Spectris 2021 Full Year Results

Thursday, 24th February 2022

Strategy for Profitable Growth

Andrew Heath

Chief Executive, Spectris

Welcome

Good morning everyone. Welcome to Spectris's full year results for 2021. Thank you all for your continued interest in our business. I am Andrew Heath, I am the Chief Executive. I would like to start this morning by saying thank you to all of my Spectris colleagues for their hard work and support again over the past year. Together we have continued to face the challenges from COVID and the well-publicised global supply chain issues head on. Our teams have worked tirelessly and I could not be more grateful for their commitment and support. Thank you.

In many ways 2021 was a challenging but also a very good year for Spectris. Not only did our end markets recover strongly but on top of this we saw equally strong demand for our products and services. There has been yet another year in which we have continued to execute on our strategy for profitable growth. We set out this strategy in 2019 and through consistent focus and execution the Spectris we have today has been significantly strengthened, as we will come to discuss.

Our Strategy for Profitable Growth is Delivering

Defined by our purpose and built on our values

One of the reasons execution against the strategy has been so effective has been because my colleagues right across our businesses believe in it, own it and they aim high, consistent with our core values. This underscores the importance of being purpose-led. Right across Spectris we are aligned behind our purpose to deliver value beyond measure and this means harnessing the power of precision measurement to equip our customers to make the world cleaner, healthier and more productive.

This is echoed across the Group. We know our purpose, why we are here and where we want to get to. We also know and live our values which speak to the culture of the business and how we conduct ourselves along the way. We know our strategy which is our guidebook and the roadmap to get us where we want to be, bringing our purpose to life.

Good results; order book provides momentum into 2022

Strong demand for our products and services

As I have said, we saw strong demand for our products and services. We entered 2022 with good momentum and a record order book right across the Group. We are creating a Spectris that is a more focused, higher quality, more profitable and a more resilient business, supported by a very strong balance sheet. We have demonstrated our ability to reduce costs responsibly, drive organic growth, expand margins, allocate capital with discipline for attractive returns and we have made several synergistic acquisitions to enhance our customer offering.

Delivered a good financial performance

In 2021 on a like-for-like basis orders were up 19% with sales up 10%. This means we have outperformed buoyant end markets with market share gains supported by new product and service launches. We delivered good financial performance. Our adjusted operating profit

improved 29% on a like-for-like basis to £209.4 million with an operating margin of 16.2%, reflecting the growth in sales and the operational improvements we have made supported by the Spectris Business System.

Having returned the business to an asset-light model adjusted cash flow conversion was 96% and we further strengthened the balance sheet with net cash of £167.8 million at the year-end. We want to retain this position given our pipeline of M&A opportunities so have elected not to do a special capital return this time. We have announced a final dividend of 71.8 pence per share and that is a growth of 5% in line with our policy. In the fourth quarter supply chain challenges and the onset of Omicron constrained our ability to convert our strong order book to revenue, resulting in some order fulfilment being pushed into 2022. Now, this was clearly frustrating as we could have delivered an even better performance last year but this revenue is not lost and will be realised in 2022.

Committed to being a leading sustainable business

As we look forward I have many reasons to be optimistic. We are committed to being a leading sustainable business. We have set ambitious net zero targets and have started to deliver our programmes to achieve them. We are also looking beyond our own operations to support the communities we operate in. The Spectris Foundation has been established to promote STEM education and we have expanded our broader STEM outreach programme. We are also aligning our strategy with key sustainability themes that will underpin future growth.

2021 scorecard – executing our strategy

Turning to our strategy scorecard the message here is one of strong execution. I am very pleased with how e have continued to execute strategically. Our strategy is working. We have demonstrated our ability to reduce cost responsibly, drive organic growth, expand margins, allocate capital with discipline for attractive returns and have made several synergistic acquisitions over the past year to enhance our customer offering. This gives us a much stronger business today than we started with in 2018. We maintained our investment in R&D and capex in 2021 and we will be progressively increasing expenditure to fuel future growth and efficiency through this and following years.

When compared to 2019 revenue has recovered to within 2% of pre-pandemic levels with margins ahead. That reflects the enhanced quality of the Group. We are making good progress in returning Spectris back to its previous margin highs of over 18% and ultimately exceeding them over the longer-term. Also during the course of 2022 we will move into the next phase of our strategy for Profitable Growth and we will talk more about this as the year progresses. You should not expect the big themes of our scorecard to change and we will retain our discipline and focus when it comes to driving our organic growth initiatives, growing margins and balancing cost discipline with investment in growth.

However, the work of the past 2-3 years means that we are now well positioned to go after numerous opportunities we see in front of us. We are aligned to end markets with attractive growth trajectories and sustainability trends, providing the opportunity to accelerate our ambitions and I will talk about this a little more later on.

Committed to being a leading sustainable business

Implementation of our sustainable strategy progressing well

In 2021 we committed to being a leading sustainable business, both in the sustainability of our own operations and our wider contribution to addressing the global environmental challenge. I am very pleased by the progress we have made so far to embed our sustainability strategy. Across the Group there is renewed energy and innovation all aimed at making the world cleaner, healthier and more productive. At the time of our first-half results we published our net zero targets which will see us work to minimise the emissions footprint of our own activity and also the activity across our value chain. These targets though ambitious have been subsequently validated by the Science Based Targets Initiative against a 1.5°C climate warming scenario.

Making a difference – addressing the global environmental challenge

This year we also undertook a detailed climate scenario analysis in support of TCFD reporting to gain a clear understanding of the potential risks and opportunities from climate change. We have published a detailed report on this on our website. We recognise that the greatest difference Spectris can make to a net zero world is through our products and solutions, increasing our focus on product efficiency and circularity. We are already playing an important role in many sectors that are transforming rapidly, such as pharmaceuticals, energy, transportation and where customers with partners that have the capabilities and the capacity for innovation, helping them address these new challenges and accelerating their own journeys to net zero. As we refresh our strategy this year sustainability will be central to how we will make a difference for our customers and the planet, very much aligned with our purpose.

Supporting our employees and communities

Supporting employee health, wellbeing and development

An important part of being a sustainable business is being able to look beyond the day-to-day operations of the Group and consider the broader factors that contribute to our longer-term business success. Key to this is safeguarding the physical and mental wellbeing of our employees and ensuring Spectris is a great place to work. We remained fully committed to the continuous support of our mental health, wellbeing and resilience activities. We also want to ensure that everyone feels they belong here. Our work on building a greater diversity and inclusion continues and we will be strengthening our approach to this and to talent development, through a number of initiatives in 2022.

Global STEM strategy launched

This year we were proud to launch our global STEM strategy. It is focused on ensuring that the Group is both an employer and partner of choice. For example, supporting Young Professionals, building partnerships with universities and enhancing our apprentice programme to attract young talent into Spectris.

Launch of Spectris Foundation

This is consistent with the rationale for establishing the Spectris Foundation which we have set up to support education in STEM subjects. The Foundation recently made its first awards for a two-year STEM education project in UK schools in association with STEM ENTHUSE Partnership and also an employee-nominated donation to the Sheffield UTC Academy to fund

a project for students to design and build an environmentally friendly racing car. These will be the first of many more projects that the Foundation will help to fund in the months and years to come. I would now like to hand over to Derek who will run through the financials in more detail before I come back to talk to you about the businesses and our future opportunities.

2021 Financial Results

Derek Harding

Chief Financial Officer, Spectris

2021 scorecard

Strong performance compared to 2020 & 2019

Good morning everyone. For consistency I am once again starting with our scorecard slide. As you would have expected we are showing a very positive performance compared to 2020 with ticks across the board. As we did at half-year, given the nature of 2020 we have also included a comparison on this slide to 2019 to assess howe we are performing compared to pre-COVID. I will cover the specific numbers during my presentation but overall we have demonstrated a strong performance in 2021 and continue to make progress compared to the pre-COVID performance of 2019. Let me now take you through the specific details.

Strong financial performance

Reported sales decreased 3% to £1,292 million. Adjusting for the impact of disposals net of acquisitions which reduced sales by £107.5 million or 8%, and foreign exchange movements reducing sales by £54.6 million or 5%, you see 10% growth on a like-for-like basis compared to 2020. Adjusted operating profit increased by 21% to £209.4 million on a reported basis and by 29% like-for-like. Adjusted operating margins increased by 320 basis points with like-for-like adjusted operating margins up 240 basis points compared to 2020. Adjusted profit before tax was £204.3 million, up 23%. Our tax rate came in at 22% in line with guidance.

Adjusted earnings per share were 140.7 pence, a 26% increase over the prior year and the final dividend per share of 71.8 pence represents a 5% increase over the prior year, consistent with the growth in dividend for 2020. We remain committed to paying a progressive dividend. While adjusted cash conversion was lower than the 141% achieved in 2020 which was unusually high, we were pleased to achieve 96% in 2021. Our net cash at the year-end was £167.8 million. Finally on this slide the trend on our return on gross capital employed has now switched and increased by 330 basis points from 9.9% to 13.2%.

Strong operating leverage improves operating margin

This slide provides a graphical view of the main P&L movements in the year, sales as shown across the top with adjusted operating profit at the bottom. First of all I have adjusted 2020 to remove the sales and operating profit relating to the disposals of Millbrook, B&K Vibro, ESG and NDC Technologies in order to provide an organic baseline. Foreign exchange translation movements reduced sales by £54.6 million and operating profit by £10.9 million. We saw a good like-for-like growth in revenue, up 10%, as well as a 50 basis points increase in like-for-like gross margins to 57.1% reflecting the incremental volume and favourable pricing offsetting inflationary cost pressures.

There was an expected increase in like-for-like overheads, up £24.8 million with the reversal of certain temporary savings such as £9 million of prior year COVID-19 overseas government subsidies, investments for growth and salary inflation all impacting the cost base. Acquisitions, primarily Concurrent Real-Time, added £18.8 million of revenue and £3.9 million of operating profit, resulting in the £209.4 million of adjusted operating profit, a margin of 16.2% compared to 13% in the prior year.

Continuing strong cash flow generation

This slide shows how we generated cash in the year and illustrates what we have then done with that cash. Adding back £37.3 million of depreciation and amortisation charged to the adjusted operating profit brings you to the £246.7 million of adjusted EBITDA generated in the year. As trading activities increased in the second half of the year and as we invested in more inventory considering continuing supply chain challenges, our working capital utilised £10.7 million of cash during the year. Despite this our average working capital as a percentage of sales ended the year at a respectable 11%. Capital expenditure was £35.3 million and this gives us our adjusted cash from operating activities of £200.7 million which we divide into our adjusted operating profit to get our cash conversion metric of 96%.

There was then a significant inflow of cash relating to disposals offset by the acquisition of Concurrent Real-Time. Within the £225 million of cash income is £333.7 million of net proceeds from disposals plus £38.3 million in relation to the US listed company shares which we were holding at the year end. We received cash in the first half when the takeover of that company was completed and these inflows are offset by £135.5 million of acquisition payments and £11.5 million for other transaction costs.

We then spent £201.3 million including costs on the share buyback announced last year. During 2021 we established the Spectris Foundation with a £15 million donation which was made possible by the £23.2 million gain on equity investments recognised in 2020 and shown on my next slide. We paid £79 million in dividends and £11.9 million of cash has been spent in relation to restructuring. Interest and tax had a combined cash impact of £35.1 million with other movements of £21.7 million which included £14.8 million of lease payments and £5.9 million of software as a service payments, bringing us to the net increase in cash for the year of £61.7 million.

Adjusted and statutory operating profit/loss and PBT

The reconciliation between our adjusted operating profit measures and our statutory profit measure down to statutory profit before tax is set out on this slide. Restructuring costs were limited to £10.2 million as we completed the final aspects of activities started during 2020. The £19.5 million of transaction-related costs includes the £15 million donation noted on my previous slide and the remaining £4.5 million relates to costs associated with acquisitions, including Concurrent Real-Time and Creoptix.

In April 2021 a new IFRIC interpretation was issued relating to the capitalisation of costs of configuring or customising application software under software as a service, SaaS, arrangements. As a result we have amended our accounting policy and identified SaaS arrangements where we do not have control of the software. For these projects we have derecognised the intangible assets previously capitalised and recognised the expense within the consolidated income statement. Material SaaS projects which would have been previously

capitalised will now be excluded from adjusted operating profit as a new alternative performance measure line called configuration and customisation costs carried out by third parties on material SaaS projects. These projects incurred a net P&L charge of £5.2 million in the year.

There were no goodwill impairments in 2021 and the amortisation of acquisition-related intangibles is at a more normal level of £19.4 million. This reconciles to the £154.9 million of statutory operating profit. Profit on disposed businesses was £226.5 million. Financial income includes a £5.1 million interest credit following the positive settlement of an EU dividends tax claim and a £7.2 million FX gain on inter-company balances. After subtracting £5.6 million of finance costs this brings you down to a statutory profit before tax of £388.6 million for the year.

Disposals and acquisition pro-forma

2021 was a busy year in terms of completing disposals and we also acquired Concurrent Real-Time. I have therefore included a pro-forma slide to help you with your models by illustrating how the Group would have looked with all of the disposals removed and with a full year of Concurrent Real-Time. Starting on the left-hand side is our reported result for 2021. I have then removed the 2021 contribution for each of Millbrook, B&K Vibro, ESG and NDC Technologies. Finally I have annualised for the acquisition of Concurrent Real-Time in order to provide you with a reasonable baseline upon which to build your expectations for 2022, which brings me on to 2022.

Considerations for 2022

Headwinds

As we think about 2022, as always we have several headwinds and tailwinds to consider. Starting with the headwinds, we do not expect the same level of COVID challenges that we have seen over the past two years. However, we continue to experience localised COVID-related interruptions and anticipate that this will remain the case in 2022. We also expect supply chain issues to continue but cannot predict exactly where or the absolute impact this could have. Nevertheless we anticipate these issues will start to ease in the second half of the year. We expect to face labour cost, material cost and overhead inflation during 2022 and have seen a wide range of forecasts from many commentators. We will continue to control what we can and are confident of our ability to mitigate this headwind through our pricing strategies. Finally we should recognise the potential risk associated with increased geopolitical disruption.

Exchange rates

Our assumed exchange rates for 2022 are a 1.38 USD and a 1.16 EUR. If that proves to be incorrect then for every cent change on the dollar it has a £3.1 million impact on sales and a £0.8 million impact on profit. For every €cent change it is £2.5 million impact on sales and £0.5 million on profit.

Tailwinds

On the positive side we have several tailwinds. Our order book remains strong and supports our continued organic growth confidence into 2022. Our organic growth will continue to benefit from new products and services. Every year the Spectris Business System becomes more established and we will continue to deploy it to reduce waste and inefficiency. We

remain confident of continued margin progression. As I mentioned on my previous slide we will benefit from the full-year contribution of Concurrent Real-Time and we will continue to actively look at additional acquisition opportunities.

Financial guidance

In terms of other guidance, capex will be around £50 million. In combination with our Creoptix acquisition and new projects we expect to increase our R&D spend by an additional £10 million in 2022. We expect to spend around £20 million of software as a service costs as we develop a new ERP system at Malvern Panalytical and from next year at HBK. In total we anticipate an investment of around £45 million over the next three years which will be captured by our new SaaS performance measure. We expect our tax rate to be 22% and working capital will stay within our previously guided range of 11-15%. With that I will hand you back to Andrew.

Business Update

Andrew Heath

Chief Executive, Spectris

Sales by end market

Let us take a look at our end markets and then turn to our businesses. We have seen a good recovery in many of our end markets and apart from energy & utilities they have all returned to growth. Machine manufacturing, pharmaceutical and semiconductor stand out as the strongest performers. The machine manufacturing positive outlook and the strong fit of our sensor applications for food production, medical equipment and semiconductor manufacturing continued the buoyant performance. In pharma we are seeing a significant uplift in support of vaccine and viral development and also manufacturing, as well as an increase in the onshoring of production and this has resulted in a record order intake. The onshoring trend is also supporting growth in semiconductors, as is the rising demand for chips which is driving an increase in investment programmes from major semiconductor manufacturers. Automotive is now back into growth territory, recovering well in the second half of the year. Although energy & utilities remains weaker than last year, the second half saw growth and orders into this sector demonstrate the market is recovering.

Malvern Panalytical

Strong margins and record order book

Turning now to our businesses and starting with Malvern Panalytical. We had a strong year, achieving a record order intake following 25% growth in like-for-like orders. Asia was particularly strong, as was continuing demand in pharma and advanced materials. Sales increased 11% on a like-for-like basis supported by both the strong market recovery and the impact of new products like the Zetasizer Advance and OmniTrust, which have both outperformed the sales expectations. Revenue would have been stronger if it was not for the challenges experienced in Q4 and some sales being pushed out into 2022. However, this does position the business well for the first quarter and the year overall. The higher volume combined with greater efficiency and positive pricing helped drive a 36% like-for-like increase in adjusted operating profit and a 320 basis points rise in adjusted operating margin.

This is despite investment being increased to both enhance the performance of existing products and develop new solutions, with software, services and analytics being key areas of focus. The Smart Manager service was a key launch during the year providing customers with insights into the real time utilisation and health of their instruments, to help improve both utilisation and process productivity. The key strategic focus has been on the pharmaceutical industry and it has been good to see organic sales increasing in this area by 34% over the past three years. To compound this growth a small but important acquisition has recently been completed to tap into key growth trends in this market.

Creoptix acquisition further strengthens pharma offering

Malvern Panalytical has a leading position in measuring the structure, stability and affinity for drug development. This enables customers to ensure the arrangement of the substances, the long-term quality and the drug binding come together in the product formulation. To further strengthen our position and expand our offering in the affinity area we acquired Creoptix in January. They provide industry-leading instruments and software for measuring real time biological and molecular interactions. While it is an early-stage business the combination provides an exciting opportunity to quickly scale Creoptix's superior technology in terms of both speed and sensitivity by leveraging Malvern Panalytical's extensive customer base.

HBK

Strategic progress and good momentum

HBK achieved 16% like-for-like order growth and again finished the year with a record order book. Like-for-like sales were 8% higher, reflecting the supply chain constraints and some longer-dated orders from an increase in OEM business. However, again this positions us well for 2022. Robust demand continued in machine manufacturing supported by strong demand for our weighing technologies. It has also been pleasing to see a steadily improving automotive market come through last year. HBK continued to make solid progress on improving their financial performance. On a like-for-like basis adjusted operating profit increased 32% and adjusted operating margin increased 280 basis points. This was mainly driven by the higher top line drop-through and ongoing efficiency improvements from the merger.

However, we are not stopping there. With further initiatives in train in 2021 HBK moved to a new site near Copenhagen with updated manufacturing processes to better serve customer demands and a new go-to-market model. Also a new CRM system is being rolled out during 2022 as we work to further simplify the operating model. This will complemented by the deployment of one common ERP platform across HBK over the next three years, following on from a similar implementation planned in Malvern Panalytical.

Alongside these operational improvements HBK has also been busy investing in organic growth projects aligned to the strongest market growth opportunities such as electrification, smart sensing, virtual testing and simulation and digitisation. A number of new products and solutions have been launched this year, including our latest generation of NVH simulation software with significant new features and capabilities to give customers a highly accurate experience of sound and vibration through the product design and development cycle and the QuantumX Data Acquisition System to simplify the complex measurement environment in

batter electric drive trains, hydrogen fuel applications and structural health monitoring. HBK also made two synergistic acquisitions during the year, Concurrent Real-Time and VIMANA.

Acquisitions enhance HBK customer offering

Concurrent Real-Time

Now, we have talked about Concurrent previously so just to say that the integration into HBK virtual test division is going well and to plan.

VIMANA

In August HBK also completed a licence and asset purchase agreement with VIMANA, a provider of software and services for smart manufacturing. The transaction brings data platform technology and software to HBK and will form the basis of a new engineering centre of excellence focused on data management and connectivity. Its open architecture approach will allow customers to easily integrate test data into their networks. The first product will be launched alongside HBK's new Data Acquisition System during 2022.

Omega

Much improved performance and strong market recovery

Turning now to Omega, I am pleased to say that we saw a much improved performance in the business last year. Omega posted above market growth with strong demand from its strategic OEM and distributor accounts, new business wins and other share gains. Orders were up 23% and sales up 14% on a like-for-like basis. There was strong growth through our key channel partners in North America and also from semiconductor customers in Asia. Sales through the Newark partnership were up 50% year-on-year and the relationship is currently being extended to Europe and Asia. On a like-for-like basis adjusted operating profit increased 82% with margins rising 430 basis points. This resulted from good operating leverage on the higher sales volume, price gains and also efficiency improvement.

This performance reflects the impact of the revised strategic initiatives to drive above market growth and in turn improve margin. Optimising the customer experience has seen web orders and conversion rates back to 2018 levels, pre the new web offering, and record average order values. Investment in new products is better focused, targeting both customer needs as well as emerging technologies. The HANI, which is the High Accuracy Non-Invasive temperature sensor, and the Layer N products for industrial internet of things solutions were key product launches in the year. Alongside this initiatives to simplify the business and improve operational performance continued. There is more to do but it is good to see progress being made under the new management team.

Industrial Solutions

Simplified and refocused for growth

Turning now to Industrial Solutions like-for-like sales here increased 8% with strong demand from semiconductor and pharmaceutical customers, reflecting a strong market recovery and the impact of recent product launches. Like-for-like adjusted operating profit increased 10% and margins increased 30 basis points. This primarily resulted from the sales increase and also reflected the impact of the disposals which enhanced the division's margin.

As we detailed in our presentation in December, ISD is now made up of three high quality specialist businesses. The strategic direction is centred around being a leading provider of

high precision in-line sensing and monitoring solutions based around PMS, Servomex and Red Lion. Each of the businesses will continue their customer-oriented strategic initiatives and product development strategies to drive organic growth. Alongside this ISD will be run as a more integrated division retaining the business units and brands while looking for opportunities to leverage the existing infrastructure and drive efficiencies.

Cleaner, Healthier and More Productive

Andrew Heath

Chief Executive, Spectris

Cleaner

Delivering high performance measurement systems on a world-first energy project

Before concluding I would like to share with you just a few examples of how we equip our customers to make the world cleaner, healthier and more productive. Starting with cleaner, we are delighted to be supporting the exciting work at ITER to prove the feasibility of fusion as a largescale, sustainable and carbon-free source of energy. This engineering challenge involves extreme environments. For example, high temperatures and huge electromagnetic fields with really large instrumentation requirements. Being experimental everything is first of a kind and requires highly specialised materials and processes, as well as precise measurement instrumentation.

HBK has a long collaboration history with ITER and recently won a new €1.4 million systems order, reflecting its unique capability and expertise in delivering high performance measurement systems using both optical and electrical technologies. ITER's specific requirements often reach physical limits and with its expertise, its sensors and its software HBK is able to build the customised solutions that the customer needs, cementing its position as a valued partner.

Healthier

Improving stability, supply and storage of vaccines

Turning now to healthier, we continue to be actively involved in supporting the fight against COVID. Malvern Panalytical's Differential Scanning Calorimetry technology is a gold standard technique for assessing thermal stability and facilitating the selection of stable vaccine formulations. Using this technology Malvern Panalytical is collaborating with Leukocare who specialise in biopharma formulation development to understand how the stability and the subsequent supply and storage of the vaccine can be improved. Bringing together Leukocare's pioneering expertise with Malvern Panalytical's analytical knowhow is helping to increase the production and simplify the distribution of COVID vaccines. This technique can be further used to achieve stability improvements for a wide range of vaccines.

More productive

Enabling high accuracy data collection within seconds for the food industry

Lastly to more productive and Omega's new award-winning product, the HANI. In the food and beverage industry temperature control is critical to ensure product integrity and quality. For example, measuring the temperature of a fluid moving through a pipe during manufacturing. The HANI is easily installed by clamping it externally to the pipe delivering

immediate high accuracy temperature readings with out any costly installation and downtime. Also by being non-invasive and non-contact it avoids contamination risks which can affect product integrity. It allows for easy connectivity and data collection as well as the flexibility to easily change the temperature monitoring system around the facility. Using HANI the Food Innovation Centre at Rutgers University achieve their required temperature measurement outcome within seconds rather than the days it would have historically taken, all whilst ensuring product integrity.

Future Opportunities

Andrew Heath

Chief Executive, Spectris

Entering the next phase of our development

Significant progress with Strategy for Profitable Growth

I wanted to finish with a few insights into our thinking on the next phase for Spectris as we look beyond the Strategy for Profitable Growth. In 2019 we set out to simplify and bring more focus to Spectris. At that time the Group comprised 13 operating companies and lacked strategic clarity. By executing our strategy we have delivered a Spectris that today is more focused, more profitable and more resilient with sustainability at the heart. This gives us a very strong platform to accelerate our ambitions.

Entering the next phase of development

During 2021 we conducted an in depth review of our operations and assessed our activities across a range of key sustainability trends that offer exposure to high-growth, high-margin end markets. We are already well positioned to take advantage of these trends which will support the next phase of our development.

Aligning our strategy with key sustainability themes

To go into a little more detail we have identified seven growth trends which include advancements in health, the transformation of mobility, the energy transition, responsibility in sourcing and production, the transition to the circular economy, environmental protection and the evolution of food production and advanced agriculture. Spectris has strong positions in many of these areas today and we see exciting opportunities to accelerate our growth aligned to these trends over the coming years, both in our organic development and in targeted M&A.

For example, we see opportunities across all these trends at Malvern Panalytical. Health is obviously a key area of exposure and we see continued strong growth in pharma and life sciences, a key market for PMS too. Alongside this the transformation of mobility and energy transition are driving significant investment in new battery materials and new greener technologies in fuels, as well as environmental protection. This will play not just to Malvern's strengths but to HBK, Omega, PMS and Servomex as well. With material use set to double by 2060 we see an opportunity to improve the circularity of our own products in addition to developing recycling solutions in support of transforming waste materials to new product.

These themes are very much aligned with our purpose and this will feature heavily as we articulate the next chapter for the business, a chapter that will take us beyond our existing

Strategy for Profitable Growth. I look forward to talking to you more about this later in the year.

Looking forward with confidence, opportunity and momentum

In summary we delivered a good financial performance in 2021. Demand for our products and services has been and continues to be strong. Although supply chain and COVID challenges somewhat constrained our ability to maximise sales in the fourth quarter, we enter 2022 with a record order book and have made a strong start to the year. This gives us confidence in our ability to deliver continued good growth and to maintain our progress in returning the Group to its previous margin highs and ultimately exceeding them over the longer-term. We have made significant progress in executing our strategy. Spectris is now a more focused, higher quality, more profitable and a more resilient business, supported by a very strong balance sheet. We have demonstrated our ability to reduce cost responsibly, drive organic growth, expand margins, allocate capital with discipline for attractive returns and have made several successful acquisitions to enhance our customer offering.

Looking forward we will build on this progress, investing in our businesses to take advantage of new growth opportunities, strongly aligned to our purpose and to our focus on sustainability. We will continue to aim high and be bold in our pursuit of enhancing value for all our stakeholders. Thank you. I will now be happy to take your questions.

Q&A

Andrew Wilson (JP Morgan): Hi, good morning, thanks for taking my questions. I have got three if I can take them one by one if possible. You have mentioned a number of times the headwinds that you had in Q4. If you could help to quantify what you think the lost sales impact might have been, I am trying to think about the implications of that for 2022.

Andrew Heath: Yes, clearly as we progress through Q4 we found a progressive tightening of supply chain. Predominantly as our volume was increasing through Q4 in terms of shipments we ended up with some particular constraints that effectively constrained our ability to convert the forward order book as we were expecting in Q4. In terms of the actual quantum it is difficult to be completely precise but it is at least £20 million that we can see that was either ready for shipping or was shipped but could not be received by customers. Certainly as Omicron expanded in December we found a number of customers closing their sites again or other supply chain constraints meant they were not ready to receive it. We ended up with quite a significant amount of inventory that was either ready to ship or actually in transit that we could not recognise. That particularly affected Malvern Panalytical. Likewise with Omicron and Omega in New Jersey in particular where we have our distribution centre, we had a number of operatives who were out and we did not have enough fingers and thumbs there to actually pick, pack and ship. It is at least £20 million that has effectively fallen over the boundary between December and January and the new year as a consequence has started very well. Revenue in January was up 7% year-over-year. February revenue is also growing strongly from what we can see and the encouraging thing is the order book continues to grow. The order book at the end of January was bigger than it was at the end of December. We ended up with orders up higher than our average through 2021 in January. Demand remains very strong and I see this just purely as a timing issue.

Andrew Wilson: Great and I wanted ask around the orders in the order book obviously being super, super strong, in terms of confidence around how real those orders are, whether there is any risk that you are seeing double ordering and assuming that you will see some early ordering as lead times extend. In terms of risk around those orders.

Andrew Heath: Yes, the order book is very strong. We do track cancellations and have been all the way through last year. Clearly as demand picked up we were conscious that were we just seeing speculative order intake and people reserving positions? That has proved not to be the case. Cancellations run at very low levels consistent with long run history. We certainly do not see that sort of speculative element within the order book. However, your other point in terms of, is the order book longer-dated? Yes it is. Clearly we have had to extend lead times given supply chain constraints, as have most businesses. Inevitably that is boosting the order book but if you compare our order book as at the year end it was up over 50% year-over-year. If you look at Spectris as a business typically we had 3-4 months cover historically if you go back to 2018/2019. That is now sitting in the almost 5-6-month range. Clearly some of that is down to longer-dated business but overall the gap between order growth of 19% last year versus top line revenue at 10% the majority of that is actually just new increased demand.

Andrew Wilson: Thank you and then a final one and a longer-time one. The made the comment around the target to get back to the previous peaks on margins and then ultimately exceed them. I am interested in terms of what changes you think you need to see to get to those kinds of levels. Whether it be the 18% or the north of 20% that you are thinking about, is it a volume thing or is it still changes you want to make to the portfolio? I am wanting to understand the bridge from where we are today to potentially those much higher numbers.

Andrew Heath: I would break it down into three fundamental areas. Clearly as we came out of the pandemic or out of 2020 off the back of 2020's COVID outbreak we said then that we wanted to make sure we got the cost base into the right size and shape such that we could grow back into the market recovery. We did a lot of work back in 2018/19 on the profit improvement programme, accelerated its completion in 2020, did some further work in 2020 as you are well aware. We came out at the end of 2020 with the cost base in the right place. That gives us the opportunity to get very strong operating leverage as volumes come back. We saw that in 2021 and as we go forward we will retain our discipline in terms of costs. We clearly did add some cost into the overheads last year to support the growth rate and to some extent the fact that the sales miss from Q4 or fulfilment miss that has fallen over into this year, the £20 million I talked about, we built the cost base to support some of that and that impacted margins in Q4 as a consequence. However, as I say, that is just a timing issue.

Firstly operating leverage, secondly the Spectris Business System. We continue to mature and strengthen our deployment, our training, the development of our tools and really embedding the whole lean philosophy in terms of how we run our businesses. I am pleased that we are now starting to see real financial benefits coming through to help offset cost inflation. A big driver again this year and going forward is the deployment of the Spectris Business System. Then thirdly we are also investing in better processes and better systems to support the growth to make sure that we have a scalable operating model that we can scale efficiently. As you are aware, we have been deploying a new CRM system into HBK over

the last 12 months. That went live in January successfully and we have put in the announcements, the press release, we are also in the process of investing in upgrading the ERP system firstly in Malvern Panalytical and then into HBK to really drive greater efficiency in the way we operate on a day-to-day basis and take advantage of the next generation of ERP technology.

Andrew Wilson: Very helpful, thank you.

Michael Tyndall (HSBC): Morning gentlemen, a couple of questions if I may. Can we just talk a little bit about MalPan because MalPan is still some 10% below where it was in 2019 on revenues? I wondered to what degree is there still catchup potential there. Also if I am not wrong, pharma was up 27% at the first half, up 14% for the full year so I realise there could be some base impacts there but it feels like it was flattish in the second half. Am I reading that the wrong way? Then the second question, I do not know if you are willing to share it Derek but I wonder if you could give us just some idea in terms of what you have got in the budget for labour and material inflation for 2022. Thanks.

Andrew Heath: Let me take the first question Mike on Malvern Panalytical. Clearly it had a very strong year last year. Its order intake was up significantly and as I have said, if it had not been for some of the constraints in Q4 the revenue growth in Malvern Panalytical would have been that much stronger. A good proportion of the £20 million missed from Q4 that I spoke about relates to Malvern Panalytical and its business model and the way it recognises revenue in terms of some of the complexity of the systems installations going into customers. However, we are seeing continued strong growth in pharma. We have a very strong offering, particularly around this whole stability, affinity structure area of drug development, discovery and manufacturing quality. As per the case study I highlighted earlier, we are seeing still strong demand in terms of vaccine development and antivirals. That is also then supported by quite a strong onshoring trend which we see continuing. It was also good to see the growth in the advanced materials last year, particularly around semiconductors and the fine chemistries associated with that. Our wafer analysers did very well but equally the investment in new battery materials, additive layer manufacturing was strong and it is also great to see that the academia sector that was heavily down in 2020 recovered quite strongly and was up almost double-digits last year. All of that is contributing well to Malvern Panalytical's growth. Certainly as we look forward we see continued strong growth and recovery beyond 2019 levels.

Michael Tyndall: Got it.

Derek Harding: Then on your question Michael on the budget costs, we are anticipating inflation in our cost base and our overheads. In terms of labour inflation we have a range of assumptions, to be honest. We are in the process of doing pay reviews at the moment so I do not think it is appropriate for me to give you a number now because it does differ by territory, grade and all sorts of different dynamics in terms of doing pay reviews across the piece. I think to be honest given the environment that we currently operating in I am going to have to leave it to you guys to make an assessment as to what you think the correct inflationary range is for your guidance. We have a series of planning assumptions but I suspect my planning assumptions are no better than your market assumptions. I do not think we are going to get drawn on trying to guide to cost inflation for this year.

Michael Tyndall: You cannot blame me for trying. Thank you.

Andrew Douglas (Jefferies): Morning guys, most of my questions have already been asked but I have got three smaller ones please. Can we talk very quickly about the M&A pipeline? It sounds like you have been building that throughout the year. You made a £30-odd million acquisition this morning. Can you talk about the pipeline how that is looking, big or small ones? Has the evolution of the end markets that you are following changed what you are looking at or are you thinking slightly differently about M&A? That would be helpful. Second question is a slight lead on from Michael's question a minute ago. Could you just give us an update on energy costs in terms of percentage of sales, whether it is gas or electricity, etc? So that we can have a better understanding there please. Then last but no means least Omega looks like it is motoring. I think it was +18% organic sales in the fourth quarter. That is good and your comments about the improvements under the current management team going well. How much more do you think needs to be done there and is it fair to say that they are doing all they can at the moment and a lot of the heavy lifting has been done which will then come through to an improved performance? Or is there still more to be done there please?

Andrew Heath: Thanks Andy, thanks for your questions. I will take your first and third questions and I will pass energy across on to Derek. Firstly talking about the M&A pipeline, I am really pleased with just how all the businesses have been able to strengthen their pipelines over the past 12-24 months. We have put a lot of focus on it, as you know. As a consequence of that we were able to complete on Concurrent Real-Time back in the summer last year and equally the asset and licence agreement with VIMANA for HBK to create a data management platform is also an exciting development. You will see in the announcement the acquisition of Creoptix by Malvern Panalytical which completed in January. We have got a strong pipeline, some good momentum and as ever we continue to actively scan the market but have some attractive targets that we are looking at currently. That is why we have decided this year not to do any sort of special return by way of a special dividend or a share buyback.

I think your other part to your question there was is the evolution of end markets changing? Are we thinking differently? Clearly the whole focus on sustainability is important to us. We see opportunities there to be advantaged by a number of the sustainability thematics I touched on in the presentation. That is certainly uppermost in our thinking is now part of our filtering process. In part the acquisition of Creoptix was part of that thinking. All of the acquisitions we are looking for are very much consistent with what we have said strategically in the past where we are looking to scale up the businesses either looking at targets that sit bang on the same end markets, the same sort of strategic growth areas we are looking for, that would complement our current offering or indeed our immediately adjacent spaces or offerings that we see will be highly synergistic to what we do today. Creoptix I think is a classic case in point where, as I said in the presentation, Malvern Panalytical is very strong in the whole drug discovery and development space, particularly around the stability, the structure, the affinity of the formulations.

We saw in Creoptix an early-stage business that had some really strong new leading technology in the affinity space that we absolutely believe will sit very nicely alongside Malvern Panalytical's current calorimetry offerings. It is an early-stage business. It is

currently slightly loss making, about £4 million of revenue, but we see the opportunity to quickly scale that business and deliver very strong returns off the back of flowing Creoptix technology and products through the existing Malvern Panalytical customer chain and routes to market. It is bang on strategy. Do not get carried away that our M&A approach has shifted towards early-stage businesses. As we have said before, we look at everything from technology through early-stage start-ups through to small bolt-ons to businesses the size of Concurrent which was $160 million size all the way up to businesses that are equivalent to the size of our current platforms as we were looking back in 2020 around the potential US acquisition we spoke about at the time. We have continued to look across the board and if anything given the current market volatility we see opportunities.

Derek Harding: Then energy costs, it is a great question Andy. I do not have a specific pound note number for energy cost to be honest across the Group. I will make a couple of observations. Roughly half of our energy usage is electricity, though when you look in the Annual Report when it comes out you will see a table on our energy consumption broadly half of it is electricity. When you think about our business though we do not have significant energy demands. We are not running big, large machinery 24/7. We are not burning anything or building anything using high energy usage in that sense. Most of our production is assembly or bringing things together that have been manufactured elsewhere. It is an asset-light model and it is also a relatively energy-light model. However, in terms of giving you a specific number on the energy costs I am afraid that is not something that we typically focus on.

Andrew Douglas: No, that is fine. I think the message is clear. That is fine.

Andrew Heath: Omega is the other part Andy. We have signed up to the RE100 Initiative around renewable energy. 43% of our electricity we purchase now is renewable and we are working on negotiating contracts to increase that quickly up towards 100%. Then on Omega, yes as you said and as I said in the presentation it is really pleasing to see the progress that the new management team is making there. The focus that Amit has brought in terms of really getting Omega to drive four key strategic growth initiatives around enhancing the digital experience, expanding the sales distribution channels and developing new partnerships there, having much more focused product innovation and then overall continue to simplify and improve the operational performance of the business. They have done a great job last year despite all the challenges that they have had in terms of supply chain disruption and also some fairly tight labour markets in the US. Really pleased with the progress they are making. Your question was really around is there more heavy lifting to do. I do not think there is. It is more a matter of continued execution on the strategy and driving the focus there, as I have said. One data point I would like to share with you that I think is meaningful is that on the digital experience side our web orders now are higher than they were back in 2018 before we implemented the new e-commerce web platform. All the work the team has put into getting that new e-commerce investment, firing on all cylinders and driving order intake is now starting to yield the results that we were hoping for. I think from a heavy lifting perspective the work certainly on the digital side has been done and it is about continued execution. As I said in the presentation, there is still more to do. The margins are still below the Group average and the team is very much focused on driving top line growth, scaling the business and improving its margin performance.

Andrew Douglas: Understood. Thank you very much.

Jonathan Hurn (Barclays): Good morning guys, I just have three questions please. Maybe the first one for Derek. I know this is never really that easy to answer at this point of the year but can you give us some kind of feel for how you see that H1/H2 seasonality coming through in the business maybe in terms of revenue and profit? Obviously it is going to be quite H2 weighted this year but can you just give us a feel for the split as it stands? That was the first one.

Derek Harding: Yes, you are absolutely right Jonathan it is tricky to answer at this time of the year. I am not going to give you a percentage split. There is nothing that we can necessarily see that means the business is any different to normal in that sense other than I guess the supply chain challenge. We are expecting the supply chain challenges to ease in the second half or start to ease in the second half. On the balance of probabilities that would suggest a stronger period in the second half as those ease and the orders that we are carrying at the moment start to get realised into revenue. I think at this stage of the year it is difficult to ever give you a specific percentage. Normally we give a bit of guidance on that when we actually get through the first half but again I think with all the uncertainties that is not something that we are necessarily going to look at.

I think if you look overall we are of the view though that this year 2022 on a like-for-like when you take out all of the disposals that we have completed in the year and before you add in the full affect of Concurrent RT on those underlying like-for-like basis we anticipate the year to be similar to 2021. However, I am not going to give an H1/H2 split at this stage.

Jonathan Hurn: Okay, that is clear. The second question was coming back to the order book. Obviously if you look at that Q4 order growth there is quite a marked slowdown relative to Q3 and Q2. I take on board your point that things picked up in Q1 but obviously the comp there is easy. Why was that Q4 order intake down so much relative to Q3? Was it essentially a comps issue or was there some other things playing out there?

Andrew Heath: Jon, just to clarify are you talking about revenue or orders?

Jonathan Hurn: I am talking about orders. Orders were +14% in Q4 but they were +31% in Q3 and I think +28% in Q2. Why was that sudden slowdown?

Andrew Heath: Okay. It is really just against a tougher comp. If you go back to the second half of 2020 we really saw orders start to pick up progressively from June of 2020. Then it was clearly within certain markets, pharma being the first to kick off. It has taken to this year for automotive and academia to start to go positive. It has been a progressive build from then but we did see the order book really starting to pick up from middle of 2020. It is against a much tougher comp, that is all.

Jonathan Hurn: Okay. That is clear. Maybe the last question following on from Andy in terms of Omega. Obviously performance has improved quite a lot in Q4 relative to Q3. I know it is a bit of an unfair question but in terms of its place in the portfolio are you now a lot more convinced in terms of Omega on a long-term basis or are there still some questions and issues that it needs to answer for you to be really happy with its position in Spectris?

Andrew Heath: For all our businesses they all have to earn their right to retain their position in the portfolio. Omega clearly we have refreshed the management team, Amit is brought in

with a very clear, focused approach and that is delivering results which is really pleasing to see. As I said, there is clearly more to do and so we will continue to review the performance of Omega as we do all our businesses to make sure that they are still tracking a trajectory that we believe over the longer-term delivers good value and good returns.

Jonathan Hurn: That is very clear. Thank you.

Mark Davies Jones (Stifel): Morning both, can I start on that one again on Omega? For the Group as a whole you are saying that you think you can get back to previous peak margins. Could the same apply at Omega? There is great progress but you are still a long way below the 18% and a bit that that peaked at before it hit choppier waters. Is there any structural reason, particularly having increased the cost base on some of those web investments, why you cannot get back to that sort of level at Omega?

Andrew Heath: Thanks for your question Mark. The simple answer is there is absolutely no reason at all why not. The problem over the last 2-3 years has been the extra overhead burden from all of the IT investment that went in back in 2017 and 2019 for the new e-commerce platform. That meant the business had to scale really significantly to be able to get the returns off that investment. We have been very clear with our frustration and disappointment that we were not able to scale it through 2019 and 2020. However, we are now starting to get the benefit of that. As part of the SaaS accounting as well we have written off some of that IT investment as well in terms of the way the new accounting rules apply. That will help boost its headline margin as well. Absolutely no reason at all why it cannot get back to the previous 2018 18-19% operating margin. There is no reason why it cannot get back to there at all.

Mark Davies Jones: Okay, great. Then clearly you have simplified the business a lot over the last couple of years which is great but there are still an awful lot of moving parts. Are there any of your important end markets where you think activity is super normal at the moment? You have mentioned some of the vaccine support within the pharma business. Obviously there has been a big spike up in the machine tool end of things. Is there anything that could go against you off those peaks in 2022 do you think?

Andrew Heath: Firstly I would say from the simplification perspective we are and have now concentrated the Group on the more attractive higher growth end market segments that we planned to do when we announced the strategy in 2019. The fact that we are seeing a strong growth in pharmaceuticals, strong growth in semiconductor electronics, strong growth in the advanced materials part of our business, these are what we call technology-led industrials, the machine manufacturing growth there is testament to the focus that has been brought. Clearly automotive is really the only one of our target end markets that has struggled but that is well publicised as to the causes why. The simplification has certainly helped focus us on those end markets that are growing strongly and importantly really targeting the sub segments within it where we have and where we can build strong leading positions. That strategy is working for us.

Just going forward those markets that have been growing really strongly, are they going to start to slow? Overall if you talk to any of the economists as we progress into the second half of this year and into 2023 clearly there will be slowing growth. We cannot sustain the growth rates that have been achieved through the back half of 2020 and 2021. Mathematically that

is not going to be feasible. We will see slowing growth but we certainly still see growth, which is important. As I say, we are targeting those sub segments where we see the greatest growth and our shift and focus around sustainability I think will also make sure that we are focusing on real high-growth, high-margin opportunities as well. The market that really outperformed for us has been pharma and at the moment that continues to go very strongly. All the developments around viral vector vaccine development plus antivirals, the onshoring trend and the expansion of biopharma and therapeutics. We are seeing huge investments going in there so we certainly anticipate that momentum to continue through this year. I think semiconductor without a doubt is going to remain very strong. Our order intake in semis was up I think 50% last year. Whether we will achieve a 50% growth again this year I would question whether we will get there but we are still seeing very strong growth in the semi space. In machine manufacturing in HBK our focus on what we call our OEM sensor business providing really high precision sensors to OEMs to build into machines, everything from machine tools all the way through into agricultural equipment for precision agriculture and even into healthcare applications where we are providing weight sensors going into high tech hospital beds. Basically you have now got beds that are automatically measuring movement, weight of the patients and optimising the position of the patients. We are selling sensors into that market as well. I certainly see strong momentum coming into this year and we will sustain that in those sectors through 2022.

Mark Davies Jones: Great. If I can just squeak in one final one, are you seeing any shift in the M&A environment in terms of valuation expectations from sellers or willingness to sell as the world gets a bit more complicated?

Andrew Heath: It is a great question. I think it is a little early to tell. Clearly valuation expectations have risen over the last two years and it is a little bit early days. However, certainly if you look at the listed public companies then valuations have come off quite a bit, which, as I said earlier in response to Andy Douglas's question, potentially may provide some opportunities.

Mark Davies Jones: Okay, perfect, thanks very much.

George Featherstone (Bank of America): Morning everyone and thanks for taking my questions. A follow-up on the margins. I wanted to know what the specific timeline you have in mind for achieving the 18% operating margin target is. Then how do the margins in the backlog compare to 2021 margins for the Group?

Andrew Heath: We will take them in turn George. In terms of margin we have never been explicit in terms of achieving the margin target. I mean that is fraught with all sorts of externalities. I would just simply say I am really pleased with the way we have executed on the strategy and continue to execute on the strategy. The simplification, the focus we brought to the Group. We have improved the quality. We have improved the end market focus on attractiveness. The operational efficiency of the Group is improving. The cost base is in a much better place. I am confident that we will continue to make good progress in terms of achieving our targets we put out there. As we have said all along, we do not see 18% as a ceiling. Our long-term objective is to improve margins well beyond that.

Derek Harding: Your question was on the margins on the order backlog. Basically George I guess what you are taking into account is if orders are placed at certain pricing and if we see

cost inflation coming through could that impact the outturn? Is that the point you are making?

George Featherstone: That is right, yes.

Derek Harding: Yes. It depends in all honesty because a number of the platforms have short order cycles and therefore although the order book is greater the new orders reflect new pricing so that helps. Others are slightly longer-cycle but in the environment that we are in we are able to talk to our customers and make sure that we have a sensible either discounting or mechanism in place to ensure that pricing on the order book is reflective of the environment that we are in. The short answer to your question is we do not think having that longer order book will make a material difference to our margins. We continue to feel that our pricing strategies and our pricing capability gives us the opportunity to offset inflationary costs where necessary. I would say it has a limited impact on the margins.

Andrew Heath: Yes. Pricing is a live discussion with all of our businesses. Whenever Derek and I sit down with them we are continuing to review pricing strategy. Gone are the days where we used to do it once a year. This is a much more dynamic environment and I think if you look at 2021 the fact that we were able to hold up actually slightly improved gross margins last year is again evidence that we have good pricing power and are able to offset supply input inflation.

George Featherstone: Thanks very much. Maybe one more for me and I will leave it at that. I wanted to talk a little bit about how much headroom you now have on the balance sheet for M&A. You ended the year with a very strong financial position with the net cash situation so just the headroom you have to not just your covenant targets but maybe the level of leverage that you would like the Group to be at more structurally.

Derek Harding: Sure. You are right, the leverage targets are way covered so that is not the limiting factor. It really is a question of appetite. We have always said and nothing has really changed that the right level over the cycle for our leverage position is between 1.0-2.0x net debt/EBITDA. We are happy to operate at lower than that level as we have done obviously for the last couple of years because the circumstances are such. If we had a clear path to de-lever we would equally be happy to go slightly above that level for the right transaction at the right time. Through the cycle you want to be looking at one turn of EBITDA. You can do the maths really. If you look at our current EBITDA for this year and obviously you would add in the EBITDA of any acquired entity as well. However, if you looked at the current EBITDA of around 250, took that up to 2.0x and added on the cash you can see there is a reasonable headroom on the balance sheet at the moment. That does not mean that it is burning a hole in our pocket. It simply means it is available and if the right opportunities come along then we are confident to deploy it.

George Featherstone: Great, thank you very much.

Harry Philips (Peel Hunt): Good morning, I appreciate you have been on a very long time so three very quick ones from me please. The comment around the incremental spend on R&D of an additional £10 million is that we should be taking £10 million off the expectations as a consequence of that or it is just an increase of £10 million and it is in the normal band of circa 7%? The second question is for Derek particularly around SaaS accounting. I am no expert but I know you have put a number in there but what do we put in the model basically

because I do not have a clue? Then in terms of the comment Derek you made back to Jono about like-for-like growth being similar to last year, what is the context? Was that revenue growth or was I missing the point there? Then very lastly obviously the strategy refresh you have sorted everything out or largely out internally so clearly it is an external focus. Whilst you have been talking I have seen three share buybacks announced by various companies across various sectors. I know you will not want to answer this but at what point in time will you think that that maybe is the correct alternative route if you like?

Derek Harding: I will do them in order. The incremental R&D it kind of depends on how you build your model but effectively we have put that number out there Harry so that you can increase your cost base by £10 million relative to what you would have come up with had you not had that piece of information. Does that make sense? That is what that is looking to do. In terms of software as a service, right, how to explain that at the end of a call in a simple sentence. In very simple terms the accounting standards say that if you do not own the assets that you have just created then you do not capitalise it. In the old days when you bought software you would buy a system, you would build the system on premise, you would capitalise all of the work that went into building that system. Obviously nowadays we see many, many more software providers providing software in the cloud and you pay a subscription model. Therefore you do not own it. What we have done is we have interpreted that new guidance that came out in April of this year and where we had software as a service assets on the balance sheet we have corrected the accounting and we have written it off as a prior year adjustment. That took about £20 million net, £18.9 million I think, off our balance sheet as an opening position in 2019. Then going forward above the line you will incur the lease costs if you like, the rental costs of software as a service assets. As a rule of thumb that is going to be broadly similar to the amortisation that we would have previously had on those capitalised costs.

To answer your question specifically in the model, what should you do? Ignore it. It is a wash. That is going to be the case in most businesses in most scenarios. Where it is slightly more complicated for us is we are at a point in our cycle where we are actually going to make over the next couple of years some significant investments in new ERP systems in Malvern Panalytics and HBK. Under the old rules that would have been capitalised and amortised over its life but rather than have very large hits into the P&L we have identified those specific projects and those specific projects only as an APM and you will see that below the line. In 2021 the cost of all of those adjustments below the line was £5.2 million. In 2022 we expect around about £20 million of what would have historically been capex investment but is actually licence spend or uncapitalisable spend to come through in the numbers. However, in terms of the adjusted AP number that we typically look at it will be a wash Harry.

For anyone who wants to go into more detail on any of that I am happy to do it offline but hopefully that gives you enough of an understanding of what is going on.

Harry Philips: That is very kind.

Derek Harding: Finally, my comment on growth was around sales. In the slides we have a pro-forma slide that basically takes this year's revenue and profit as reported, takes out the disposals so it is around about £60 million of revenue in the reported number this year that relates to disposals. Once you get to that baseline which is £1,226 million I am saying there

is a like-for-like growth on top of that that feels as an idea similar to this year. Then you add on the annualising impact of CCRT. That is what I was referring to.

Harry Philips: Thank you very much.

Andrew Heath: Harry your final question about strategy refresh, as I said, I have been really pleased with just how well the Group has executed on the strategy. In what we laid out in 2019 the vast majority of that we have delivered on. We have returned the Group to a much more focused, higher quality business and clearly we have also returned it to being an asset-light business as well. We are highly cash generative. I think your question was really around what is our capital allocation policy going forward if I interpreted rightly around share buybacks or other capital choices. As we now look forward and we look at being purpose-led and true to our purpose, and we look at sustainability the strategy we laid out in 2019 and our purpose around equipping our customers to make the world cleaner, healthier and more productive, talks to many of the sustainability themes that I went through in the presentation. One thing that has always struck me since I have been in Spectris is that whenever we look at the strategy and look at the optionality in front of us we are absolutely blessed by choices. The challenge for us is always to make sure we are filtering those choices and electing to pick the best ones. Our challenge is never one of, what are we going to do? There are always plenty of things we can do. They key for us is making sure that we pick the right choices. As we look forward I see some real bright opportunities for us, not just in terms of continuing to execute on the strategy that we have for each of the businesses and the end markets we are focused on but also certainly around the sustainability thematics driving further growth and accelerating the business further. At the year-end date we look at the balance sheet and we review the demand for capital, investments needed in the business. We also review those opportunities both organically and from M&A. I certainly hope we have demonstrated over the last 2-3 years our discipline around capital allocation and we will continue to do so. If we feel that there are good opportunities to invest to acquire businesses that help prosecute our strategy then we will continue to do so. We have always been clear that M&A is a key part of the strategy. Likewise if we feel that those opportunities are less realisable over the next 12 months then we will return further capital to shareholders. That is how we approach things. We do retain a very disciplined approach.

Harry Philips: Great, thanks very much indeed.

Andrew Heath: My pleasure.

Robert Davies (Morgan Stanley): Thanks for taking my questions. My first one was really on the catchup effect with the disconnect between orders and sales. Are you expecting to post most of that in the first quarter of the year or is there anything with a longer lead time? That is my first question, thank you.

Andrew Heath: Thanks for the question Robert. In terms of the catchup effect our first quarter is very well covered from the order book. In response to Andy Wilson's question, it is slightly longer-dated. We have gone from that 2-4 months to 5-6 months of order cover as a business. Q1 is well covered, H1 is well covered, which gives us confidence, as Derek said, that growth in the top line this year will be consistent with what we achieved last year.

Robert Davies: Thank you. Then two other ones I had are follow-ups. One was could you give us what the percentage of the exposure in terms of sales is to Russia or whether you

have any supply chain or customers that are based there? Obviously given all the news this morning I would be interested if there is any further clarity you can provide on that topic. Than you.

Derek Harding: Yes, it is very small Robert. We do not do really anything there at all. We did have an operation there a couple of years ago but we closed that last year. I think across the whole Group sales that went into Russia last year was about £4 million so it is tiny.

Robert Davies: I see, okay. Then the final one was end of last year Derek you provided some colour around the operational leverage for the business. I would just be curious with all the disposals and acquisitions that you have done over the last 12-18 months, does that have a material impact on how we should think about operational leverage in 2022? I.e. on whatever volume growth we assume is it reasonable to assume a similar operational leverage? Has the cost add that you have had from additional people over the last couple of years going to affect that? Thank you.

Derek Harding: It is a great question. There are a lot of moving parts still this year with supply chain I think and inflation coming through. Those are two new data points that would make our historic operational leverage slightly harder to hit I would imagine. However, there is nothing fundamental that has changed in the shape of the Group but as you say, you kind of need to take account of current events when you think about it rather than sticking to a specific percentage.

Robert Davies: Okay, that is great. Thank you very much.

Richard Paige (Numis): Morning, long call so just the one from me. I want to dig into Industrial Solutions a bit more because I guess at the headline level like-for-like sales of 8% growth translate to actually 30 basis points of like-for-like margin improvement that is pretty underwhelming. I am assuming that Servomex is a big delta within that given the ventilator demand in 2020 drop-away but you also mentioned overheads. I am trying to understand the moving parts of that a bit better please.

Andrew Heath: Thanks Richard, good to hear your voice. I think for ISD there has been quite a lot of moving parts clearly within ISD. From a like-for-like perspective you have to peel a number of things back to get to the core numbers. Certainly PMS and Servomex held up very well through 2020 so from a growth perspective they are back collectively to just 1% of their 2019 sales. They saw a much smaller dip. To some extent I think that explains the 8% like-for-like sales growth last year. The 30 basis points improvement, again their margins held up much better during COVID, as you saw last year, and we have been investing for growth in all the businesses. New product launches across the board and Red Lion is coming to the end of a full product refresh for its line-up. PMS has been invested quite heavily in terms of its microbial monitoring for its liquid products. Likewise investments in Servomex and we feel that all three businesses are well positioned for growth. In particular in the pharma and the life sciences space where we are certainly seeing over 50% order intake growth in semiconductors which helps both PMS and Servomex. The life sciences business is also doing well despite the fact that yes ventilator supply for Servomex is down. There is a number of moving parts there but overall we are pleased with the progress we are making and equally how the business is positioned for future growth.

Richard Paige: Okay so we should expect probably better operational leverage next year.

Andrew Heath: Yes. Correct, yes.

Richard Paige: Yes, thank you.

Siobhán Andrews (Head of Investor Relations, Spectris): There are a couple of questions come through. I think one you have probably addressed but on the strong order book, is that just a function of supply chain issues impacting your ability to deliver in Q4? Then the second one, could you help us understand a bit more about the magnitude of any price increases in this year and whether there will be any net increase after cost pass through?

Andrew Heath: Okay. Firstly on the order book, the order book is significantly up. We are up over 50% year-over-year so almost £200 million as a quantum, as a delta between year-end of 2021 versus 2020 versus a £20 million order fulfilment miss in Q4 that has fallen through into this year. I think you can clearly see that demand overall is significantly up and very strong. Then in terms of pricing as we have said pricing is an active discussion that we are having monthly with all of the businesses and reviewing what we need to do. Clearly we need to stay ahead of inflation to offset the inflationary pressures. With all the work we did last year and that you can see in our results and our gross margin performance last year, we have been successful in doing that. Clearly we would always like to be slightly ahead of the input inflation but given the rate that is running at, at the moment I would not wish to make any assertions that we will be ahead this year. However equally our objective is to be at least neutral if not slightly ahead. That is how we think about using our pricing power.

Siobhán Andrews: Thank you. That is all the webcast questions.

Andrew Heath: Okay. I think we are complete with the questions. I appreciate it has been a long call. Thank you for your patience and also thank you for all the questions. Let me conclude and wrap up. For me in conclusion there is lots to like here. We delivered a very good overall performance in 2021. Clearly the supply chain and Omicron developments in Q4 did frustrate our order fulfilment, as we have talked about, but I see that purely as a timing issue. Demand for our products and services has been and continues to be strong and we have had a strong start to the year supported by a record order book. I am very pleased with how we are executing on our Strategy for Profitable Growth. We are today a much higher quality more profitable and stronger business and that gives us real confidence in our ability to deliver continued good growth and also maintain progress on improving margins. I have to say despite developments recently I am optimistic about the future and that optimism is rooted in the commitment, support and dedication of my colleagues and also how I can see our strategy evolving. We are going to build on our progress. We are going to invest in our businesses to take advantage of those growth opportunities that we see in front of us that are strongly aligned to our purpose and to our focus on sustainability. I very much look forward to talking to you more about those later on in the year. As I said earlier, we will continue to aim high and be bold in our pursuit of enhancing value for all shareholders and all stakeholders. Thank you very much for joining and look forward to catching up with you again in April. Thank you very much.

[END OF TRANSCRIPT]