

*We solve electronic challenges for a sustainable world*

# TT Electronics

## Agreement to acquire Torotel, Inc and Equity Placing

September 2020



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## Overview - acquisition of US defence business to broaden and deepen power capabilities

Increases scale in very large and attractive US defence market

- Exciting opportunity to enhance US presence in power electronics in defence
- Positions on multi-year growth programmes - largely sole source
- Extends list of blue-chip US customers with cross-selling opportunities
- Broadens power electronics capabilities in the US – increases scale to recently acquired Covina business which has integrated well and already won new business

Strong value-creation potential

- EV of \$43.4m (£33.9m<sup>1</sup>), funded in cash, representing 10.9x adjusted EBITDA<sup>†</sup>
- Margin enhancing to TT, strong cash conversion with multi-year programme positions providing recurring revenues
- Acquisition expected to exceed TT's 11.5%\* pre-tax ROIC hurdle by year three

Placing

- Placing part-funds the acquisition and maintains capacity for organic growth and other investment opportunities
- Leverage expected to increase modestly to approximately 1.8x EBITDA on a pro-forma basis
- Modestly accretive to EPS from first full financial year of ownership, net of placing impact

<sup>1</sup> Using exchange rate of \$1.2789:£1, as at 11 September 2020

<sup>†</sup> Calculation on forecast for financial year ending 30 Apr 2021

\* ROIC hurdle including IFRS 16 impacts. Year three is TT's third full financial year of ownership

# Overview of Torotel

- Last reported revenue c. \$26m†
- Acquisition highly complementary to TT's Power and Connectivity division
- Expected current year revenue split of c.85% US defence; c.12% commercial aerospace and c.3% industrial and other

## Torotel

- Designer and manufacturer of high-reliability power and electromagnetic assemblies and components for defence customers
- Largely sole-source positions in large and attractive US defence market
- Programmes include: Hellfire Missile, AMRAAM, Patriot Missile Air Defense System, F-35 Joint Strike Fighter\*
- Customers include: Lockheed Martin, Raytheon and Northrop Grumman\*
- Future upside potential from commercial aerospace, energy, space, rail
- Approximately 170 employees based in Kansas and Pennsylvania, US



Power Convertors  
(Auto Transformer Rectifier Unit and  
Transformer Rectifier Unit)

† Financial year to 30 April 2020,

\*Source: Torotel website

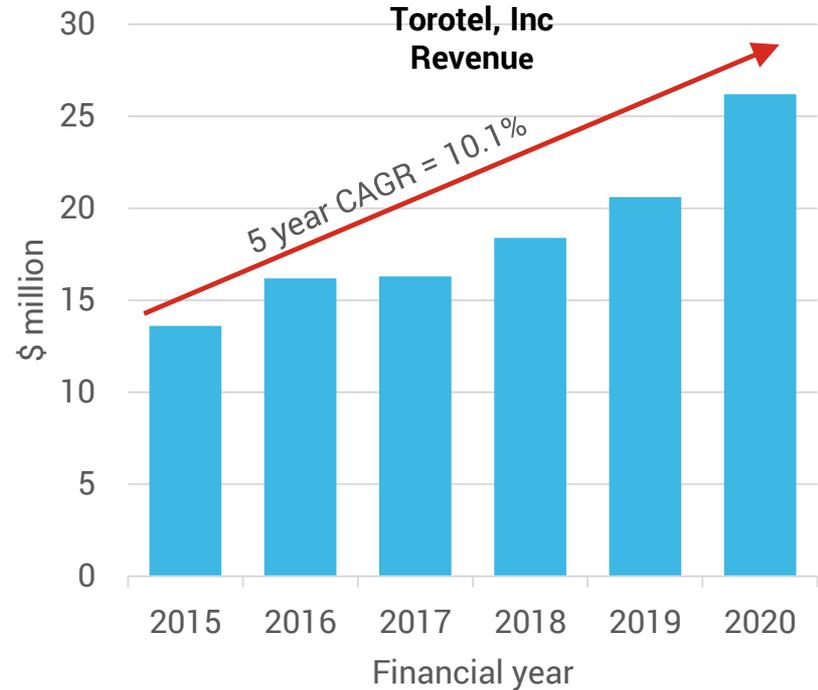
# Strong track record of organic revenue growth from complementary technology

## Brings track-record of strong revenue growth

- Strong revenue growth over long-term driven by market share gains
- TT brings business development, customer lists, broad network, operational excellence and a strong balance sheet to underpin future growth

## A business we know well

- Due diligence and site visit carried out in 2019; updated in 2020
- Complementary technology to TT power electronics business in US & Europe



## An excellent strategic fit

TT Strategy	Torotel Impact	Strategic Fit
Focus on attractive target markets	Primarily supplies high reliability engineered products into target US defence market	✓
Increase US market exposure	Sells into US blue-chip customer base	✓
Acquire differentiated complementary technology	Adds scale to US electromagnetic product offering	✓
Provide cross-selling opportunities	Opportunities to leverage existing relationships in Power & Connectivity and GMS	✓
Build long-term, recurring revenue streams	Largely sole source positions on multi-year programmes	✓
Increase barriers to entry	Low volume, customised products designed into key platforms	✓
Acquire within prudent financial criteria	Expected to beat 11.5% target ROIC* by year three	✓

\* ROIC includes IFRS 16 impacts. Year three is TT's third full financial year of ownership

## Key deal terms and timeline

- Enterprise value of the Acquisition is \$43.4m (£33.9m<sup>1</sup>), fully funded in cash
- Completion conditional on Torotel shareholder approval. Torotel shareholders representing approximately 62% of its common stock have signed agreements to vote in favour of the Acquisition and the Torotel stockholder vote (which requires a 66.67% majority) is expected to take place in November 2020
- Class 2 Transaction
- Transaction expected to complete in Q4 2020
- Part-financed by an equity placing of c.£20m (c. 6.1% of TT's issued share capital) (see next page), with the balance of consideration funded through existing debt facilities

### Key milestones and timeline<sup>†</sup>

17 September 2020	Announcement of Torotel acquisition
17 September 2020	Launch equity placing
22 September 2020	Settlement of equity placing
September 2020	US DDTC regulatory filing completed
November 2020	Torotel shareholder vote
Q4 2020	Acquisition completes

<sup>†</sup> Expected dates, subject to change

<sup>1</sup> Using exchange rate of \$1.2789:£1, as at 11 September 2020

\* ROIC includes IFRS 16 impacts. Year three is TT's third full financial year of ownership

### **Rationale**

- Part-funds the acquisition of Torotel, acquisition enterprise value of \$43.4 million

*In addition:*

- Enables TT to maintain robust balance sheet with leverage expected to increase modestly to approximately 1.8x EBITDA on a pro-forma basis
- Maintains capacity for organic growth and other investment opportunities

### **Placing structure and financial Impact**

- Gross proceeds of c. £20m, c. 6.1% of current issued share capital
- Modestly accretive to EPS from first full financial year of ownership, net of placing impact

### Trading Update

- TT confirms that the market trends it is seeing remain broadly as described in its Interim Results announcement which was released on 6th August
- There are still a number of possible outcomes for the rest of the year, but we continue to believe that we will see improvement in the second half
- As such, our outlook remains unchanged from our statement on 6th August

### Launch of Virolens

- As has been publicly announced, TT has been appointed exclusive manufacturing partner for the commercial launch of Virolens, a COVID-19 screening device which incorporates a number of TT proprietary products
- Whilst the range of potential outcomes remains very broad, as an early indication of the potential value of Virolens to TT, iAbra has indicated intent to purchase further devices and cartridges with associated revenue to TT of circa £280m
- Achieving revenue is subject to regulatory approvals and customers converting expressions of interest into firm orders
- TT will manufacture Virolens at its Hartlepool, UK facility

# Appendix



## Appendix: Proforma revenue split for combined business – increased TT exposure to US and defence markets

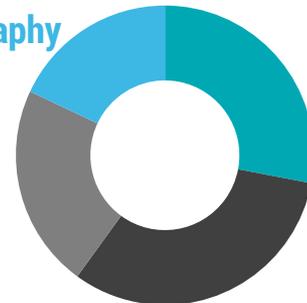
### Proforma combined revenue by market

- Industrial 42%
- Medical 23%
- Aerospace and defence 25%
- Other 10%



### Proforma combined revenue by geography

- UK 23%
- North America 39%
- Asia and Rest of World 21%
- Rest of Europe 17%



### Prior TT actual revenue by market

- Industrial 42%
- Medical 24%
- Aerospace and defence 23%
- Other 11%



### Prior TT actual revenue by geography

- UK 29%
- North America 30%
- Asia and Rest of World 22%
- Rest of Europe 19%

