fall due to fall in Cu price – rest due to volume and pricing pressure
- 11% decline excluding Cu price effect
- No increase in demand expected in H2

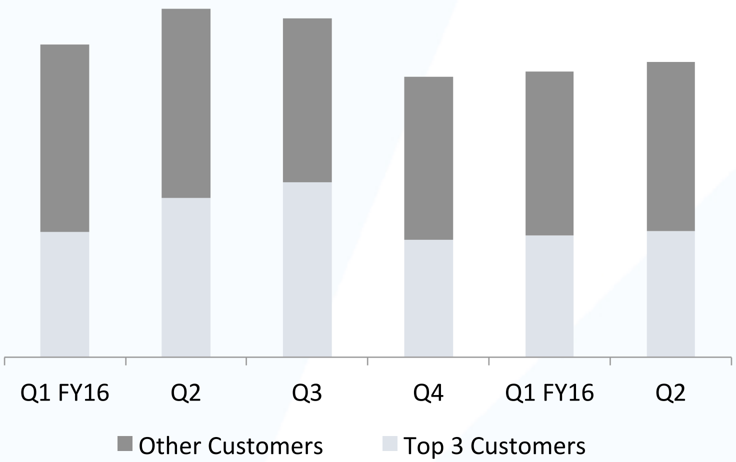
Cable Assemblies – HY2016 to HY2017



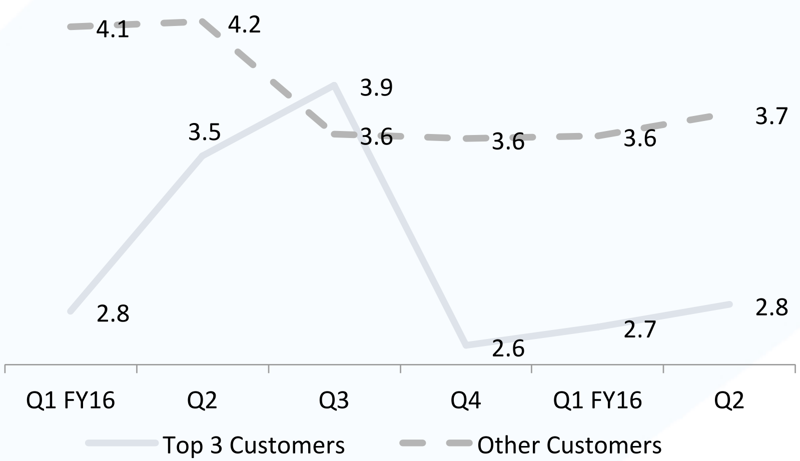
- Sales decreased from $72 to $66 million
- Customers exposed to telecoms and US trucking market were hardest hit
- Continued growth in medical customer base
- No increase in demand expected in H2

Revenue Progression

Quarterly Revenue - $m



Average Weekly Revenue - $m/wk



- Revenue from our largest customer took a step-down in Q4 FY16
  - Lower than planned demand for new products launched in October 2015
  - No increase forecast in FY17-Q3 as existing products are phased-out
  - New products (laptops) ship with DH adapter in-box; powercord is an accessory

- Revenue from other customers is more stable

- Revenue share of top 3 customers is steady at 43% - we expect this to reduce over time as we diversify our customer base

Financial Summary

$m	FY15	FY16	H1-16	H1-17
Revenue	**423.4**	**367.5**	**189.4**	**166.1**
Gross Profit	70.9	60.4	31.6	28.0
- Gross Margin	*16.7%*	*16.4%*	*16.7%*	*16.9%*
Operating Costs	(62.1)	(53.2)	(27.4)	(23.7)
Operating Profit	**8.8**	**7.2**	**4.2**	**4.3**
- Operating Margin	*2.1%*	*2.0%*	*2.2%*	*2.6%*
Exceptional Items / SBP	(13.4)	(3.7)	(0.3)	(8.9)
Finance Costs	(2.6)	(1.9)	(0.9)	(1.0)
Tax	(3.5)	(3.9)	(2.0)	(1.1)
Profit After Tax	**(10.7)**	**(2.3)**	**1.0**	**(6.7)**
Underlying EPS	2.8	1.5	1.5	2.5
Cash Generated by Operations	12.8	8.1	2.5	11.3
Net Cash / (Debt)	**1.9**	**(3.2)**	**(5.4)**	**5.2**

- Sales decline due to lower end-market demand
- Gross margin shows a slight increase as lean initiatives take effect and we exit lower margin business
- Another significant reduction in operating costs allowed us to generate steady operating profit despite lower sales
- Exceptional items relate to severance costs and asset write-downs
- Net debt has been transformed to a position of net cash ($5.2m)

Exceptional Costs

$m	H1-16	H2-16	H1-17
Impairment	-	1.5	6.2
Restructuring Costs	1.2	1.5	1.6
Manufacturing Consultancy	-	-	0.6
Movement in Onerous Lease Provisions	0.1	1.0	0.3
Provision for Historic Tax Claims	-	-0.6	-
Exceptional Costs	**1.3**	**3.4**	**8.7**

Impairment charge is non cash and relates to write-down of fixed assets in our Shenzhen powercord facility

Restructuring costs relate to continued reduction in manpower and downsizing of our Brazil operation

Manufacturing consultancy costs relate to the project to introduce a lean-manufacturing mindset into our factories

Divisional Profits

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$m	H1-15	H1-16	H1-17
Revenue			
- Powercord	141.1	117.4	100.4
- Cable Assemblies	79.8	72.0	65.7
- Total	**220.9**	**189.4**	**166.1**
Gross Profit*			
- Powercord	19.4	15.2	14.2
- Cable Assemblies	18.7	16.4	13.8
- Total	**38.1**	**31.6**	**28.0**
Operating Profit*			
- Powercord	2.6	1.4	1.5
- Cable Assemblies	6.7	5.5	4.8
- Total	**9.3**	**6.9**	**6.3**
Central Costs	(5.8)	(2.6)	(2.0)
Operating Profit	**3.5**	**4.2**	**4.3**

*underlying measure before share based payments and exceptional items

- Gross profit reduction as a direct result of reduced sales
- A $3.6million decline in gross profit was countered by further savings in opex
- Central cost in opposite table relate to the London head office (finance, tax, legal, HR, board) and the UK listing

Power Cords

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$m	FY15	FY16	H1-16	H1-17	*Change*
Revenue	**273.7**	**230.2**	**117.4**	**100.4**	*-14.5%*
Gross Profit*	36.7	29.8	15.2	14.2	*-6.6%*
*Gross Margin**	*13.4%*	*13.0%*	*12.9%*	*14.2%*	
Operating Costs	31.4	27.5	13.8	12.8	*-7.5%*
Operating Profit*	5.4	2.3	1.4	1.5	*7.1%*
*Operating Margin**	*2.0%*	*1.0%*	*1.2%*	*1.5%*	

*Underlying measure before Share Based Payments and Exceptional Items

- Divisional revenues down 14.5% - across all customers
- Gross margin increased as we reduced proportion of lower margin business and improved efficiency in our factories
- Continued reduction in operating costs allowed us to maintain profitability at levels seen last year

Cable Assemblies

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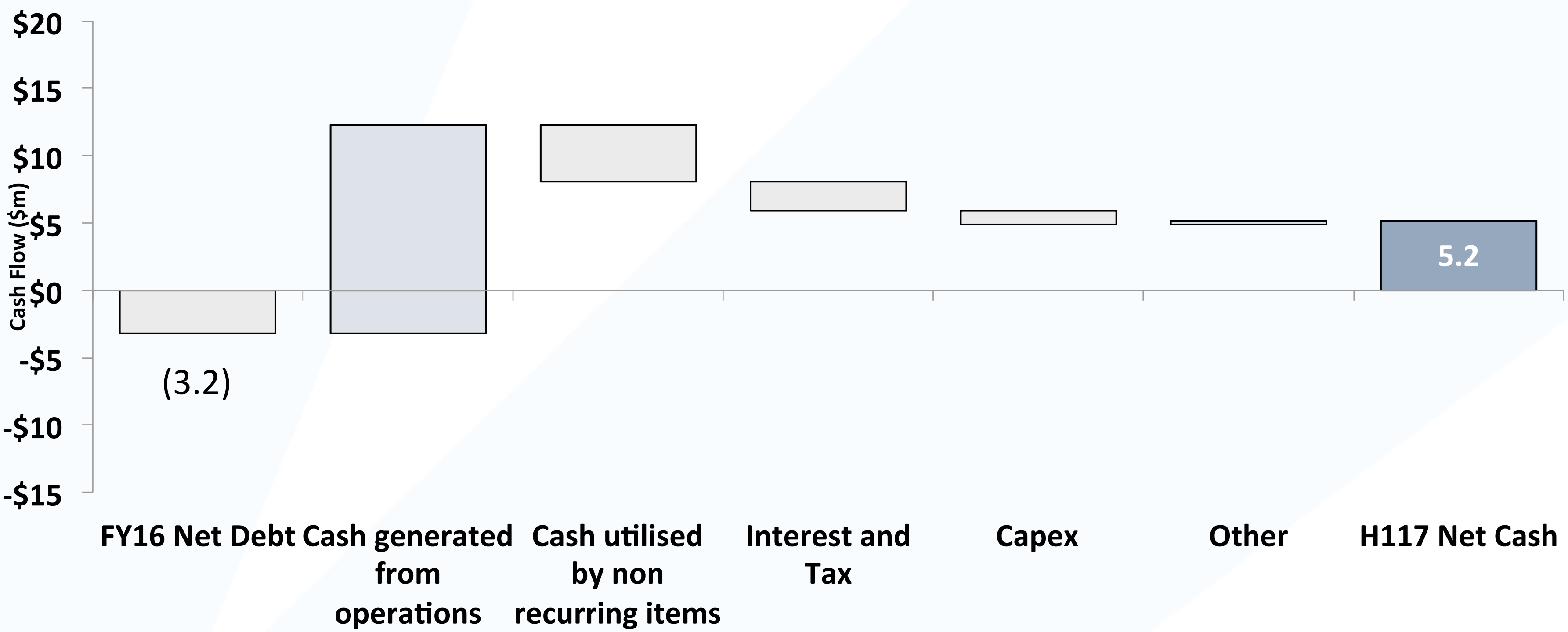
$m	FY15	FY16	H1-16	H1-17	*Change*
Revenue	**149.7**	**137.3**	**72.0**	**65.7**	*-8.7%*
Gross Profit*	34.2	30.6	16.4	13.8	*-15.9%*
*Gross Margin**	*22.8%*	*22.3%*	*22.8%*	*21.0%*	
Operating Costs	23.0	20.8	10.9	9.0	*-17.4%*
Operating Profit*	11.2	9.8	5.5	4.8	*-12.7%*
*Operating Margin**	*7.5%*	*7.1%*	*7.6%*	*7.2%*	

*Underlying measure before Share Based Payments and Exceptional Items

- Divisional revenues down by 8.7 per cent when compared to last year
- Two of our largest customers in telecom and the trucking sectors experienced a fall in demand – affecting both our revenues and our profit margin
- We were able to reduce operating costs, but not sufficient to fully counter the reduction in contribution from these two high margin customers

Cash Flow



- Focus on working capital management resulting in an $8.4m working capital inflow in H1 (+$1.7m stock, +$2.1m debtors, +$4.6m creditors)
- Cash generated from operations (before exceptional items) was $15.5million - $11.3million post exceptional items

Balance Sheet

$m	FY16	H1-FY17
Goodwill & Intangibles	3.7	3.2
Property, Plant and Equipment	33.3	24.8
Other	2.4	1.8
Non-current Assets	**39.4**	**29.8**
Inventories	41.5	40.0
Trade & other receivables	64.1	62.7
Cash and bank balances	30.7	33.4
Current Assets	**136.3**	**136.1**
Trade & other payables	74.6	78.4
Overdraft	5.2	0.0
Tax liabilities	6.2	5.6
Other	2.6	2.0
Current Liabilities	**88.6**	**86.2**
Borrowings	28.8	28.3
Provisions	1.9	0.0
Other	5.1	6.2
Non-current Liabilities	**35.8**	**34.4**
Net Assets	**51.4**	**45.2**

- PPE reduction reflects impairment of assets in Shenzhen and Brazil
- Inventory reduction remains our focus into H2
- Cash increased due to reduction in working capital and in cash restructuring charges
- $45m bank facility with June 2018 maturity. Plan to refinance in Q4
- Internal target to increase return of capital employed to 15%

Outlook

- Current expectations are that full year revenues will be in the range of \$320 to \$330m in FY17 (down from \$340 to \$360m indicated in June)
  - 2 large high-margin cable assembly customers underperforming
  - Our largest customer in powercord is experiencing reduced demand
- Revenues from our largest customer are expected to continue to decline in H2 and again next year
  - Simplified product range and thin-form casing on lap-tops reduce power cord and internal cable assembly demand for Volex products
  - We will monitor our costs and investment very carefully
- We expect to make progress on further cost savings and hope to see a further improvement in profit margin in H2
- We are seeing encouraging growth in some areas – high speed data cables, medical assemblies and electric vehicles should see growth in H2 and again in FY18