JULY 2016

EAST DEVON ENGINEERING LTD

2015 OPERATIONAL AND FINANCIAL REVIEW

Please note East Devon Engineering Ltd is an entirely fictional company.

BROADOAK
CONSULTING

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Executive Summary

The following is an Operational and Financial review of East Devon Engineering Ltd ("EDE" or "the Group"), a family-owned business which has been designing, developing and manufacturing electrical equipment for construction projects since 1985.

With both engineers and service technicians, EDE are able to provide multi-disciplined project consultation and installation services. While established in Exeter, Devon, the Group now trade globally and have generated a strong balance sheet with sustainable cash flow generation and dividend distribution.

Key Financials

GBPk	FY 2012	FY 2013	FY 2014	FY 2015	+/-%
Total revenue	3,350.7	3,462.9	3,699.2	4,001.5	8.2
EBITDA	714.1	804.5	854.5	946.7	10.8
Profit before tax	562.4	674.9	682.4	788.3	15.5
Net debt	593.5	508.4	595.4	398.7	(33.0)
Total equity	235.9	288.2	243.6	533.6	119.0
Free cash flow	385.2	557.4	497.5	624.5	25.5
EBITDA margin (%)	21.3	23.2	23.1	23.7	↗
Net debt / EBITDA (x)	0.8	0.6	0.7	0.4	↘
Debt service coverage ratio (x)	4.9	6.8	6.3	7.2	↗
Current ratio (x)	1.5	1.5	1.7	2.1	↗
Gearning (%)	280.8	231.8	362.2	177.6	↘

EDE has a June year-end

Business Overview

East Devon Engineering Ltd is based in Exeter, Devon where it has been designing, developing, manufacturing and installing electrical engineering products since 1985. Their products are sold in 15 countries enabling industry customers to improve performance while lowering their environmental impact.

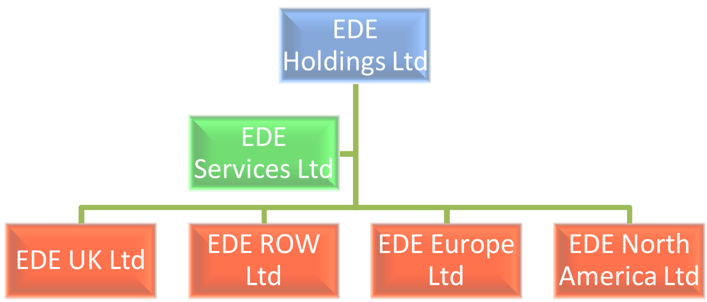
Services include: electrical installation and consultation, electrical testing, PAT testing, lighting and control systems and the construction of PV arrays. EDE is proud of their proven track record for delivering project installation solutions to many clients.

EDE serves electric, gas and water utilities as well as industrial and commercial customers, with a broad range of products, systems and services for power transmission and distribution. EDE Services are responsible for installing and maintaining their equipment. Service contracts are increasingly the more lucrative part of the business.

Group structure

EDE has remained a family owned business since incorporation and its financial position has strengthened with entry into new markets along with continued focus on its core business. While the founders of the business Geoff and Ray Jones have now taken a less active role in the business, they continue to hold non-executive roles on the Board of Directors.

Geoff's two son's are both heavily involved in the business with James and Andrew responsible for Sales and Operations, respectively.

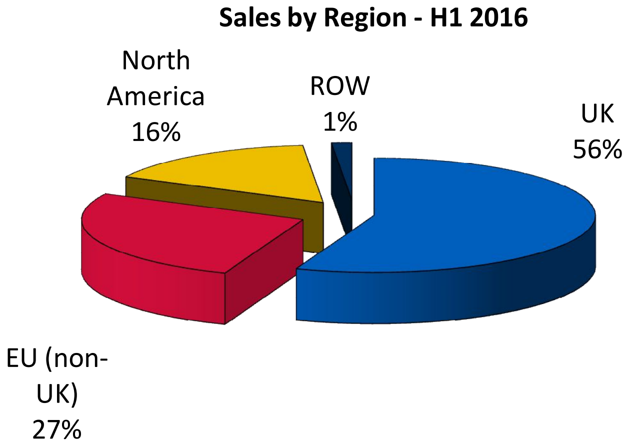


EDE Holdings Ltd ("EDEH") is the primary Borrower & Guarantor under the existing term loan facilities. All entities are part of the Borrowing Group, however EDE Holdings funds the 4 Opco's via intercompany loans. The subsidies in turn pay interest and return dividends to EDE Holdings. EDE Holdings also benefits from upstream guarantees.

EDE Services is responsible for R & D, maintaining and servicing installed products for the 4 geographic units, which operate on semi-autonomous basis.

Geography

EDE is available to assist in all aspects of electrical projects globally including, Consultancy, Design, Procurement, Installation, Commissioning, Maintenance and decommissioning.



Founded in the UK, the Group's presence is strongest locally with the UK representing 56% and 80% of the Group's revenue and earnings, respectively. This is consistent with the higher margins generated locally due to strong brand recognition, repeat custom and a weak Euro as consequence of the ongoing uncertainty in southern European countries. This is particularly so in the construction and capital goods sector where long lead times and the cyclical nature of demand has particularly impacted Southern European countries.

Both North America and Asia Pacific are relatively new markets and have had additional resources allocated to them in recent years.

Group Strategy

The Group remains focused on organic growth in order to continue to grow revenue and earnings while building an international presence. This is consistent with continuing to develop the UK and European markets whilst maintaining a strong emphasis on growth in North America and ANZ.

As evidenced by the Optix transaction, small bolt-on acquisitions will also be considered where there is a demonstrable advantage to acquiring complementary technologies.

Technological innovation remains a cornerstone of EDE's competitive position and a key driver of profitable organic growth. The company aims to continue strong investments into R & D, reflecting 4-5% of revenue, in order to develop new environmental technologies and deliver greener solutions for worldwide customers.

EDE is well positioned in commercial, industrial and infrastructure markets where it can combine its leading portfolio or products to deliver greater customer value. The Group anticipates future revenue growth of 3-4% reflecting continued economic uncertainty and record low oil prices. While revenue has grown at ca. 6% over the past 3 years, these forecasts are considered to be conservative.

Recent Events

New distribution agreement - Asia Pacific

EDE recently signed a distribution agreement with KJT Electrical for a period of 10yrs. The agreement also provides for marketing rights and trademark licensing. This will enable EDE to access the Korean, Japanese and Taiwanese markets where previously they had no presence.

Australia and New Zealand ("ANZ")

The Group intend to open an office in Sydney and intend to commence direct sales to the region. Stock will be sourced from China. The launch will impact the Group as EDE Holdings are expected to capitalise the new entity and fund inventory and set up costs. This model has been chosen in contrast to a distribution agreement given the similar cultures and legal systems.

Optix Solutions Ltd

In November 2014, EDE acquired Optix Solutions for an undisclosed sum. Optix specialises in fibre optic and wireless technologies for communication and data transfer in commercial and industrial units. With a strong local presence already in the North, EDE has not only identified substantial synergies but the transaction allows them to invest heavily in new technology and utilise their existing distribution channels.

Shareholders and Management

The Group is solely owned by the Jones family, with the founders' sons now heavily involved in the business. While the founders of the business Geoff and Ray Jones are taking less of an active role they continue their involvement as non-executive Directors. Each board member is elected for a 2yr term, on a staggered basis.

Board of Directors		Years with EDE
Geoff Jones	Co-Chairman	31
Ray Jones	Co-Chairman	31
Mark Thomas	Chief Executive Officer	12
Ray Philburn	Group Finance Director	18
Andrew Jones	Group Operations Director	16
James Jones	Group Sales Director	14
Katherine Sales	Non-Executive Director	6
Chris Read	Non-Executive Director	4
Alice Retallack	Non-Executive Director	2

Industry Assessment (SWOT)[1]

Strengths

- Close relationships with customers and geographical proximity of supply networks and related industries, making it easy to adapt promptly and flexibly.
- High degree of differentiation, specialisation and functional flexibility, giving the sector the ability to adapt to changes in customer preferences and deliver tailor-made products/services.
- Strong position in high-end markets with its high quality products.
- Technology intensity and a strategic focus on innovation in large and medium-sized companies (av. 250 people).
- Significant barriers to entry with respect to capital costs and RandD development.

Weaknesses

- Relatively diverse market with a large number (80%) of small enterprises (10-50 employees) in the industry brings substantial bargaining power to larger suppliers and customers
- Labour intensity in the sector is causing high labour costs, increasing labour productivity is thus a central feature in improved competitiveness; 40% of labour productivity is generated by RandD with a skilled labour force.
- Demand for skilled engineers can be expected to continue to rise due to increasing complexity in products and pressures to accelerate innovation. But as only few people know how modern, technology-intensive, eco-relevant, high-skilled and future oriented the metalworking industry is and few schools offer inspiring programs relevant to the sector, recruitment problems arise, likely to lead to shifts in production to outside the EU in the future.
- Small enterprises have limited access to finances, restricting their capacity to engage in long-term investments, focus on more than one single industry, develop RandD activities, handle increasing costs of local (accounting) administration and EU environmental regulations and engage in mergers.

Opportunities

- Increasing clusters, mergers, acquisitions and strategic partnerships to create larger companies for engaging in RandD, innovative activities and for building market power through increased economy of scale and access to new markets.
- Improved market surveillance and enforcing ISO and regulation requirements to importers of products in the EU can contribute to the competitive position in high- end markets.
- Higher energy efficiency solutions can drive innovation and reduce production costs.
- Increase the use of new technology for better products/services.
- Innovation networks and collaboration between companies, education and customers for access to new technical, hands-on and application-oriented knowledge and soft side innovations in which lifelong learning is a central means.

Threats

- Demographic changes, the decreasing number of students in technical education programs and the resulting skills shortages create a structural barrier to competitiveness.

[1] European Commission - EU Engineering sector, November 2009

Financial Assessment

Operational KPI's

	FY 2012	FY 2013	FY 2014	FY 2015
KPI's (operational)				
Labour cost per project	645.6	593.8	593.0	590.7
Number of days per project	22.7	20.8	20.8	20.7
Units on time	131.2	144.5	146.2	172.0
Breakeven analysis				
# of units sold	20.9	20.1	20.0	18.6
CM per unit	87.7	105.0	112.3	115.9
Breakeven (projects)	31.5	37.2	38.2	33.9
CMR (%)	20.1	26.6	27.3	21.6

Gross Margin

GBPk	Sales			% of	EBITDA			% of	Margin		
	H1 2015	H1 2016	+/- %	total	H1 2015	H1 2016	+/- %	total	H1 2015	H1 2016	
UK	978.0	1,053.0	7.7	55.7	296	335	13.2	80.1	30.3	31.8	↗
EU (non-UK)	580.0	505.0	(12.9)	26.7	88	74	(15.6)	17.8	15.2	14.7	↘
North America	272.0	304.2	11.8	16.1	5	5	(7.8)	1.1	1.9	1.5	↘
Other	19.6	28.3	44.4	1.5	6.9	4.3	(37.7)	1.0	35.2	15.2	↘
Total	1,849.6	1,890.5	2.2	100.0	396	418	5.6	100.0	21.4	22.1	↘

EDE has a June year-end

For the 6 months ended December 2015, **Group revenue** growth was underpinned strong sales growth in the **UK** where the nascent recovery has seen more confidence in the construction industry.

Europe continues to struggle and consequently revenue and margins have suffered. While the Group, has a formal policy for managing exchange rate exposure (a rolling 6mth hedging strategy) the sustained weakness has been unavoidable. European metrics have also been behind plan due to the weak Euro and limited economic growth, particularly in the southern Europe.

Revenue growth continues in **North America**, however earnings have been consistently depressed due to losses on the east coast. This situation has been addressed with a new distribution agreement in place, effective 1 January 2016.

Asia Pacific has also shown revenue growth, however earnings are down as EDE have invested in infrastructure. Going forward we anticipate that the investment in ANZ will result substantive improvements.

Consolidated Income Statement

GBPk	FY 2012	FY 2013	FY 2014	FY 2015	+/-%
Total revenue	3,350.7	3,462.9	3,699.2	4,001.5	8.2
COGS	(2,295.6)	(2,173.0)	(2,285.6)	(2,645.8)	15.8
Gross profit **(GP)**	1,055.1	1,289.9	1,413.6	1,355.7	(4.1)
EBITDA	714.1	804.5	854.5	946.7	10.8
Operating profit **(EBIT)**	594.4	687.3	721.6	832.4	15.4
Profit before tax **(PBT)**	562.4	674.9	682.4	788.3	15.5
Net profit/loss	476.9	502.1	555.7	624.8	12.4
Return to S/H	(130.1)	(146.6)	(241.0)	(444.8)	84.6
Transfer to equity	346.8	355.5	314.7	180.0	(42.8)

EDE has a June year-end

Group revenues have continued to grow with 6.1% **CAGR** over the past 3 years. Continued growth in the UK and new markets has been facilitated through the receipt of several large scale contracts in the public sector at healthy margins, which are due to be completed in FY 2016. While large contracts may result in lumpy revenue items, EDE has a customer retention rate of over 50% rates which enables the business to deliver consistent revenue and earnings growth.

Non-operational expenses remain in line with plan as margin improvements have translated to bottom line growth.

Consequently, the sustained margin growth, has resulted in consistent FCF generation allowing EDE to pay maintain a dividend ratio in excesses of 30% and return capital to the Jones family through a tax effective share buyback plan. Notwithstanding the return of capital, CAGR remains substantially below the SGR. DSCR is also healthy while leverage remains low.

GBPk	FY 2012	FY 2013	FY 2014	FY 2015	+/-%
Revenue growth (%)		3.3	6.8	8.2	
Revenue CAGR (%)				6.1	
Gross margin (%)	31.5	37.2	38.2	33.9	↘
EBITDA margin (%)	21.3	23.2	23.1	23.7	↗
EBIT margin (%)	17.7	19.8	19.5	20.8	↗
Net margin (%)	14.2	14.5	15.0	15.6	↗
ROA (%)	25.5	26.4	26.2	25.1	↗
ROCE (%)	66.2	71.9	64.1	56.2	↗
ROE (%)	202.2	174.2	228.1	117.1	↘
Dividend payout ratio (%)	27.3	29.2	43.4	71.2	↗
Sustainable growth rate (%)	147.0	123.4	129.2	33.7	↘

EDE has a June year-end

Income Statement - Interim

GBPk	H1 2015	H1 2016 (Budget)	H1 2016 (Actual)	+/- % (1)	+/- % (2)
Total revenue	1,849.6	1,925.0	1,890.5	2.2	(1.8)
EBITDA	396.0	435.0	418.3	5.6	(3.8)
Profit before tax	324.2	352.0	347.1	7.1	(1.4)
Cash	220.1	260.0	242.4	10.1	(6.8)
Working capital	595.9		717.2	20.4	
Total Assets	2,108.3		2,313.6	9.7	
Total Debt	807.0		822.8	2.0	
Net Debt	586.9		580.4	(1.1)	
Total equity	122.3		305.5	149.8	
Cash flow from operations	300.1	255.0	245.2	(18.3)	(3.8)
Free cash flow	246.1	175.0	164.3	(33.2)	(6.1)
EBITDA Margin (%)	21.4	22.6	22.1	↗	↘
EBITDA / gross interest (x)	25.7	27.5	27.2	↗	↘
Gearing (%)	6.6		2.7	↘	
Total Debt / EBITDA (LTM) (x)	1.0		0.8	↘	

EDE has a June year-end
(1) Current period vs. prior period
(2) Current period vs. budget

As can be seen above, P&L items were marginally ahead of last year and slightly below plan. This is primarily due to one large project which is currently behind plan due to reasons outside the Group's control. The particularly wet December has also delayed construction at this same site.

This had a noticeable impact on operational cash flow, which saw a significant increase in Accounts Receivable as the Group were unable to bill a large portion of work done. EDE uses the **percentage completion** method. The funds were subsequently received in January.

DuPont Analysis

GBPk	FY 2012	FY 2013	FY 2014	FY 2015	+/-
Net margin	0.14	0.14	0.15	0.16	↗
Asset turnover	-	1.84	1.84	1.74	↘
Financial leverage	7.93	6.60	8.72	4.66	↘
ROE per DuPont (%)	-	175.7	240.7	126.3	↘

As can be seen above, while ROE has declined significantly this has been due solely to the retained cash balance. In this respect, EDE may be seen as under-levered.

While EDE has the capacity to return additional funds to owners (and increase their level of leverage). It is not consistent with long term strategy of the Group. Indeed, the directors are on record as stating that they wish to maintain low debt levels and a "war-chest" if indeed a suitable acquisition arose.

Cash Flow Statement

GBPk	FY 2012	FY 2013	FY 2014	FY 2015	+/-%
Cash flow from operations					
Operating profit/loss	594.4	687.3	721.6	832.4	15.4
Depreciation & amortisation	119.7	117.2	132.9	114.3	(14.0)
Change in working capital	(71.0)	27.4	(96.3)	(25.2)	(73.8)
Other	16.7	(31.6)	(8.7)	(33.3)	
	659.8	800.3	749.5	888.2	18.5
Cash taxes paid	(142.1)	(149.9)	(146.8)	(149.6)	
Cash flow from operations	**517.7**	**650.4**	**602.7**	**738.6**	22.5
Cash flow from investing					
Capital expenditure (net)	(132.5)	(93.0)	(105.2)	(114.1)	8.5
Investments	0.5	(5.5)	-	(6.9)	
Other	62.1	10.5	1.6	17.0	962.5
	(69.9)	**(88.0)**	**(103.6)**	**(104.0)**	0.4
Cash flow from investing					
Change in external debt	39.4	2.5	166.0	(1.3)	
Change in equity	(329.6)	(322.4)	(350.9)	(173.5)	
Interest paid	(24.0)	(24.1)	(21.6)	(30.5)	
Interest received	5.1	2.3	0.8	1.2	50.0
Dividends paid (cash)	(136.5)	(148.8)	(165.9)	(240.6)	
Other	(10.6)	(11.8)	(1.2)	13.8	
	(456.2)	(502.3)	(372.8)	(430.9)	15.6
Increase/decrease in cash	**(8.4)**	**60.1**	**126.3**	**203.7**	61.3

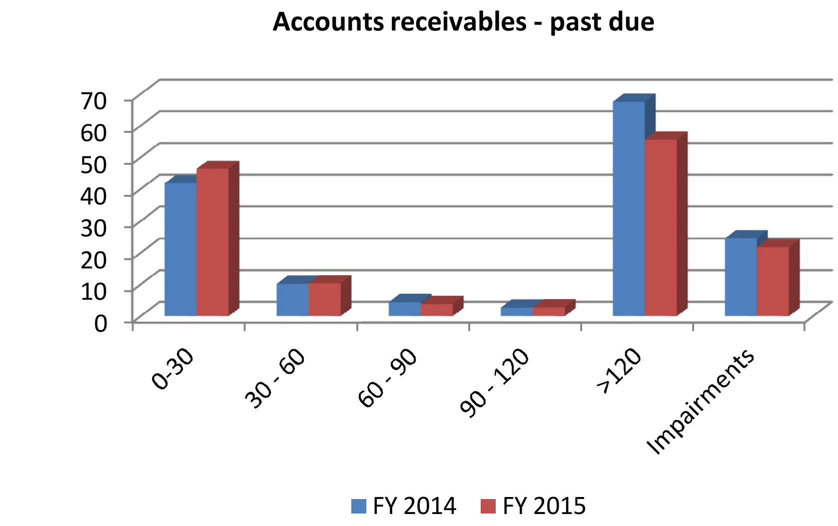
EDE has a June year-end

FY 2015 **cash flow from operations** improved as the result of an 11% increase in EBITDA and a lower working capital balance.

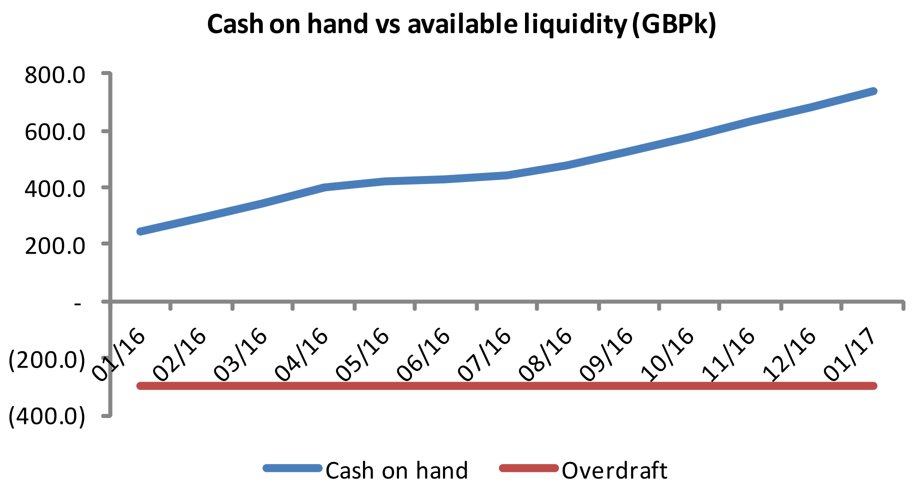
GBPk	FY 2012	FY 2013	FY 2014	FY 2015	+/-%
Funds from operations	643.0	627.2	804.0	822.3	2.3
Cash flow from operations	517.7	650.4	602.7	738.6	22.5
Capex (net)	(132.5)	(93.0)	(105.2)	(114.1)	8.5
Free cash flow	385.2	557.4	497.5	624.5	25.5
Debt Service requirements	(79)	(82)	(78)	(87)	10.6
DSCR (x)	4.9	6.8	6.3	7.2	↗
FFO / ST debt (x)	69.9	6.6	9.8	7.7	↘
FFO / Total debt (x)	1.0	0.9	0.9	0.9	-

EDE has a June year-end

Working capital does however continue to increase, albeit in line with revenue. This is not unexpected as the Group is in the midst of a number of large projects. We consequently expect receivables and WIP to recover in the short term. At year-end receivables were broadly in line with the prior year although we expect impairment to increase marginally. The average days overdue has also slightly increased from 24.6 to 28.9.



Free cash flow generation remained extremely strong with a DSCR of 7.2x, up on the prior year. This enabled substantial cash to be returned to shareholders through a combination of dividends (£241k) and share buybacks (£174k). We would note that returning cash to shareholders has not been at the expense of investment in the business nor has it increased net debt.



Balance Sheet Assessment

GBPk	FY 2012	FY 2013	FY 2014	FY 2015
Liquidity Ratios				
Cash ratio (x)	0.09	0.19	0.33	0.63
Quick ratio (x)	1.04	1.07	1.27	1.60
Current ratio (x)	1.54	1.48	1.71	2.08
Activity ratios				
Trade debtor turnover (x)		4.9	4.9	4.8
Days of sales outstanding (DSO)		75.1	75.2	75.6
Inventory turnover (x)		6.2	6.5	6.7
Days of inventory on hand		59.3	56.1	54.6
Trade creditor turnover (x)		3.6	3.4	3.3
Number of days payable		100.2	106.0	110.1
Cash conversion cycle		34.1	25.3	20.2
Total asset turnover (x)		1.8	1.8	1.7
Working capital turnover (x)		2.2	2.2	2.2
Solvency ratios				
EBIT/Interest (x)	19.9	25.1	24.9	27.0
EBITDA/Interest (x)	24.0	29.4	29.5	30.7
Total debt / EBITDA (x)	0.9	0.8	1.0	1.0
Net debt / EBITDA (x)	0.8	0.6	0.7	0.4
Gearing (%)	280.8	231.8	362.2	177.6
Capitalisation (%)	73.7	69.9	78.4	64.0

As can be seen above strong FCF generation has resulted in strong and improving **liquidity** levels.

While debtor days and inventory turn has remained relatively stable, this is consistent with industry peers. Overall **working capital** management has improved with a lower **cash conversion cycle**. Ordinarily we would expect to see growth in stock and debtors in line with sales and while this has occurred in absolute terms after adjusting for the sales growth, cash conversion continues to decline.

With minimal intangibles of £47k (2014: £44) on balance sheet **tangible net worth** (TNW) mirrors equity.

Although **gearing** remains high at 178% (2014: 362%), serviceability represents little concern with EBITDA interest cover of 30.7x (29.5x) and extremely low net leverage at 0.4x (2014: 0.7x). Both gearing and capitalisation have dropped dramatically in the past year as the Group have wound back their share buy back program.

Inter-company balances have also risen during the year as additional funds have been invested in North America and Asia Pacific. All intercompany loans are made on a market basis. All entities are included within the security package.

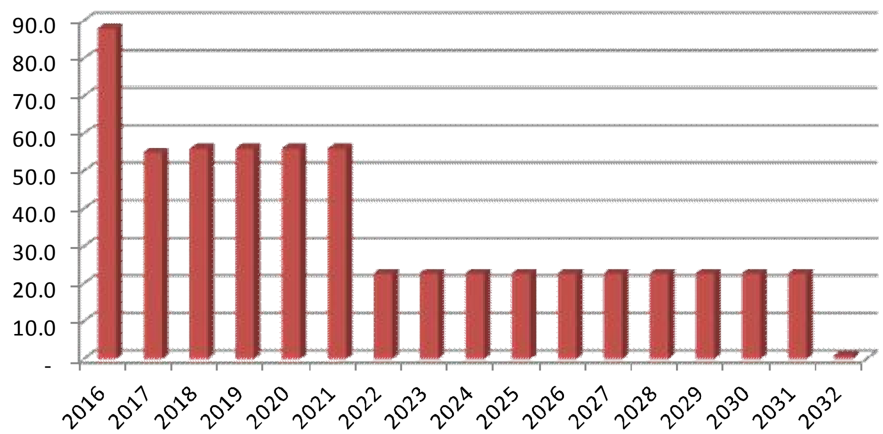
Liquidity and Funding

EDE's **overdraft and short term borrowings** are repayable on demand and pay interest at a margin over the BoE base rate. The Group also has undrawn committed bank facilities expiring May 2017. None of this facility was drawn at June 2015 (June 2014: nil).

GBPk	FY 2014	FY 2015
Overdraft & short term borrowings	2.6	10.4
Finance lease payments (total)	0.3	3.8
Other financial liabilties	65.0	21.8
Term loans	800.8	838.2
Total gross debt	**868.7**	**874.2**
Cash at bank	(70.0)	(95.5)
Short term deposits	(203.3)	(380.0)
Total net debt	**595.4**	**398.7**

The balance sheet remains strong. **Net debt** at the end of the year was substantially lower than the prior year at £399k. With the balance expected to decline further the following year, EDE will have improved headroom on debt service for the **amortising terms loans** which expire in 2016, 2021 and 2026.

Debt maturity profile - June 2015



Off balance sheet items

Operating leases

EDE has entered into operating leases primarily in respect of equipment, warehouses and vehicles. These non-cancellable leases have remaining terms of between one month and ca. 15yrs. The majority of the Group's property leases provide for their renewal by mutual agreement at the expiry of the lease term.

Other OBS liabilities

All of the Group's employees are members of a **Defined Contribution Scheme,** therefore there are no pension liabilities.

There are no material contingent liabilities.

Financial instruments

Foreign currency sensitivity analysis

Given EDE's global footprint the Group is exposed to both sovereign and exchange rate risk, transactional and translational. Principal foreign currency exposures are EUR and USD. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% increase and decrease in the USD/GBP and EUR/GBP exchange rates at year-end, assuming all other variables remain unchanged.

This assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the fair value reserve in equity and the fair value of the hedging derivatives. For foreign exchange derivatives which are not designated hedges, movements in exchange rates impact the income statement.

GBPk	Income Statement		Equity	
	FY 2014	FY 2015	FY 2014	FY 2015
GBP strengthens by 10%				
USD	(8.1)	(3.8)	(22.5)	(15.8)
EUR	(3.2)	0.5	(8.6)	(4.0)
GBP weakens by 10%				
USD	1.6	(0.7)	55.2	(35.6)
EUR	1.2	(1.2)	8.6	2.2

Positive figures represent an increase in profit or equity.

Interest rate sensitivity analysis

The table below illustrates sensitivity analysis of the Group's reported profit and closing equity to a 0.5% increase or decrease in the base rate, *cet par*.

For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to have been outstanding for the whole year. Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.

GBPk	Income Statement		Equity	
	FY 2014	FY 2015	FY 2014	FY 2015
Rates increase by 50bps	(1.2)	(1.2)	(1.2)	(1.2)
Rates decrease by 50bps	1.2	1.2	1.2	1.2

Positive figures represent an increase in profit or equity.

Financial forecast (2016-2019)

GBPk	FY 2015	2016 (F)	2017 (F)	2018 (F)	2019 (F)	CAGR[1]
Revenue	4,001.5	4,050.0	4,175.0	4,350.0	4,510.0	3.0
Growth (%)		1.2	3.1	4.2	3.7	
EBITDA	946.7	985.0	1,050.0	1,082.0	1,150.0	5.0
Net income	624.8	632.4	651.9	679.2	704.2	3.0
Cash & mkt securities	478.9	484.7	499.7	520.6	539.8	
Total debt	947.9	920.0	850.0	750.0	600.0	
Net debt	398.7	435.3	350.3	229.4	60.2	
Total equity	533.6	966.0	1,367.9	1,797.1	2,251.3	
Free cash flow	624.5	628.0	640.0	680.0	705.0	3.1
EBITDA margin (%)	23.7	24.3	25.1	24.9	25.5	
EBITDA/Gross interest (x)	30.7	32.0	34.1	35.1	37.3	
Total debt/EBITDA (x)	1.0	0.9	0.8	0.7	0.5	
Net debt/EBITDA (x)	0.4	0.4	0.3	0.2	0.1	
Total debt/Equity (x)	1.8	1.0	0.6	0.4	0.3	
DSCR	7.9	7.9	9.8	10.5	10.8	

(1) Compound annual growth rate

The above projections are based on management projections which we consider to conservative. We would highlight both the above **revenue** and EBITDA margin growth as this will drive the Group's continued improvement. With respect to sales, while demand in Europe is weak, projections allow for both investment and growth in North America and Asia Pacific. European projections remain flat.

EBITDA margin growth is expected to be achieved from yoy improvement in Services and Consulting from increased capacity utilisation and new installations. Projections also allow for substantial headroom above covenant levels.

We also wish to note that given the Company's strong current and expected **credit metrics**, sufficient covenant headroom and a balanced debt maturity profile, we believe that the benefits of analysing the above for sensitivities would provide only limited additional information.

Covenant headroom

GBPk	FY 2015	2016 (F)	2017 (F)	2018 (F)	2019 (F)
EBITDA/Gross interest (x)	30.7	32.0	34.1	35.1	35.6
Covenant	2.5	2.5	2.5	2.5	2.5
Net debt/EBITDA (x)	0.4	0.4	0.3	0.2	0.1
Covenant	1.5	1.5	1.5	1.5	1.5
Total equity	533.6	966.0	1,360.3	1,773.9	2,203.1
Covenant	450.0	575.0	700.0	825.0	950.0
DSCR	7.9	7.9	9.8	10.5	10.8
Covenant	1.4	1.4	1.4	1.4	1.4

As can be seen above, all covenants for the present facilities are expected to be met with substantial headroom.

Key Risks and Potential Mitigants

Exposure to the cyclical construction industry *- demand for the majority of the Group's products is driven by the cyclical construction sector, whose global conditions are rapidly changing.*

The majority of the Group's earnings are generated, and will continue to remain, in the UK. While individual regions certainly exhibit swings in demand, EDE's exposure to such economic cycles is largely balanced due to its increasing global presence and growing operations outside Europe. These markets have superior long-term growth prospect despite short-term volatility.

Pricing pressure and increased competition *- EDE has suffered from pricing pressure from large construction contractors, which has limited the Company's ability to invest in new products and hence, eliminate price pressure on more commoditised products. Growth in manufacturing from LCC's has also led to undercutting of manufacturers of branded & non-branded equipment.*

EDE continues to offer industry-leading customer service and support, as its delivery capabilities, high quality standards, and dedicated customer service teams. The UK and European markets for electrical engineering is relatively localised with contractors using engineers with whom they have developed a relationship over many years.

Strong cash flow generation and financial forecasts assume an increase in capex in order to drive sales as well as generate innovative, value-added products and services with higher margins. Low-cost production in South East Asia is also being explored for the Asia Pacific region.

Constant need for innovation and capex to drive sales growth *- capex is of particular importance as innovation capability is considered a key success factor in the industry.*

Management has recently undertaken a plan to significantly invest in new, owned, standard product designs and lucrative development opportunities, for which the Company bears the full capital investment burden, but which typically generate higher margins. The key investment projects are on track with clearly identifiably sales and margin upside. These projects should enable EDE gain market share in its core markets and grow in the new regions.

FX & Sovereign risk - *due to the increasing international scope of its operations, EDE must manage its exposure to various geographies and currencies.*

While the products are manufactured in the UK, the most lucrative part of the contract is the installation and servicing component by engineers onsite. Consequently a significant portion of EDE's cost base is in local currency and supports the existence of a natural FX hedge despite the different growth profile resulting from the FX translation.

European economic uncertainty remains a concern and while EDE have rationalised their operations post-2008, we expect low margins to remain for the medium term. Northern Europe remains a fundamental part of the Group's business model so they will continue to operate there, albeit at lower margins.

Departure of key staff *- The departure of senior staff and engineers could have an adverse financial impact on EDE as the Group is dependent on the ability of experienced engineers to develop new energy-efficent products & systems.*

To date the Company has been successful in retaining key employees and providing above market remuneration to do so. The involvement of the founders' sons also assists in maintaining continuity. Both the CEO and FD are expected to retire in the next 5-10yrs and secession planning is already underway. Potential internal candidates have already been identified.

The established bonus scheme via 'profit participation certificates' (PPCs) also provides strong incentives to long-standing & valued employees.

Operational Risks *- Supply disruptions, unexpected geological variations, labour disruptions, and regulatory changes all represent potential risks or losses to EDE. The Group's intellectual property and patent technologies are considered to be paramount to ongoing success.*

EDE employs a broad insurance program with protection maintained with leading international insurance markets, including coverage for physical loss and damage, as well as third-party liability. This is particulary relevant as they Group continues to develop lower carbon and more efficient products.

IP and patents have always been defended vigorously and successfully. Expansion into Asia will however provide additional challenges.

Regulatory Risk

Environmental regulations have become increasingly significant to international companies in recent years. They can affect the expense of operation and expansion by prioritizing the health of the planet over the bottom line. Respecting local attitudes regarding the environment can help an international expansion go more smoothly. Local regulations, for example, pertaining to filing documents, obtaining permits and registering businesses, can also be difficult to navigate.

Appendices

A. Glossary

Glossary	
Breakeven point (units)	fixed costs ÷ CM, the number of units that need to be sold in order that fixed costs are covered
CAGR	Compound annual growth rate
Capitalisation	Debt ÷ (debt + equity)
Cash conversion cycle	Cash conversion cycle = DSO + inventory days - DPO, # of days to turn cash purchases into cash receipts
Cash ratio	(Cash + market securities) / current liabilties
Contribution margin (CM)	Selling price - variable cost
Current ratio	Current assets ÷ current liabilties
Days of inventory on hand	Days of inventory on hand - days of inventory on hand, average inventory processing time
Days of sales outstanding	Average collection period of debtors
Dividend payout ratio	Dividends paid ÷ Net income
DSCR	Debt Service coverage ratio, FCF ÷ debt service payments
EBIT	Earnings before interest & tax, operating profit
EBITDA	Earnings before interest, tax, depreciation & amortsiation, often used as a proxy for operating cash flow.
FCF	Free cash flow, operatng cash flow less net capex
Financial leverage (DuPont)	Assets ÷ total equity
Gearing	Debt ÷ equity
Gross gearing	Gross debt ÷ equity
Gross leverage	Total debt ÷ EBITDA
Inventory turnover	Inventory turnover (7) (x) - cost of goods sold ÷ average inventory balance
Labour cost per unit	Total labour costs ÷ number of units manufactured in the period
Net gearing	Net debt ÷ equity
Net leverage	Net debt ÷ EBITDA
Net margin	Net income ÷ revenue
Number of days	Number of days units are in the production process uncompleted
Operational leverage	Fixed costs ÷ total costs
Payable days	Payable days (DPO) - average number of days to pay suppliers.
Quick ratio	(Cash + market securities + inventory) / current liabilties
ROA	Net income ÷ total assets
ROCE	EBIT ÷ total capital
ROE	Net income ÷ total equity
Sustainable growth rate (SGR)	The rate at which earnings (& dividends) can continue to grow (assuming the D/E equity ratio is held constant)
Total asset turnover	Total revenue ÷ average asset balance, how effectively the assets generate revenue
Total capital	Total equity + debt
Trade creditor turnover	Trade creditor turnover (8) (x) - purchases ÷ average trade creditors balance
Trade debtor turnover	Annual sales ÷ average receivables
TNW	Tangaible net worth, total equity less intangible assets
Units on time	Number of units finished on time
Working capital turnover	Revenue ÷ average working capital balance
Working capital	Accounts receiveables + inventory - trade payables

B. Financial Statements

(See attached)