

discoverIE Group

Order book returns to growth

discoverIE's Q325 update confirmed that it continues to see a gradual improvement in the trading environment, with the order book up 4% q-o-q and book-to-bill of 1.01x for Q325. The company remains on track to deliver FY25 underlying earnings in line with the board's expectations. Various Magnetics & Controls customers continued to work down inventory and, consequently, organic revenue was 3% lower y-o-y at constant exchange rates (CER). We have trimmed our revenue and EBIT forecasts, resulting in underlying diluted EPS reductions of 0.7% in FY25 and 1.2% in FY26. In our view, positive design win activity combined with good cash management positions the company well to benefit as markets recover.

| Year end | Revenue (£m) | PBT (£m) | EPS (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 3/23 | 448.9 | 46.3 | 35.18 | 11.45 | 18.3 | 1.8 |
| 3/24 | 437.0 | 48.2 | 36.78 | 12.00 | 17.5 | 1.9 |
| 3/25e | 423.9 | 48.9 | 37.08 | 12.50 | 17.4 | 1.9 |
| 3/26e | 452.0 | 52.1 | 39.03 | 13.00 | 16.5 | 2.0 |

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

Trading environment continues to improve

For Q325, discoverIE saw a 3% reported revenue decline, with a 3% decline in organic revenue at CER (vs -12% in Q125 and -7% in Q225), a 3% positive contribution from acquisitions and a 3% negative impact from currency. Divisionally, Sensing & Connectivity continued to lead the recovery with organic revenue growth while Magnetics & Controls remained negative, albeit improving from H125. Gross margins in Q3 were robust with operating costs and working capital tightly managed. Reflecting the reported revenue trend for Q325, we have trimmed our revenue and EBIT forecasts for FY25 and FY26, which results in underlying EPS reductions of 0.7% in FY25 and 1.2% in FY26.

Q325 book-to-bill 1.01x

Order intake declined 6% y-o-y on an organic CER basis, against a strong order intake in Q324 (which was up c 10% on the same basis). While some industrial customers continue to work down their excess inventory, of the nine major customers originally doing so, six have now returned to order growth. The order book increased 4% q-o-q on a reported basis and Q325 book-to-bill was 1.01x, up from 0.98x in H125 and 0.91x in H224.

Valuation: Order growth to reduce the discount

The stock trades at a 23% discount to its broader UK industrial technology peer group on FY25 P/E (widening from 18% when we wrote earlier this month) and at a larger discount to peers with a similar decentralised operating model (such as Halma and Spirax). Considering that the trading environment is improving 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 c £45m of debt headroom, we expect further acquisitions to boost growth and earnings.

Q325 trading update

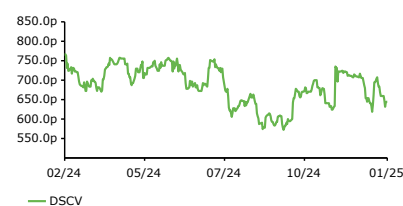
Electrical components

3 February 2025

Price **644.00p**
Market cap **£615m**

Net cash/(debt) at end H125 £(98.7)m
 Shares in issue 95.5m
 Free float 96.0%
 Code DSCV
 Primary exchange LSE
 Secondary exchange N/A

Share price performance



| % | 1m | 3m | 12m |
|------------------|-------|--------|--------|
| Abs | (9.9) | (2.6) | (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

FY25 trading update April 2025

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Changes to forecasts

Exhibit 1 summarises the changes we have made.

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 | 423.9 | -1.9% | -3.0% | 459.7 | 452.0 | -1.7% | 6.6% |
| EBITDA | 74.3 | 73.3 | -1.3% | 3.1% | 79.3 | 78.3 | -1.2% | 6.8% |
| EBITDA margin | 17.2% | 17.3% | 0.1% | 1.0% | 17.2% | 17.3% | 0.1% | 0.0% |
| Underlying operating profit | 60.5 | 59.5 | -1.6% | 4.1% | 64.6 | 63.6 | -1.5% | 6.9% |
| Underlying operating margin | 14.0% | 14.0% | 0.0% | 1.0% | 14.1% | 14.1% | 0.0% | 0.0% |
| Normalised operating profit | 61.9 | 60.9 | -1.6% | 2.4% | 67.0 | 66.0 | -1.5% | 8.4% |
| Normalised operating margin | 14.3% | 14.4% | 0.0% | 0.8% | 14.6% | 14.6% | 0.0% | 0.2% |
| Underlying PBT | 49.9 | 48.9 | -2.0% | 1.5% | 53.1 | 52.1 | -1.8% | 6.5% |
| Normalised PBT | 51.3 | 50.3 | -1.9% | -0.4% | 55.5 | 54.5 | -1.8% | 8.3% |
| Normalised net income | 37.8 | 37.6 | -0.6% | -0.8% | 40.9 | 40.4 | -1.1% | 7.6% |
| Normalised diluted EPS (p) | 38.4 | 38.1 | -0.6% | -1.0% | 41.3 | 40.8 | -1.1% | 7.0% |
| Underlying diluted EPS (p) | 37.3 | 37.1 | -0.7% | 0.8% | 39.5 | 39.0 | -1.2% | 5.2% |
| Reported basic EPS (p) | 25.3 | 24.8 | -1.7% | 53.6% | 26.8 | 26.2 | -2.1% | 5.5% |
| Dividend per share (p) | 12.5 | 12.5 | 0.0% | 4.2% | 13.0 | 13.0 | 0.0% | 4.0% |
| Net (debt)/cash | (110.4) | (109.2) | -1.1% | 5.0% | (95.0) | (94.3) | -0.8% | -13.6% |
| Net debt/EBITDA (x) | 1.6 | 1.6 | | | 1.3 | 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 | 423.9 | 452.0 |
| EBITDA | | 44.0 | 56.1 | 65.4 | 71.1 | 73.3 | 78.3 |
| Normalised operating Profit (before am, SBP and except.) | | 31.9 | 44.8 | 54.3 | 59.5 | 60.9 | 66.0 |
| Underlying operating Profit (before am. and except.) | | 30.8 | 41.4 | 51.8 | 57.2 | 59.5 | 63.6 |
| 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 | 42.5 | 45.6 |
| 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 | 50.3 | 54.5 |
| Profit Before Tax (FRS 3) | | 13.5 | 17.1 | 29.1 | 22.2 | 31.9 | 34.1 |
| Tax | | (4.0) | (7.4) | (7.8) | (6.7) | (8.1) | (8.8) |
| Profit After Tax (norm) | | 21.6 | 30.8 | 36.1 | 37.9 | 37.6 | 40.4 |
| Profit After Tax (FRS 3) | | 9.5 | 9.7 | 21.3 | 15.5 | 23.8 | 25.3 |
| 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 | 37.6 | 40.4 |
| Net income (FRS 3) | | 12.0 | 25.2 | 21.3 | 15.5 | 23.8 | 25.3 |
| 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 | 264.8 | 285.5 |
| Stocks | | 67.7 | 77.8 | 90.0 | 80.1 | 87.7 | 93.5 |
| Debtors | | 84.9 | 78.0 | 74.6 | 88.8 | 75.5 | 80.5 |
| Cash | | 29.2 | 108.8 | 83.9 | 110.8 | 100.6 | 110.5 |
| Current Liabilities | | (107.8) | (190.3) | (151.2) | (185.4) | (179.0) | (184.7) |
| Creditors | | (102.2) | (114.2) | (107.3) | (101.0) | (94.6) | (100.3) |
| 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) | (172.0) | (161.8) |
| 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) | (26.5) | (21.3) |
| Net Assets | | 208.4 | 290.4 | 303.6 | 301.6 | 306.6 | 320.6 |
| CASH FLOW | | | | | | | |
| Operating Cash Flow | | 56.8 | 42.5 | 52.1 | 66.0 | 69.4 | 69.2 |
| Net Interest | | (3.1) | (3.3) | (4.8) | (7.7) | (10.1) | (11.0) |
| Tax | | (7.2) | (7.1) | (9.0) | (12.5) | (12.7) | (14.1) |
| 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) | (5.1) | 14.9 |
| Opening net cash/(debt) | | (61.3) | (47.2) | (30.2) | (42.7) | (104.0) | (109.2) |
| 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) | (109.2) | (94.3) |

Source: discoverIE, Edison Investment Research

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