

# Strategy for Profitable Growth

Value  
beyond  
measure

Andrew Heath  
Chief Executive

# Executing our strategy

## **Demonstrable progress in executing our Strategy for Profitable Growth in 2019**

- Delivered increased profit, margin expansion and improved cash flow
- Successful execution of profit improvement programme ('PIP')
- First divestments completed or announced
- Announced special dividend, in line with capital allocation policy

## Delivering *value beyond measure*

### Our purpose

#### Delivering

- Fulfilling our commitments everyday

#### Value

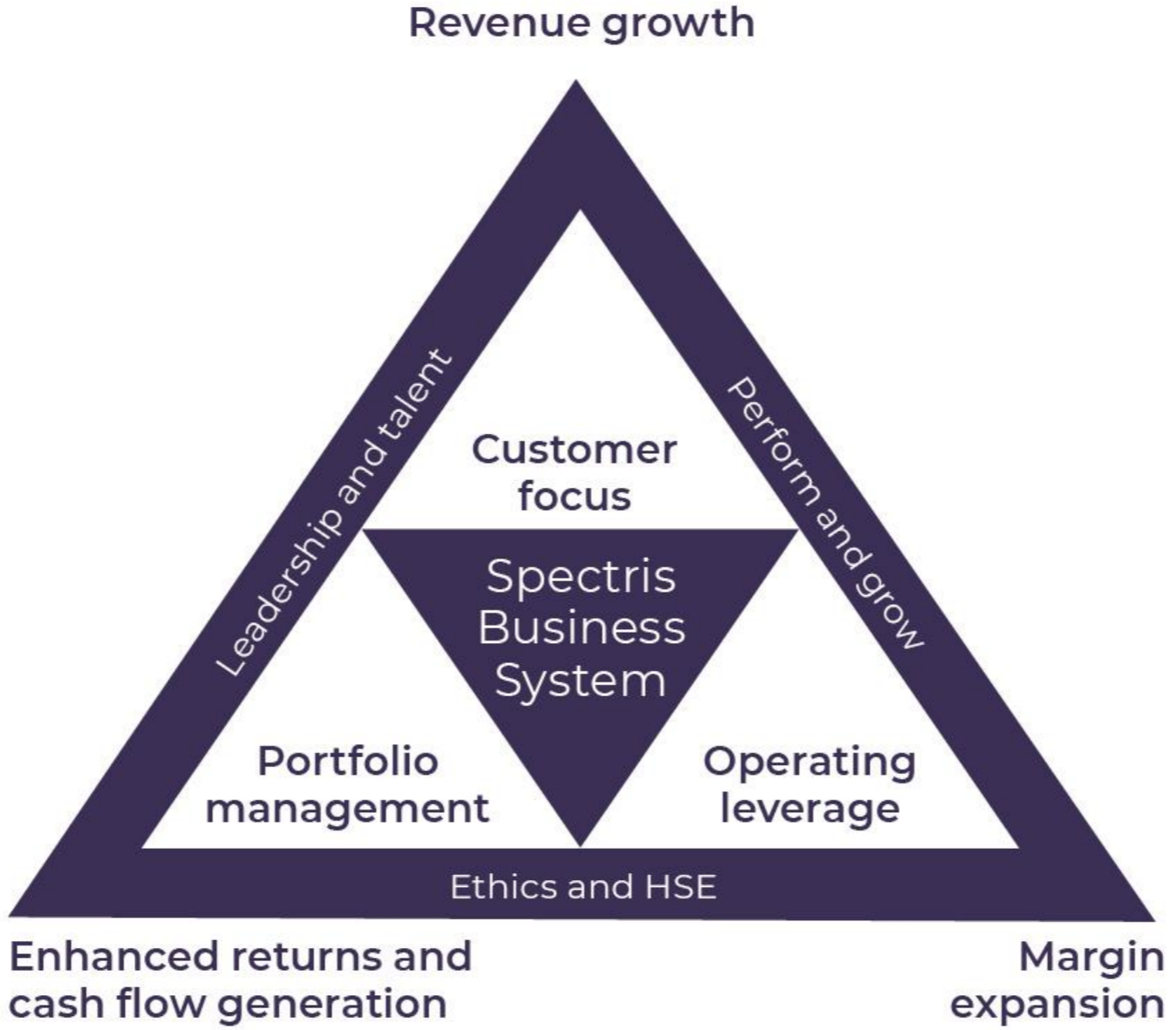
- For our customers, shareholders, employees, suppliers, partners and wider society

#### Beyond measure

- Doing more than expected
- Going beyond just the measurement - growing our synergistic software, analytics and services offerings



# Strategy for Profitable Growth



# 2019 scorecard – financial metrics improving

Sales growth	—	0.4% LFL increase
Operating profit growth	✓	+3.7% LFL increase
Operating margin expansion	✓	+50bps LFL increase
Working capital management	—	13.7%
Cash flow growth	✓	+32pp
ROGCE	✗	-20bps

## Sales growth

- Delivered topline growth, despite slowing macro backdrop

## Operating profit growth

- Growth at Malvern Panalytical, HBK and IS division

## Operating margin expansion

- Profit improvement programme and focus on overheads drove margin expansion

## Average working capital

- Increased by 2.3%, within guidance of 11-15%

## Cash flow growth

- Improved cash flow conversion to 91%

## Return on gross capital employed

- Increase in operating profit more than offset by higher capital base from 2018 acquisitions

# 2019 scorecard – progress in strategy execution

Operating leverage	✓	£25.5m benefit from PIP
Portfolio management	✓	Divestment of BTG and EMS B&K
Capital allocation: Business	✓	Capex -13%
Capital allocation: Dividend	✓	DPS +6.7%
Capital allocation: M&A	✗	No acquisitions
Simplify and focus	✓	New organisational structure & leadership

**Operating leverage**

- Overheads reduced by 50bps on LFL basis

**Portfolio management**

- First divestments delivered

**Capital allocation: Business**

- Lower capex; past peak capex at Millbrook

**Capital allocation: Dividend**

- 30 year CAGR of 10%
- Proposed £175m capital return to shareholders

**Capital allocation: M&A**

- Reviewed opportunities, but retained discipline

**Simplify and focus**

- Divisional reorganisation centred around platforms
- BTG sale completed, EMS Brüel & Kjær sale announced

Derek Harding  
Chief Financial Officer



# Improving our financial performance

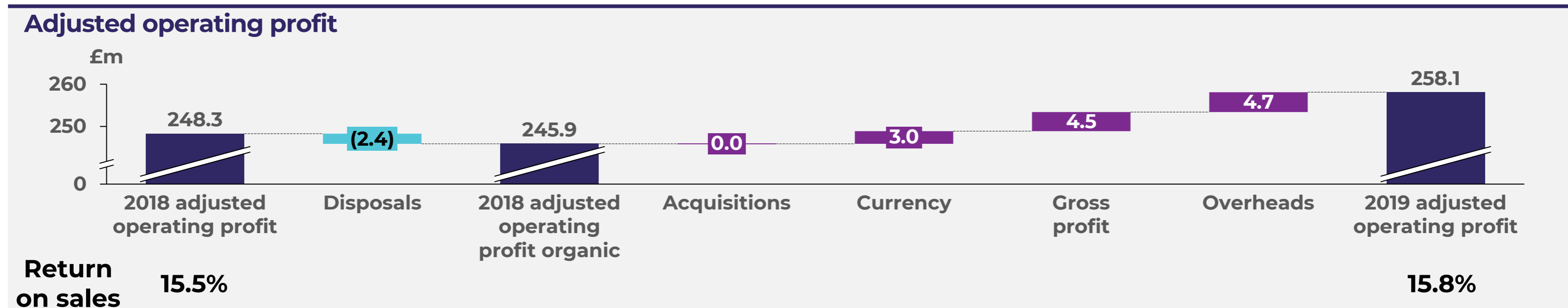
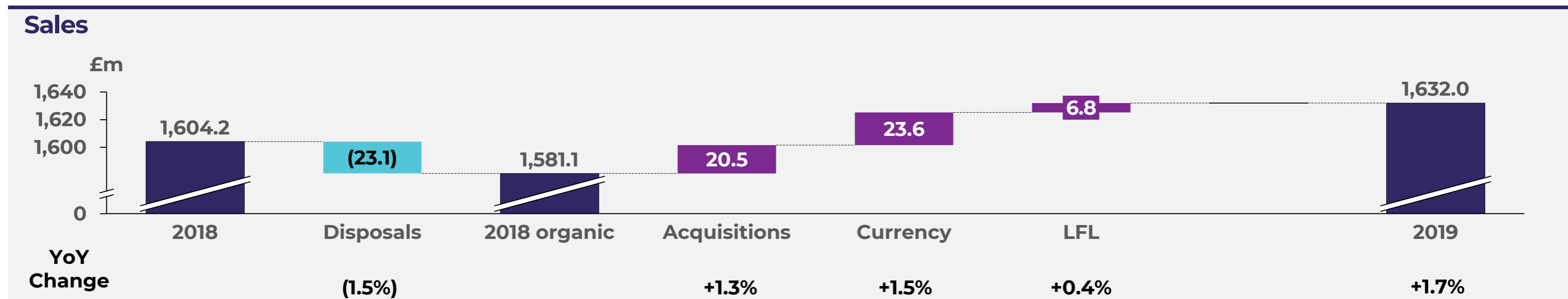
	FY2019	FY2018	Change	Like-for-like change <sup>(2)</sup>
Sales (£m)	<b>1,632.0</b>	1,604.2	1.7%	0.4%
Adjusted operating profit (£m) <sup>(1)</sup>	<b>258.1</b>	248.3	3.9%	3.7%
Adjusted operating margin (%) <sup>(1)</sup>	<b>15.8%</b>	15.5%	30bps	50bps
Adjusted profit before tax (£m) <sup>(1)</sup>	<b>247.4</b>	241.4	2.5%	
Adjusted effective tax rate (%) <sup>(1)</sup>	<b>21.4%</b>	19.7%	1.7pp	
Adjusted EPS (pence) <sup>(1)</sup>	<b>168.0p</b>	164.9p	1.9%	
DPS (pence)	<b>65.1p</b>	61.0p	6.7%	
Adjusted cash conversion (%) <sup>(1)</sup>	<b>91%</b>	59%	32pp	
Net cash / (debt) (£m)	<b>33.5</b>	(297.1)	n.m.	
Return on gross capital employed (%) <sup>(1)</sup>	<b>13.5%</b>	13.7%	(20bps)	

## Notes

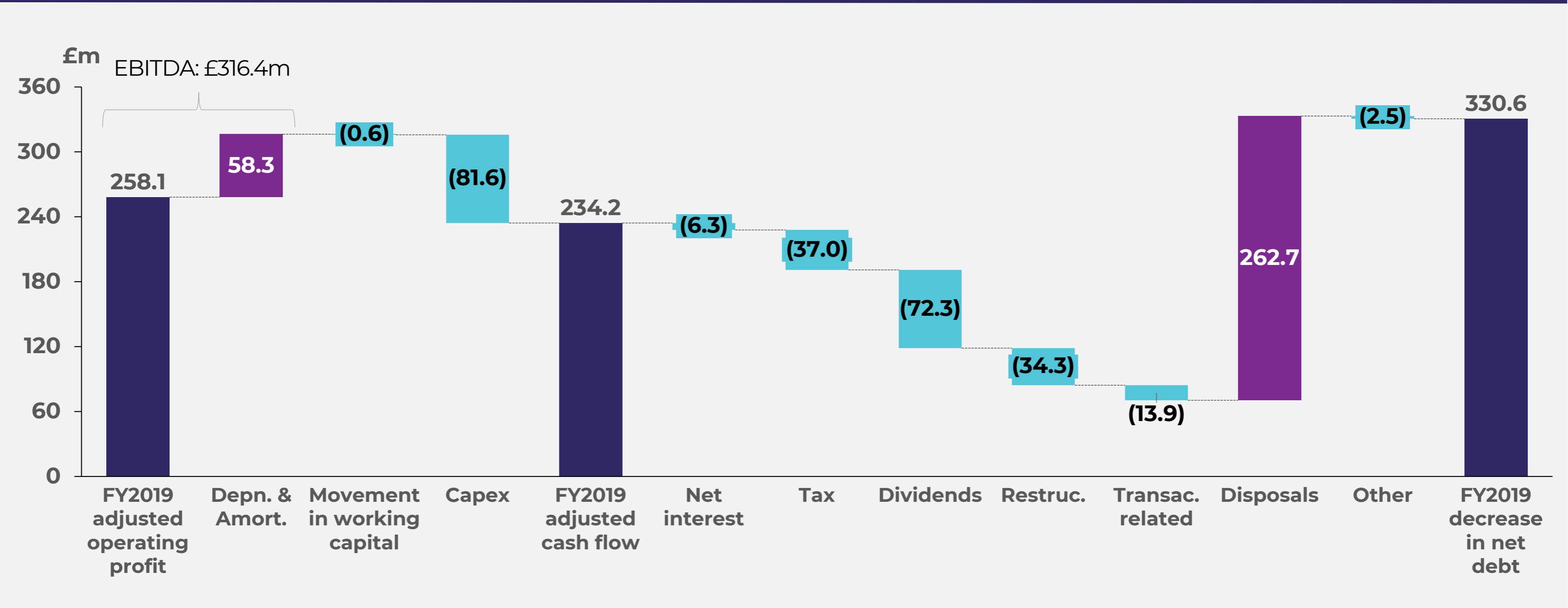
(1) These adjusted performance measures represent the statutory results excluding certain items.

(2) At constant exchange rates and including acquisitions and disposals on a comparable basis ('LFL').

# Delivering sales and profit growth



# Improving cash flow



# Adjusted and statutory operating profit

	FY2019	FY2018
Adjusted operating profit <sup>(1)</sup>	258.1	248.3
Restructuring costs	(52.2)	(15.6)
Net transaction-related costs and fair value adjustments	(6.1)	(12.2)
Depreciation of acquisition-related fair value adjustments to property, plant and equipment	(1.0)	(0.8)
Profit on disposal of property	5.2	-
Impairment of goodwill	(35.1)	-
Amortisation and impairment of acquisition-related intangible assets	(84.6)	(43.3)
<b>Statutory operating profit</b>	<b>84.3</b>	<b>176.4</b>

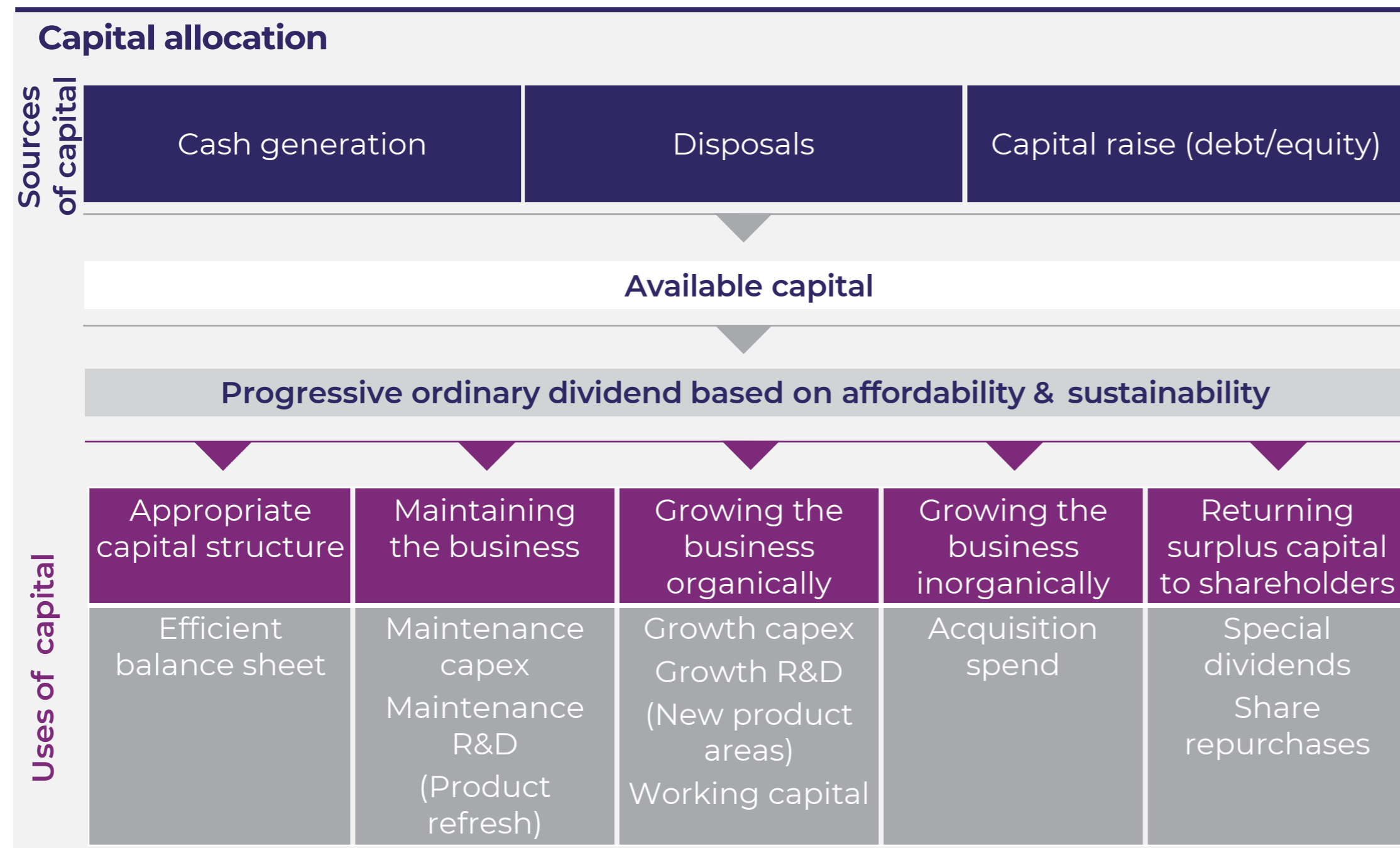
## Notes

(1) These adjusted performance measures represent the statutory results excluding certain items.

# Statutory profit before tax

	FY2019	FY2018
<b>Statutory operating profit</b>	<b>84.3</b>	<b>176.4</b>
Share of post-tax results of joint venture	(4.9)	(1.2)
Impairment of non-current receivable from joint venture	(21.3)	-
Profit on disposal of businesses	204.7	56.3
Financial income	7.9	2.5
Finance costs	(11.4)	(16.0)
<b>Statutory profit before tax</b>	<b>259.3</b>	<b>218.0</b>

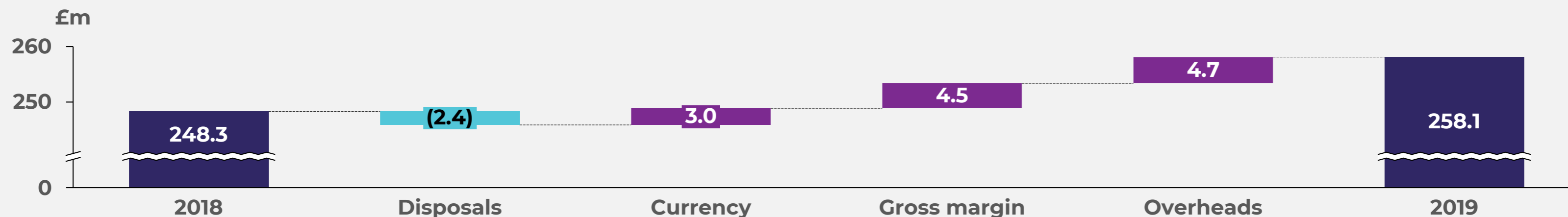
# Capital allocation – special dividend of £175 million



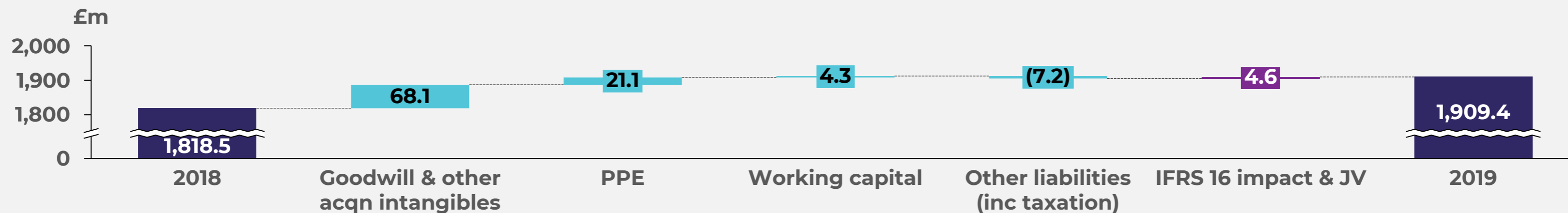
- Continued strong cash generation
- Adequate resources to fund future investment and grow ordinary dividend
- Net cash positive at the year end following BTG disposal
- Proposing a special dividend of £175 million and share consolidation
- Expected to be paid in June, subject to shareholder approval at the AGM

# Return on gross capital employed

## Adjusted operating profit



## Average gross capital employed



ROGCE 13.7%

ROGCE 13.5%

# 2020 considerations

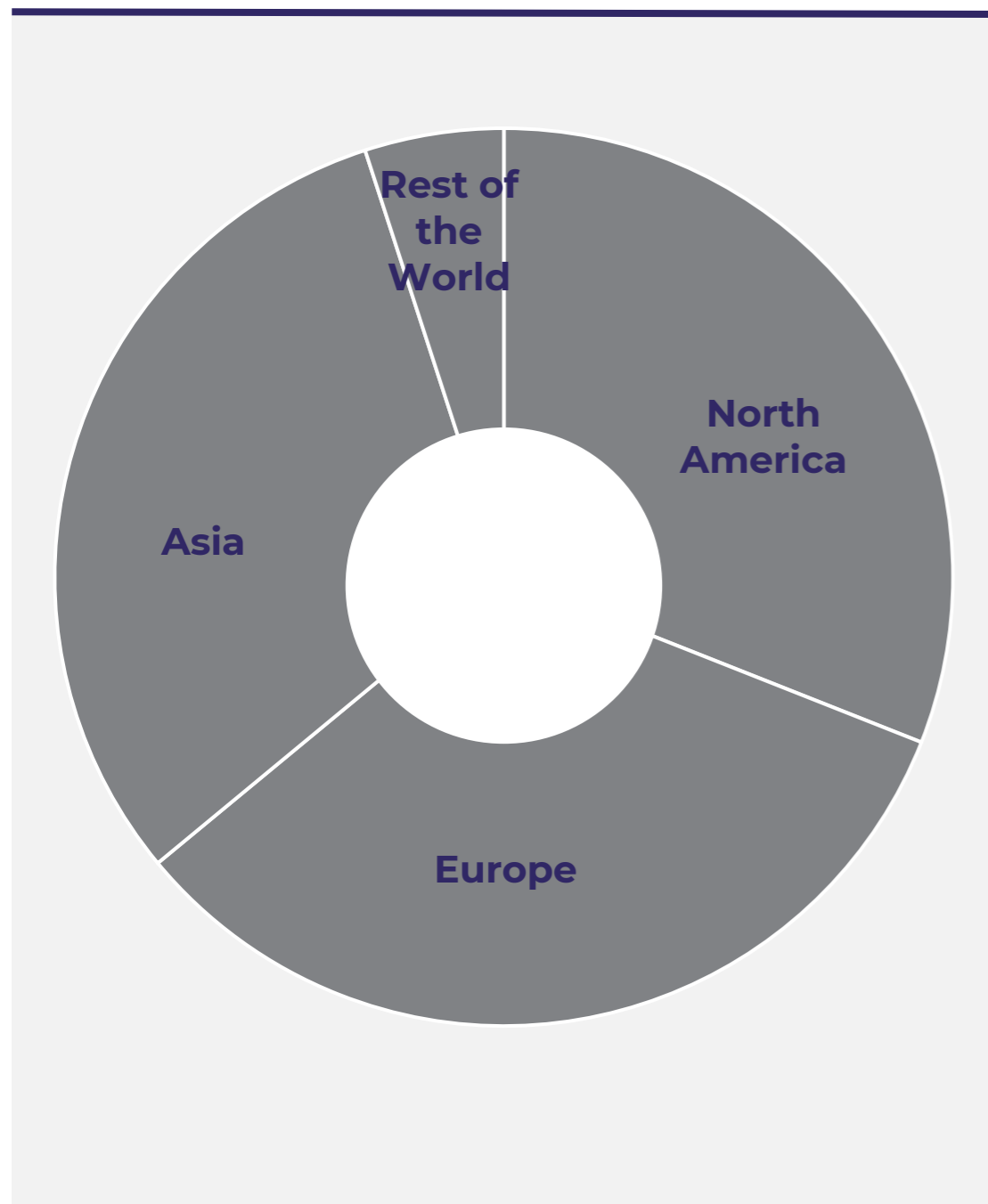
Headwinds	Tailwinds
<ul style="list-style-type: none"> <li>• Challenging macroeconomic backdrop – limited top line growth</li> <li>• Continued cost inflation – 3%</li> <li>• Additional R&amp;D at Malvern Panalytical – £5m</li> <li>• Coronavirus?</li> </ul>	<ul style="list-style-type: none"> <li>• 2019 profit improvement programme benefits £10m</li> <li>• 2020 restructuring £10m</li> <li>• Continued product launches</li> <li>• Self help – Spectris Business System</li> </ul>

Spectris excluding BTG	FY2019	FY2018
Sales	1,513.1	1,482.2
Adjusted operating profit	235.5	227.0
Adjusted operating margin	15.6%	15.3%
Adjusted EPS	152.7p	150.4p
Adjusted cash conversion	89.0%	54.4%
Return on gross capital employed	12.7%	13.4%



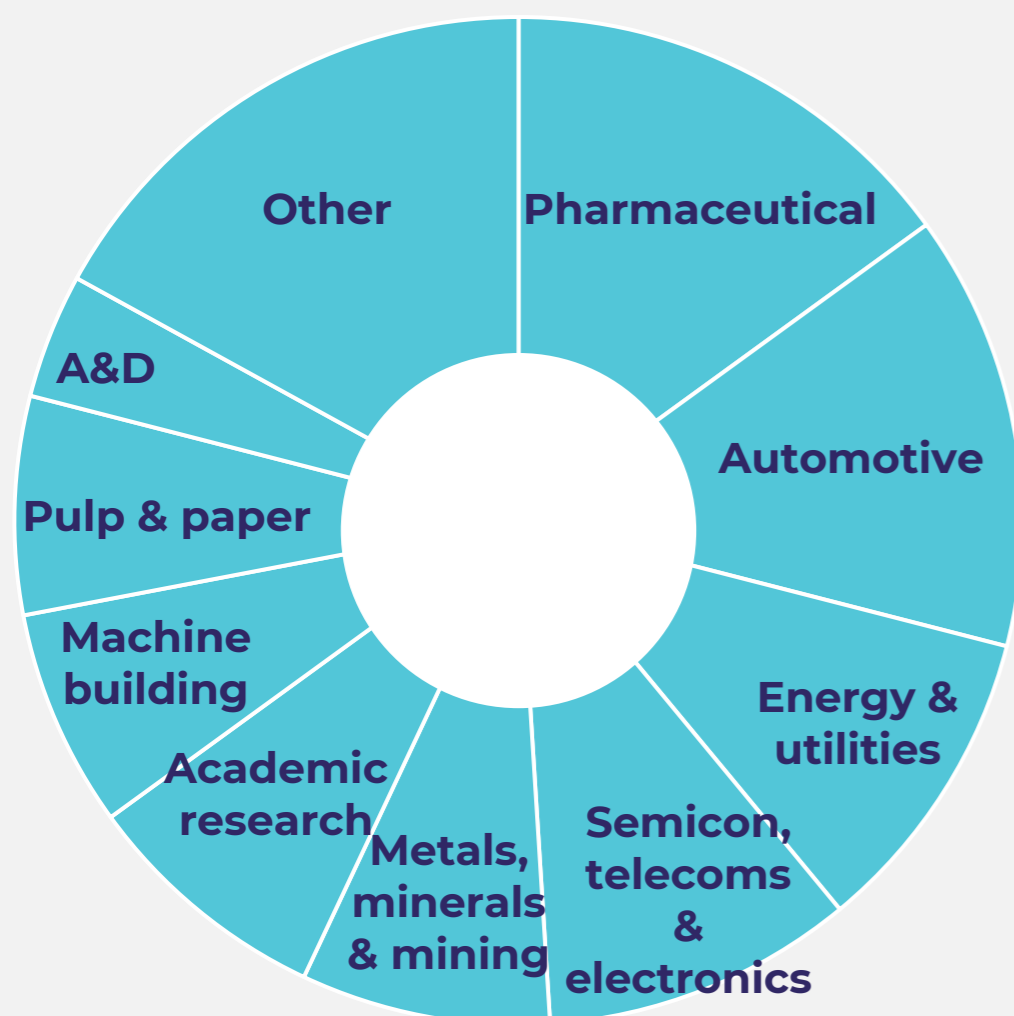
# Andrew Heath Business update

# Sales by destination



Destination	% of Group sales	LFL change 2019	LFL change 2018
North America	31%	-3%	+4%
Europe	33%	-1%	+3%
Germany	9%	-6%	+2%
UK	8%	-7%	+7%
Asia	31%	+3%	+10%
China	13%	-1%	+16%
Japan	5%	+2%	+3%
Rest of the world	5%	+14%	+5%

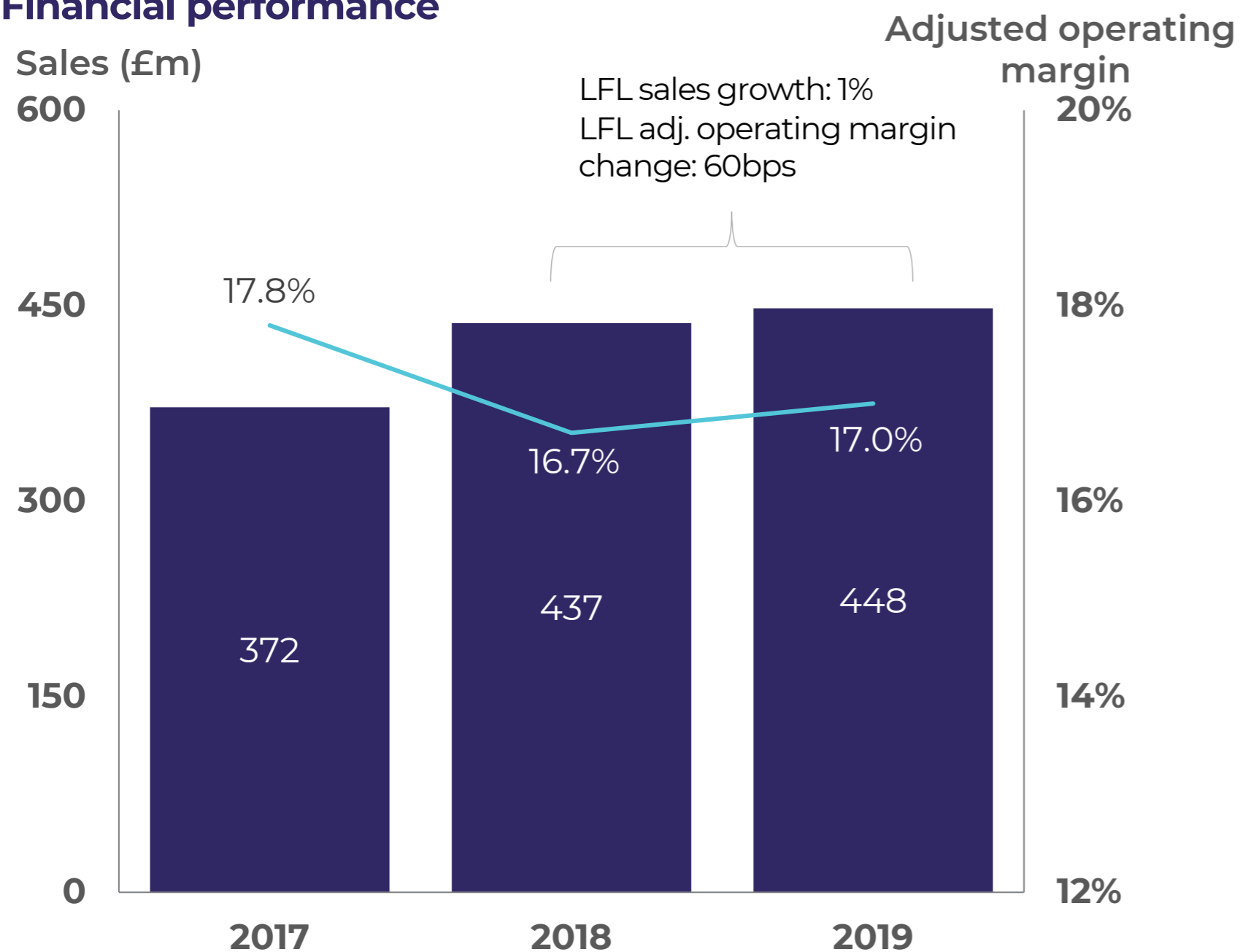
# Sales by end market



End market	% of Group sales	LFL change 2019	LFL change 2018
Pharmaceutical	15%	+2%	+7%
Automotive	14%	-2%	+11%
Energy & utilities	10%	+8%	+6%
Semiconductor, telecoms & electronics	10%	-2%	+7%
Metals, minerals & mining	8%	-6%	+2%
Academic research	8%	+20%	+13%
Machine building	7%	-3%	+5%
Pulp & paper	7%	+3%	+3%
A&D	4%	+5%	-5%
Other	17%	n.m.	n.m.

# Malvern Panalytical – financial and end market performance

## Financial performance



## 2019 LFL performance

### Pharmaceuticals and food



- Tough YoY comparator; uncertainty from tighter government-imposed pricing controls
- Outlook positive driven by investment in generics & complex therapies plus advanced analytics
- Increased focus on food safety & sourcing

### Primary materials:



- Lower activity levels in metals market
- Expect demand to stabilise and see uplift in 2020

### Advanced materials:



- Demand driven by new product development in the electronics, batteries, additive layer manufacturing & catalysts markets

# Malvern Panalytical – update on strategy

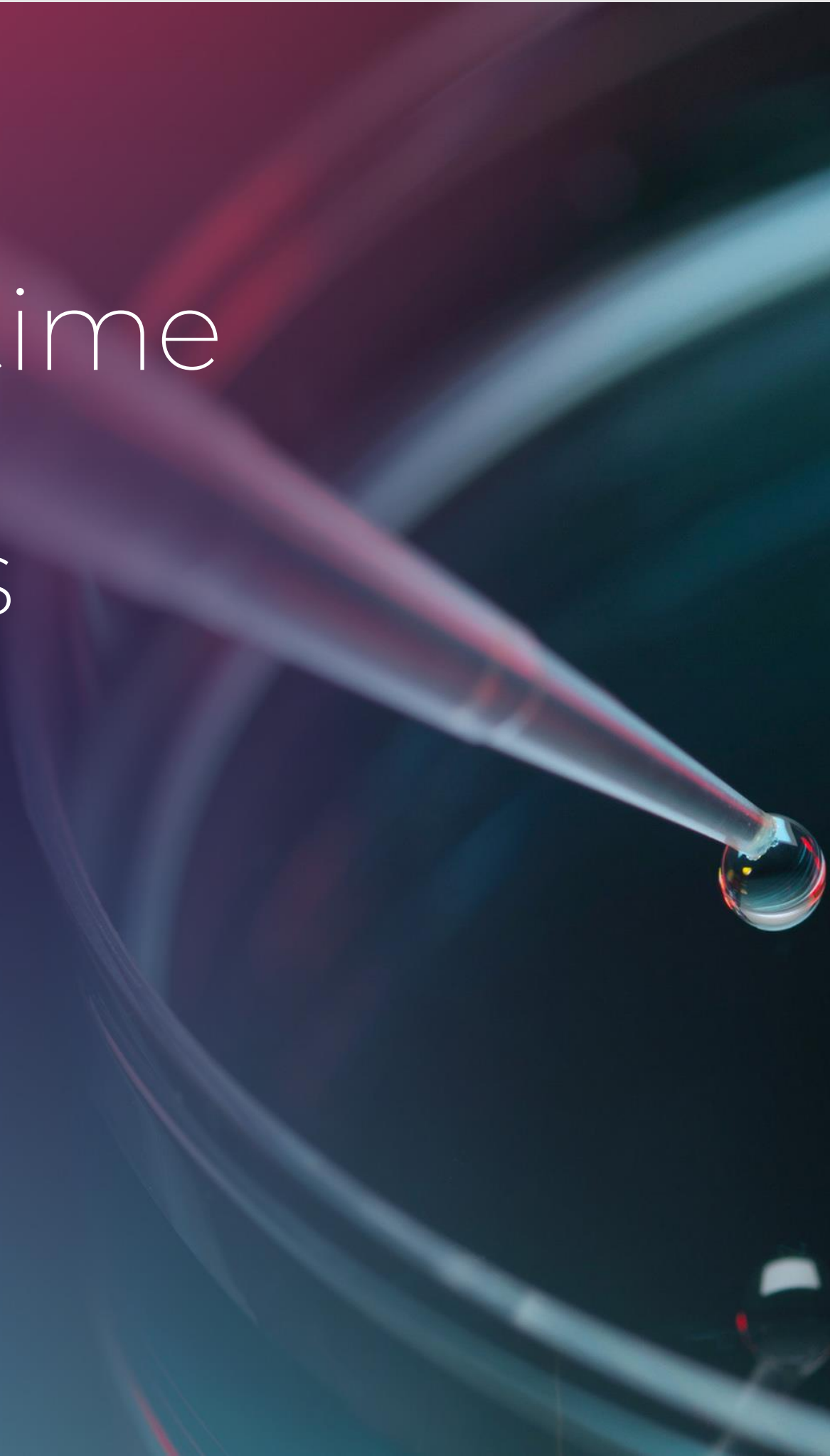
## Strategic update

- Benefits of merger being delivered with transition to sector-oriented, customer-focused business
- CLS restructured and incorporated into Malvern Panalytical platform
- New products launched with enhanced precision, functionality and flexibility
- Academic partnerships and collaborations being established
- Expanding capabilities in data science, machine learning and AI
- Move from diagnostics into predictive and prescriptive solutions



Case study

# Acceleration time to market for generic drugs



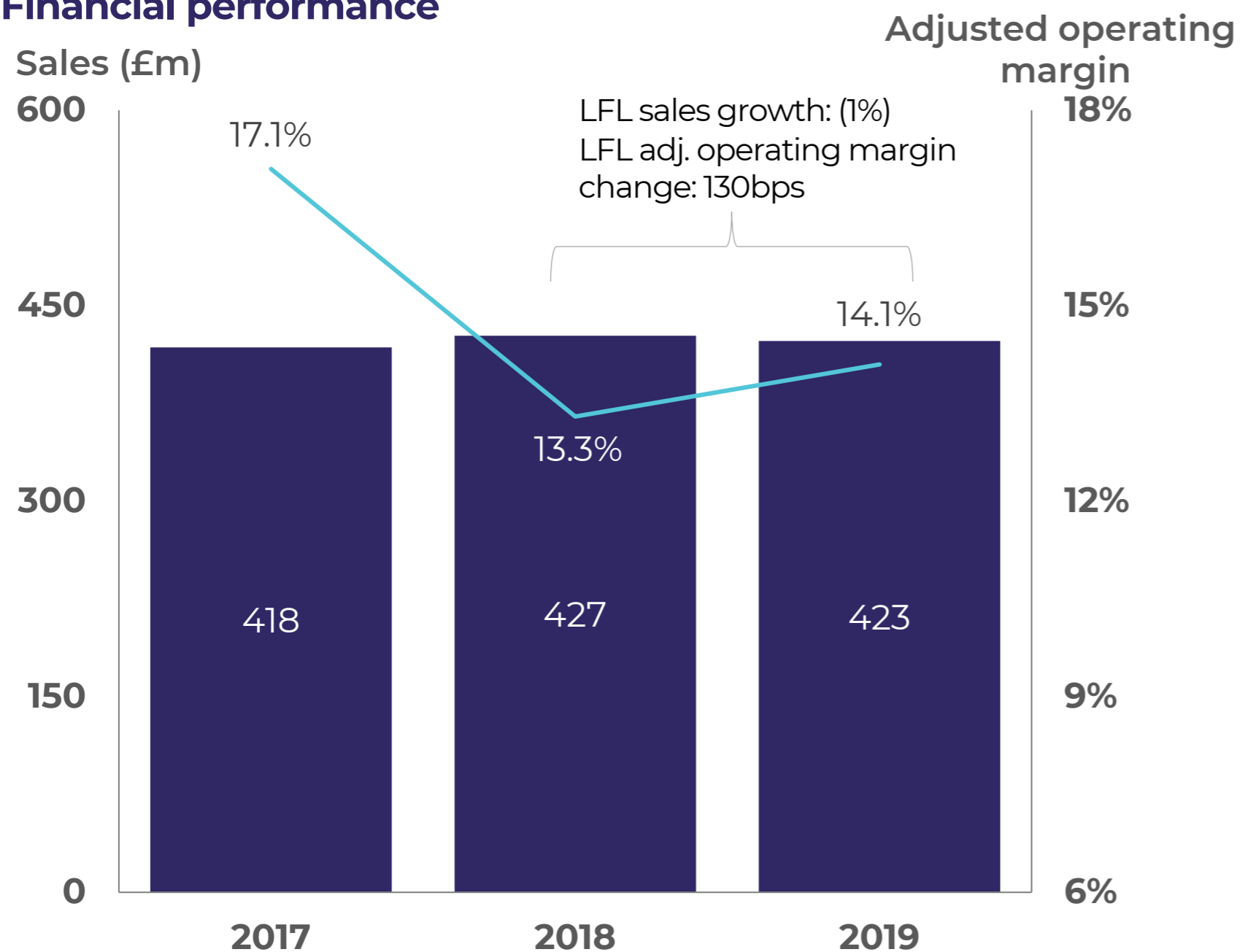
Dolomite Microfluidics specialises in nano and micro-particles, e.g. for drug delivery

Used Malvern Panalytical Zetasizer Ultra to streamline their R&D process

Significant reduction in costs and development time to one month, from prior twelve months

# HBK – financial and end market performance

## Financial performance



## 2019 LFL performance

### Automotive



- Tough comparator, global auto downturn
- Robust underlying demand for the development of electric/hybrid models and CAVs
- R&D more resilient than production

### Machine building



- Sales marginally up
- Expect softer activity levels reflecting automotive demand

### Aerospace and defence



- Commercial business good though defence projects faced increased export license scrutiny
- Outlook positive for R&D investment

### Consumer electronics and telecoms

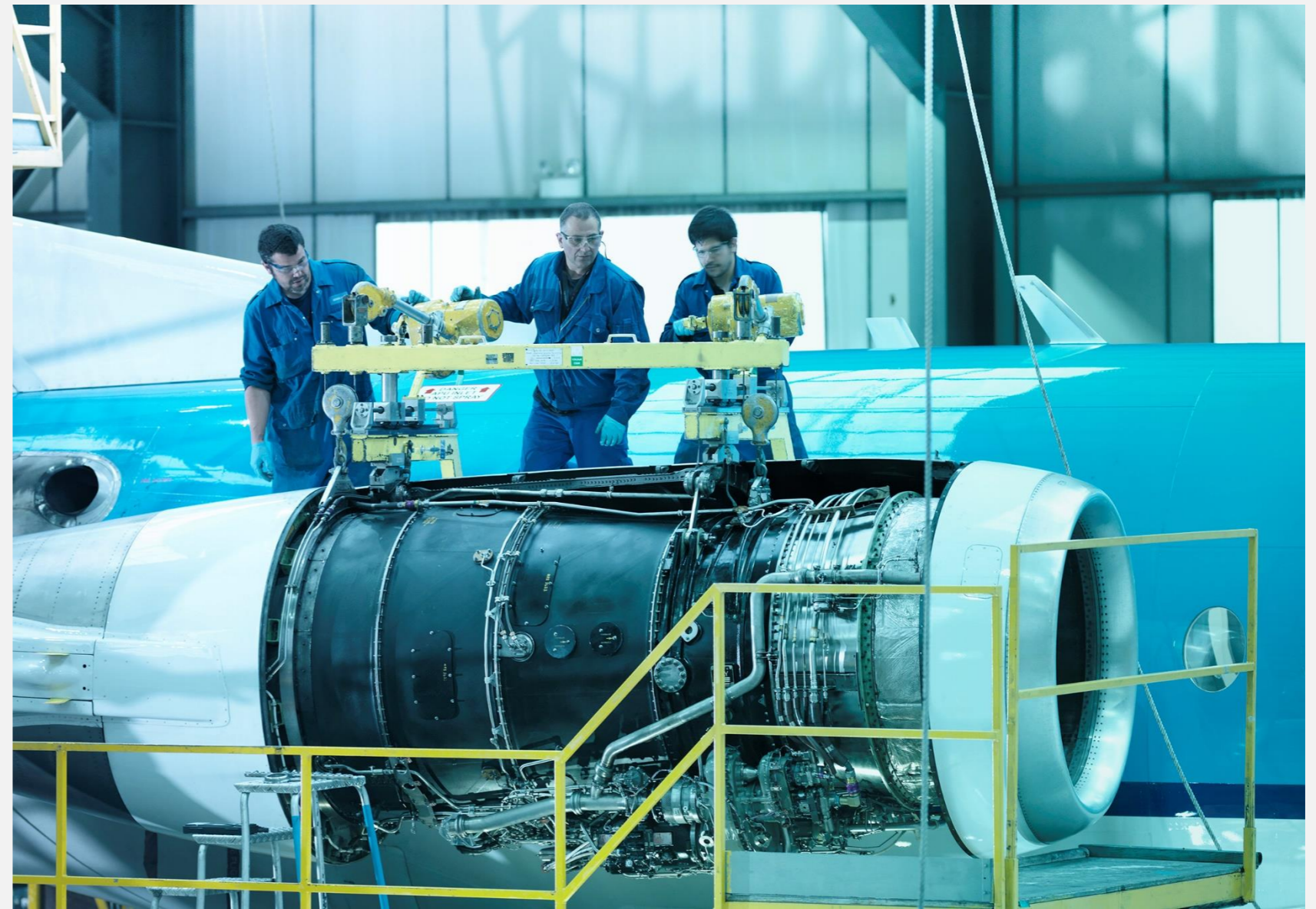


- Fewer new product launches by customers
- Positive underlying trends (smart home products, smart phones) but expect moderate growth in 2020

# HBK – update on strategy

## Strategic update

- Merger activity progressing well
  - New leadership team established
  - Combined sales and marketing teams
  - Further restructuring activity in 2020
- VI-grade integrated into HBK platform
  - Simulation offering to be centred on VI-grade
- New products launched including new sound level meters and pressure sensing transducers
- Software, simulation and new e-Drive testing product are key focus areas for 2020





## Case study

# Solving EV noise challenges to support public safety

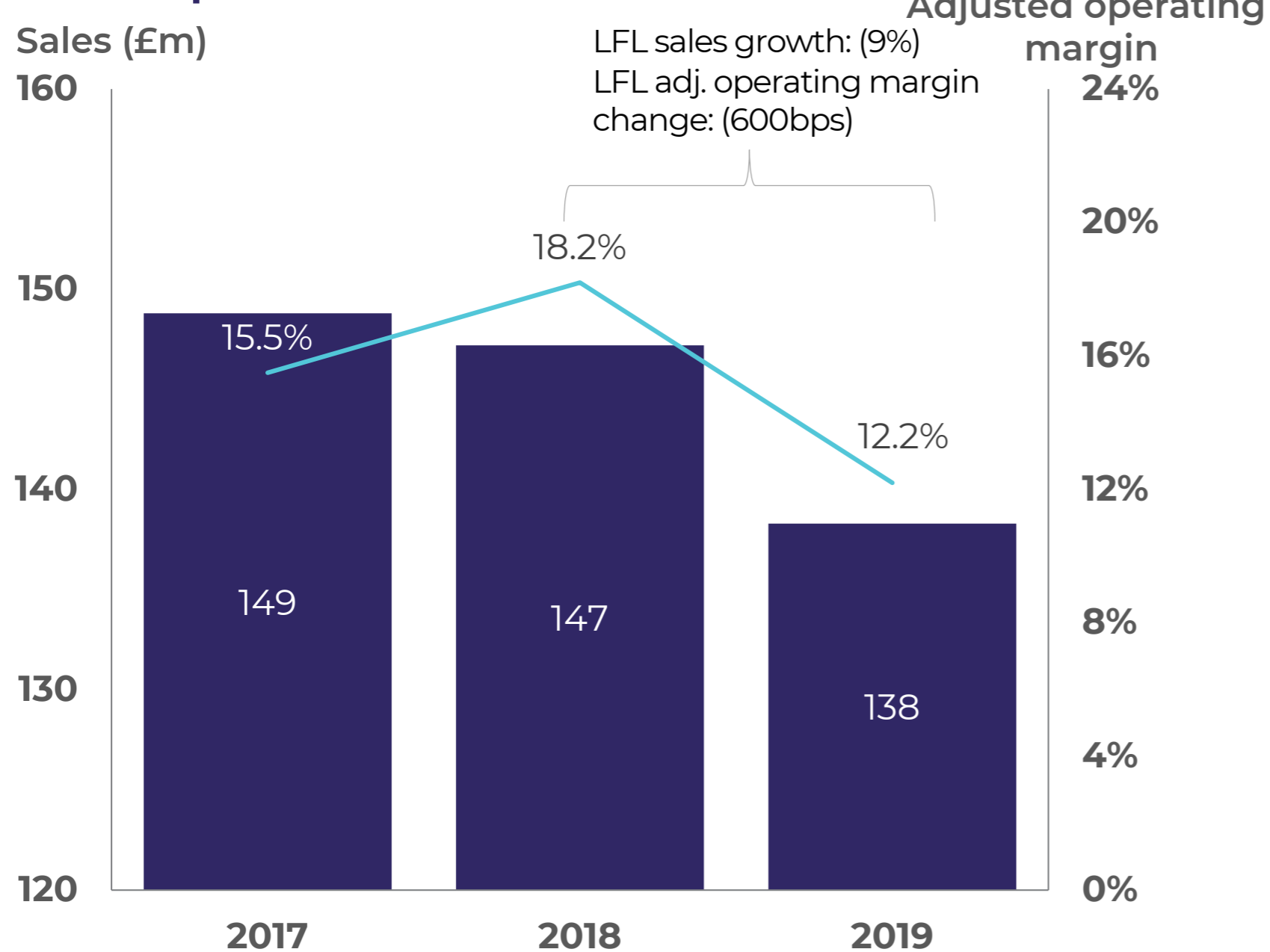
Applus+ IDIADA test hybrid/EVs for new minimum sound testing requirements

Used HBK sound testing equipment to measure sound levels, while limiting ambient noise impact

Ensured compliance with minimum noise requirements to ensure safety, and provided design and system development

# Omega – financial and end market performance

## Financial performance



## 2019 LFL performance

North America	
↓	<ul style="list-style-type: none"> <li>• Slowing US production &amp; impact of US-China tariffs</li> <li>• Likely to continue into H1 2020</li> </ul>
China	
↓	<ul style="list-style-type: none"> <li>• Impact of US-China tariffs &amp; slowdown in semicon</li> <li>• 2020 demand in semicon expected to recover</li> </ul>
Other	
↓	<ul style="list-style-type: none"> <li>• Temporary disruptions from launch of new digital platform &amp; shift to new supplier</li> <li>• New e-commerce offering and new products expected to underpin 2020 sales growth</li> </ul>

# Omega – update on strategy

## Strategic update

- New digital platform launched
  - Customer transition more disruptive than expected
  - Improving metrics since launch
- Expanded product offering
  - 133 new products launched, more in 2020
  - First phase of IIoT platform launched, including smart sensor portfolio
- Driving volume through new e-commerce platform a key objective for 2020





## Case study

Wireless  
monitoring  
solution keeps  
fruit quality high  
and energy costs  
low

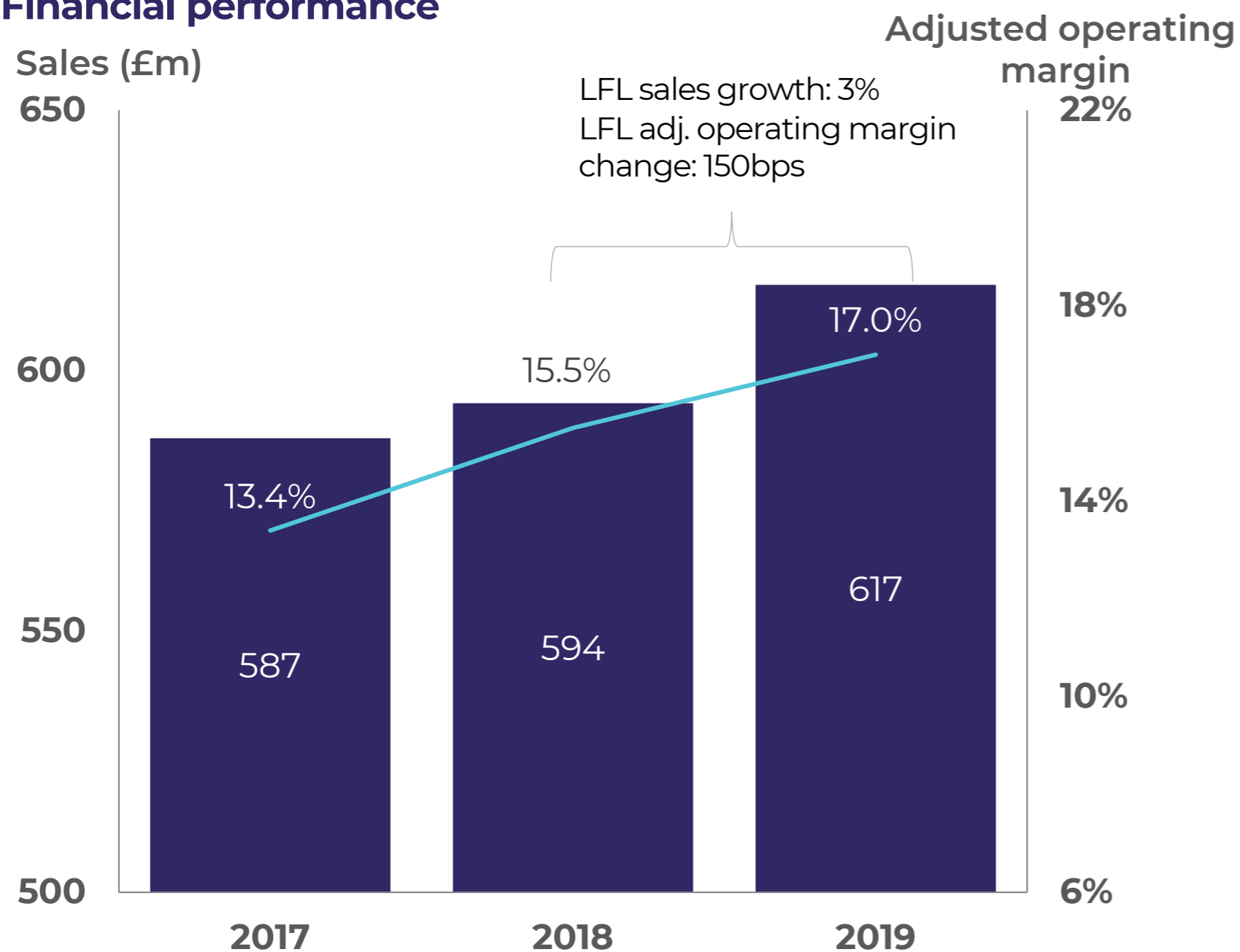
The Prima Company harvests stone fruit that needs to be cooled to its lowest safe storage temperature

Omega provided a low-cost wireless monitoring solution with easy to use plug and play features, which connected to their control system

High-quality monitoring solution helped maintain product quality & lower energy costs through more precise data about their cooling needs

# Industrial Solutions – financial and end market performance

## Financial performance



## 2019 LFL performance

### Semiconductor and electronics

↑/↓

- Semiconductor industry decline offset by strong order book coming into 2019; recovery in capex in 2020
- Electronics softer and expected to continue into H1

### Pharmaceutical

↑

- Demand from increasing regulatory scrutiny, especially data & process integrity, expected to continue

### Energy and utilities

↑

- Increasing requirements for environmental monitoring & growth in wind driving demand

### Automotive

↑

- Growth driven by investment in new testing assets

# Industrial Solutions – update on strategy

## Strategic update

- New divisional leadership team established
- Focus on improving operational performance
- Businesses assessed for platform potential and/or divestment
- Sale of BTG completed and sale of EMS Brüel & Kjær joint venture announced



## Case study

# Helping reduce emissions in the steel industry



Midrex Technologies designed, engineered & procured equipment for a new hot briquetted iron plant, used in steel-making

Servomex provided 40 gas analysers, sampling system & a continuous emissions monitoring system

The monitoring & control solution helped improve energy efficiency, lowering the plant's carbon footprint whilst considering environmental sustainability and higher grade steel requirements

# Executing our Strategy for Profitable Growth

- **Demonstrable progress in executing our Strategy for Profitable Growth in 2019**
  - Delivered increased profit, margin expansion and improved cash flow
  - Successful execution of profit improvement programme
  - First divestments completed or announced
  - Announced special dividend, in line with capital allocation policy
- **2020 builds on progress in 2019**
  - Further improve operating margins
  - Enhance capital returns
  - Continue asset optimisation and portfolio management
- **Absent a materially adverse coronavirus impact, markets likely to be challenging in H1 with a recovery in H2, implying limited topline growth**
- **Continued focus on self-help initiatives to drive further cost-efficiency and resilience**
- **Strategy forms the basis for delivering a significant & sustainable increase in shareholder value**



# Appendix

# Balance sheet

Summary (£m)	FY2019	FY2018
Goodwill and intangible assets	825.3	1,029.6
Property, plant and equipment	369.0	331.5
Net investment in JV	-	43.9
Assets held for sale	18.9	3.9
Working capital:		
- Inventories	197.2	216.4
- Receivables	335.7	381.5
- Payables	(318.1)	(371.5)
- Provisions	(32.9)	(31.6)
Derivatives & taxation (net)	(19.1)	(41.6)
Lease liabilities	(60.5)	-
Retirement benefits (net)	(27.5)	(32.1)
Net capital employed	1,288.0	1,530.0
<b>Net cash / (debt)</b>	<b>33.5</b>	<b>(297.1)</b>
<b>Net assets</b>	<b>1,321.5</b>	<b>1,232.9</b>

# Technical guidance for 2020

- Underlying effective tax rate – 21.5%
- Planned capex of c. £70 million, of which growth capex £20 million, principally at Millbrook
- Foreign exchange sensitivities

Impact of 1 cent change versus GBP	2020 FY sales £m	2020 FY adjusted operating profit £m
EUR	3.0	0.6
USD	3.6	0.6

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