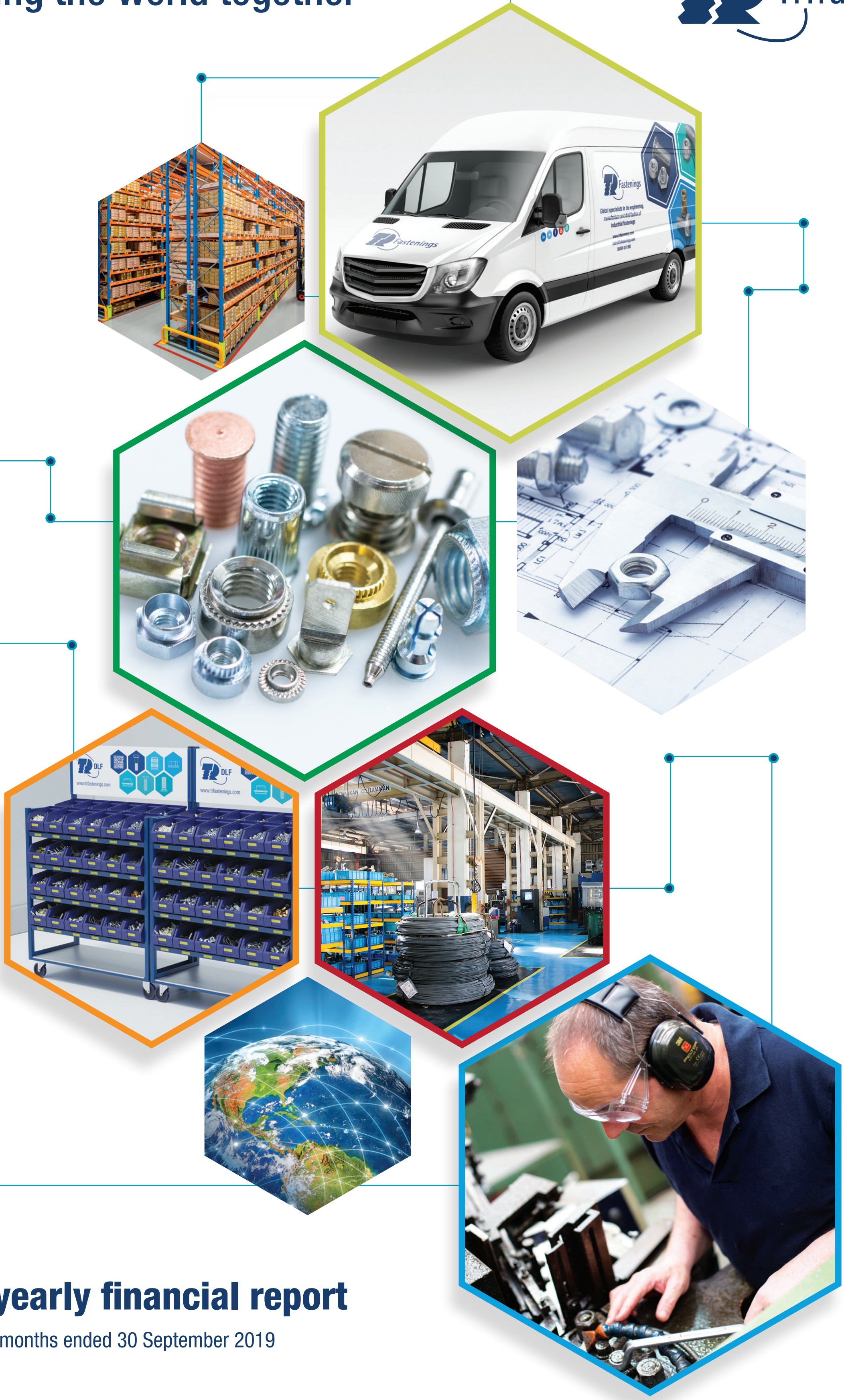
Holding the world together

Trifast plc



Half-yearly financial report

for the six months ended 30 September 2019

The information contained within this announcement
is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014.
Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

TRIFAST PLC

HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

"Even in challenging market conditions, we have maintained similar revenue levels, a double-digit operating margin and solid cash generation"

KEY FINANCIALS

Underlying measures	CER HY2020 (post-IFRS16)	CER change v HY2019	AER HY2020 (post-IFRS16)	AER change v HY2019	HY2019 (pre-IFRS16)	FY2019 (pre-IFRS16)
Group revenue	**£102.2m**	**-2.7%**	**£103.1m**	**-1.8%**	£105.0m	£209.0m
Gross profit %^	**28.7%**	**-150bps**	**28.8%**	**-140bps**	30.2%	30.0%
Underlying operating profit*^	**£10.9m**	**-8.4%**	**£11.1m**	**-6.7%**	£11.9m	£24.2m
Underlying profit before tax*^	**£10.4m**	**-10.2%**	**£10.6m**	**-8.5%**	£11.6m	£23.5m
Underlying diluted earnings per share*^	**6.39p**	**-11.3%**	**6.52p**	**-9.4%**	7.20p	14.53p
Adjusted net debt§			**£15.7m**	**+£2.2m**	£13.5m	£14.2m
Return on capital employed (ROCE)*^			**16.5%**	**-300bps**	19.5%	18.8%
Interim/total dividend¥			**1.20p**	**-**	1.20p	4.25p
GAAP measures						
Operating profit^			**£8.4m**	**+1.3%**	£8.3m	£17.1m
Profit before tax^			**£7.9m**	**-1.0%**	£8.0m	£16.4m
Diluted earnings per share^			**4.82p**	**-**	4.82p	9.90p
Basic earnings per share^			**4.92p**	**-0.2%**	4.93p	10.14p

* Before separately disclosed items (see notes 2, 6 and 9)

^Presented after adoption of IFRS16 Leases in HY2020. For ROCE the impact has been a reduction of 70bps (before IFRS16: 17.2%). Less significant impacts on the remaining metrics have been explained in a separate paragraph at the end of the business review.

§Adjusted net debt is presented, excluding the impact of IFRS16 Leases, as this is how the calculation is performed for the purposes of the Group's banking facilities. Including right-of-use lease liabilities, net debt would increase by £16.1m to £31.8m at HY2020.

¥Change is in interim dividend only

OPERATIONAL HIGHLIGHTS

The investment journey continues…

- Challenging macroeconomic environment sees revenues reduce 2.7% at Constant Exchange Rate (CER), 1.8% at Actual Exchange Rate (AER)
- Ongoing market share wins restrict Group automotive revenue reduction to 2.5%, against a global production downturn of 7.3% *(Source: European Automobile Manufacturers Association)*
- Underlying operating profit margins hold up well at 10.6% at CER (HY2019: 11.3%)
- Underlying diluted earnings per share reduce 9.4% to 6.52p at AER
- Project Atlas, our multi-year investment in our systems, policies and procedures is on track and on budget, with a spend of £2.5m in the period
- A strong balance sheet and *c.*£40.0m of banking facility headroom provide a solid financial platform and significant flexibility to support our long-term investment driven growth plans
- Potential M&A opportunities increase due to uncertain market conditions and an increased focus on key geographies
- Interim dividend maintained at 1.20p reflecting the Board's confidence in the long-term future of the business and our ongoing strong profitability

"Despite the short-term end market weaknesses and macroeconomic uncertainty, we are confident in the strong long-term fundamentals of our business model. The Board remains committed to its ongoing investment driven growth strategy and is optimistic for the long-term future"

"After ten years of continuous growth and strong cash generation, we have a very solid balance sheet. This coupled with our new banking facilities provides us with significant flexibility and security, to continue to invest and to make sure that when the macroeconomic environment begins to settle, we have the best foundation and are in the best possible position to add further stimulus to our growth ambitions."

Malcolm Diamond MBE**,** Non-Executive Chairman

Presentation of results:
This will be held at 8:45am (UK time) today at, No1 Cornhill, The Gold Room - London, EC3V 3ND.
Conference dial-in facility: on request, please contact Fiona Tooley on +44 (0)7785 703523
or email fiona@tooleystreet.com.

Enquiries please contact:

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Editors' note:
LSE Premium Listing: Ticker: TRI
LEI number: 213800WFIVE6RUK3CR22

Group website: www.trifast.com

About us: *Trifast*, leading international specialist in the design, engineering, manufacture and distribution of high-quality industrial and Category 'C' fastenings principally to major global assembly industries. Key sectors include automotive, domestic appliances, electronics and distributors. The Group employs *c.*1,300 staff across 32 global locations across the UK, Europe, Asia and the USA.

For more information, visit
Commercial website: www.trfastenings.com
LinkedIn: www.linkedin.com/company/tr-fastenings
Twitter: www.twitter.com/trfastenings
Facebook: www.facebook.com/trfastenings

Electronic communications
The Company is not proposing to bulk print and distribute hard copies of this half-yearly financial report for the six months ended 30 September 2019 unless specifically requested by individual shareholders. News updates, Regulatory News and Financial statements, can be viewed and downloaded from the Group's website, www.trifast.com. Copies can also be requested via corporate.enquiries@trifast.com or, in writing to, The Company Secretary, *Trifast* plc, *Trifast* House, Bellbrook Park, Uckfield, East Sussex, TN22 1QW.

Forward-looking statements
This announcement contains certain forward-looking statements. These reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future thereby involving a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.

TRIFAST PLC
HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

"Investing to build the Trifast of tomorrow, a truly world class global industrial player"

Dear Shareholder,

Way back in the late Eighties a visiting newspaper journalist to *TR* Uckfield asked me a very insightful question: "Do you manage your company for profit or prosperity?"

I replied that, as a privately-owned business with only two founder shareholders, we favoured prosperity over profit so as to try and enable future proofing, and to provide an ever-strengthening foundation for growth.

Of course, since flotation on the LSE in early 1994, the focus on delivering consistent and sustainable profitability has increased in order to safeguard the very basis upon which outside investors risk buying our shares in trusting anticipation of gaining value, ideally both in capital and dividend yield.

It is tempting to fall into line with what is now a majority of industrially based enterprises at this vexed time who are reporting the damaging effects of Brexit, global trade disruption, climate change policies and currency fluctuations. However, although we have seen revenues reduce slightly due to these external factors beyond our control, we are also in a transitionary phase where we are consciously reinvesting earnings into internal initiatives which we believe are crucial to enhance the platform for long-term prosperity.

We have already explained and notified you of the initiation of our transformational investment into our global systems, policies and procedures, Project Atlas, which is now halfway through its four-year time line and progressing as expected and on budget (thanks to the ongoing focus and dedication of our implementation team that are linked across the entire Group).

However, there has been a strategic shift in what our customers expect of our commitment and service support that has been accelerating over the past decade. We are no longer simply "box shifters", instead we are involved earlier in new customer product development (including problem solving and cost effectiveness), after passing stringent auditing on product and process quality.

Once our prototype design or specification has been thoroughly tested in an assembly process, we secure orders over the life of the customer's product and also provide adequate stock or production availability.

With two thirds of our customers being multinationals, our price, quality and service must be consistent across all their assembly facilities, hence our locations now being spread across Europe, Asia and North America in order to provide seamless support across all time zones.

In the early days of *TR* Fastenings, our reputation was built on prompt reliable service driven by our sales team having great interpersonal skills in communicating with buyers and purchasing managers.

Now, it is more about globally accepted quality and process certification tangibly under pinned by qualified engineers able to provide assembly solutions that save time and resource – hence cost. Price is still crucial, but it is now well documented that this is only a small part of what is called "in place cost". This cost optimisation is what predominantly *TR* now sells.

This, in turn, has led to further investment in qualified field engineers that has intensified this year, with intake in the USA, UK, Europe and Asia. As a result, this has required the set-up of a sophisticated Technical & Innovation centre in a neighbouring unit to our Waterside facility in the West Midlands. To maximise the impact of this investment, this new site interacts with the centre established last year in Gothenburg, Sweden.

We have also invested recently in a range of highly technical measuring and testing equipment that our increasingly demanding customers expect us to provide, some of which are so cutting edge as to be market leading. Robotic assembly is also now so prevalent that every component we supply has to have highly consistent and accurate dimensions that, due to large volume consumption can only be realistically assessed by automatic camera and laser machines. The Group now owns a significant number of these sophisticated and costly machines installed across many of our logistics and manufacturing facilities.

You can read a great more detail regarding our investment programme within the reports of my colleagues that follow my letter, which I hope you will find both relevant and reassuring.

As always, I remain inspired by the sheer quality, loyalty and energy of our truly outstanding workforce, many of whom have devoted years of unstinting commitment to our Company. To these, me and my fellow Board colleagues give our sincere thanks.

Malcolm Diamond MBE, Non-Executive Chairman
18 November 2019

BUSINESS REVIEW

Unless stated otherwise, comparisons with prior year are calculated at constant currency (CER) and where we refer to 'underlying', this is defined as being before separately disclosed items (see note 2). CER calculations have been calculated by translating the HY2020 figures by the average HY2019 exchange rate.

The impact of foreign exchange movements has increased our AER revenue by 0.9%, £0.9m (HY2019: decreased by 0.5%, £0.4m), our AER underlying profit before tax by 1.7%, £0.2m (HY2019: decreased by 0.9%, £0.1m) and our AER underlying diluted EPS by 1.9%, 0.13p (HY2019: decreased by 1.0%, 0.07p).

Our Group performance

Underlying measures	**HY2020 CER (post-IFRS16)**	**Change at CER**	**HY2020 AER (post-IFRS16)**	**Change at AER**	**HY2019 (pre-IFRS16)**
Revenue	**£102.2m**	**-2.7%**	**£103.1m**	**-1.8%**	**£105.0m**
GP%^	**28.7%**	**-150bps**	**28.8%**	**-140bps**	**30.2%**
Underlying EBITDA*^	**£13.5m**	**+4.2%**	**£13.7m**	**+6.0%**	**£12.9m**
Underlying EBITDA%*^	**13.2%**	**+90bps**	**13.3%**	**+100bps**	**12.3%**
Underlying operating profit (UOP)*^	**£10.9m**	**-8.4%**	**£11.1m**	**-6.7%**	**£11.9m**
UOP%*^	**10.6%**	**-70bps**	**10.7%**	**-60bps**	**11.3%**
Underlying profit before tax*^	**£10.4m**	**-10.2%**	**£10.6m**	**-8.5%**	**£11.6m**
Underlying diluted EPS*^	**6.39p**	**-11.3%**	**6.52p**	**-9.4%**	**7.20p**
Return on capital employed ROCE*^			**16.5%**	**-300bps**	**19.5%**
GAAP measures					
Operating profit^			**£8.4m**	**+1.3%**	**£8.3m**
Operating profit %^			**8.2%**	**+30bps**	**7.9%**
Profit before tax^			**£7.9m**	**-1.0%**	**£8.0m**
Diluted EPS^			**4.82p**	**-**	**4.82p**

*Before separately disclosed items (see notes 2, 6 and 9)

^Presented after adoption of IFRS16 Leases in HY2020. For Underlying EBITDA and Underlying EBITDA%, the impact has been an increase of £1.6m and 160bps at CER (before IFRS16: £11.9m and 11.6%) and £1.6m and 160bps at AER (before IFRS16: £12.1m and 11.7%). For ROCE (AER) the impact has been a reduction of 70bps (before IFRS16: 17.2%). Less significant impacts on the remaining metrics have been explained in a separate table at the end of the business review

Similar to many other businesses in the industrials space, the first half of FY2020 has been a challenging time for the business with end markets across a number of sectors remaining weak, particularly in the automotive sector. This has led to some reduced volumes to existing builds across the UK, Europe and Asia, as well as lead times on production schedules moving out on a number of new business wins.

In the context of this high degree of uncertainty and volatility in the macroeconomic climate, we are very pleased to report a solid set of results, that show only a small reduction in revenues, down 2.7% to £102.2m (AER: down 1.8% to £103.1m; HY2019: £105.0m).

Our core growth strategy, focusing on sales to our multinational OEMs, has continued to produce results, especially in the automotive sector where despite a 7.3% fall in global automotive production levels, we are reporting only a 2.5% decrease. This demonstrates our ongoing ability to win market share alongside site penetration, most specifically into our existing multinational Tier 1 customers. On a gross level, we have seen overall volume reductions on existing builds largely across our European and UK Tier 1 customer base. But these reductions have been substantially offset by very strong market share wins, most specifically from our rapidly growing sites in the US, Spain and Thailand.

Group domestic appliances sales have reduced, most particularly in Europe where ongoing low volumes continue at a key multinational OEM. The reduction in the electronics sector is largely driven out of decreased volumes on more established lines at one of our key OEMs in Europe, as well as the ongoing indirect impact of US tariffs on certain multinational OEMs in China.

In contrast, growth in the general industrial sector has been strong, with new customer relationships and double-digit growth at our latest acquisition, PTS, driving a *c.*5% revenue increase. Although as previously reported, Brexit related disruption to our EU distributor sales has worked to offset some of these gains overall.

Gross margins have reduced by 150bps to 28.7% (HY2019: 30.2%). As semi-fixed costs are less easily absorbed by the reduction in sales and product mix changes, temporary increases in stock holding and provisioning levels, and foreign exchange movements negatively impact margins in our Italian operations. Underlying operating margins have reduced by less, down 70bps to 10.6% (HY2019: 11.3%). With short-term savings and deferrals being made at overhead level, where possible in the context of our ongoing investment plans, so as to reduce the impact of the lower gross margin.

Our underlying PBT is down 10.2% to £10.4m (AER: 8.5%, to £10.6m, HY2019: £11.6m). This has resulted in a decrease in our underlying diluted earnings per share (EPS) at CER, down 11.3% to 6.39p and at AER, down 9.4% to 6.52p (HY2019: 7.20p).

Our underlying EBITDA has increased 4.2% to £13.5m (HY2019: £12.9m). However, this increase reflects the first-year adoption of IFRS16 Leases, which has moved £1.6m of operating rental costs into depreciation and financial expenses. Excluding the positive impact of this, underlying EBITDA would have decreased by 8.2% to £11.9m (HY2019: £12.9m).

Revenue (CER)

Outside of very strong growth in the USA, up 21.1% (HY2019: 34.8%), we have seen challenging conditions across all of our regions, with revenue reductions ranging from 1.9% to 6.8% (HY2019: growth of 4.3% to 10.8%) against a strong HY2019.

Europe has seen a revenue decrease of 3.1% to £37.3m (AER: down 3.6% to £37.1m, HY2019: £38.4m). In Holland this reflects a reduction in automotive as volumes on existing builds have reduced. Whereas in Italy, the main driver for the decrease is in the domestic appliances sector. As previously reported, volumes at one of the Group's largest domestic appliances customers have continued to be depressed due to their ongoing reputational issues. In conjunction now with some volume decreases in the wider market as economic uncertainties start to weigh on consumer confidence and production scheduling in the region. In Hungary, sales to one of our key electronics OEMs have reduced, as volumes decrease on more established lines ahead of new product introductions. While overall, we are also seeing deferred start of production dates reducing automotive growth in the short-term.

Helping to offset the above, we are pleased to report ongoing, albeit more limited, growth in *TR* Kuhlmann, despite the recessionary environment in Germany. As well as encouraging automotive market share wins at both our Swedish and Spanish sites.

As national economies struggle with the impact of trade tariffs and reducing growth rates, it is perhaps not surprising that Asia has been our poorest performing region in HY2020. Revenues have reduced by 6.8% to £28.7m (AER: down 3.7% to £29.6m, HY2019: £30.8m).

In Taiwan, sales to European automotive distributors have reduced significantly as production volumes in Europe decrease. Whilst in China, it is lower domestic automotive production volumes that have decreased sales, with JLR related builds being particularly badly affected. Additional reductions have also been seen in the electronics sector in China as a small number of multinational OEMs reduce local production volumes in the face of US trade tariffs. We are working closely with customers in this situation, to ensure we follow business as it transfers to new locations wherever possible.

In contrast, we continue to see positive growth in the electronics sector in Singapore and automotive market share wins for our distribution site in Thailand.

In the UK, revenues have reduced 1.9% to £38.4m (HY2019: £39.2m). There are two main reasons for this reduction. Firstly, due to the expected automotive slowdown, with planned production line stops across a number of OEMs in April as well as falling production volumes more generally across existing builds and deferred start of production dates. Secondly, as a result of Brexit, disruption to the EU distributors sector. As expected, April and May saw revenues fall led by a reversal to the stocking up that had happened in February and March, coupled with some signs of more cautious ordering and de-stocking taking place into Q2.

On the positive side, revenues in the general industrial sector have increased strongly in the UK, with new customer wins mainly responsible for driving growth. Furthermore, we are very pleased to report that PTS continues to perform very well with double digit revenue growth despite all the current uncertainty in the market place.

In the USA, growth continues to be extremely strong, up 21.1% to £5.2m (AER: up 28.4% to £5.5m; HY2019: £4.3m). This is largely being driven out of our ongoing penetration into the Group's existing automotive multinational Tier 1 customers and looks set to continue at double-digit level for the foreseeable future.

Underlying operating profit (CER)

The Board's ongoing confidence in the long-term fundamentals of the business model have allowed us to continue to invest for long-term growth, despite the current macroeconomic uncertainties. Whilst even in more challenging trading conditions, a focus on strong overhead control, has helped to maintain a double-digit operating margin of 10.6% (HY2019: 11.3%) and limit the overall decrease in underlying operating profit, down 8.4% to £10.9m (AER: down 6.7% to £11.1m; HY2019: £11.9m).

In Europe, we have seen a 320bps reduction in UOP margins against HY2019 to 8.5% (HY2019: 11.7%, FY2019: 10.9%). This primarily reflects a reduction in the gross margin, including a reversal due to particularly favourable product mixes in both Sweden and Hungary in HY2019. The positive impact of these had already reversed by FY2019. 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.

Outside of the gross margin, the reduction in sales has led to a fall in UOP against a semi-fixed cost base. In response, no overall overhead increases were recorded in the period despite some ongoing investments in the region, as short-term savings and deferrals have been made wherever possible to offset.

In Asia, underlying operating margins have remained broadly level at 15.8% (HY2019: 15.9%). Gross margins have improved, most noticeably in Singapore as previous capital investments in the mezzanine floor flow through to greater production efficiencies. The reduction in sales over a semi-fixed cost base has reduced overall operating margins with the remaining difference largely coming out of a reduced balance sheet translation gain of <£0.1m (HY2019: £0.5m) as the US$ has remained more stable against our main Asian trading currencies in the period.

In the UK, underlying operating margins have reduced 60bps to 10.3% (HY2019: 10.9%). Gross margins have fallen in the region, reflecting a change in product mix due to a lower distributor spend, some temporary increases in stock provisioning due to higher levels on hand and the flow through of a small amount of residual purchase price inflation following the extended weakness of £ since the referendum in 2016. Outside of the gross margin, the fall in sales against a semi-fixed cost base has reduced operating margins. But we are pleased to report that a decrease in overheads, as costs have been saved or deferred where possible, has helped to reduce the overall negative impact on operating margins in the short-term.

In our smallest region, the USA, UOP% has remained broadly level at 4.5% (HY2019: 4.8%), largely reflecting the significant increase in trading in the period offset by a gross margin reduction due to the ongoing shift in focus to automotive. Additional investments in overheads, mostly relating to additional headcount, have temporarily reduced UOP% ahead of further expected increases in sales volumes. As in prior periods, low underlying operating margins are to be expected in this region for the medium-term given the level of investments for future growth being made here.

Net financing costs (AER)

These have increased to £0.5m (HY2019: £0.3m). The main reason for this increase is the inclusion of £0.2m of expense in relation to right-of-use lease liabilities, following the adoption of IFRS16.

Taxation (AER)

The HY2020 underlying effective tax rate (ETR) has remained consistent at 23.4% (HY2019: 23.5%, FY2019: 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.*22.5-24.5% going forward.

Earnings per share (AER)

The reduction in underlying profit before tax, has decreased our underlying diluted EPS by 9.4% to 6.52p (HY2019: 7.20p). Diluted EPS has remained consistent at 4.82p (HY: 4.82p) largely due to lower IFRS2 costs incurred in the period. These have reduced to £0.6m (2019: £1.2m) reflecting the lower trading results achieved in the current challenging macroeconomic environment, against original benchmark targets set.

Dividend

Given the Board’s confidence in the long-term future of the business and our ongoing strong profitability even in a period of macroeconomic uncertainty, the interim dividend has been maintained in line with the previous period. We have therefore declared an interim dividend of 1.20p (HY2019: 1.20p). This will be paid on 9 April 2020, to shareholders on the Register as at 13 March 2020. The shares will become ex-dividend on 12 March 2020.

Shareholder equity (AER)

As at 30 September 2019, the Group’s shareholders’ equity increased to £123.7m (FY2019: £121.1m). The £2.6m uplift reflects retained earnings of £1.4m (HY2019: £2.0m), a foreign exchange reserve gain of £2.3m and an opening balance adjustment in respect of IFRS 16 reducing retained equity by £1.1m.

At the 30 September 2019, the number of shares still held by the EBT to honour future equity award commitments as required, has remained unchanged at 1,317,378 shares (HY2019: 1,317,378 shares; FY2019: 1,317,378 shares).

Over this increased asset base, a solid, albeit lower, trading performance and ongoing investment has led to a reduced ROCE of 16.5% (FY2019: 18.8%). We note that part of this reduction is due to the adoption of IFRS16 Leases. Excluding the impact of this, ROCE would be higher at 17.2%.

Net debt (AER)
Our net debt position at the end of HY2020 has increased by £17.6m to £31.8m (FY2019: £14.2m). Some £16.1m of this increase is due to the adoption of IFRS 16 Leases. Excluding the impact of this, our pre-IFRS16 adjusted net debt is significantly lower at £15.7m.

Capital expenditure of £1.9m (HY2019: £1.3m) in the period supports the Board's ongoing investment in the business, most specifically with regards to Project Atlas. With £1.3m being capitalised, largely reflecting phase one of the design and build element of the project, as well as directly related infrastructure spend. In July 2019, we were also pleased to pay a final £0.5m earn-out amount in relation to PTS. This follows on from a very successful first year with us, achieving double digit growth that has subsequently carried on into HY2020.

Outside of these movements, our cash generation is lower than the prior period with a conversion rate of underlying EBITDA to underlying cash of 60.5% (FY2019: 64.9%; HY2019: 67.4%). However we note that this conversion rate has also been negatively impacted by the adoption of IFRS16 Leases. If we exclude the impact of this, then our cash conversion would be slightly ahead of the prior period at 68.9%. Our half year cash conversion is historically lower than our full year position, due to the higher stock levels we hold at this stage of the trading cycle.

Our overall investment in gross stock has increased by £4.5m since year end and we have retained the investment in stock that we were holding at the 31 March 2019 in case of a no-deal Brexit. We intend to continue to hold this for the foreseeable future, until there is greater clarity over our future trading relationship with the EU.

Our stock weeks across the Group have increased by 2.1 weeks, largely in the UK (up £3.4m) where lower than budgeted sales and planned stock range investments, especially on the distribution side have temporarily lowered stock turn.

Banking facilities
As previously reported, on 16 April 2019 the Group signed new four year banking facilities with a consortium of three banks.

As at 30 September the RCF headroom on these facilities was £39.9m (FY2019: £6.2m). In addition to which, we have access to an additional accordion facility of £40.0m. The adjusted net debt to Underlying EBITDA ratio (excluding the impact of IFRS16) was 0.65x, and significantly less than our covenant limit of 3.00x (1.16x including IFRS16).

This provides us with a significant degree of potential flexibility to debt finance future acquisitions and further investments as required. As well as an increase in both security and tenure of funding to adequately support us in a less certain macroeconomic environment.

Acquisitions
We successfully added PTS to our portfolio in April 2018. However, in a fragmented market, and with a track record of success, inevitably the search for the next successful acquisition remains an important strategic aim for the Group.

Over the course of the last six months, we have continued to develop our proactive search. We have appointed advisors in a couple of key geographies and with their help are now actively researching and approaching the market where opportunities that fit our acquisition criteria are identified. The full benefits of this increased activity are likely to come through over time. However, even at this early stage we are seeing a marked increase in the number of potential targets being identified. And in a less certain world, we are also seeing an increased number of opportunities approaching us. This is an exciting and busy time for the *TR* Acquisitions team.

Ongoing and future investment plans

Trading

We are continuing to invest in both our global and local sales resources and cross functional supporting teams. Some specific investments have already been made into our engineering sales, quality, and IT teams and additional plans are being pulled together now to further develop and build our sourcing and supply side resources.

In Europe, our successful greenfield site in Spain continues to grow, with an exciting pipeline in place. We anticipate making additional overhead investments to support that growth in the second half of the year and beyond. Looking ahead, we are also in the process of finalising a potential site move for our Hungarian business. This is needed to support the strong growth we have already seen here over the last five years and to pave the way for future growth in this fast growing region.

In the UK an expanded warehouse in our Lancaster site has provided us with a much-needed capacity increase of 20%, including additional picking locations as well as bulk storage facilities to support future growth plans. Whilst in the Midlands, further investments have been made in our newly developed Technical and Innovation Centre. This investment sets us apart from the competition and further supports the *TR* UK Brand just when we need it most, as the local competitive landscape hardens.

Following on from a few years of significant capital investment in Asia, we have focused over the last six months on Taiwan. Here a reasonably small investment of *c.*£0.2m has got the final machines installed to successfully complete the factory extension we started in FY2019.

In the USA, we continue to invest in headcount to support the significant growth in the region. We have also taken the strategic decision to secure a small site at Clemson University, South Carolina where we intend to set up a mini Technical and Innovation Centre. The Clemson University International Centre for Automotive Research is an advanced technology research campus and a real hub for all areas of vehicle research and design. We intend this to be a smaller version of the very successful sites that we have already set up in the heart of Sweden's electric vehicle development area, Lindholmen Gothenburg, and next to our main Midlands distribution hub here in the UK.

Project Atlas – we remain on track and on budget

Project Atlas is a significant £15.0m planned investment into the integration and development of the Group's IT infrastructure and underlying rules, processes and policies. This project is considered an essential part of our ongoing growth plans, both organic and acquisitive, and will allow us to continue to meet the evolving needs of our multinational OEM customers.

The estimated ROI of >25%, at the point of full benefit realisation, compares favourably to our current ROCE. We remain confident that this project has the ability to create significant shareholder value in its own right as well as creating the capacity for ongoing growth.

As planned, over the last six months our international Atlas cross functional workstreams, the Atlas project team and our implementation partner have been working closely together to finalise the analysis work and start the design and build phase of the project. This is an incredibly exciting time for the business as we start to see all of that hard work turned into initial Proof of Concepts ahead of testing and training starting in earnest.

Alongside the main project launch, we have also started looking at our HR (Talent) platform. This will help to drive consistency across all of our businesses, making sure that we are best able to recruit, develop and retain our people around the world.

As a consequence of the work undertaken to date on this project, we have incurred direct costs of £2.5m in HY2020, largely relating to project team, consultancy and directly related infrastructure costs. We have excluded £1.2m of these costs from our underlying results, (see note 2), to reflect the unusual scale and one-off nature of this project. In line with accounting standards, we have also recognised the remaining £1.3m as intangible fixed assets on the balance sheet at 30 September 2019. These will start to be amortised as the new IT system is rolled out across our global sites.

Looking ahead from a strong foundation

HY2020 has been a challenging six months. But even in challenging market conditions and during a period of investment, we have maintained similar revenue levels, a double-digit operating margin and solid cash generation.

In line with the majority of our recent history, we currently expect a slightly stronger second half than first half to the year. The Board consider that set against what was a very strong HY1 & a slower HY2 in FY2019, this is the most appropriate position to take. Although we do continue to expect that in the short to medium-term the macroeconomic environment will remain challenging and volatile.

We are pleased to report that our pipeline of new wins remains reassuringly solid and activity levels around the Group continue to be encouraging across all sectors. Our core strategy focusing on our multinational OEM/Tier 1 customers is continuing to bear fruit. With significant new platform wins in automotive, domestic appliances and general industrial on the horizon for our existing customers. In addition to which, we have a number of exciting new multinational relationships under development, most specifically in the general industrials sector.

There is no doubt that on some level, as a component supplier we are always dependent on the fortunes of our customers. And in an uncertain, volatile world we have inevitably seen production volume reductions and start of production date deferrals across a number of our multinational OEMs/Tier 1s in recent months. It is very reassuring to note that we have not lost business or customers. We continue to hold preferred supplier status at a wide range of large manufacturers across the globe, and as soon as manufacturing volumes return we will be there, in place and ready to support. In the meantime, we continue to be at the forefront of the new and rapidly growing sub-sectors of our markets, with exciting opportunities currently being worked on in both the electric vehicle and 5G markets.

After ten years of continuous growth and strong cash generation, we have a very solid balance sheet. This coupled with our new banking facilities provides us with significant flexibility and security to continue to invest and to make sure that when the macroeconomic environment begins to settle, we have the best foundation and are in the best possible position to add further stimulus to our growth ambitions.

Trifast is a global business serving a broad and balanced range of sectors and geographies, generating *c.*70% of revenues and profits outside of the UK 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. In the long term, it is these core skills that will continue to allow us to increase market share across a wide customer base and put us in a good position to keep moving forward and delivering on our future aspirations.

Despite the short-term end market weaknesses and macroeconomic uncertainty, we are confident in the strong long-term fundamentals of our business model. The Board remains committed to its ongoing investment driven growth strategy and is optimistic for the long-term future.

RISKS AND UNCERTAINTIES

The Directors do not consider that the principal risks and uncertainties of the Group have changed since the publication in June 2019 of the Group's Annual Report for the year ended 31 March 2019. The principal risks and uncertainties include: loss of key personnel and resource, a major quality issue, foreign exchange volatility, macroeconomic factors, loss of a key customer and debtor exposure, interruption of supply, inventories obsolescence, a breach of cyber security and Brexit. A copy of this publication can be found on the website www.trifast.com.

No system can fully eliminate risk and therefore the understanding of operational risk is central to the management process within *TR*. The Group operates a system of internal control and risk management to provide assurance that we are managing risk whilst achieving our business objectives. Risk assessment reviews are regularly carried out by management, with responsibilities for monitoring and mitigating personally allocated to a broad spread of individual managers. These reviews are analysed and discussed at Audit Committee meetings chaired by our Senior Independent Non-Executive Director.

As with all businesses, the Group faces risks, with some not wholly within its control, which could have a material impact on the Group, and may affect its performance with actual results becoming materially different from both forecast and historic results. There are indications that the macroeconomic climate is still under pressure, and so, we continue to remain vigilant for any indications that could adversely impact expected results going forward. Past and future acquisitions can also carry impairment risks on goodwill should there be a sustained downturn in trading within an acquired subsidiary.

The long-term success of the Group depends on the ongoing review, assessment and control of the key business risks it faces.

IFRS16 impacts

Underlying measures	**HY2020 (post-IFRS16)**	**IFRS16 impact**	**HY2020 (pre -IFRS16)**	**HY2019 (pre-IFRS16)**
CER				
GP%	28.7%	+10bps	28.6%	30.2%
Underlying EBITDA	£13.5m	+£1.6m	£11.9m	£12.9m
Underlying EBITDA%	13.2%	+160bps	11.6%	12.3%
Underlying operating profit (UOP)	£10.9m	+£0.2m	£10.7m	£11.9m
UOP%	10.6%	+10bps	10.5%	11.3%
Underlying profit before tax	£10.4m	—	£10.4m	£11.6m
AER				
Underlying diluted EPS	6.52p	—	6.52p	7.20p
Return on capital employed (ROCE)	16.5%	-70bps	17.2%	19.5%
Net debt	£31.8m	+£16.1m	£15.7m*	£13.5m
Net debt to underlying EBITDA ratio	1.16x	+0.51x	0.65x*	0.54x
Underlying cash conversion as a percentage of underlying EBITDA	60.5%	-840bps	68.9%	67.4%
Net financing costs	£0.5m	+£0.2m	£0.3m	£0.3m
GAAP Measures (AER)				
Operating profit	£8.4m	+£0.2m	£8.2m	£8.3m
Operating profit %	8.2%	+10bps	8.1%	7.9%
Profit before tax	£7.9m	-	£7.9m	£8.0m
Diluted EPS	4.82p	-	4.82p	4.82p

*These measures are referred to as adjusted net debt and adjusted net debt to Underlying EBITDA ratio in the business review

Trifast plc — responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  a. DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.
  c.

Mark Belton, Chief Executive Officer
Clare Foster, Chief Financial Officer
18 November 2019

Condensed consolidated interim income statement

Unaudited results for the six months ended 30 September 2019

	Notes	**Six months ended 30 September 2019 £000**	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Continuing operations				
Revenue		**103,107**	104,981	208,952
Cost of sales		**(73,461)**	(73,327)	(146,317)
Gross profit		**29,646**	31,654	62,635
Other operating income		**165**	266	464
Distribution expenses		**(2,311)**	(2,223)	(4,268)
Administrative expenses before separately disclosed items	2	**(16,423)**	(17,822)	(34,635)
IFRS 2 share based payment charge		**(581)**	(1,152)	(2,454)
Acquired intangible amortisation		**(712)**	(734)	(1,419)
Net acquisition costs		**—**	(177)	(3)
Project Atlas		**(1,267)**	(1,490)	(3,117)
Cost on exercise of executive share options		**(88)**	—	(107)
Total administrative expenses		**(19,071)**	(21,375)	(41,735)
Operating profit		**8,429**	8,322	17,096
Financial income		**44**	36	80
Financial expenses		**(550)**	(356)	(755)
Net financing costs		**(506)**	(320)	(675)
Profit before tax		**7,923**	8,002	16,421
Taxation	4	**(1,938)**	(2,087)	(4,177)
Profit for the period (attributable to equity shareholders of the parent company)		**5,985**	5,915	12,244
Earnings per share				
Basic	6	**4.92p**	4.93p	10.14p
Diluted	6	**4.82p**	4.82p	9.90p

Condensed consolidated interim statement of comprehensive income

Unaudited results for the six months ended 30 September 2019

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Profit for the period	**5,985**	5,915	12,244
Other comprehensive income:			
Exchange differences on translation of foreign operations	**3,439**	1,571	148
(Loss)/profit on a hedge of a net investment taken to equity	**(1,142)**	(295)	466
Other comprehensive income recognised directly in equity, net of income tax	**2,297**	1,276	614
Total comprehensive income recognised for the period (attributable to equity shareholders of the parent company)	**8,282**	7,191	12,858

Condensed consolidated interim statement of changes in equity

Unaudited results for the six months ended 30 September 2019

Unaudited results for the six months ended 30 September 2019	Share capital £000	Share premium £000	Own shares held £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2019	6,095	21,914	(3,019)	13,988	82,115	121,093
Effect of change in accounting policy (see note 1)	—	—	—	—	(1,069)	(1,069)
Balance at 1 April 2019 (restated)	6,095	21,914	(3,019)	13,988	81,046	120,024
Total comprehensive income for the period:						
Profit for the period	—	—	—	—	5,985	5,985
Other comprehensive income for the year	—	—	—	2,297	—	2,297
Total comprehensive income for the period	—	—	—	**2,297**	**5,985**	**8,282**
Transactions with owners, recorded directly in equity:						
Issue of share capital	1	23	—	—	—	24
Share based payment transactions (net of tax)	—	—	—	—	482	482
Dividends	—	—	—	—	(5,134)	(5,134)
Total transactions with owners	**1**	**23**	**—**	**—**	**(4,652)**	**(4,628)**
Balance at 30 September 2019	**6,096**	**21,937**	**(3,019)**	**16,285**	**82,379**	**123,678**

Unaudited results for the six months ended 30 September 2018	Share capital £000	Share premium £000	Own shares held £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2018	6,068	21,579	(3,437)	13,374	72,705	110,289
Total comprehensive income for the period:						
Profit for the period	—	—	—	—	5,915	5,915
Other comprehensive income for the year	—	—	—	1,276	—	1,276
Total comprehensive income for the period	—	—	—	1,276	5,915	7,191
Transactions with owners, recorded directly in equity:						
Issue of share capital	1	21	—	—	—	22
Own shares acquired	—	—	409	—	(409)	—
Share based payment transactions (net of tax)	—	—	—	—	1,088	1,088
Dividends	—	—	—	—	(4,625)	(4,625)
Total transactions with owners	1	21	409	—	(3,946)	(3,515)
Balance at 30 September 2018	6,069	21,600	(3,028)	14,650	74,674	113,965

Condensed consolidated interim statement of financial position

Unaudited results for the six months ended 30 September 2019

	Notes	**30 September 2019 £000**	30 September 2018 £000	31 March 2019 £000
Non-current assets				
Property, plant and equipment		**21,130**	20,664	21,081
Right-of-use asset		**14,732**	—	—
Intangible assets		**46,352**	45,104	44,818
Deferred tax assets		**2,251**	2,311	2,129
Total non-current assets		**84,465**	68,079	68,028
Current assets				
Inventories		**63,271**	55,594	57,558
Trade and other receivables		**51,908**	52,405	53,782
Cash and cash equivalents	7	**25,027**	26,661	25,199
Total current assets		**140,206**	134,660	136,539
Total assets		**224,671**	202,739	204,567
Current liabilities				
Trade and other payables		**34,032**	38,492	37,207
Other interest-bearing loans and borrowings	7	**537**	30,548	32,617
Right-of-use liabilities	7	**2,933**	—	—
Tax payable		**1,748**	1,640	1,982
Dividends payable	5	**3,688**	3,307	—
Total current liabilities		**42,938**	73,987	71,806
Non-current liabilities				
Trade and other payables		—	140	138
Other interest-bearing loans and borrowings	7	**40,204**	9,645	6,739
Right-of-use liabilities	7	**13,115**	—	—
Provisions		**959**	991	959
Deferred tax liabilities		**3,777**	4,011	3,832
Total non-current liabilities		**58,055**	14,787	11,668
Total liabilities		**100,993**	88,774	83,474
Net assets		**123,678**	113,965	121,093
Equity				
Share capital		**6,096**	6,069	6,095
Share premium		**21,937**	21,600	21,914
Own shares held	10	**(3,019)**	(3,028)	(3,019)
Translation reserve		**16,285**	14,650	13,988
Retained earnings		**82,379**	74,674	82,115
Total equity		**123,678**	113,965	121,093

Condensed consolidated interim statement of cash flows

Unaudited results for the six months ended 30 September 2019

Group	Notes	**Six months ended 30 September 2019 £000**	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Cash flows from operating activities				
Profit for the period		**5,985**	5,915	12,244
Adjustments for:				
Depreciation, amortisation & impairment (excluding right-of-use assets' depreciation)		**1,872**	1,801	3,672
Right-of-use assets' depreciation		**1,487**	—	—
Unrealised foreign currency (gain)/loss		**(95)**	(43)	38
Financial income		**(44)**	(36)	(80)
Financial expense (excluding right-of-use liabilities' financial expense)		**378**	356	755
Right-of-use liabilities' financial expense		**172**	—	—
(Gain)/loss on sale of property, plant & equipment and investments		**(3)**	18	12
Acquisition contingent consideration – discount unwinding		—	76	—
Equity settled share based payment charge		**539**	1,126	2,414
Taxation charge		**1,938**	2,087	4,177
Operating cash inflow before changes in working capital and provisions		**12,229**	11,300	23,232
Change in trade and other receivables		**2,918**	1,475	(755)
Change in inventories		**(4,528)**	(3,649)	(6,036)
Change in trade and other payables		**(3,469)**	(1,984)	(2,645)
Change in provisions		—	20	(12)
Net cash generated from operations		**7,150**	7,162	13,784
Tax paid		**(2,159)**	(2,213)	(3,877)
Net cash generated from operating activities		**4,991**	4,949	9,907
Cash flows from investing activities				
Proceeds from sale of property, plant & equipment		—	2	31
Interest received		**45**	38	84
Acquisition of subsidiary, net of cash acquired		**(503)**	(8,150)	(8,150)
Acquisition of property, plant & equipment and intangibles		**(1,899)**	(1,288)	(4,180)
Net cash used in investing activities		**(2,357)**	(9,398)	(12,215)
Cash flows from financing activities				
Proceeds from the issue of share capital		**24**	22	353
Proceeds from new loan		**46,774**	9,393	12,136
Repayment of borrowings		**(46,638)**	(3,202)	(5,953)
Repayment of right-of-use liabilities		**(1,729)**	—	—
Payment of finance lease liabilities		**(17)**	22	(2)
Dividends paid		**(1,447)**	(1,319)	(4,620)
Interest paid		**(378)**	(356)	(758)
Net cash (used in)/generated from financing activities		**(3,411)**	4,560	(1,156)
Net change in cash and cash equivalents		**(777)**	111	(1,152)
Cash and cash equivalents at 1 April		**25,199**	26,222	26,222
Effect of exchange rate fluctuations on cash held		**605**	328	129
Cash and cash equivalents at end of period	7	**25,027**	26,661	25,199

1. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and International Financial Reporting Standard (IFRS) IAS 34: Interim Financial Reporting as adopted by the EU. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 March 2019. The annual financial statements of the Group are prepared in accordance with International Reporting Standards (IFRSs) as adopted by the EU.

This statement does not comprise full financial statements within the meaning of Section 495 and 496 of the Companies Act 2006. The statement is unaudited but has been reviewed by KPMG LLP and their Report is set out at the end of this document.

The comparative figures for the financial year ended 31 March 2019 are not the Company's statutory accounts for that financial year and have been extracted from the full Annual Report and Accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The Report of the Auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their Report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Except as described below, these condensed consolidated interim financial statements have been prepared on the basis of accounting policies set out in the full Annual Report and Accounts for the year ended 31 March 2019.

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 April 2019.

The adopted IFRS 16 retrospectively from 1 April 2019 under the modified retrospective approach and therefore has not restated comparatives for the 2019 reporting period. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Policy applied from 1 April 2019 – The Group as lessee

The Group's leases primarily comprise of right-of-use assets regarding Land & buildings, Motor vehicles and Equipment. Short-term leases and leases for which the underlying asset is of a low value are excluded.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The right-of-use asset is subsequently depreciated using the straight-line method from the lease commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate.

The lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The liability will be remeasured if there is a change in the future lease payments or if there are changes in the estimated length of the lease.

The lease period is established as the non-cancellable period together with the opportunity to extend the lease if the lessee is reasonably certain to utilise that option, and periods covered by an opportunity to terminate the lease if the lessee is reasonably certain not to utilise that option.

Practical Expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

1. Basis of preparation (continued)

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The Group also recognised right-of-use assets for properties, vehicles & equipment which were measured on a retrospective basis as if the new rules had always been applied. This has been summarised below.

	1 April 2019 £'000
Right-of-use assets	12,909
Deferred tax asset	251
Right-of-use liabilities (current)	2,727
Right-of-use liabilities (non-current)	11,566
Prepayments	(117)
Accruals	(180)
Retained Earnings	(1,069)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 2.4%.

	1 April 2019 £'000
Operating lease commitment as at 31 March 2019 as disclosed in the Group's consolidated financial statements	14,283
Recognition exemption for leases of low-value assets	(160)
Recognition exemption for leases with less than 12 months lease term at transition	(250)
Operating leases in scope of IFRS 16	13,873
Discounted using the incremental borrowing rate as 1 April 2019	(1,676)
Inception date before transition date but lease commenced after	(203)
Difference between minimum lease payments & end of lease	2,105
Extension options reasonably certain to be exercised	194
Lease liabilities recognised at 1 April 2019	14,293

The recognised right-of-use assets relate to the following types of assets:

	1 April 2019 £'000
Land & buildings	11,925
Motor vehicles	951
Equipment	33
Total right-of-use asset	12,909

A number of amendments to existing standards are also effective from 1 April 2019 but they do not have a material effect on the Group financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the accompanying business review from the Chief Executive Officer and Chief Financial Officer. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the same report. In addition, note 26 to the Group's previously published financial statements for the year ended 31 March 2019 include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

These condensed consolidated interim financial statements have been prepared on a going concern basis which the Directors consider to be appropriate.

1. Basis of preparation (continued)

Estimates

The preparation of financial statements in conformity with IFRSs requires management to make estimates, judgements and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions take account of the circumstances and facts at the period end, historical experience of similar situations and other factors that are believed to be reasonable and relevant, the results which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may ultimately differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty include those disclosed in the consolidated financial statements for the year ended 31 March 2019.

The key judgement made by management relates to Project Atlas costs meeting the capitalisation criteria under IAS 38 Intangible Assets, allowing directly attributable costs to be capitalised. No other key judgements have been made, other than those involving estimations. The key sources of estimation uncertainty are inventory valuation and recoverability of goodwill.

In the 31 March 2019 consolidated financial statements, in note 12, specific disclosure was made around sensitivity to changes in key assumptions relating to impairment testing for the recoverability of goodwill relating to *TR* VIC (£10.1m). The unsettled political climate, as well as the economic struggles in Italy, had caused the year end discount rate for *TR* VIC to significantly increase, thus reducing headroom. As at our 30 September 2019 impairment review, this discount rate had reduced to 9.9% (FY2019: 11.2%). However, we note that the ongoing recoverability of the *TR* VIC goodwill amount continues to be sensitive to any subsequent increase in this rate.

2. Underlying performance (before separately disclosed items)

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Underlying profit before tax	**10,571**	11,555	23,521
Separately disclosed items within administrative expenses:			
IFRS 2 share based payment charge	**(581)**	(1,152)	(2,454)
Acquired intangible amortisation	**(712)**	(734)	(1,419)
Net acquisition costs	—	(177)	(3)
Project Atlas	**(1,267)**	(1,490)	(3,117)
Cost on exercise of executive share options	**(88)**	—	(107)
Profit before tax	**7,923**	8,002	16,421

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Underlying EBITDA	**13,724**	12,942	26,449
Separately disclosed items within administrative expenses:			
IFRS 2 share based payment charge	**(581)**	(1,152)	(2,454)
Net acquisition costs	—	(177)	(3)
Project Atlas	**(1,267)**	(1,490)	(3,117)
Cost on exercise of executive share options	**(88)**	—	(107)
EBITDA	**11,788**	10,123	20,768
Acquired intangible amortisation	**(712)**	(734)	(1,419)
Depreciation and non-acquired amortisation	**(2,647)**	(1,067)	(2,253)
Operating profit	**8,429**	8,322	17,096

Consistent with prior periods, management feel it is appropriate to remove event driven costs and certain non-trading items included above to better allow the reader of the accounts to understand the underlying performance of the Group. Further reconciliations of underlying measures to IFRS measures can be found in note 9.

IFRS2 share based payment charges have continued to be specifically presented as separately disclosed items within administrative expenses. We understand that these costs are more conventionally included within underlying results and we confirm management's intention to present these as such at the appropriate time. However, currently the underlying equity award schemes that form the basis of these charges are under a period of significant development.

This includes:

- the cessation of the Board deferred equity schemes that were in operation from FY2014 to FY2017;
- the one-off introduction of a three-year Senior Manager deferred equity bonus award in FY2016;
- the introduction of the current annual, rolling three year Board LTIP share awards in FY2018; and
- the subsequent introduction of a new annual, rolling three year Senior Manager LTIP share award scheme in FY2020

As a result of the above, the annual IFRS2 charge is expected to be subject to a significant degree of volatility until we reach a more stable ongoing position. We consider that this ongoing volatility, if presented within our underlying results in the short to medium-term, will only detract readers from being able to gain a clear understanding of the Group's underlying trading position.

Management will continue to periodically assess this decision to determine when IFRS2 share based payment charges will become part of the underlying results.

The rationale for the exclusion of Project Atlas costs is provided within the business review.

3. Geographical operating segments

The Group is comprised of the following main geographical operating segments:

- UK
- Europe includes Norway, Sweden, Germany, Hungary, Ireland, Italy, Holland, Spain and Poland
- USA includes USA and Mexico
- Asia includes Malaysia, China, Singapore, Taiwan, Thailand, Philippines and India

In presenting information on the basis of geographical operating segments, segment revenue and segment assets are based on the geographical location of our entities across the world consolidated into the four distinct geographical regions, which the Board use to monitor and assess the Group.

Goodwill and intangible assets acquired on business combinations are included in the region to which they relate. This is consistent with the internal management reports that are reviewed by the Chief Operating Decision Maker.

Segment revenue and results under the primary reporting format for the six months ended 30 September 2019 and 2018 are disclosed in the table below:

September 2019	UK £000	Europe £000	USA £000	Asia £000	Central costs, assets and liabilities £000	Total £000
Revenue*						
Revenue from external customers	36,963	36,093	5,351	24,700	—	103,107
Inter segment revenue	1,459	972	120	4,903	—	7,454
Total revenue	**38,422**	**37,065**	**5,471**	**29,603**	—	**110,561**
Underlying operating profit	**3,979**	**3,136**	**260**	**4,700**	**(998)**	**11,077**
Net financing costs	(89)	(47)	(61)	(10)	(299)	(506)
Underlying profit before tax	**3,890**	**3,089**	**199**	**4,690**	**(1,297)**	**10,571**
Separately disclosed items (see note 2)						(2,648)
Profit before tax						**7,923**
Specific disclosure items						
Depreciation and amortisation	(870)	(1,372)	(113)	(953)	(51)	(3,359)
Assets and liabilities						
Segment assets	63,109	76,909	9,159	63,152	12,342	224,671
Segment liabilities	(25,080)	(16,487)	(1,353)	(13,319)	(44,754)	(100,993)

September 2018	UK £000	Europe £000	USA £000	Asia £000	Central costs, assets and liabilities £000	Total £000
Revenue*						
Revenue from external customers	37,628	37,718	4,176	25,459	—	104,981
Inter segment revenue	1,551	719	84	5,296	—	7,650
Total revenue	**39,179**	**38,437**	**4,260**	**30,755**	—	**112,631**
Underlying operating profit	**4,272**	**4,491**	**204**	**4,900**	**(1,992)**	**11,875**
Net financing (costs)/income	(45)	(22)	(5)	30	(278)	(320)
Underlying profit before tax	**4,227**	**4,469**	**199**	**4,930**	**(2,270)**	**11,555**
Separately disclosed items (see note 2)						(3,553)
Profit before tax						**8,002**
Specific disclosure items						
Depreciation and amortisation	(361)	(931)	(23)	(447)	(39)	(1,801)
Assets and liabilities						
Segment assets	51,131	78,972	5,069	59,445	8,122	202,739
Segment liabilities	(18,888)	(16,343)	(905)	(13,418)	(39,220)	(88,774)

* Revenue is derived from the manufacture and logistical supply of industrial fasteners and category ‘C’ components.

4. Taxation

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Current tax on income for the period			
UK tax	**134**	396	496
Foreign tax	**1,902**	1,940	3,941
Deferred tax income	**(103)**	(269)	(262)
Adjustments in respect of prior years	**5**	20	2
	1,938	2,087	4,177

The HY2020 underlying effective tax rate (ETR) of 23.4% (HY2019: 23.5%) is in line with our normalised ETR range of *c.*22.5-25%, based on the geographical split of the Group's profits. The effective tax rate has reduced to 24.5% (HY2019: 26.1%) due to the change in mix of profits by legal entity.

5. Dividend

The dividend payable of £3.7m represents the final dividend for the year ended 31 March 2019 which was approved by Shareholders at the AGM on 24 July 2019 and paid on 11 October 2019 to Members on the Register on 13 September 2019.

6. Earnings per share

The calculation of earnings per 5 pence ordinary share is based on profit for the period after taxation and the weighted average number of shares in the period of 121,737,700 (HY2019: 119,894,777, FY2019: 120,723,637).

The calculation of the fully diluted earnings per 5 pence ordinary share is based on profit for the period after taxation. In accordance with IAS 33 the weighted average number of shares in the period has been adjusted to take account of the effects of all dilutive potential ordinary shares. The number of shares used in the calculation amount to 124,221,747 (HY2019: 122,761,456; FY2019: 123,734,170).

The underlying diluted earnings per share, which in the Directors' opinion best reflects the underlying performance of the Group, is detailed below:

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Profit after tax for the period	**5,985**	5,915	12,244
IFRS 2 share based payment charge	**581**	1,152	2,454
Acquired intangible amortisation	**712**	734	1,419
Cost on exercise of executive share options	**88**	—	107
Net acquisitions costs	—	177	3
Project Atlas	**1,267**	1,490	3,117
Tax charge on adjusted items above	**(536)**	(630)	(1,370)
Underlying profit after tax	**8,097**	8,838	17,974
Basic EPS	**4.92p**	4.93p	10.14p
Diluted EPS	**4.82p**	4.82p	9.90p
Underlying diluted EPS	**6.52p**	7.20p	14.53p

7. Analysis of net debt

	At 30 September 2019 £000	At 30 September 2018 £000	At 31 March 2019 £000
Net cash and cash equivalents	**25,027**	26,661	25,199
Debt due within one year	**(3,470)**	(30,548)	(32,617)
Debt due after one year	**(53,319)**	(9,645)	(6,739)
Gross debt	**(56,789)**	(40,193)	(39,356)
Net debt	**(31,762)**	(13,532)	(14,157)
Right-of-use lease liabilities	**16,048**	—	—
Adjusted net debt*	**(15,714)**	(13,532)	(14,157)

*Adjusted net debt is stated before IFRS16 right-of-use lease liabilities. There is no impact to HY2019 and FY2019 as IFRS16 was applied under the modified retrospective approach, see note 1.

On 16 April 2019, all of the Group's centrally held facilities and the ABL facility in *TR* Fastenings Ltd were redeemed via a new four year Revolving Credit Facility of up to £80m maturing in April 2023. These new facilities have been reflected in debt due after one year, as they include the right to an automatic roll over of outstanding funds.

8. Reconciliation of net cash flow to movement in net debt

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Net (decrease)/increase in cash and cash equivalents	**(777)**	111	(1,152)
Net increase in right-of-use liabilities	**(1,544)**	—	—
Net increase in borrowings	**(124)**	(6,213)	(6,181)
	(2,445)	(6,102)	(7,333)
Exchange rate differences	**(867)**	1	607
Movement in net debt	**(3,312)**	(6,101)	(6,726)
Opening net debt*	**(28,450)**	(7,431)	(7,431)
Closing net debt	**(31,762)**	(13,532)	(14,157)

*Net debt at 1 April 2019 was restated to include £14.3m of right-of-use liabilities due to the IFRS 16 Leases accounting standard change (see note 1).

9. Alternative Performance Measure

The half-yearly financial report includes both IFRS measures and Alternative Performance Measures (APMs), the latter of which are considered by management to better allow the readers of the accounts to understand the underlying performance of the Group. A number of these APMs are used by management to measure the KPIs of the business (see the business review) and are therefore aligned to the Group's strategic aims. They are also used at Board level to monitor financial performance throughout the year.

The APMs used in the half-yearly financial report (including the basis of calculation, assumptions, use and relevance) are detailed in note 2 (underlying profit before tax, EBITDA and underlying EBITDA) and below.

• Constant Exchange Rate (CER) figures

These are used predominantly in the Business review and give the readers a better understanding of the performance of the Group, regions and entities from a trading perspective. They have been calculated by translating the HY2020 income statement results (of subsidiaries whose presentational currency is not sterling) using HY2019 average exchange rates to provide a comparison which removes the foreign currency translational impact. The impact of translational gains and losses made on non-functional currency net assets held around the Group have not been removed.

• Organic measures

Organic measures are calculated before the impact of acquisitions. This provides a better 'like-for-like' comparison against the prior period for the reader. Acquisitions are included in organic figures from the start of the 13th month of being part of the Group.

• Underlying diluted EPS

A key measure for the Group as it is one of the measures used to set the Directors' variable remuneration. The calculation has been disclosed in note 6.

• Return on capital employed (ROCE)

Return on capital employed is a key metric used by investors to understand how efficient the Group is with its capital employed. The calculation is underlying EBIT divided by average capital employed (net assets + net debt), multiplied by 100%. Underlying EBIT has been reconciled to operating profit below.

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Underlying EBIT/Underlying operating profit	**11,077**	11,875	24,196
Separately disclosed items within administrative expenses			
IFRS2 share based payment charge	**(581)**	(1,152)	(2,454)
Acquired intangible amortisation	**(712)**	(734)	(1,419)
Net acquisition costs	**—**	(177)	(3)
Project Atlas	**(1,267)**	(1,490)	(3,117)
Cost on exercise of executive share options	**(88)**	—	(107)
Operating profit	**8,429**	8,322	17,096

• Underlying cash conversion as a percentage of underlying EBITDA

This is another key metric used by investors to understand how effective the Group was at converting profit into cash. Since the underlying cash conversion is compared to underlying EBITDA, which has removed the impact of IFRS2 share based payment charges, acquisition costs and Project Atlas (see note 2), the impact of these have also been removed from the underlying cash conversion. The adjustments made to arrive at underlying cash conversion from cash generated from operations are detailed below. To reconcile operating profit to underlying EBITDA, see note 2.

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Underlying cash conversion	**8,306**	8,722	17,154
Cost on exercise of executive share options	**(88)**	—	(107)
Acquisition costs	**—**	(274)	(101)
Expensed Project Atlas costs paid	**(1,068)**	(1,286)	(3,162)
Cash generated from operations	**7,150**	7,162	13,784

• Underlying effective tax rate

This is used in the underlying diluted EPS calculation. It removes the tax impact of separately disclosed items in the year to arrive at a tax rate based on the underlying profit before tax.

• Adjusted net debt and adjusted net debt to Underlying EBITDA ratio

This removes the impact of IFRS16 from both net debt and Underlying EBITDA from HY2020. There is no impact to HY2019 and FY2019 as IFRS16 was applied under the modified retrospective approach, see note 1

	Six months ended 30 September 2019 £000
Net debt	**(31,762)**
Right-of-use lease liabilities	**16,048**
Adjusted net debt	**(15,714)**
Underlying EBITDA	**13,724**
Operating lease rentals	**(1,654)**
Adjusted EBITDA	**12,070**
Net debt to annualised Underlying EBITDA ratio	**0.65x**
Adjusted net debt to annualised adjusted Underlying EBITDA ratio	**1.16x**

10. Own shares held

The own shares held reserve comprises the cost of the Company's shares held by the Group. At 30 September 2019 the Group held 1,317,378 of the Company's shares (30 September 2018: 1,317,378; 31 March 2019: 1,317,378).

11. Disaggregation of revenue

In line with IFRS 15 *Revenue from Contracts with Customers* we have included the disaggregation of external revenue by sector, breaking this down by our geographical operating segments.

September 2019	UK	Europe	USA	Asia	Total
Electronics	4%	4%	1%	6%	15%
Automotive	9%	12%	4%	8%	33%
Domestic appliances	2%	12%	—	6%	20%
Distributors	9%	—	—	2%	11%
General industrial	7%	5%	—	1%	13%
Other	5%	2%	—	1%	8%
Revenue from external customers (AER)	36%	35%	5%	24%	100%

September 2018	UK	Europe	USA	Asia	Total
Electronics	5%	4%	2%	5%	16%
Automotive	9%	14%	2%	8%	33%
Domestic appliances	2%	12%	—	6%	20%
Distributors	9%	—	—	2%	11%
General industrial	7%	4%	—	2%	13%
Other	4%	2%	—	1%	7%
Revenue from external customers (AER)	36%	36%	4%	24%	100%

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Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Mark Sheppard
for and on behalf of KPMG LLP
Chartered Accountants
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18 November 2019