



Trading update

22 October 2020 – Spectris plc (SXS: LSE), the expert in providing insight through precision measurement, provides a trading update for the third quarter period to 30 September 2020 ('the period').

Summary

- Seeing positive momentum in a number of end markets
- Like-for-like¹ ('LFL') sales decline improving - third quarter LFL sales down 9% versus 18% in second quarter; year-to-date LFL sales down 12%
- On track to deliver £50 million of overhead costs savings in 2020, of which £20 million is permanent
- Reset phase well advanced: employee salaries reinstated
- Restructuring programme underway, expected to deliver further permanent benefits of £20 million in 2021; costs of £25 million
- Balance sheet and liquidity position strengthened – net cash of £60.2 million, after paying additional interim dividend of £50.2 million, in lieu of the 2019 final dividend
- Priority remains supporting our people and delivering for our customers

Andrew Heath, Chief Executive, said:

“During the third quarter, we have seen positive progress in a number of end markets, which we anticipate continuing. The LFL sales decline improved from 18% in the second quarter to 9% in the third quarter. Although uncertainties remain, we expect to see momentum going into the fourth quarter.

“We continue to focus on what we can control and to best position the company for an extended recovery. As we transition from temporary cost saving measures to delivering sustainable benefits, we are executing our restructuring programme and thank our people for their commitment and support through these difficult times.

“Our cash generation continues to be a strength and our balance sheet remains robust. As we implement the restructuring, we will emerge from this crisis a stronger and even more resilient business. Our strategic objectives of organic growth and margin expansion remain, as well as optimising our portfolio and making acquisitions, to deliver long-term value to our shareholders.”

Update on trading

During the third quarter, sales momentum improved. Group sales in the period were 11% ahead of the previous three months, albeit Group LFL sales were 9% lower in the period (18% down in the second quarter). Orders in the period fared slightly better, being 8% lower on a LFL basis.

Reported sales decreased 20% in the period, with disposals and a negative foreign currency exchange movement reducing LFL sales by 9% and 2% respectively. For the nine-month period to 30 September, reported sales decreased 21% to £928.4 million, with LFL sales 12% lower.

Sales by geography

	Q1	Q2	Q3	9m
North America	0%	(21%)	(6%)	(9%)
Europe	(11%)	(18%)	(13%)	(14%)
Asia	(20%)	(13%)	(9%)	(14%)
Rest of the world	10%	(30%)	(14%)	(12%)
Total	(9%)	(18%)	(9%)	(12%)

All regions saw an improving performance compared with the prior quarter, with North America seeing the most notable improvement. Asia performance was driven by a rebound in activity in China with growth of 6% in the period, with particularly strong growth in September.

From an end market perspective, there was growth in LFL sales into the pharmaceutical and aerospace and defence industries in the period, with flat LFL sales into machine building customers. Sales were weakest into automotive, with a steeper decline in the period than in the first half, given the later cycle nature of HBK's activities. Sales into academic research institutes also continued to be notably lower year-on-year, with a similar sales decline in the period to that in the first half.

Sales by business

	Q1		Q2		Q3		9m	
	£m	LFL	£m	LFL	£m	LFL	£m	LFL
Malvern Panalytical	74.1	(21%)	76.9	(21%)	95.2	(4%)	246.2	(15%)
HBK	92.7	(2%)	86.6	(14%)	94.8	(13%)	274.1	(10%)
Omega	32.3	(5%)	28.7	(21%)	28.9	(16%)	89.9	(14%)
Industrial Solutions	102.5	(7%)	105.2	(18%)	110.5	(9%)	318.2	(11%)
Total	301.6	(9%)	297.4	(18%)	329.4	(9%)	928.4	(12%)

Malvern Panalytical had a much improved performance compared with the first half, with only a 4% decline in LFL sales in the period, reflecting a resumption in capex-oriented spend from its customer base and some revenue from the completion of installations of systems delayed from the first half due to customer access restrictions. There was good growth to pharmaceutical and food customers, with growth in all major regions, offset by lower LFL sales into academic research institutes, where demand continued to be weak, reflecting on-going closures. The order book positions Malvern Panalytical well for the fourth quarter, with sales expected to be sequentially higher, although the LFL sales performance is not expected to be as strong as in the third quarter, due to a tough comparator with the prior year.

LFL sales in HBK in the period were 13% lower, with a similar performance to that in the second quarter, given its later cycle exposure. There was growth in North America, driven by a strong performance in aerospace and defence, reflecting a number of large project sales, and into machine manufacturing, whilst sales in Europe and Asia were both lower year-on-year. Fourth quarter sales are expected to be higher than the third quarter, with LFL sales lower reflecting the later cycle nature of the business.

At Omega, LFL sales were 16% lower with continued weak demand in its main market, North America. Asia outperformed the other regions, driven by good demand in semiconductor, albeit at a slower pace than during the second quarter. While the fourth quarter is expected to continue to see the LFL sales performance improving, the resumption of growth in North America is not expected until 2021.

Industrial Solutions saw a notable sequential improvement on the second quarter, with a much improved LFL sales decline of 9% in the period. Sales into the pharmaceutical and food industries were resilient with growth in LFL sales in the period, while those businesses exposed to automotive and upstream oil and gas saw the weakest performance. We expect the fourth quarter to continue to show a progressive improvement in LFL sales.

Balance sheet

Maintaining a strong balance sheet and cash position has been a key priority for the Group during the pandemic. The Group continues to be highly cash generative and at the end of September, the Group had net cash of £60.2 million (£94.3 million at 30 June 2020), with a cash balance of £252.4 million and gross borrowings of £192.2 million. This is after payment of the £50.2 million additional interim dividend, in lieu of the 2019 final dividend, and before payment of the interim dividend in November of £26.5 million.

The strength of our balance sheet has put us in a good position to pursue acquisition opportunities that may emerge in this new environment and work on our opportunity pipeline continues. We will maintain our capital discipline while at the same time have the courage to make significant investments in adjacent and synergistic acquisitions consistent with our strategy. Portfolio optimisation also remains a strategic priority and the Group has reinitiated its sale programme with the resumption of activity in the M&A market.

A balanced approach to managing the business

We have been managing the impact of COVID-19 in three phases - React; Respond; Reset. We are now firmly in the Reset phase, while continuing to support our employees and customers through these challenging times. We will continue to foster a balanced, responsible approach to managing our business, which is consistent with our culture, values and strategy. In October, the Board approved a new sustainability strategy to build on the Group's existing work in this area and to ensure that we continue to deliver **value beyond measure** for all our stakeholders. We look forward to providing more details at our full year results.

For our people, we reinstated salaries and full-time working, where possible, during August and September as part of the reset to a sustainable business model. Executive Director salaries and Board fees, both of which had been reduced by 25%, were reinstated from 1 October. We remain committed to recognising the sacrifice and dedication of our people during this challenging period. While the method of doing this will be reliant on our full year performance as a Group, we will ensure that this recognition is aligned with the consideration of any final dividend to shareholders for 2020.

Given the uncertainties that still remain, it is imperative that we continue to maintain our provision of mental health support and practical guidance, and to focus on staying connected with those people who are working remotely. In Europe, we have partnered with the Wellbeing Project to offer resilience coaching to our people and in the USA, we have expanded our employee assistance programme to offer personalised coaching and online mental health support. In Asia, we have undertaken our first mental health workshops with the support of our health insurance provider.

For customers, despite restrictions and remote working, we have continued to launch new products. For example, HBK introduced a complete power meter solution for testing and monitoring solutions around electric drive systems, power supplies and grids; and Vi-grade launched a new product line of cable-driven simulators with more driving realism. Malvern Panalytical launched three new products: the Zetasizer Advance range with more flexibility and upgradeability; the 1Der detector for the Empyrean XRD platform, enhancing its capability and OmniTrust, a comprehensive suite of software tools for pharmaceutical customers. Servomex developed, in record time, a variant of the Paracube sensor, the Mercury, designed and approved to work in critical care ventilators with the same features and benefits as the original Paracube sensor. Development time took only 14 weeks from concept, through validation, to manufacture and delivery.

We also continue to extend our digital offering with a wider emphasis on online sales, virtual engagement, workshops and webinars and remote installations and servicing. As we adapt our processes to circumvent travel and access restrictions, whilst still meeting customer requirements, new processes such as remote demonstrations and sampling are being accepted as the norm. Greater use of virtual engagement enables a more flexible, time-efficient and cost-effective way of working and also benefits customers through better education of our products and how best to deploy them. Continuing to enhance our digital offering will, therefore, remain a key focus going forward.

Reset - preparing for the recovery

We completed the unwind of our temporary cost measures in the period and, as disclosed at our first half results, we launched a restructuring programme to further reduce our cost base, targeting sustainable benefits of £20 million in 2021. Work has been progressed at each operating company and we are on track to optimise our cost base for the more protracted recovery we are anticipating. These permanent reductions in our cost base will derive from footprint rationalisation, a reduction in discretionary costs, including more productive ways of working digitally, as well as a headcount reduction. We expect to incur a further £5 million of restructuring cost in 2020, in addition to £25 million for the profit improvement programme, and around £20 million of cost in 2021, relating to the additional actions identified since July.

As previously highlighted, we anticipate our overhead costs in 2020 to be around £50 million lower than 2019 consisting of £20 million of permanent cost saves delivered from our previous profit improvement programme and £30 million of temporary savings, which will unwind. The additional actions noted above result in £20 million of permanent savings in 2021 to offset this unwind.

Executive Committee change

Amit Agarwal has been appointed as President of Omega and joins the Spectris Executive Committee, effective 12 October. He replaces Greg Wright, who left the company at the end of September to take up a new external role. We would like to thank Greg for his hard work and commitment to the company during the past four years.

Amit has extensive manufacturing, distribution and e-commerce experience. Prior to joining Spectris, Amit spent over 20 years with Thermo Fisher Scientific. He started his career in finance, before spending the last fourteen years managing global businesses based in the USA, Australia and India, where he led several turnarounds and delivered growth. His leadership experience includes a three-year period leading Cole-Parmer Instrument Company; the scientific, laboratory, industrial equipment and supplies distribution business.

Guidance and outlook

We are pleased with our improving performance in the third quarter and sales momentum going into the fourth quarter. Our order book provides confidence in meeting our full-year revenue expectations, subject to no major effect from increasing COVID-related restrictions. In particular, the imposition of further lockdowns may impact our ability to access customer sites for product installation and commissioning. Any delivery in excess of our expectation will be considered to recognise the sacrifice and commitment of our people during this year.

We remain on track to deliver the £50 million of overhead costs savings previously highlighted. Given the highly cash-generative nature of the Group, we remain in a good position to weather the various market scenarios we have modelled.

Conference call

A conference call for analysts and investors will be hosted by Andrew Heath, Chief Executive, and Derek Harding, Chief Financial Officer, at 07.45 today to discuss this statement.

To access the call, please dial +44 (0) 333 300 0804, toll free 0800 358 9473 – Pin code: 14638027#. Or for replay, please dial +44 (0) 333 300 0819, toll free 0800 358 2049 – Pin code: 301332551#.

For and on behalf of Spectris plc

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About Spectris

Spectris' global group of businesses are focused on delivering value beyond measure for all our stakeholders. We target global, attractive and sustainable markets, where growth and high returns are supported by long-term drivers. Precision is at the heart of what we do. We provide customers with expert insight through our advanced instruments and test equipment, augmented by the power of our software and services. This equips customers with the ability to reduce time to market, improve processes, quality and yield. In this way, Spectris know-how creates value for our wider society, as our customers design, develop, test and manufacture their products to make the world a cleaner, healthier and more productive place. Headquartered in Egham, Surrey, United Kingdom, the Company employs approximately 8,500 people located in more than 30 countries. For more information, visit www.spectris.com.