



# **Spectris: 2020 Full Year Results**

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## Strategic Update

Andrew Heath

*Chief Executive, Spectris*

### Opening Remarks

Good morning everyone. I hope that you are all keeping safe and well at this time. Welcome to this, the Spectris full year results presentation for 2020.

I am Andrew Heath, I am the Chief Executive. I will go through the headlines, and then we will hear from Derek Harding, our CFO, who will run through the numbers in more detail. I will then come back to talk about some of the operational and strategic developments in our businesses, before closing with our outlook and then moving into Q&A.

### Balanced And Socially Responsible Approach

At Spectris, we believe in being purpose-driven and also true to our values as we execute on our strategy. Our priority continues to be protecting the health and safety of our employees and supporting our customers as we balance the needs of all our stakeholders.

I wanted to start this presentation with an immense thank you to all of our people for their selfless dedication, flexibility and also outstanding support in what has been a most challenging year. I truly could not be prouder of the entire Spectris team.

I would also like to thank our shareholders for their understanding and support over the past year. As we have consistently said, we deliberately chose to take a socially responsible approach to navigating through this pandemic, very much keeping in mind all of our stakeholders, balancing their needs. It is very pleasing that this approach is working well for us.

We delivered a resilient performance last year, which was better than we had expected. While sales decreased 11% on a like-for-like basis, the actions we took last year limited the drop through impact to only 38%. This resulted in an adjusted operating margin of 13%, and this was after reversing temporary cost measures and repaying the salary sacrifice which we did in December of last year. Overheads finished down 8% on a like-for-like basis year over year, and that saved us £50 million.

On the other hand, order intake has held up well, being only 7% down on 2019, and I really feel that underlines the support we were able to provide our customers as well as, frankly, the strength of our product and service offering.

Our cashflow generation in the year was strong, such that we ended the year with a net cash position of £106 million, giving us a great deal of balance sheet optionality. And today, we have announced an increase in the dividend as well as a £200 million share buyback, but to be clear that still leaves us with a lot of firepower to undertake M&A.

Last year, we also found new and innovative ways to support our customers. Equally importantly we also continued to execute on our strategic commitments: we completed the profit improvement programme and also undertook further initiatives to address costs, very much focusing on what we could control. Likewise, we announced the divestment of B&K Vibro and the Millbrook business, both of which improved the underlying quality of the Group.

All of these actions position us well for the future, as our markets recover. Our cost base has been improved, we have retained core capability and talent, maintained investment in R&D, our relationships with our stakeholders have been further strengthened and we have also improved our operating leverage opportunity.

So, given the circumstances, I am very pleased with our achievements in 2020.

### **Our Strategy Is Driven By Our Purpose**

#### *Purpose*

As I have said, as an organisation we are very much purpose-driven. In light of the events of 2020, we did reflect on our strategic direction and also our purpose, but concluded that they remain both highly relevant but also appropriate.

Precision is at the heart of what we do. Through a combination of our hardware, analytical and simulation software, we provide customers with superior data and the invaluable insights that they need that enables them to work faster, smarter and also more efficiently. Our expertise supports them to reduce time to market, improve processes, quality and also yield.

The solutions we create equip our customers to make a real difference to the world around us. We are really proud that our know-how creates value for wider society, as our customers manufacture and develop new products to make the world a cleaner, healthier and more productive place.

#### *Values*

Our purpose is core to our strategy and is very much supported by our values-based leadership and our approach to being a sustainable business. During 2020, we refreshed our values and also revised our Code of Business Ethics, very much to further reinforce this approach.

Our values underpin our behaviour. Our values are Be True, Own It, Aim High. They represent Spectris very much at its best and reflect what we want to see everyday: integrity, accountability and also aspiration in action.

The strength of our culture really came to the fore last year, I think both in terms of what we achieved, but also how we went about doing it. In 2020, our people absolutely stepped up as a team to support our customers, our businesses and very much support one another.

#### *Strategy*

Additionally, we continue to execute on our Strategy for Profitable Growth, focusing on our customers, driving improvement in our operating performance and optimising our assets, supported very much by the Spectris Business System. In this way, we are committed to delivering value beyond measure for all our stakeholders.

### **Sustainability Strategy Being Implemented**

#### *Centred around three areas*

In further support of this approach, a new corporate-wide sustainability strategy is also being implemented, and that is very much to ensure that we remain a sustainable employer, partner, supplier and investment proposition. It focuses on further embedding sustainable thinking in our operations and business aims, on mitigating risks, whilst also capturing opportunities for the increased focus that sustainability has by all stakeholders.

Following a detailed materiality assessment, we identified three areas of focus which will form the basis of our strategy, and they are:

- Focusing on the environment;
- Operations;
- Our people.

*Aligned with three UN Sustainable Development Goals*

In line with this approach, we have identified three UN Sustainable Development Goals. They are:

- Goal 7 – Affordable and clean energy;
- Goal 8 – Decent work and economic growth;
- Goal 9 – Industry, innovation, infrastructure.

These goals will inform our strategy, enabling prioritisation and also our planning.

*Targets set*

During the year, initiatives to support and baseline these goals were undertaken, and in 2021 we will set stretching and also meaningful targets for each of them, including targets around net zero carbon and also compliance with TCFD. I think this will provide a clear line of sight to the key commitments around our people, the environment and our operations, ensuring that we stay absolutely true to our purpose.

*Spectris Foundation*

I am also delighted to be able to announce today that we will be establishing the Spectris Foundation. That is going to be a benevolent fund of £15 million that will be used for community and charitable projects such as STEM educational schemes.

## **A Balanced Approach To Managing Our Business**

*Three phases*

Now, as I have previously said, we are taking a balanced, socially responsible approach to managing our business, very much consistent with our culture and values. While, of course, we worked hard to deliver as strong a financial performance as possible last year, we really wanted to address the needs of all our stakeholders: safeguarding and supporting our people, working more closely and flexibly with customers and suppliers, while finding ways to aid the communities within which we operate.

To address the crisis, we therefore managed it in three phases:

- React;
- Respond;
- Reset.

We have previously described many of the actions we took in the first two phases, so I will just provide a brief summary here.

*React*

The Spectris team reacted superbly in the early days of the pandemic, protecting and supporting our people and working more closely and flexibly with our customers and suppliers.

*Respond*

In the respond phase, we took swift action to protect the company, whilst really retaining capabilities and focusing on protecting as many jobs as possible.

We prioritised short-term cost savings to support our financial performance and also tried to mitigate the impact on job, and that was through a range of temporary measures. As I have said, this resulted in overheads being 8% lower on a like-for-like basis, and Derek will cover this in more detail shortly.

To preserve cash, we withdrew the special dividend and also postponed the final dividend for 2019, whilst limiting spend on capex to key projects, but we did maintain our spend on R&D.

*Reset*

Subsequently, we moved into the reset phase, ensuring that the Group was as well positioned as possible to benefit from a resumption in growth in our target markets, as well as addressing any nearer-term opportunities as well as challenges.

Our restructuring programmes delivered £30 million of sustainable benefits last year, which was ahead of expectations. The temporary cost measures delivered an additional £20 million of savings, of which £10 million will be sustained in 2020 through a combination of things like footprint rationalisation, lower discretionary spend and the resizing of capacity.

The successful delivery of these cost savings and the strong cashflow generation, as we came through the year, meant that we were able to reinstate salaries in Q3 and return as many people as possible to full-time working at the same time. Then in December, we also paid back the salary that had been foregone. We also reinstated our dividend. We paid an interim dividend for 2020 and also an additional interim dividend in lieu of 2019 final dividend that had been postponed. And today, I am really pleased to announce we have increased the final dividend again and in line with our progressive dividend policy.

Throughout last year, our primary focus was on safeguarding the wellbeing of our employees, and we implemented a range of measures to keep people safe, connected and help their wellbeing, including their mental wellbeing, wherever they were working.

**Well Positioned For 2021 And Beyond**

So I think our achievements in 2020 have really positioned us well for a market recovery. Although much uncertainty remains in the short term, our stronger order intake in the last three months of 2020 does provide momentum for the first quarter of this year.

We have continued to invest in the business and retained capability. Our reduced cost base presents us with a strong operating leverage opportunity, and going forward we will also deploy the Spectris Business System to deliver further sustainable improvements to our business.

The divestments that we have made to date, and those that we are planning to do in 2021, further enhance our margin. We are improving the underlying quality of the Group and, as I have said, our balance sheet position gives us optionality to participate in M&A

With that, I would now like to hand over to Derek, who will run through the financials in more detail.

## Financial Highlights

Derek Harding

*Chief Financial Officer, Spectris*

### 2020 Scorecard

*Sales impacted by COVID-19, strong cashflow*

Good morning, everyone. My first slide is a repeat of the scorecard slide that we used last year. On the face of it, there are more crosses on this page than we would like, not unexpected given the impact of COVID-19, and I will dig into the detail over the coming slides, but first I will highlight the positives.

While our top line declined 11% after a trough in Q2, the rate of decline slowed, and we saw some very resilient performances across the Group with a stronger than expected finish to the year. Although sales were down notably, the cost actions taken limited the drop through to 38%, slightly ahead of our guidance of 40-50%.

I am pleased with our margin performance in the circumstances, a decline of 270 basis points, resulting in 2020's margin at 13%. We took a proactive approach to working capital management, resulting in a reduction in inventories and trade receivables. Average working capital of 14% was within our guidance range.

Reflecting the above and a prudent approach to capital expenditure, our adjusted cash flow improved by £10.3 million to £244.5 million, resulting in an adjusted cash flow conversion rate of 141%, up 50 percentage points on 2019.

So, against a challenging market backdrop, we delivered a highly resilient and sustainable financial performance in 2020, ahead of our revised expectations.

Let me now take you through the specific details.

### Resilient And Sustainable Financial Performance

Reported sales decreased by 18% to £1,336.2 million, 11% on a like-for-like basis. Adjusted operating profit decreased by 33% to £173.6 million, 26% down like-for-like. Despite an 18% sales reduction, our cost-saving programme resulted in an adjusted operating margin decline of 280 basis points to 13.0%. Adjusted profit before tax was £166.4 million, down 33%. Our tax rate came in at 21.8%, which is in line with the guidance given during the year, and adjusted earnings per share were 112.1p.

The full year dividend per share of 68.4p is a 5.0% increase over the prior year when you include the postponed final dividend, which we actually paid in October 2020, and demonstrates our continued commitment to paying a progressive dividend. Obviously due to the impact of COVID on 2020, our dividend cover of 1.6x is lower than our long-term

average, which is usually around 2.5x, but we are comfortable with this, given the exceptional nature of the past year.

Adjusted cash conversion was a pleasing 141%, compared with 91% last year. We were particularly pleased to see net cash increase by £72.6 million in the year, resulting in a year-end position of £106.1 million. During the year, there was a net cash inflow from proceeds of disposals of £20.6 million, and further income from Millbrook and BK Vibro of around £220 million is expected in the first quarter of 2021.

Our leverage is outside the target range of our long-term policy. Reflecting this, and in order to make the balance sheet more efficient, the Board has approved a share buyback programme of £200 million to take place during 2021. This will commence as soon as possible. The Group still has considerable financial flexibility and will continue to target acquisitions in support of its strategy.

Finally, on this slide, return on gross capital employed fell from 13.5% to 9.8%, mainly due to the COVID-related reduction in trading volumes in 2020.

### **Sales Impact Mitigated By Overheads Cost Control**

This slide provides a graphical view of the main P&L movements in the year. Sales are shown across the top with adjusted operating profit at the bottom. First of all, I have adjusted 2019 to remove the sales and operating profit relating to disposals, primarily BTG, to provide an organic baseline. Foreign exchange movements had a very limited impact in the year, reducing sales by £100,000, while improving operating profit by just under a £1 million.

The real story of the year is the £159.2 million like-for-like sales reduction resulting from the impact of COVID in 2020. This reduction created a £111.1 million reduction in our gross profit, which was then subsequently offset by £50.1 million of cost saves. Of the £50m cost save achieved in the year, £10 million is temporary and is expected to come back in 2021.

FY20 adjusted operating profit was £173.6 million or 13% of sales.

### **Strong Cashflow Generation**

This slide shows how we generated cash in the year and illustrates what we have then done with that cash. Starting by adding back the £60.7 million of depreciation, and amortisation charged to the adjusted operating profit, brings you to £234.3 million of EBITDA generated in the year. Partly driven by the reduced trading activity in 2020 and partly driven by an additional focus on working capital management, we released £53.1 million of working capital cash during the period.

Capital expenditure net of grants was £42.9 million, and this includes investment at Millbrook of £11.2 million. This gives us our adjusted cash from operating activities of £244.5 million, which we divide into the adjusted operating profit to get our cash conversion metric of 141%.

Interest and tax had a combined cash impact of £33.1 million, and the payment of dividends utilised £75.7m. We spent £15.1 million of cash in relation to restructuring and a net of £19.1 million relating to transactions.

Within the other items of £28.9 million, we had a lease payment of £21.6 million, which were offset by a £3 million loan repayment from the EMS JV, and then there is a balance sheet FX adjustment of £10 million to enable a reconciliation back to the final year-end cash difference.

### **Adjusted And Statutory Operating Loss/Profit**

This slide is included to help up you understand the moving parts between our adjusted operating profit measures and our statutory profit measures. I will take each one in turn.

The Group has incurred costs of £19.5 million relating to restructuring in 2020. These include £8.2 million related to impairments and disposal of property, plant and equipment, £7.8 million of staff-related costs, including redundancy, and £3.5 million of other costs. We incurred £19.4m of acquisition-related costs relating to the businesses that were sold during the year, but also some acquisition opportunities which we did not ultimately complete.

At the half year we discussed the goodwill impairment of Millbrook, and you can see the £58.4 million here. Next is £98.9 million of amortisation and impairment of acquisition-related intangibles. £67.5m of this relates to Millbrook impairment, and the remainder is normal ongoing amortisation of intangible assets.

These adjustments take us down to the statutory operating loss of £23.3 million. There are then some further adjustments which need to be considered to get to the loss before tax, which I will cover on the next slide.

### **Statutory Loss/Profit Before Tax**

The fair value through profit and loss movements on equity investments is a new line in our P&L, the background to which I will explain. During 2020 the Group made an approach to acquire a US publicly-listed company. To support the approach and demonstrate our intent, we acquired a minority holding in the company for a total consideration of \$19.8 million. At the end of the year, our holding was valued at \$52.3 million, resulting in a mark-to-market gain of \$32.5 million, or the £23.2 million that you see here. We maintained our capital discipline throughout the deal process and were ultimately unsuccessful in the transaction, which is likely to close in Q2 of 2021 and thus crystallise the gain reported here. It is proposed that £15 million of this gain is used to establish the Spectris Foundation, mentioned earlier by Andrew.

Next you can see £4.4 million profit on disposal, which predominantly relates to the sale of our range of Rheology product line, completed at the start of the year. Deduction of net finance costs then results in the statutory loss before tax of £4.1m

When we look again at this slide in H1, you will see the profit on sale of BK Vibro which will more than offset the cumulative impairments on Millbrook booked in 2020, but for accounting reasons these gains will be recognised in 2021.

### **Return On Gross Capital Employed**

This slide sets out the primary movements in our return on gross capital employed, which for the 12 months ended 31<sup>st</sup> December 2020, was 9.8% compared to 13.5% in the prior year. The main driver of the decrease is, of course, the significant reduction in operating profit in the year compared to the reduction in the capital base of the Group, compounded by the removal of BTG which had a higher return than the Group average. The combination of the removal of Millbrook plus the operating recovery from COVID is expected to have a positive impact on this measure in 2021.



## Disposals Pro Forma

There have been a number of moving parts over the past few years, and it is important to understand the significant improvements that are taking place within our core business. This slide is included to help you with your models,, as you think about the impact of the disposal of Millbrook and BK Vibro, and previously BTG. It provides a pro forma view of the Group, excluding these disposals from each of the last three years, and I think it highlights some interesting points in relation to the underlying business that we now have as we enter 2021.

I am not going to cover every number, but the first point that I will draw your attention to is the overheads line, which has reduced by £96.3 million since 2018. £46 million of this reduction is due to the removal of BTG, which was sold in 2019, but if you look on the pro forma basis you can see that £49 million of this reduction is from the underlying ongoing business.

This is encouraging and is a clear demonstration that our strategy of driving a more profitable business is working. It is particularly interesting to note that on a pro forma basis in 2020, we limited our profit drop though on reduced sales to 29.5% compared to the 38% that I mentioned earlier. When you strip out the impact of Millbrook, it is also encouraging to see the improved cash conversion in 2019 and 2018 on the pro forma basis, as well as the switch to statutory profit in 2020 without the impairments.

Cost saves and efficiency improvements have been achieved across all of the major cost categories, but particularly in headcount, which is down by 807 since 2018 on a pro forma basis. Much of this reduction has been achieved on a voluntary basis or through natural attrition. This means that despite the significant sales reduction experienced in 2020, sales per employee are equal to the rate achieved in 2018 at £160,000 per employee.

So, despite the challenges that COVID-19 presented this year, it is important that we do not lose sight of the journey that we are on, improving our underlying financial performance, which brings me to 2021

## 2021 Considerations

We anticipate a better financial scorecard across all of the trading metrics, underpinned by continued focus on our working capital and cash generation. As always there will be headwinds and tailwinds. This time last year, on a similar slide I had 'coronavirus – question mark', as a potential headwind. At that point none of us expected the year to turn out as it did.

I have included COVID-19 again this year. Although we believe that our customers are better prepared to deal with the implications in 2021, as are we, it should be recognised that the rate of recovery from COVID lockdowns is still unclear and we have limited visibility beyond Q1.

We will see the reversal of around £10 million of COVID-related temporary cost savings mentioned earlier, as well as a similar amount of cost inflation. Assuming that the pound continues to strengthen against the dollar, we will also see a negative translation effect. As a guide, we anticipate that every cent change has a £3.3 million impact on sales and a £0.5 million impact on profit. For example, if the pound/dollar stays at \$1.40, that would be roughly a £43 million headwind at the top line and a £6.5 million at the bottom line.

On the positive side, although visibility is limited we do anticipate a comparative year-on-year recovery in revenue, and we will continue to benefit from the £40 million of savings banked in 2020. Our organic growth will continue to benefit from continued product launches, and we will also begin to benefit now from the greater focus that can be brought to our core platform businesses, now that Millbrook and BK Vibro have been sold. Finally, we are continuing to deploy the Spectris Business System to reduce waste and further build on our self-help activities.

In terms of other guidance, capex will be around £50 million, and we expect our tax rate to be 22%. Working capital should be within our previous range of circa 14% of sales, and we do not anticipate any new restructuring programmes and therefore should have limited costs, mainly associated with completing the activities from 2020.

And with that, I will hand you back to Andrew.

## **Business Update**

Andrew Heath

*Chief Executive, Spectris*

### **Operational Performance And Strategic Growth Initiatives**

Thank you, Derek. I will now turn to the operational performance at our platform businesses and Industrial Solutions. I will also touch on a number of the strategic growth initiatives within the businesses. These continued to be implemented in 2020, and we will carry on investing in R&D, capex – ensuring that we continue to deliver the leading products and services that our customers require.

### **2020 Scorecard**

#### *Executing Our Strategy*

However, before I do, Derek shared our Financial Scorecard, and I would like to start by summarising the scorecard that we also use to measure our strategic achievements.

As I said in my opening, despite the challenges of 2020 we continued to execute on our strategy. Driving growth and operating leverage, as well as optimising the portfolio and focusing on those businesses with growth and margin potential, is as critical now as when we first set it. Our aim remains to return margins to at least previous highs. Overheads reduced by 8% last year, and we will see £40 million of those savings coming through in 2021.

We made further steps towards optimising the portfolio, and on capital allocation we reduced capex by 47%. We maintained spend on key projects, but we did materially reduce the spend at Millbrook. However, that was planned,

We ended the year in a strong net cash position, and we have increased the dividend. Having reviewed the balance sheet at the year-end, and very much in accordance with our capital allocation policy, we are proposing a share buyback programme.

Although we did participate in a number of M&A opportunities last year, we retained our financial discipline, so ultimately we did not transact any of these. To be clear, M&A does, however, remain a key strategic aim, and our balance sheet strength clearly puts us in a good position to pursue opportunities,

So, all in all, against this, it positions us well for the market recovery.

## **Malvern Panalytical**

### *Financial and strategic update*

Let us now turn to our business, and I will start with Malvern Panalytical. Here, sales declined 13% on a like-for-like basis with all regions down, although North America less so than Europe and Asia. As we have stated before, Malvern Panalytical was experiencing weakness in several of its end markets coming into 2020. They were subsequently further impacted by COVID, as all our other businesses, particularly in the early days with extensive university and research institute closures and some customers delaying installations, particularly where there were access issues or social distancing requirements needing to be met.

However, as a business they were able to deliver a much-improved performance in the second half. All regions saw very much improved performance with China posting 7% growth in the period, and there was a particularly strong recovery in pharmaceuticals.

However, with the adverse volume impact despite the lower overheads that were achieved, like-for-like adjusted operating profit did decrease 27% and operating margins declined 280 basis points.

Similarly, orders had an improved performance in the second half. Our order book is stronger now than in prior years, and with customers having adapted to COVID-19 restrictions, as we have, very much based on our greater experience of remote working, we have a positive outlook for 2021 for Malvern Panalytical.

### *Key trends underpinning future demand*

There are a number of key trends that underpin future demand:

- In pharma, we are seeing an increase in onshoring in the traditional small molecule area and a significant uplift across the industry, particularly in support of vaccine and viral vector manufacturing;
- In mining and building materials activities here we expect to be driven by general economic recovery;
- In advanced materials, emerging battery technologies, a greater environmental focus and a shift to digital solutions are all supporting growth.

### *New products*

We are also driving numerous organic growth initiatives. During 2020, Malvern Panalytical launched a number of new products to particularly enhance its customer offering around software, services and analytics. Very much in line with that, Malvern Panalytical launched Amplify Analytics and OmniTrust last year. They are two new, key product offerings, which in combination actually provide a powerful partnership of both instrumentation on one hand and analytics know-how on the other. This enables our pharmaceutical customers to accelerate successful drug development.

Malvern Panalytical also launched additions to their Zetasizer and XRD product ranges, both having improved attributes and functionality, and the business continues to expand its capabilities in data science, machine learning and AI, in particular to support our movement into providing customers with greater solutions.

**HBK***Financial and strategic update*

In HBK, we saw a very resilient performance in 2020 with a strong first half, and for the full year like-for-like sales were only down 9%. North America saw flat like-for-like sales, while Europe and Asia both declined materially.

Sales to the automotive, aerospace and defence markets were down notably, and in contrast we did actually see a very buoyant machine manufacturing sector come back, particularly in the second half. Just looking forward at automotive, the technological advances in hybrids, electric vehicles, connected and autonomous vehicles, that market continues to remain a bright spot as we see OEMs maintain spend on R&D budgets in those areas. In aerospace, investment in new carbon-neutral propulsion concepts using hybrid or full electric concepts, hydrogen or synthetic fuels, are all expected to support future demand. Just to be clear, I think HBK is more exposed to defence and the satellite/space markets where there has been less of an impact on spending, and we have seen growth in North America within the software and services area here.

Unquestionably, the merger and restructuring activities at HBK are working, and along with other measures taken in 2020, have better positioned the business to be much stronger. The management team are doing a great job in driving the improvements and the performance of the business. Adjusted operating profit was only 20% lower on a like-for-like basis, with adjusted operating margin decreasing just 170 basis points.

The merger activities, to be clear, are continuing at HBK. We have a number of programmes to enhance the sales and also the marketing efforts, in order to drive further growth and better serve our customers.

*New products*

On the product side, simulator and simulation tools have been key areas of focus. Here, new products include:

- WorldSim, a rich and immersive simulation software environment for testing ADAS and autonomous driving scenarios;
- VI-grade also launched their new DiM@400 platform, a new line of high performance and highly scalable, cable-driven driver-in-motion simulators – I encourage you to go and look at the VI-grade website, where you can see to simulator in action;
- During the year, we acquired IMTEC Engineering, a provider of vehicle driving simulators and machine automation systems, which will help bolster and strengthen our VI-grade activity.

Additionally, in support of the trend towards electrification, HBK continues to expand its eDrive solution to provide a more complete e-powertrain testing and optimisation offering, as well as expanding into eGrid – engineering and distribution systems and the whole testing regime associated with that. HBK also increased their leadership in force measurement technology, introducing a new range of sensors. They also expanded their software offering, launching B&K Tescia for acoustic testing and monitoring of rotating machinery.

## Omega

### *Financial and strategic update*

At Omega, sales decreased 13%, mainly driven by COVID-19 business disruption, both in North America and Europe. However, we did achieve growth in Asia, driven by a very strong performance in South Korea, due to high electronics and semiconductor demand, as well as market share gains.

Growth is expected to be modest in the first half of 2021, but we do expect recovery gaining pace in the second half. In Asia, however, demand looks more positive than some of the other end markets, helped by the outlook in semiconductors.

Like-for-like adjusted operating profit declined 49%. Like-for-like operating margins fell 500 basis points, primarily resulting from the lower like-for-like sales, but also headwinds in overheads caused by the higher licence and depreciation costs associated with the new digital platform that was launched in 2019. Those increased costs could only be partially offset by other cost reductions last year.

### *New appointment*

Now, to be clear, Omega's performance remains unsatisfactory, and achieving greater scale through organic sales growth is a key requirement for a recovery. Amit Agarwal joined us in Q4 as the new President to lead the required turnaround and brings with him a great experience set in order to help us do that.

### *Four initiatives*

The business has four focused initiatives have been enacted to drive above market growth and in turn recover that lost margin. They are:

- enhancing the digital experience;
- expanding the sales channel;
- accelerating product development;
- improving operational performance.

Progress was made on all fronts last year, but clearly we need to see the pace accelerating, and in particular the business starting to not just grow with the market, but take share as the markets return.

## Industrial Solutions

### *Financial and strategic update*

Turning now to Industrial Solutions, like-for-like sales declined only 9%, and there was a 19% negative impact from the disposal of BTG on a strategy basis. Servomex and PMS were particularly resilient, with only a 6% and 4% sales decline, respectively.

Like-for-like sales fell in all regions, more so in Asia, which reflected a tough comparator in semiconductors. However, looking at the end markets, there was strong growth in pharmaceuticals, and we also saw sales to electronics customers recover. Energy and utilities sales did decline, and that really reflected the weaker backdrop on petrochemicals and industrial processing more generally.

Again, due to the sales decline, like-for-like adjusted operating profit decreased 25%, and like-for-like adjusted operating margins decreased 290 basis points.

However, good progress was made in executing the strategy last year, improving the performance of the underlying businesses, as well as executing on the divestment strategy. Overheads were lower from the successful implementation of the profit improvement programme in 2019, and this was helped by other temporary cost measures taken last year. Additionally, with the disposal of Millbrook and BK Vibro, we will see margins recover quickly in 2021.

In semiconductors, the rising demand for chips is expected to drive an increase in global fabricated equipment spending this year. We also expect to see the sales pipeline strengthen across electronics, supported by LED demand in consumer products, cloud computing, 5G infrastructure rollout, as well as increasing semiconductor demand. Demand for our products in pharma and life sciences continues to increase, due to the large investment in vaccine manufacturing and the trend around near-shoring of production. Increasingly, demanding levels of cleanroom monitoring and manufacturing requirements will also drive up the demand for instruments, as well as our sensors, which will help maintain the product quality, improve yield and reduce the risk of expensive product recalls for our customers.

In other industrial markets, the drive to reduce emissions and meet environmental standards remains, and this will only increase the demand for Servomex's solutions in the areas of process control, safety and quality.

Also, Red Lion have launched its new FlexEdge Intelligent Edge Automation Platform that will help customers address their needs in simplifying the connectivity of their factories with data, as our customers increasingly become more automated and are digitising their facilities to improve productivity.

#### *New appointment*

This month, Mary Beth Siddons joined as the President for Industrial Solutions. She replaces Andy Cowan, who has returned to his role as Finance Director, after doing a great job in his interim capacity. Mary Beth was most recently Sector President at Marmon Group, a Berkshire Hathaway Company, responsible for the strategic direction of 15 global businesses. She has previously also worked at ITW and Snap-on. Mary Beth brings extensive experience in leading and successfully developing global industrial businesses, so she will be a strong addition to the team as we continue the disposal programme, but also increasingly shift our attention onto building platform businesses from within Industrial Solutions.

#### **Cleaner**

##### *HBK case study*

I would just like to end my presentation by bringing you back to our purpose and sharing with you a few examples of how our strategy is delivering value beyond measure, how it equips our customers to make the world cleaner, healthier and more productive.

In line with that, let me start by 'Cleaner'. The electrification of transportation is a critical component in decreasing the use of fossil fuels and also reducing carbon emissions and damaging particulates. The automotive industry is investing heavily in new hybrid and all-electric vehicles, as I have said previously. We are helping our customers in developing

many of the new technologies required, be it in developing battery materials, testing batteries or powertrain testing, all the way through even to meeting the new drive-by noise standards.

One such customer is Loccioni, who produce everything from end of line and laboratory test benches to measurement instruments, as well as offering outsourced testing services for hybrid and electric powertrains. Due to the industry's frequently changing testing requirements, Loccioni needed a measurement solution with a high degree of expandability and flexibility. Here, HBK's eDrive system really helped them as it is easily integrated with their existing equipment, and its expandability and flexibility means it can be readily upgraded in response to future measuring requirements by the customer. As such, we provide a future-proof test and measurement system, very much helping in the development of ever more efficient and durable powertrains that in turn helps support the drive to cleaner transportation.

## **Healthier**

### *Industrial Solutions division case study*

We will look back on 2020, in so many ways, as a terrible time. However, we saw the generosity of people, their compassion, their desire to serve, come together with the ingenuity of science to help address the needs of society. I wanted to highlight the team at Servomex, who did a phenomenal job in ramping up the production of its oxygen sensors to meet the rapid increase in the need for ventilators. Servomex' Hummingbird Sensing Technologies produce high performance, paramagnetic oxygen sensors that are used in critical care ventilators to monitor the amount of oxygen administered to a patient.

As we all know, there was a global shortage of ventilators as the pandemic struck, so to address the rapid increase in demand, GE Healthcare partnered with Servomex to rapidly ramp up the supply of the sensors. This included not just a large expansion of a clean room operation, where our sensors are produced, but also launching a new variant of the Paracube that is much faster to manufacture, and at much greater volumes. The team rose to the challenge. They managed to condense 18 months of development time into under three months, very much directly helping in the fight against COVID-19.

## **More Productive**

### *Malvern Panalytical case study*

Then lastly in mining, we are seeing mining companies needing to ensure ever more safe and efficient running of their operations. Improving yield reduces both the cost of mineral extraction, but also energy consumption.

Last year, Malvern Panalytical was selected by SCOTT Technology Limited to supply a fully automated robotic material analytical system at Rio Tinto's Koodaideri iron ore project in Australia. It involves the provision of complementary technologies from the two companies, including Malvern Panalytical's X-ray spectrometry equipment that is used for both sample preparation all the way through to complete analysis. The frequent monitoring of the mineralogical and elemental composition during ore processing will help Rio really improve efficiency by enabling constant and optimal minimal processing conditions. This project is a major step forwards in the combined offering of automated solutions from Malvern Panalytical and SCOTT, and it will enable this facility to be one of the safest, highest quality and most

productive iron ore laboratories globally. What is additionally good news for us is that this solution can be deployed in mining locations around the world.

## Summary and Outlook

### *Swift reaction*

In summary, I am extremely pleased with how we have reacted and also responded to the challenges presented last year, not just in terms of how we have performed against that backdrop, but also in terms of how we went about it. We consciously took a balanced approach to managing our business. As a consequence, we have seen strong support from our people, customers, suppliers and also our shareholders.

Although sales were down notably, due to the consequence of COVID, by reacting swiftly as a business and continuing to execute our profit improvement programme last year, we limited the profit drop through impact. I think our margin demonstrates the resilient performance of our businesses in the circumstances. Our cash generation was extremely strong and the balance sheet was further strengthened, allowing us to return people to full pay, repay the salary sacrifice and today increase the final dividend and announce a £200 million share buyback programme.

### *Recovery*

Our achievements in 2020 have absolutely positioned us well for a market recovery. While the outlook is still uncertain in the short term, the stronger order intake in the last quarter of 2020 does provide momentum for the first quarter of this year.

And we have entered 2021 very much in an enhanced position:

- We have continued to invest in the business and retained capability;
- The cost base has been reduced, increasing the operating leverage opportunity and divestments will only further enhance margins;
- We will continue to deploy the Spectris Business System to drive continuous improvement;
- Our balance sheet position gives us optionality to participate in M&A.

So, we will maintain this approach, acting with purpose, being values-led to deliver long-term, sustainable financial health. Thank you very much.

## Q&A

**Michael Tyndall (HSBC):** Good morning, gentlemen. It is Mike Tyndall from HSBC. Just a couple from me. I guess the first one, if we can talk about the relationship between costs and growth. If we talk about profitable growth it feels, at least to me from the cost front, we have done pretty much all the major work and now it is a case of driving growth. I am wondering how difficult it is to drive growth in the current environment, whether or not you are seeing a customer reticence to spend, given the uncertainty. What actions can you take to try and get that growth coming through from a top line perspective?

Then the second question, slightly unfairly, but I guess the subliminal message in the share buyback is that your ability to buy companies, to actually make acquisitions, is challenged given where valuations are. I wonder if you can talk a bit about the pipeline, how that has



been developing? Is valuation the main sticking point at the moment? Without giving any specifics, what sort of activity can we think about for the coming year? Thanks.

**Andrew Heath:** Mike, great to hear from you and thanks for your questions. Let me just take the first one around cost and growth. You pointer in terms of are we done around the major work around costs, and I think the simple answer to that is yes. We have some restructuring costs that will be incurred this year, but all the heavy lifting has been done and that is just a finishing up of that activity. The profit improvement programme that we launched at the backend of 2018 has been very successful. That gave us good momentum and a tailwind coming into 2020, which was very fortunate. We started it then, and then the further actions we took last year on reducing discretionary costs and bringing the costs down overall has certainly now put us in a strong position with the right cost base sized for the recovery. So, going forward, our focus is very much about deploying the Spectris Business System to drive sustainable continuous cost improvements and efficiency in the business.

Then your point around how to drive growth, through last year we continued to invest in R&D. The absolute spend was down slightly on the year compared to 2019, sales was up. As we said all the way through last year, we have protected our R&D spend and investment and those strategic growth initiatives that we had launched off the back of all the strategy review in the first half of 2019. I think I talked in the presentation just around some of the initiatives that we launched last year. A lot of new products were launched into the market last year with good response, and we have a further pipeline of new products – software services – coming through from all of the businesses again this year. We are very much focused on driving organic top line growth through sustaining that R&D investment.

Moving then on to your question around M&A, I think without a doubt we have seen the M&A market take a very short, temporary pause in Q2 of last year. It then came back pretty much June/July time, and the ferocity of the activity has just continued to rise. Everyone I talk to is saying that the level of activity out there is as high as it has almost ever been with a lot of money raised, and clearly a lot of money out there to be spent on M&A, which is driving up valuations, as you said. That is creating a more challenging environment. You will have seen from what Derek said and the gain we had on some shares we acquired as part of a target we looked to acquire last year that we are active, and that is not the only process we were active in. However, we are determined to find good, accretive acquisitions where, given current valuations, that they are also highly synergistic both in terms of cost and revenue ideally and very much aligned to our strategy about scaling our platform or potential platform businesses. So, that is where we are focused. Clearly we need those synergies to justify valuations at the moment.

You asked about the health of the pipeline. We have continued to build that. There are a number of good quality opportunities that we are considering, but through all this we will maintain our discipline. It is important that as and when we do an acquisition that we can deliver appropriate levels of return off that investment.

**Michael Tyndall:** Perfect, thank you.

**Andrew Heath:** Thanks for your question, Mike.

**Jonathan Hurn (Barclays):** Good morning, guys. A few questions from me, firstly can I just come back on the M&A side of things. Obviously, you talked about deals not happening

this morning. I wonder if you would give us a little bit more colour about those in terms of size and where those areas of a potential acquisition were. Thanks.

**Andrew Heath:** Jonathan, again, good to hear from you. Trust you are well. In terms of providing colour on deals, we will not be drawn on the specifics of any deal. I think that is neither appropriate, and frequently we are tied up by confidentiality agreements as well. However, certainly let me talk around the one that is clearly a little bit more public, given that we have the gain on these shares. It was a US business that very much fitted with one of our platform businesses. It would have required a Class 1 approval from shareholders. We would have been looking to raise equity. I think from that you can gain that we have appetite to do significant deals. I talked about this back in October around our Q3 results that if for the right acquisition, if it is a business that is even bigger than one of our platforms then it really helps to transform the scale of one of platform businesses, then it makes sense. Then we would actively look at such a deal, and that is what we were involved with last year. It would have really helped us to scale up one of the businesses. It would have been highly synergistic, but ultimately I think you can see from the gain on the shares from when we identified the opportunity to when it was finally transacted, it would be a multiple that was achieved on that share gain. Where the price ultimately ended up, the business was acquired in the end by a large US corporate who had much deeper pockets than us, and as such we retained our discipline. You end up with a consolation prize on the gain on the shares, which at least more than covered the transaction-related costs. So, we are active, it is part of our strategy, and we continue to search for good, accretive, synergistic acquisitions that fit with our strategy.

**Jonathan Hurn:** That is very helpful, thank you. The second question was on the order intake. Obviously, you say that in terms of Q4, would you say you were up slightly year on year? As we look to Q1 2021, do you expect orders to go back to the level they were in Q1 2019?

**Andrew Heath:** Q4 was clearly was a very strong quarter, certainly on the sales side all the businesses made progress. Malvern Panalytical went from a 4% decline in Q3 to a 9% decline in Q4, but actually in terms of absolute sales delivered: greater absolute sales in Q4 over Q3. They had a very strong confidence from Q4 2019, but their sales continued to increase. In reality, the order intake in Malvern Panalytical continued to come in really strongly, and we did not actually have the capacity to translate all the [BREAK IN AUDIO]. All the businesses saw an increase in order intake – HBK, Omega and the IFC businesses as well in Q4, and that is generally being sustained in Q1 where we are certainly seeing customers. There is quite a lot of pent up demand out there. The issue is the ability to, with social distancing requirements, access customers; ability of our staff to be able to travel where we need to go and install commission equipment and recognise revenue. That has caused some immediate term disruption and has done really since the beginning of the year again, more so than it was in Q4. So, to put in our outlook sales in Q1, it is hard to absolutely predict where we are going to end up, but the underlying good news is that the order intake remains very strong.

**Jonathan Hurn:** Thank you. Then just a final and a quick one for Derek in terms of that drop through as we go into 2021, obviously, like you say, chipping out the business bit that on the negative side it came in obviously better than the headline numbers. However,

obviously flipping to the growth side, how do we think of the drop through as we go into 2021, please?

**Derek Harding:** Yes, good morning, Jonathan. I think we are of the view that the drop through is definitely a useful measure on the way down, so it was helpful to provide thoughts as we go through 2020 when it was a little uncertain. In terms of flipping it and getting caught on drop through metrics as guidance is not really something we are looking to do. I think the way to think about it, Jonathan, is look at the guidance we have given on the overheads. As I have said in my piece, we see £10 million of the cost saves coming back in 2021. We also anticipate round about £10 million of cost inflation. Then I think you can get a sense of the overhead base, and then from there apply your revenue and margin assumptions and get a sense of the drop through. However, it is not something we are going to guide on this year.

**Jonathan Hurn:** Just following on that, in terms of the inflation side, obviously raw material prices are increasing. Do you normally have positive pricing? Do you think you will be able to recover any inflation coming through in terms of the input costs in 2021?

**Derek Harding:** Yes, we will. That £10 million is in that number, so we are obviously deploying the Spectris Business System, which continues to improve efficiency across the business. As you say, we do have some pricing power, so we will look to cover certainly materials. It is really just a function of a pick-up in activity plus price inflation coming through in salaries primarily as you head into 2021.

**Jonathan Hurn:** Thank you.

**William Turner (Goldman Sachs):** Morning, everyone. Thanks for taking my questions. I have a handful of them: two quite specific ones, and one more broad question. I am going to start with the two specific ones and then go on to the broader one. The first one is you mentioned about restructuring costs into 2021. Could you give an outside view of the magnitude of potential better restructuring costs next year? Also, where is it going to be targeting?

Secondly, on the specific question, you obviously have £19 million worth of transaction related costs, which were exceptionalised. Could you break down the amount of that which was related to the deal which did not go through, or the acquisitions that did not complete, and relating to the ones that did complete because £19 million over the value of the disposals equates to about 7%, which is quite a lot, so that would be quite interesting to know?

**Derek Harding:** Sure, let me take both of those two specific ones. In terms of restructuring, we are finishing off activities and work that we have been doing in 2020. There are no new programmes or schemes; it is just a completion of those projects, given that they are in train and we accounted for the beginning of them as restructuring. For consistency, we will account for the end of them as restructuring. I think less than £10 million is a good number, and it could be lot less. It just depends on how, when you look at, say, headcount reductions, whether we have specific redundancies to complete, or whether there is voluntary on those projects to complete. That is where negotiating our way out of leases, sometimes we can get slightly better deals than we had assumed previously, so the number will become clearer as the year goes on but it will not be more than \$10 million.

In terms of the transaction costs, just under £12 million of those costs relate to the large US transaction. As Andrew has indicated, if that had gone ahead, it would have required an equity raise. Obviously, it was a complicated transaction, so there was quite a lot of work focus that we undertook there. Equally, as we said, we were able to offset by the £23 million that we placed on the shares as a decent hedge, and then the majority of the remaining costs, to be fair there is then probably another £2 million on potential acquisitions. The remainder is on the disposals.

**William Turner:** Thanks, Derek, that was very clear. Then my broader question links back to the first one that was asked, and that is on the organic sales growth outlook for 2021. Now, obviously, if we look back on 2020, that was encouraging to see – the sequential improvements and also the comments you made about the order intake book and the sales growth. However, going into 2021, can you be a bit more specific on some of the initiatives you are taking for organic sales growth? Obviously, you are going to be comping some easy comparable periods, so historically when Spectris has been able to grow organically, it has also coincided with quite a lot of SG&A costs going back into the business. I was wondering are there any more specifics on what you are doing to develop new products, if you have any Vitality stats, or is there any geographical expansion that we should be aware of? That would be really interesting.

**Andrew Heath:** It must be too long a list to go through everything, so I will just pick out some of the specifics by some of the businesses. Starting with your point on Vitality, we do track Vitality. Our Vitality in fact continues to improve over the last couple of years. I think when I came in, I said I was surprised at how much of an engineering effort was spent on maintaining and supporting all the equipment, but part of the portfolio moves within each of the businesses in terms of looking at product lines, either in terms of retiring them, 'end of life-ing' them, or selling them off. We have been tidying that piece up, as well as facing some of the legacy issues, and we continue to invest more and more of that R&D spend in terms of new products and services and software offerings. If you take Malvern Panalytical, I talked about OmniTrust, Amplify Analytics, but here they are very much developing a digital platform and service offering for customers around connecting the analytical instruments provide through a common portal. That is for both health monitoring, asset utilisation and progressively, more and more, around the mature analysis and then coupling that with a data analysis, artificial intelligence and do prognostics and diagnostics and really help to predict the outcome of some of the experiments and measurements that customers are tracking. The OmniTrust software, we are going to continue to expand that. That gets into good manufacturing practice auditing in the likes of pharma, life sciences, as well as method development auditing. We have further developments to our Vitasizer[?] platforms, on the X-ray side we are doing benchtop solutions on both the XRD and XRF, so collectively a broad range of analytic software, as well as hardware developments. HPK, we continue to invest around stimulation and software offerings, particularly within VI grade, expanding the simulation offering. This year, we are combining the noise vibration harshness simulation software from the BK SNB business with Vibro to really grow and expand the whole simulation around noise vibration harshness. We are launching an even larger driver in motion cable-driven simulator, the DiM500 this year within VI-grade, within the software offering, again expanding the software offering particularly around design tools, again expanding some of the noise vibration harshness as well as the stress modelling. Then we have some range of

sensors coming out in force and talk, both optical sensors and also in terms of increasingly put smart capability within the sensors.

Within Omega, we are shifting the product development really around bigger ticket items that would deliver larger incremental sales growth from a smaller range of new products, so really targeting high growth markets. One particular there is a clamp-on temperature measurement capability, so instead of having the temperature sensors having to be inserted into the flow. The design we have come up with, which is quite novel, is a clamp-on capability, so there is no invasive cutting into pipes or anything to be able to measure the temperature. That is getting good reviews from customers, so we are very helpful of that expanding this year. Within ISD, we have new ranges of particle dispensers coming out of PMS. Servomex continues to modularise and rationalise its product portfolio around a much more modular approach, similar to what we have been doing at Red Lion with their FlexEdge and Ethernet products. So, across all the businesses, we have specific initiatives that we are driving, as well as looking at the effectiveness of our R&D activity and that Vitality Index that I spoke about.

**William Turner:** Great, thanks. That was very clear.

**Andrew Douglas (Jefferies):** Good morning, everyone. I have three quick questions. I appreciate that Omega is not where you want it to be. You have a new MD, and you are pushing hard on driving the top line growth there. I was wondering do you still believe that is a 20% margin business, or has anything changed over the last year/18 months, maybe a little bit longer, that would change that view? Clearly, it is at 7%, so it has a long way to go.

Derek, you have given us 14% of working capital to sales guidance this year. What do you believe is the true[?] to cycle number for Spectris? Is there more that you can be doing on working capital?

Maybe a slightly unfair question, but I will ask it anyway: with regards to Industrial Solutions, clearly a lot of change there over the last 12 approaching months. Have you made any progress with regards to making any of those businesses platform business going forward, or is the strategy to have that business managed, just continuing as was? Thank you.

**Andrew Heath:** Thanks, Andy, but if you can answer any of your questions for us, that would be great.

**Andrew Douglas:** Yes, I will answer whatever you want.

**Andrew Heath:** I will deal with Omega and ISD, and I will ask Derek to talk about working capital. As I said earlier, we are very disappointed with the performance at Omega. We have not delivered on the platform pieces that we developed as part of the strategic review. Their performance is unsatisfactory. We now have a change of president. Amit brings with him a lot of good industry experience and specific experience from his time at Thermo Fisher with plenty of development he had there. While he was at Thermo, he ran Cole-Parmer, which is a very similar business to Omega based around laboratory supplies, so direct experience of a very similar business.

Your question about margin performance, Amit's assessment is we can get it back to previous margins, but we need to be more focused in terms of the execution of the strategy and the fall. He points out – you mentioned earlier – around better customer experience, improving

our channel strategy, clearer focus on the products, as well as driving the operational forms of the business. He has clear plans to do that, but it will take obviously some time to respond to treatment. Particularly for Omega, the answer is all about scale. We need to be able to scale up the Omega business and driving the organic growth, so that the market returns not just in terms of aligning with the market but ahead of market is the objective. That is very much the plan.

And ISD, clearly we have been busy in terms of executing the strategy with the portfolio changes. We will continue to do that this year, and we pretty much hope and expect to have concluded that sort of portfolio rationalisation within ISD this year, obviously subject to being able to complete on those deals. However, going forward from there, the remaining businesses are businesses where we do see they have platform potential. Going back to my earlier comment around M&A pipeline, we have been developing the pipeline around those businesses for ISD for some time. We have clear targets as both bolt-on products and technologies, but also potentially larger deals that can help scale them up into the platform businesses. That is very much the plan and delighted to have Mary Beth on board to help lead the charge now.

**Derek Harding:** And on the working capital, Andy, I have said throughout my time at Spectris, 11% to 15% is the right range. Now, I appreciate that is a wide range, and if you go back 12-18 months, the reason for that was to help support better customer service, on time delivery, etc., so I was carry a bit more working capital. We could do better, but I was happy to carry more. When you actually look at how the Group has performed through 2020, revenue has come off 11% like-for-like, and we have managed to take the working capital down in proportion to leave at 40% sales. The guys have worked hard this year and done a good job in improving the underlying working capital so that we can actually bring it down.

I think we will hold on to that benefit as we then head out of 2020 into 2021. We need to make sure that we are poised and ready if a recovery is faster than we expect. We need to make sure that we have inventory available, stock available. There are stocking challenges around the world, as we all understand with COVID lockdown, so we are carrying a little bit more inventory for that, we carried a bit more inventory going into Brexit. I think when you look at the balance sheet overall, the working capital tied up in the Group, relative to the size of the Group, is not a lot. We are not like a distribution business, for example, where the working capital metric is absolutely critical to the group's survival. You can see it in our conversion that I think it is reasonably well under control.

It is a long-winded way of saying I am sticking to the 11% to 15% range. We are near the top end of that range this year. I expect we will stay at the top end during 2021. Then I expect we will drift back down again beyond that, but when you actually go below the simple metric, there is an increasing focus on inventory days, death[?] days, creditor days. People are managing those. It is also one of the key incentive targets for all of the leadership in terms of managing their working capital. I think in that range is fine, and I am confident that our cash conversion will remain high as a result.

**Andrew Douglas:** Lovely, thank you.

**Mark Davies Jones (Stifel):** Good morning, both. Two from me, please. Firstly, could you talk a little bit more about some of the moving parts and some of the end market mix,

because you have been understandably cautious on calling the volume picture here from here. However, it seems to me that something like Malvern Panalytical, we are seeing big cyclical recovery in mining and construction markets, obviously very strong momentum in bio/biopharma. Is there a potential in those areas that we will actually see a much bigger recovery in activity and sales this year? You were saying in Q4 there was capacity issues dealing with that. If we do see such ramp-up, can you meet that demand? Are those temporary issues due to the tail end of the pandemic, or is there something more structural in terms of your capacity and ability to ramp up in Malvern? That was the first.

The second one is slightly mixed messages on Industrial Solutions: obviously a new CEO who has experience building platforms, but on the side you are clearly indicating more disposals. Can you give us any kind of sense? A lot has already gone from portfolio. What kind of proportion of the remaining Industrial Solutions business might be a potential exit candidate? How much of it might be ongoing? Any indication would be helpful there.

**Andrew Heath:** Mark, thanks for your questions, nice to hear from you.

**Mark Davies Jones:** Thank you.

**Andrew Heath:** I think just in terms of end market mix and Malvern Panalytical, what you have said is absolutely what we are seeing. Pharma, life sciences has recovered strongly. We actually saw year-over-year growth in pharma collectively as a Group, and Malvern Panalytical drove that trend in the second half of the year extremely well. Mining, we absolutely anticipate that the activity levels will come back with overall GDP and the overall economy. Certainly in Asia, it has been stronger than other parts of the world, so as the Asian economy has picked up and held up better. We have seen mining likewise hold up better out there within Malvern Panalytical, and a lot of the sort of buying chemicals, material characterisation work they do in things like semiconductors, battery technologies or additive layer manufacturing, again we see good long-term and pent up demand there. Certainly for Malvern Panalytical, as I said, we have a very positive outlook for the business this year.

On the capacity issue point, I should clarify that. It was very much short term. As we planned the capacity back in July/August timeframe and then tried to anticipate order intake for the backend of last year, the orders just came in much stronger than we anticipated. So, we have not placed as much material orders, and we had some constraints in some of our facilities. However, that was very much a short-term, one-off effect. The business has adjusted, and we continue to keep a very agile approach and watch on the markets to make sure that we can respond as the markets come back so that we do not miss out. You should not read anything into that. That was a one-off impact, but I mention it as much as anything to say that the demand is clearly there and has come back stronger than we anticipated and continues to maintain. It is all good news.

On ISD, again we have been consistent all the way through that we are not going to disclose the businesses we are looking to sell. I think I have been clear that we were looking to sell four to five of the businesses. We have clearly concluded on three of them. That intent still remains in place, and the remaining businesses at the end of this year will be those that we see having long-term prospects within the Group. I think you can see just in terms of the growth rate that ISD achieves, and then with the pro forma analysis that Derek did, the

quality of some of those businesses in ISD is very strong, and we would like to scale them up as we have talked about previously.

**Mark Davies Jones:** Thank you.

**Andrew Wilson (JP Morgan Cazenove):** Good morning, everyone. Two relatively quick ones from my side. Thinking about the portfolio in terms of how it performed in 2020 – interested as to how it either confirms what you are thinking in terms of the bolt-on M&A that is required for the platform, or whether it has shifted your focus a little bit in terms of seeing how those businesses either managed the downturn or provided opportunities going through the downturn.

**Andrew Heath:** Thanks for the question, Andy. I think overall, and certainly Malvern Analytical, HBK and a number of the ISD businesses, particularly Servomex and PMS, their performance was pretty resilient in the circumstances. I think you will see that come through in the numbers that we have disclosed today.

In terms of our M&A strategy, it still remains the same. We still very much want to target M&A around bulking up and scaling up our potential platform businesses, as I have said. I think the earlier question that we had from Mike around is it a more challenging environment – yes, it is, but that puts more focus on making sure that we find the right acquisitions where we can drive the right synergies and returns out of those acquisitions. Now, it may be a little bit more expensive, but as long as we are convinced and compelled that it is the right thing to do and we can get those returns on the capital we invest there, then we are still motivated to do that. Does that answer your question?

**Andrew Wilson:** Yes, absolutely. I was more interested if there were any big changes, but it does not sound as if that has been the reality in terms of how you assess the requirements.

**Andrew Heath:** No, I think our assessment on our potential platform businesses around their end markets prospects, aligning with our purpose and the underpins of those markets remains the same.

**Andrew Wilson:** The second one is slightly different and it is to clarify some of the comments that you have made. It sounds that orders you mentioned have basically continued from Q4 into obviously the early part of the Q1 and still, similarly. I wanted to clarify that there has not been any meaningful divergence or change in terms of the underlying themes, because I appreciate you are not going to put a number on January sales for us. However, recognising there is a seasonality in the business Q4 going into Q1, but into a look at trajectory – trying to get a sense of that there is nothing we should be thinking about in terms of particular areas growing or further accelerating.

**Andrew Heath:** No, I don't think there are any areas that we see there is a slowing. As you have just said, the orders continue to flow in well. Orders for the year, we were only down 7% last year versus 10.7% on the top line, and that overall trend continues. Pharma, life sciences, machine building has been particularly strong. We see semicon, electronics coming back. Some of our businesses are earlier cycle-exposed – to electronics and semicon – so we are seeing that coming through. Orders are building in some of those later cycle-exposed businesses. In that arena, our aerospace activities are predominantly defence and space-related, and that has held up a lot better. We have relatively little exposure to civil



aerospace. Auto, again, was a later cycle, but has flattened out. As I said, a lot our OEM customers continue to invest heavily in terms of electrification of their product range, which is helping demand. Machine building has been really strong all the way through last year. Then, if we look at GDP forecasts, 3.7% to 4.7%. There is then global growth – Goldman Sachs is one of the bankers – is up in the 6% range. Industrial production and forecast is it will be up 6-7% globally this year. All the trends point to, as the vaccination programme rolls out and is successful – we all hope and pray – and as lockdowns are eased, the pent up demand will flow through well for us in the second half. The Q4 order intake, coming in January I would say we had the potential to get barely close to getting back to Q1 levels from 2020. Now, with the lockdown restrictions particularly in Europe, and disruptions in North America and elsewhere, I think that is less likely, but it does underpin the fact that the fundamental demand is flowing through.

**Andrew Wilson:** Perfect, thanks Andrew. I appreciate the detail.

**Xing Lu (UBS):** Morning, thank you for taking my questions. I have two, please. Firstly on HBK, could you quantify your current exposure to EVs versus traditional ICEs, and how you see that developing in the next three to five years? I want to get a sense of the opportunities given that obviously R&D into new tech is increasing, but traditional ICEs, that they are on a decline. So, the mix and impacting your business, that would be interesting.

Secondly, on Omega, I am noting your modest recovery comment in the first half of 2021 because obviously given the US IP is actually recovering quite strongly, particularly in Q2. I am interested in how you are tracking US IP and if you have actually seen any internal issues that could slow your recovery relative to the market there. Thank you.

**Andrew Heath:** Xing, good to hear from you as well. Just quickly on HBK because I am conscious of the time, I will try and be concise. Generally speaking, we are not hugely exposed in terms of HBK's offering in terms of internal combustion engines. We do not do – centred the engines, the combustion process itself and measuring that. We are much more focused on a lot of the torque, dynamics, noise, vibration, harshness testing arrangements, and all of those hold true for electric vehicles. If anything, torque is even more important for electric motors in terms of the performance but also in terms of battery life, which is becoming ever increasingly more important for the auto OEMs. We are doing noise assessments on drive-by noise, we have an offering for outdoor noises measuring. That is actually is quite difficult to achieve on a reliable basis, so we are developing also solutions for indoor noise measurements to pass the certification tests. Equally, the dynamics of the vehicle change quite considerably between having a large internal combustion engine sitting over the front axle versus four electric motors at each wheel hub and batteries lines along the chassis. That changes the whole dynamic, so that the simulation testing, the dynamic modelling and the measuring of that are also opportunities for us. We just see the development of electrification, electric vehicles, hybrids as a real positive.

On Omega, generally Omega absolutely tracks the North American IP, which is why we set a modest H1. The forecast we are looking does see a pick-up coming in more in Q2, but more strongly in the second half of the year, which is consistent with what you are seeing.

**Xing Lu:** Thank you.

**Robert Davies (Morgan Stanley):** Thanks for taking my questions. I have a few. One was on machine manufacturing, which is one of the notable end markets that was up year-on-year. I wondered, from a regional perspective, if you could give us any colour what is driving that 12% growth – was my first one?

The second one was on China. I noticed that was still down in negative territory for the full year. I wondered if you could give us a little bit more colour on the ground – because obviously that was coming out of COVID restrictions faster – why the growth was not a bit stronger out of China. Maybe if you could give us some idea of what the cadence of growth was with China through the back half of 2020.

The remaining two questions I had was on the aerospace side, you mentioned your higher exposure, 2%. Do you have any backlog there? I guess you would be thinking about a step down on that aerospace and defence business into 2021.

The final question I had was around customer inventories. You mentioned your working capital management, but do you have any idea what or where customer inventory is being run? Do they feel depressed in terms of your conversations with customers? Thank you.

**Andrew Heath:** Sorry, I missed your first question, it broke up slightly.

**Robert Davies:** It was on the regional driving behind the 12% growth trend in machine manufacturing, which was obviously the strongest growth trend you had. I wondered what was driving that particularly.

**Andrew Heath:** Again, I will try and rattle through them quickly, but machine manufacturing, a lot of that was within HBK, and all of it was around our measurement technologies, weighing technologies and sensors for production lines, I think particularly helped within pharma and also food manufacturing and production through last year. We saw quite a lot of capital investment going in there, which drove demand, particularly in North America and to some extent propped up by some, also, investment as well.

Through the year, China declined, came in as low single digit collectively for the Group. We saw the earliest impact of the pandemic in China, and then it quickly recovered and continued to do so through the year, so we would say for the full year we were only slightly off where we were in 2019.

On the aero side, on defence at the moment, certainly the defence spending, space spending continues to hold up, so I do not have any particular concerns that that is going to tail off as a later cycle market, if that is really where your question was coming from.

On the customer inventory side, again we do not see a huge amount of customer inventory build or having a lot of inventory around as a major problem. You can see in terms of the response to the pandemic and where the business is sat relative to the cycle. A lot of our businesses are still relatively short cycle and, as such, demand comes back. Typically, the inventory appears and is sitting there, that would then cause that problem. So, again, it points to some good pent up demand within, which is consistent with what we are seeing.

**Robert Davies:** That is great, thank you very much.

**Harry Philips (Peel Hunt):** Good morning, everyone. Two very quick ones. This time last year, we had a special deal, now we have a buyback. I am curious as to the change of strategy around that.

Secondly, in terms of your own supply chain, are you seeing product availability issues for the current time in any particular area?

**Derek Harding:** Let me take the first one, and then Andrew take the second one. In terms of methodology of capital return, we have always said that we would look at special deals or buyback. If you recall, that was a share consolidation with a special deal for last year as well, so it is horses for courses at different times. However, the main driver of the buyback this year is to retain a little bit of flexibility. As we said right at the outset, there are M&A opportunities out there. We know that we can fund a number of them and do the buyback, but if they all came in really positively at the end of the year, then we might just want to retain a bit of flexibility, so that is the logic for the buybacks. So, it will be a gradual buyback of the £200 million through the course of the next 12 months.

**Harry Philips:** Lovely, thank you.

**Andrew Heath:** Then, Harry, just on the supply chain side, there is clearly some shortage globally around semiconductors in certain markets at the moment. There is nothing that is causing us any particular pain at the moment, but it is something that we continue to watch carefully. I think generally I do have a concern around the speed of which the demand comes back at the capacity that is in place more generally, but it is something we are actively monitoring and tracking across all our businesses to make sure that we have a robust supply in place to support the growth as it comes back.

**Harry Philips:** Great, thanks very much indeed.

**Andrew Heath:** A pleasure.

**Richard Paige (Numis):** Morning, all. Two questions, if I may. One is the more general one about you have given a lot of detail around the costs out of the business. What I would ask is there longer-term potential you perceive in terms of operating margins for the Group as a whole? Is 18.4% that you have done before a) achievable, but b) a sort of staging post that the [inaudible] playing?

Then a more specific one on Omega, a bit more detail on that Avnet partnership, because it looks as though it might be a definitional change, that you had a decent step up in the distribution sales in that business. Is that something starting some decent growth? Thank you.

**Andrew Heath:** Richard, thanks for your questions. In terms of the costs out and where we were targeting to get the cost base, clearly the profit improvement programme has been very successful, and we took further steps last year. We are confident that we have now resized the cost base to an appropriate level to sustain a lot of business into a market recovery. As Derek said, inevitably we will have to bring some costs back in depending on the level of growth, but our intention absolutely is that costs come back in at a much lower rate that we see from a top line growth perspective.

From the pro forma analysis that Derek showed and where our overheads are now sitting versus the growth projections you might want to build in, you can absolutely see the strong

operating leverage opportunity that we have. Therefore, that 18.4% previous high from a margin perspective, still remains our nearer-term target. As the growth comes back this year, I am absolutely confident we will make good progress towards that and, as we said before, no one should see that as a ceiling. Our peers are operating with margins typically north of 20%. That is our longer-term objective, and that is where we will deploy the Spectris Business System to drive efficiency but also growth that we see the organic growth and then the operating leverage continuing to build off the back of that.

On Omega, the Avnet-Newark partnership has been very successful. I actually spoke to the Newark CEO earlier in the week. He is delighted with the performance of Omega in supporting them, and it is a great partnership. It is just part of our omnichannel approach and really looking at how we can take Omega to market through not just through our own channels, distribution and e-commerce, but also through other distributors that we cannot reach as well, because often if we have large OEM accounts, the purchasing department will often consolidate their spend into one large MRO-type distributor like the Avent, the Newarks of the this world. We are building relationships as appropriate there, and we obviously hope to continue to build off the Newark partnership, but also build other partnerships in parallel. That is part of Amit's strategy.

**Richard Paige:** Thanks. Now all my webcast questions are up, thanks.

**George Featherstone (Bank of America Merrill Lynch):** Morning, thanks for taking the question. A quick one for you. On the outlook for academic research as it relates to government funding availability coming out of the COVID crisis, could you give us some colour on what you are seeing here in the different regions?

**Andrew Heath:** Generally speaking, academia is coming back because of the general liberation of the population in various regions, so we have seen, certainly within China, Asia, an uptick. And then, in Europe and America, as lockdowns eased last summer progressively, orders are returning within academia, albeit it is still quite muted.

**George Featherstone:** Thank you very much.

**Speaker:** Andrew, I have on from the webcast here. Can you talk about the impact of Brexit, and whether that would impact any of your products specification?

**Andrew Heath:** Brexit for us, fortunately, is not really a very material issue. I think we have said all along the Brexit impact from a hard Brexit would only have been £2 million to £4 million on profit. Clearly, what has been negotiated and agreed with the EU and the UK, we are very much at the bottom end of that range in terms of impact. Then our businesses are having to adjust to country of origin, certification requirements, and that has been the biggest demand on our teams. However, they have risen to the challenge and, generally speaking, responded very well, so we have not really seen much of anything of a Brexit impact over the last few weeks. We have had to use more airfreight, particularly when ports have got a bit congested in the first few days and weeks, but that has seemed to have calmed down as well now. So, generally, it is not really a primary issue for us.

## Closing Remarks

Andrew Heath

*Chief Executive, Spectris*

### **Resilient Performance**

Thank you, Derek. Thank you everyone for joining today. As I said, I am very pleased with our performance last year. I think the way, the manner, in which we responded is absolute testament to the culture and values of the whole Spectris team, and that delivered a very resilient performance. So, we will continue to carry on with our socially responsible, balanced approach and try looking after all the interests of our stakeholders as we drive a sustainable financial health in the business and continue to execute on our Strategy for Profitable Growth.

Thank you very much joining, and I look forward to talking to all again in April if not before. Thank you very much.

[END OF TRANSCRIPT]