

discoverIE Group

Acquiring German sensor business

Acquisition

After a series of smaller acquisitions in CY24, discoverIE has acquired Burster Group, a German-based sensor business, for cash of €30.6m/£25.9m. Generating operating margins above the group target of 15%, Burster will join the Sensing cluster within Sensing & Connectivity. discoverIE estimates the deal will be earnings accretive for FY26; we upgrade our FY26 underlying diluted EPS by 1.3%. Pro forma gearing of 1.6x at the end of FY25 sits at the lower end of the 1.5–2.0x target range, leaving further headroom for future deals.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
3/23	448.9	46.3	35.18	11.45	18.8	1.7
3/24	437.0	48.2	36.78	12.00	18.0	1.8
3/25e	431.9	49.9	37.33	12.50	17.7	1.9
3/26e	459.7	53.1	39.49	13.00	16.7	2.0

Note: PBT and diluted EPS as per discoverIE's underlying metric (excludes amortisation of acquired intangibles and exceptional items).

Bolstering Sensing cluster with German acquisition

discoverIE has acquired Burster Group, a German-based designer and manufacturer of specialist sensors for markets closely aligned with discoverIE's target markets. Founded in 1961, Burster sells into c 60 countries, with c 40% of revenue from outside of Germany. Burster generated revenue of €18m/£15m in CY24, with an underlying operating margin above discoverIE's 15% medium-term target. The company is paying €30.6m/£25.9m in initial cash on a debt-free, cash-free basis with a €12.4m/£10.5m earn-out dependent on financial performance in CY25. Burster will join the Sensing cluster, within the Sensing & Connectivity division, and its existing ongoing management and brand will be retained.

EPS accretive in FY26

We have revised up our FY26 revenue, operating profit and underlying diluted EPS forecasts by 3.4%, 3.8% and 1.3% respectively. We forecast a small 0.1pp increase in the FY26 underlying operating margin to 14.1%. The company estimates that pro forma gearing at the end of FY25 will increase from 1.25x to 1.6x and we forecast an increase in end-FY26 gearing from 1.0x to 1.3x. Based on our conservative EBIT forecast, discoverIE is paying a forward EBIT multiple of 10.8x (9.2x EBITDA), in line with recent larger deals.

Valuation: Discount has widened

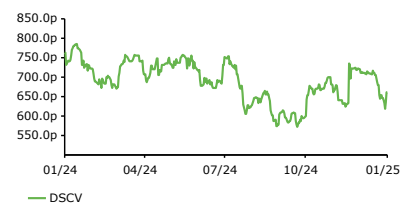
After a bounce post interims, the stock has declined over the last month and now trades at an 18% discount to its broader UK industrial technology peer group on FY25 P/E and at a larger discount to peers with a similar decentralised operating model (such as Halma and Spirax). Considering that the earnings outlook has been maintained and the company continues to make excellent progress towards its margin targets, we believe this discount is overdone. With an active M&A pipeline and post this deal, c £45m of debt headroom, we expect further acquisitions to boost growth and earnings.

Electrical components

17 January 2025

Price	661.00p
Market cap	£637m
Net (debt) at end H125	£(98.7)m
Shares in issue	96.4m
Free float	96.0%
Code	DSCV
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(11.9)	(0.7)	(16.4)
52-week high/low		801.9p	558.0p

Business description

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

Next events

Q325 trading update	Late January
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Changes to forecasts

Exhibit 1: Changes to forecasts

£m	FY25e old	FY25e new	Change	y-o-y	FY26e old	FY26e new	Change	y-o-y
Revenues	431.9	431.9	0.0%	-1.2%	444.7	459.7	3.4%	6.4%
EBITDA	74.3	74.3	0.0%	4.5%	76.9	79.3	3.1%	6.7%
EBITDA margin	17.2%	17.2%	0.0%	0.9%	17.3%	17.2%	-0.1%	0.0%
Underlying operating profit	60.5	60.5	0.0%	5.8%	62.2	64.6	3.8%	6.7%
Underlying operating margin	14.0%	14.0%	0.0%	0.9%	14.0%	14.1%	0.1%	0.0%
Normalised operating profit	61.9	61.9	0.0%	4.1%	64.6	67.0	3.7%	8.2%
Normalised operating margin	14.3%	14.3%	0.0%	0.7%	14.5%	14.6%	0.0%	0.2%
Underlying PBT	49.9	49.9	0.0%	3.5%	52.4	53.1	1.3%	6.3%
Normalised PBT	51.3	51.3	0.0%	1.6%	54.8	55.5	1.2%	8.1%
Normalised net income	37.8	37.8	0.0%	-0.2%	40.4	40.9	1.2%	8.1%
Normalised diluted EPS (p)	38.4	38.4	0.0%	-0.4%	40.8	41.3	1.2%	7.6%
Underlying diluted EPS (p)	37.3	37.3	0.0%	1.5%	39.0	39.5	1.3%	5.8%
Reported basic EPS (p)	25.3	25.3	0.0%	56.3%	26.3	26.8	1.9%	6.0%
Dividend per share (p)	12.5	12.5	0.0%	4.2%	13.0	13.0	0.0%	4.0%
Net (debt)/cash	(84.5)	(110.4)	30.7%	6.1%	(66.9)	(95.0)	42.1%	-13.9%
Net debt/EBITDA (x)	1.2	1.6			1.0	1.3		

Source: Edison Investment Research

Exhibit 2: Financial Summary

	£m	2021	2022	2023	2024	2025e	2026e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		302.8	379.2	448.9	437.0	431.9	459.7
EBITDA		44.0	56.1	65.4	71.1	74.3	79.3
Normalised operating Profit (before am, SBP and except.)		31.9	44.8	54.3	59.5	61.9	67.0
Underlying operating Profit (before am. and except.)		30.8	41.4	51.8	57.2	60.5	64.6
Amortisation of acquired intangibles		(11.1)	(14.0)	(15.8)	(16.2)	(15.8)	(16.0)
Exceptionals		(2.6)	(6.5)	(1.4)	(9.8)	(1.2)	(2.0)
Share-based payments		(1.1)	(3.4)	(2.5)	(2.3)	(1.4)	(2.4)
Operating Profit		17.1	20.9	34.6	31.2	43.5	46.6
Net Interest		(3.6)	(3.8)	(5.5)	(9.0)	(10.6)	(11.5)
Profit Before Tax (norm)		28.3	41.0	48.8	50.5	51.3	55.5
Profit Before Tax (FRS 3)		13.5	17.1	29.1	22.2	32.9	35.1
Tax		(4.0)	(7.4)	(7.8)	(6.7)	(8.7)	(9.2)
Profit After Tax (norm)		21.6	30.8	36.1	37.9	37.8	40.9
Profit After Tax (FRS 3)		9.5	9.7	21.3	15.5	24.2	25.8
Discontinued operations		2.5	15.5	0.0	0.0	0.0	0.0
Net income (norm)		21.6	30.8	36.1	37.9	37.8	40.9
Net income (FRS 3)		12.0	25.2	21.3	15.5	24.2	25.8
BALANCE SHEET							
Fixed Assets		244.6	326.5	335.9	381.0	392.8	381.6
Intangible Assets		190.8	263.3	272.0	329.5	339.1	324.8
Tangible Assets		45.9	45.4	44.4	41.1	43.3	46.4
Deferred tax assets		7.9	17.8	19.5	10.4	10.4	10.4
Current Assets		183.6	266.2	249.8	287.7	266.7	287.7
Stocks		67.7	77.8	90.0	80.1	89.3	95.1
Debtors		84.9	78.0	74.6	88.8	76.9	81.9
Cash		29.2	108.8	83.9	110.8	99.4	109.8
Current Liabilities		(107.8)	(190.3)	(151.2)	(185.4)	(180.6)	(186.3)
Creditors		(102.2)	(114.2)	(107.3)	(101.0)	(96.2)	(101.9)
Lease liabilities		(4.8)	(4.7)	(4.0)	(5.7)	(5.7)	(5.7)
Short term borrowings		(0.8)	(71.4)	(39.9)	(78.7)	(78.7)	(78.7)
Long Term Liabilities		(112.0)	(112.0)	(130.9)	(181.7)	(171.9)	(161.5)
Long term borrowings		(75.6)	(67.6)	(86.7)	(136.1)	(131.1)	(126.1)
Lease liabilities		(16.7)	(16.4)	(14.8)	(14.4)	(14.4)	(14.4)
Other long term liabilities		(19.7)	(28.0)	(29.4)	(31.2)	(26.4)	(21.0)
Net Assets		208.4	290.4	303.6	301.6	307.0	321.6
CASH FLOW							
Operating Cash Flow		56.8	42.5	52.1	66.0	69.0	70.2
Net Interest		(3.1)	(3.3)	(4.8)	(7.7)	(10.1)	(11.0)
Tax		(7.2)	(7.1)	(9.0)	(12.5)	(13.5)	(14.6)
Capex		(3.9)	(6.2)	(5.6)	(4.9)	(7.5)	(8.5)
Acquisitions/disposals		(20.5)	(46.8)	(25.1)	(82.8)	(25.9)	(2.0)
Financing		(6.6)	47.2	(7.5)	(9.3)	(6.6)	(6.6)
Dividends		(2.8)	(9.4)	(10.5)	(11.2)	(11.7)	(12.2)
Net Cash Flow		12.7	16.9	(10.4)	(62.4)	(6.3)	15.4
Opening net cash/(debt)		(61.3)	(47.2)	(30.2)	(42.7)	(104.0)	(110.4)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		1.4	0.1	(2.1)	1.1	(0.0)	0.0
Closing net cash/(debt)		(47.2)	(30.2)	(42.7)	(104.0)	(110.4)	(95.0)

Source: discoverIE, Edison Investment Research

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