Business review

Unless stated otherwise, amounts and comparisons with prior year are calculated at constant currency (Constant Exchange Rate 'CER') and, where we refer to 'underlying' this is defined as being before separately disclosed items (see note 2).

Mark Belton
Chief Executive Officer

Clare Foster
Chief Financial Officer

"The Group delivered a resilient performance in FY2020. We have sustained both business and customers, despite challenging market conditions"

Mark Belton
Chief Executive Officer

"Cash generation has been strong, with an increased conversion rate of underlying EBITDA to underlying cash of 95.9%"

Clare Foster
Chief Financial Officer

Our Group performance

	FY2020 CER	FY2020 AER	FY2019	Movement at CER	Movement at AER
Revenue	**£200.5m**	**£200.2m**	£209.0m	(4.0)%	(4.2)%
Gross profit^	**£55.1m**	**£55.1m**	£62.6m	(12.0)%	(12.0)%
GP%^	**27.5%**	**27.5%**	30.0%	(250)bps	(250)bps
Underlying operating profit ('UOP')^	**£18.0m**	**£18.1m**	£24.2m	(25.4)%	(25.2)%
UOP %^	**9.0%**	**9.0%**	11.6%	(260)bps	(260)bps
Operating profit (OP)^	**£4.0m**	**£4.1m**	£17.1m	(76.7)%	(76.1)%
OP%^	**2.0%**	**2.0%**	8.2%	(620)bps	(620)bps
Underlying EBITDA^	**£23.5m**	**£23.5m**	£26.4m	(11.2)%	(11.1)%
Underlying EBITDA %^	**11.7%**	**11.7%**	12.7%	(100)bps	(100)bps
Underlying profit before tax^	**£17.0m**	**£17.1m**	£23.5m	(27.7)%	(27.5)%
Profit before tax^	**£2.9m**	**£3.0m**	16.4m	(82.2)%	(81.5)%
Underlying diluted EPS^	**10.52p**	**10.54p**	14.53p	(27.6)%	(27.5)%
Diluted EPS^		**(0.19)p**	9.90p		(101.9)%
Underlying ROCE^		**12.0%**	18.8%		(680)bps

^ Presented after the adoption of IFSR16 Leases in FY2020. For ROCE the impact has been a reduction of 100bps (before IFRS16 13.0%), less significant impacts on the remaining metrics which been explained in a separate table at the end of the business review

The Group delivered a resilient performance in FY2020, despite challenging market conditions and the initial impact of COVID-19 in Q4. Revenues decreased by only 4.0% at CER and 4.2% to £200.2m at Actual Exchange Rate ('AER') for FY2020.

We are encouraged and supported by the fact that we have sustained both business and customers over this difficult period. However as previously reported, we have seen trading decreases across all our key sectors, as production volumes have reduced, and country lockdowns were put in place across the world.

The largest source of market share growth continues to come from our multinational Tier 1s in the automotive sector, with market share gains most specifically in the USA, Thailand and Spain successfully offsetting the impact of both volume reductions and Q4 production line shutdowns.

Gross margins have decreased by 250bps to 27.5% (FY2019: 30.0%) largely because of product mix shift, reducing sales and, particularly in Italy, foreign exchange fluctuations. Whilst underlying operating margins have decreased to 9.0% (FY2019: 11.6%) as the impact of revenue reductions against a semi-fixed cost base has been partially offset by overhead savings.

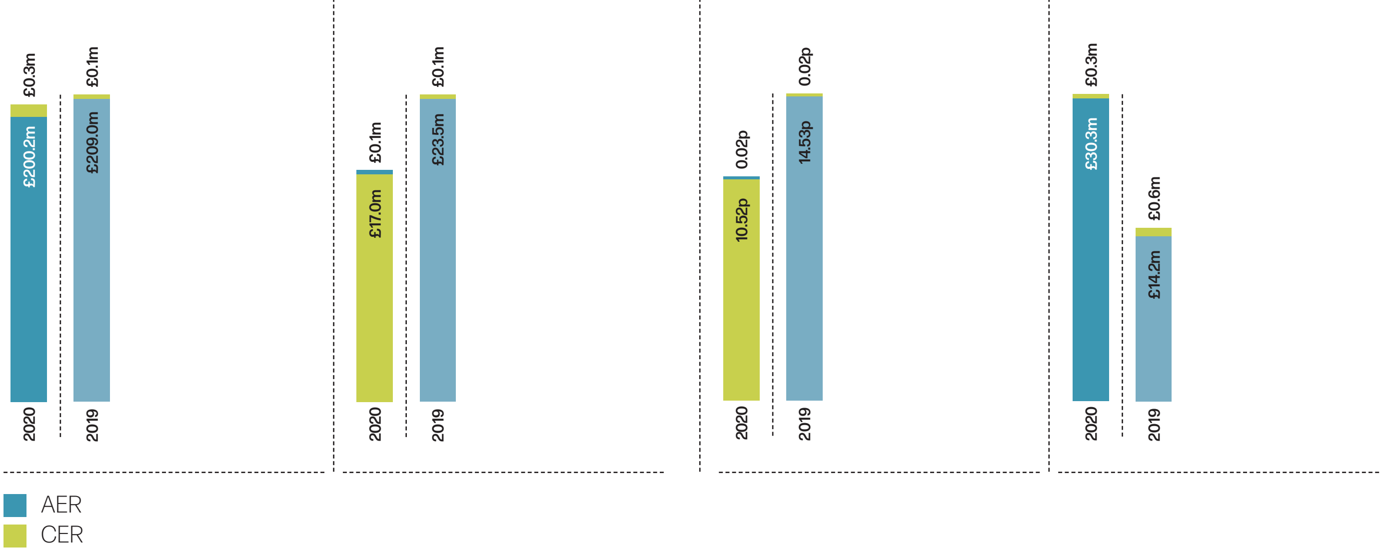
Reflecting the above, underlying PBT has reduced to £17.1m at AER (FY2019: £23.5m) leading to a reduced underlying diluted EPS of 10.54p (FY2019: 14.53p).

Statutory profit before tax reduced to £3.0m at AER (FY2019: £16.4m) due to the factors above and separately disclosed items (see note 2) including impairment charges in the year of £7.8m. The impairments in VIC and PSEP are due to the impact of COVID-19 on their respective discount rates and short to medium-term cash flows (see note 14). Despite the negative impact of the macroeconomic factors which are outside of our direct control, management believe the outlook for VIC and PSEP continues to be positive. Post-tax, this resulted in a diluted loss per share in the year of (0.19)p (FY2019: diluted EPS of 9.90p).

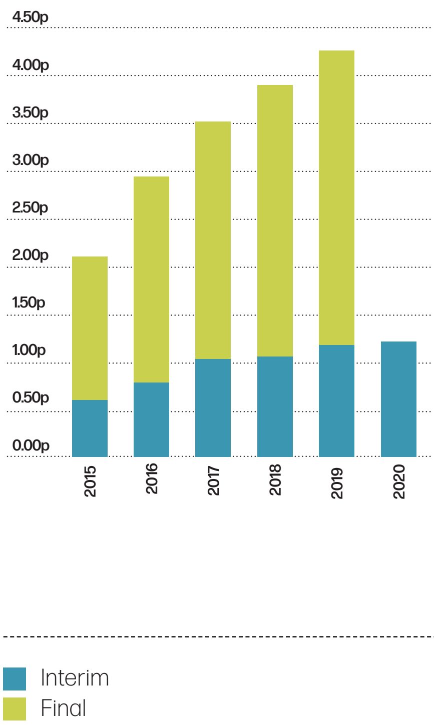
CER continues to be the best way of understanding the progress of our underlying business. To aid understanding, the impact of this on our key metrics is illustrated in the graph below.

FX effects

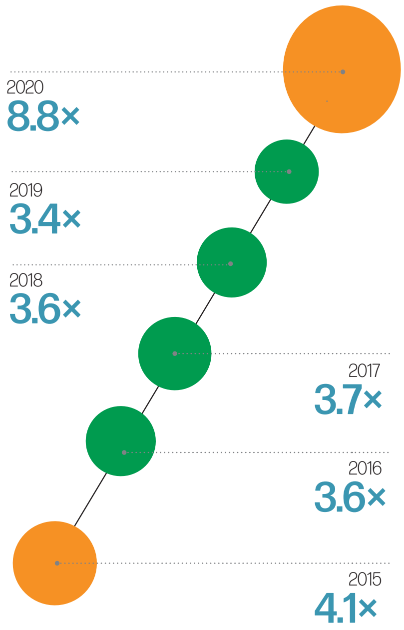
Revenue	Underlying PBT	Underlying diluted EPS	Net debt



Dividend progression



Dividend cover



Dividend policy

The interim dividend of 1.20p per share was paid on 9 April 2020 (FY2019: interim 1.20p; final 3.05p).

To allow us to appropriately manage our financial position and flexibility in such an uncertain time, as we have already announced in April 2020, we are not proposing a final dividend for FY2020. We plan to revisit this decision on a regular basis depending on how the wider macroeconomic environment develops.

As a Board, we are keen that dividends play their part in our TSR as soon as is practical. For the medium-term, we still believe that an appropriate level of dividend cover is in the range of 3x to 4x. However, as is always the case, the actual dividend each year will need to take in to account our ongoing strategy for investment driven growth, any acquisitions, and the working capital requirements of the business.

Business review

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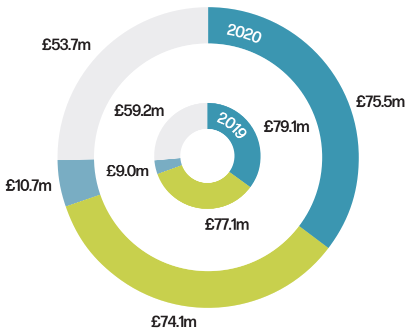
Revenue by region (CER)*

FY2020	**£200.5m†**	**-4.0%**
FY2019	**£209.0m†**	



UK
USA
Europe
Asia

* Regional revenues include intercompany
† Group revenue, after eliminating intercompany

Revenue

Due to the challenging market conditions throughout FY2020, coupled with the impact of COVID-19 in Q4, we have seen revenue declines across nearly all our regions, ranging from 3.9% to 9.4%. The one exception to this being in the USA, where we are very pleased to report that strong double digit growth continued, up by 18.7% to £10.7m (AER: 22.7% to £11.0m; FY2019: £9.0m) largely due to market share wins in the automotive sector.

Our European operations have seen a 3.9% reduction in revenue to £74.1m (AER: 5.7% to £72.7m; FY2019: £77.1m). Well-publicised decreases in automotive volumes have been felt most noticeably in Holland and Sweden. Reduced volumes in domestic appliances and regional lockdowns in Q4 have decreased trading levels in Italy. Production volume declines in the electronics sector have reduced revenues in our Hungarian operations and weakened general industrial demand in Germany has hampered trading levels here. Helping to offset some of those challenges, even in the current very uncertain environment, our newest greenfield site in Spain has gone from strength to strength, with a >50% trading increase via market share wins in the automotive sector.

In Asia, we have seen the steepest decline in revenues of 9.4% to £53.7m (AER: 8.0% to £54.5m; FY2019: £59.2m), in part as the impacts of COVID-19 were felt more strongly in Q4, most specifically in China, where lockdowns were in place as early as February 2020. It is reassuring to note however, that we are now seeing recovery coming through earlier at our Chinese sites, with trading levels towards the end of Q1 of FY2021 already returning to be in line with the start of FY2020. The lockdown in Malaysia at the end of Q4 has impacted on both the electronics and domestic appliances sector sales in the region, especially at one of our largest domestic appliance OEMs. As reported at the half-year, our automotive business in Taiwan has continued to be negatively impacted due to volume reductions in its key European market. However, these losses have been offset to a large extent by >65% increases in trading levels at our Thailand operations and the beginnings of a return to strength at one of our largest Malaysian automotive OEMs.

Overall, our UK business has declined by 4.5% to £75.5m (FY2019: £79.1m) with well-publicised production volume decreases in the automotive sector being exacerbated by Q4 production line shutdowns and reduced distributor sales, most noticeably to the EU. We are pleased to report that our latest acquisition, PTS, has continued to show growth of >5% despite the current uncertain macroeconomic conditions, helped by increased medical sector and other distributor demand in Q4 driving a strong trading finish to the year.

Underlying operating margins

Underlying operating margins have reduced by 260bps, to 9.0% (FY2019: 11.6%) to generate an underlying operating profit of £18.0m (FY2019: £24.2m).

In Europe we have seen a 300bps decrease in underlying operating margin to 7.9% (FY2019: 10.9%). Gross margins have reduced as product mixes have shifted and start of production delays, specifically in the automotive and electronics sectors have continued. Whilst as previously reported, the remainder is largely related to Italy, where movements in the average €:$ exchange rate have increased $ purchase costs unfavourably against a largely € denominated revenue base.

The reduction in sales over a semi-fixed cost base has further reduced margins, although we are pleased to report that we have been able to mitigate the impact of this in part, via careful overhead cost savings despite the ongoing investments required into our fast growing Spanish site (see page 26).

In Asia, underlying operating margins have held up exceptionally well, with a reduction of only 80bps to 15.1% (FY2019: 15.9%), although reducing sales against a semi-fixed cost base has had a negative impact. We have been able to more than offset this through short-term overhead cost savings. Again, this is despite the investments we continue to make in our successful Thailand operations (see pages 26 and 27).

In the UK, underlying operating margins have decreased by 190bps to 9.1% (FY2019: 11.0%). Gross margins have been lower in the region, reflecting a change in product mix due to a drop in distributor spend and some temporary increases in stock provisioning as the result of higher levels on hand. However, it is reduced sales over a semi-fixed cost base that have driven most of the reduction.

In our small, nonetheless fastest growing region, the USA, underlying operating margins have remained low at 2.0% (FY2019: 4.9%). This reflects the very positive impact of double-digit revenue growth but offset by the ongoing investments for future growth we are making within the business (see pages 26 and 51).

Net financing costs (at AER)

Interest costs have increased to £1.0m (FY2019: £0.7m). The main reason for this is the inclusion of £0.4m of expense in relation to right-of-use lease liabilities, following the adoption of IFRS16.

Taxation (at AER)

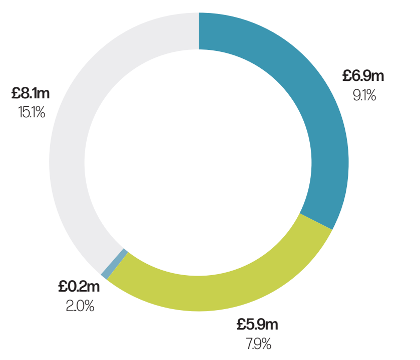
The underlying effective tax rate (ETR) is broadly in line at 23.1% (FY2019: underlying effective tax rate: 23.6%).

Subject to future tax changes and excluding prior year adjustments, our normalised underlying ETR is expected to remain in the range of *c.*22–25% going forward.

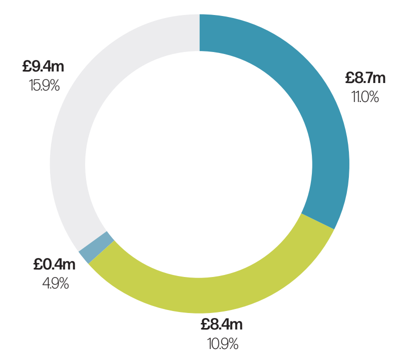
The main reason for the difference between our FY2020 ETR of 107.8% and the FY2019 ETR of 25.4% is due to the impairment charges in the year and reduced deferred tax on share options.

Underlying operating profit and margin by region (CER)

FY2020 **£18.0m†** **9.0%**



FY2019 **£24.2m†** **11.6%**



UK
Europe
USA
Asia

† After deducting central costs

GAAP Measures: operating profit by region (AER)*

	FY2020 Profit/(loss) (£m)	FY2020 Margin	FY2019 Profit /(loss) (£m)	FY2019 Margin
UK	5.1	6.8%	7.1	9.0%
Europe	(2.8)	(3.8)%	7.0	9.1%
Asia	7.1	13.0%	9.1	15.4%
USA	0.2	1.8%	0.4	4.7%
Central costs	(5.5)	N/A	(6.5)	N/A
Total	**4.1**	**2.0%**	**17.1**	**8.2%**

* After allocating separately disclosed items, including goodwill impairments

Operating margins have reduced from 8.2% to 2.0% largely due to the factors above and goodwill impairments in the year of £7.8m.

In the UK and USA reductions are largely due to the factors above. In Europe and Asia this is also true, however impairment losses of £7.0m (VIC) and £0.8m (PSEP) have further impacted margins in these two regions respectively in FY2020.

Business review

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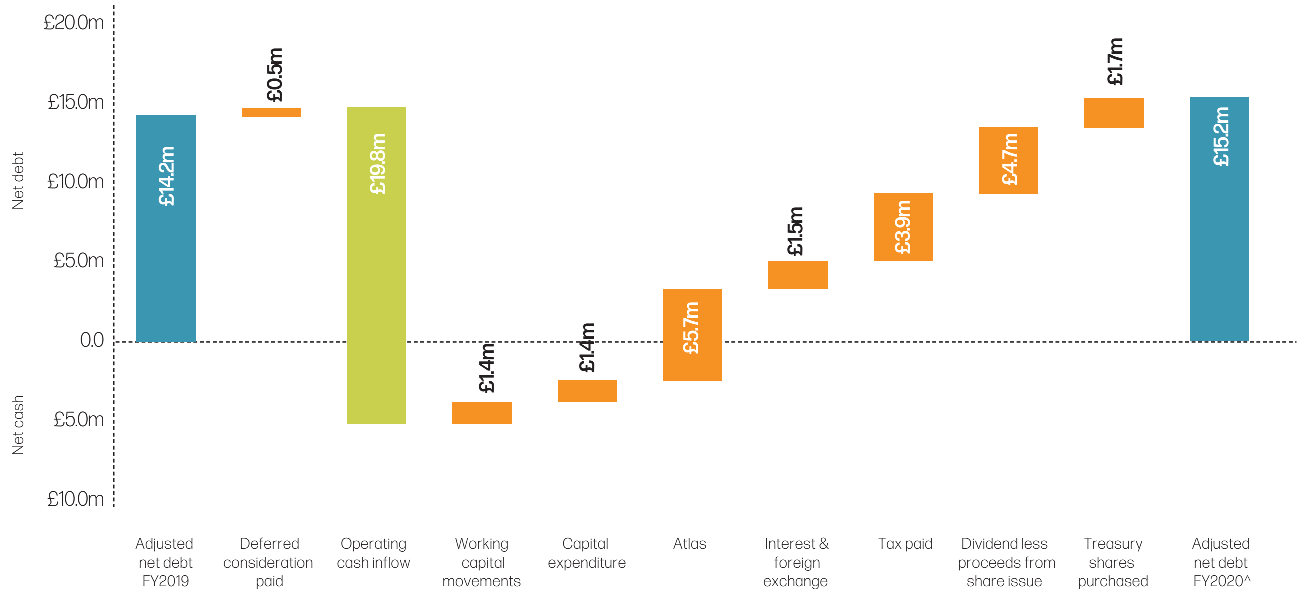
Adjusted net debt bridge (AER)



^ Adjusted net debt is stated excluding the impact of IFRS16 Leases, including right-of-use liabilities, net debt increases by £15.1m to £30.3m and operating cash inflow before changes in working capital increases by £3.5m

Net debt (AER)

Our net debt position at the end of FY2020 has increased by £16.1m to £30.3m (FY2019: £14.2m). Some £15.1m of this increase is due to the adoption of IFRS16 Leases. Excluding the impact of this, our pre-IFRS16 adjusted net debt is significantly lower at £15.2m (excluding the impact of prepaid arrangement fees relating to the refinance in April 2019, adjusted net debt would be higher at £15.8m).

Cash generation has been strong, with an increased conversion rate of underlying EBITDA to underlying cash of 95.9% (FY2019: 64.9%) as stock levels have stabilised and trade debtors have reduced due to slower trading at the end of the year. Year-end stock levels have remained higher than our historic average, largely due to the high degree of volatility in current demand. However, our operational teams have been working extremely hard to help us secure a £4.1m stock reduction to £59.2m in HY2 (HY2020: £63.3m; FY2019: £57.6m).

Project Atlas has driven additional investment of £5.7m in the year, of which £3.1m has been capitalised as an intangible asset (see page 155). As planned, excluding Project Atlas capital expenditure has been lower at only £1.4m in the period, including the finalisation of a factory extension at one of our Taiwanese sites and a much needed warehouse extension at our Lancaster distribution site (see page 48).

In addition, in February 2020, £1.7m was also used to acquire 1 million 5p ordinary shares on the open market via the *Trifast* EBT to honour future equity award commitments.

Banking facilities

The Group successfully renegotiated its banking facilities in April 2019 and has access to an £80m revolving credit facility over a four-year term, with an option to extend for up to one year, and an additional £40m accordion facility to support acquisitions.

The Group's banking facilities include covenants to maintain an adjusted leverage ratio of below 3.0x and an interest cover ratio above 4.0x on a rolling 12-month basis. At 31 March 2020, the Group's covenants are well within these limits with an adjusted leverage ratio of 0.80x and interest cover of 30x.

To reflect the current uncertain conditions the Board has set a reduced maximum net debt to underlying EBITDA ratio target of 1.5x (FY2019: 2.0x). This would only be breached via investment, where a short-term reversal can be reliably forecast.

Return on Capital Employed (at AER)

As at 31 March 2020, the Group's shareholders' equity had decreased to £115.7m (FY2019: £121.1m). This £5.4m movement is made up of a retained loss of £7.4m (including goodwill impairments of £7.8m), share movements totalling £1.6m (including the acquisition and utilisation of own shares held of £1.1m) and a foreign exchange reserve gain of £0.4m which arose due to a relative weakening of Sterling in FY2020.

Over this decreased asset base, our underlying ROCE has reduced to 12.0% (FY2019: 18.8%).

Following an annual impairment review, the goodwill balances that the Group holds in both *TR* VIC in Italy and PSEP, in Malaysia have been impaired by £7.0m to £3.0m and £0.8m to £nil, respectively. These impairments have been recognised in response to the short and medium-term impacts of COVID-19 and do not reflect a long-term change in the Group's strategic direction or support of these underlying businesses.

Full details of the work performed in relation to the above are included in note 14.

Post-balance sheet event

Equity Placing

In June 2020, the Company undertook a non-pre-emptive equity placing which raised £16m gross proceeds. This ensures that the Group can continue to support its long-term strategic investments (see page 14) as well as being able to maximise its growth in the short-term as markets recover.

As a result of this equity Placing, the Group is in an adjusted net cash position (excluding IFRS16 right-of use lease liabilities) as at 30 June 2020.

The combination of the new banking facilities and the equity Placing is an extremely exciting development for the Group. Providing the flexibility and confidence to allow us to continue to follow our strategic aims, coupled with an increase in both security and tenure of funding to support us in a less certain macro-economic environment.

Outlook

"The next couple of years for *Trifast* remain a very exciting time for our business as we look to implement and invest in a number of significant and positive changes in the way that we are structured and operate"

In FY2020 the Group has delivered a resilient performance despite challenging market conditions and the initial impact of COVID-19 in Q4.

We have taken swift and significant action in response to COVID-19 to ensure that we look after both the welfare of our staff, and that we continue to work closely with our suppliers and customers so supply chains are protected, production lines continue to operate, and we cement *Trifast*'s reputation as a trusted and reliable counterparty.

The Group's focus on flexibility and an integrated global approach has provided resilience and, combined with the decisive actions taken by the Board, minimised the impact of COVID-19 and preserved capability (for further details, see pages 10 to 13).

There can be no doubt that COVID-19 had a significant impact on trading in the latter part of FY2020 and into the first quarter of FY2021. However, we are immensely proud to report that all our *TR* sites are back open for business and ready and able to return to full capacity as soon as demand returns to the market.

Very encouragingly, volumes have begun to recover in all key end markets over the course of Q1 of FY2021, allowing the Group to return to underlying profitability in the month of June 2020.

We are especially excited by the encouraging activity levels and pipeline of opportunities that we are seeing, with additional prospects for growth already secured, and enquiries well underway across a number of sectors including electric vehicle, 5G, medical and the general industrial sector.

Looking further ahead, we strongly believe that the combination of our reputation for *T*rusted *R*eliability, our flexible and established global supplier networks, and our balance sheet strength will put us in a great position to make the most of both the organic and M&A opportunities that are likely to arise as the competitor landscape shifts and demand returns to the market.

It is, of course likely, that there will be some long-term changes in the way that our customers, our suppliers, and the macroeconomic environment operates. We consider that the real fundamentals of our business model and strategy remain unchanged, although we are constantly reviewing what this 'new normal' will look like and how we can best address the challenges and opportunities it will bring.

"*Trifast* is a global business serving a broad and balanced range of sectors and geographies and with no one customer representing greater than 7% of revenue. We are a full-service provider to our multinational customers, delivering reliable product engineering, quality, and supply via flexible global logistics solutions. Even in uncertain times, this gives us a very good base from which to keep moving forward and delivering on our future aspirations"

Underlying measures	FY2020 (post IFRS16)	IFRS16 impact	FY2020 (pre IFRS16)	FY2019 (pre IFRS16)
CER				
GP%	27.5%	10bps	27.4%	30.0%
Underlying EBITDA	£23.5m	£3.5m	£20.0m	£26.4m
Underlying EBITDA%	11.7%	170bps	10.0%	12.7%
Underlying operating profit (UOP)	£18.0m	£0.4m	£17.6m	£24.2m
UOP%	9.0%	20bps	8.8%	11.6%
Underlying profit before tax	£17.0m	-	£17.0m	£23.5m
AER				
Underlying diluted EPS	10.54p	-	10.54p	14.53p
Return on capital employed (ROCE)	12.0%	(100)bps	13.0%	18.8%
Net debt	£30.3m	£15.1m	£15.2m	£14.2m
Net debt to underlying EBITDA ratio	1.29x	0.54x	0.75x	0.54x
Underlying cash conversion as a percentage of underlying EBITDA	95.9%	40bps	95.5%	64.9%
Net financing costs	£1.0m	£0.4m	£0.6m	£0.7m
GAAP Measures (AER)				
Operating profit	£4.1m	£0.4m	£3.7m	£17.1m
Operating profit %	2.0%	20bps	1.8%	8.2%
Profit before tax	£3.0m	-	£3.0m	£16.4m
Diluted EPS	(0.19)p	-	(0.19)p	9.90p

The Strategic report was approved by the Board of Directors on 27 July 2020 and signed on its behalf by:

Jonathan Shearman
Non-Executive Chair
Trifast House, Bellbrook Park,
Uckfield, East Sussex
TN22 1QW

Company registered number: 01919797