

# Strategy for Profitable Growth

**2022 Half year results**



*Value  
beyond  
measure*

Andrew Heath  
Chief Executive

# Our Strategy for Profitable Growth is delivering

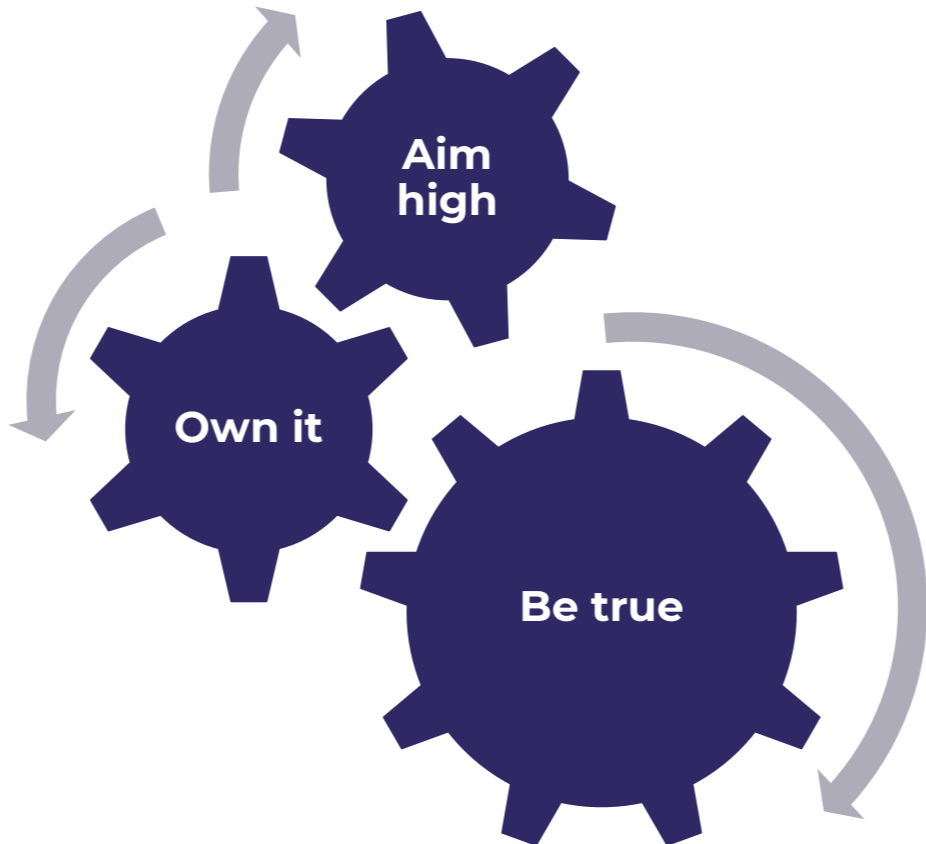
## Our Strategy for Profitable Growth is defined by our purpose and built on our values

### Purpose

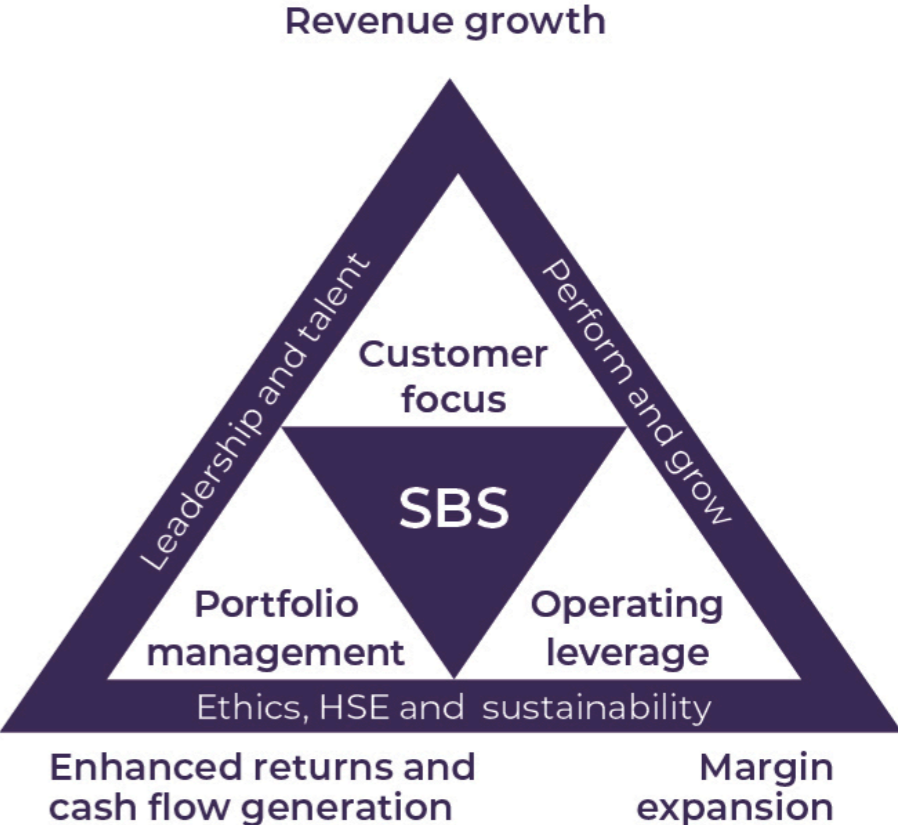
Our purpose is to *deliver value beyond measure*

We harness the power of precision measurement to equip our customers to make the world *cleaner, healthier and more productive*

### Values



### Strategy



# Spectris Business System driving productivity improvements

- SBS driving productivity across the Group
- Realising improvements in revenue, manufacturing processes, customer lead times, on-time delivery, working capital management and environmental sustainability
- Positive impacts across all of our businesses:
  - Enhancements to Mastersizer assembly process at Malvern Panalytical increasing throughput, almost halving customer lead times, increasing competitiveness
  - Improved production line layout for HBK's yarn tension sensor product family reduced lead time by 28%, labour time by 23% and lowered working capital
  - Redesign of service provision at PMS improved turn-around time by 46%, quadrupled service capacity, generating £1.6 million of extra revenue
  - Value Analysis & Value Engineering delivered a 40%+ lower per unit cost for HBK's torque sensor product line; with a significant reduction in use of disposed plastics
  - Packaging redesign at PMS and Red Lion supports our environmental sustainability goals, while reducing cost and use of packaging material



# A more focused, profitable & resilient business, delivering strong growth

- Continuing strong demand and growth, delivering good financial performance
  - 20% like-for-like ('LFL') order growth; record order book provides strong visibility into H2
  - 11% LFL sales growth driven by market share gains; statutory reported sales up 6%
  - Adjusted operating margin maintained at 12.7%; statutory operating margin 9.5%
  - Increased investment in R&D, up from 7.6% to 8.3% of sales
  - Confidence in high single digit organic sales growth and margin expansion for the full year
- Further simplification of the Group
  - Sale of Omega completed, £410 million headline proceeds in July, delivering significant shareholder value and further improving the quality of the Group
- Strong balance sheet and capital allocation policy in action
  - Increasing investment for growth; 17% increase in R&D spending; high capex for facility expansion at PMS; higher working capital to support order book execution
  - £150 million on share buyback programme completed; remaining £150 million re-starting
  - Dividend per share increase of 5%
  - Acquisitions announced across all divisions, with capacity for further value-enhancing M&A
- Sustainability at the core of our strategy
  - Joined the UN Global Compact in support of our commitment
  - Well positioned in attractive end markets, with strong fundamentals, supported by key sustainability themes

# H1 2022 scorecard – executing our strategy

Operating leverage	↔	12.7% adjusted operating margin
Portfolio management	✓	Divestment of Omega
Capital allocation: Business	✓	R&D 8.3% of sales Capex 5.5% of sales
Capital allocation: Dividend	✓	DPS +5%
Capital allocation: M&A	↑	Announced c.£100m of acquisitions
Simplify and focus	✓	Positioned to compound growth

## Confidence in margin expansion in H2

- Pricing in order book
- Spectris Business System driving productivity

## Portfolio management focuses business

- Omega divestment completed in July for £410m, attractive valuation achieved

## Investing in new products and services

- Higher R&D spend supporting new product development
- Higher capex on key infrastructure projects
- Investing in working capital to support order book

## Dividend growth in line with our policy

- Dividend growth of 5%
- 30+ year track record of growth
- £150m of buyback completed, second tranche commencing

## Capital being allocated to M&A

- Creoptix enhances Malvern Panalytical drug affinity offering
- Dytran Instruments strengthens HBK's OEM sensor offering

## An even greater focus on our Purpose

- More focused, resilient and profitable business, aligned to attractive markets supported by sustainability trends

# Derek Harding Chief Financial Officer

# H1 2022 scorecard – strong performance continues

vs H1 2021		
Sales growth	✓	+11% LFL
Operating profit growth	✓	+6% LFL
Operating margin expansion	↔	Flat at 12.7%
Working capital management	↔	1% more invested to 13%
Cash flow	↓	39% conversion
ROGCE	✓	+140bps to 13.8%

## Sales growth

- Better positioned businesses, delivering market share gains

## Operating profit growth

- Volume drop through, with temporary timing lag on margins and higher investment in R&D

## Operating margin expansion

- Control of pricing vs inflation; pricing increases to come through in the second half

## Average working capital

- Investments made to protect customer deliveries; remains within 11-15% guidance

## Cash flow

- Cash flow conversion of 39% reflects higher capex and working capital invested

## Return on gross capital employed

- Continuing improving trend



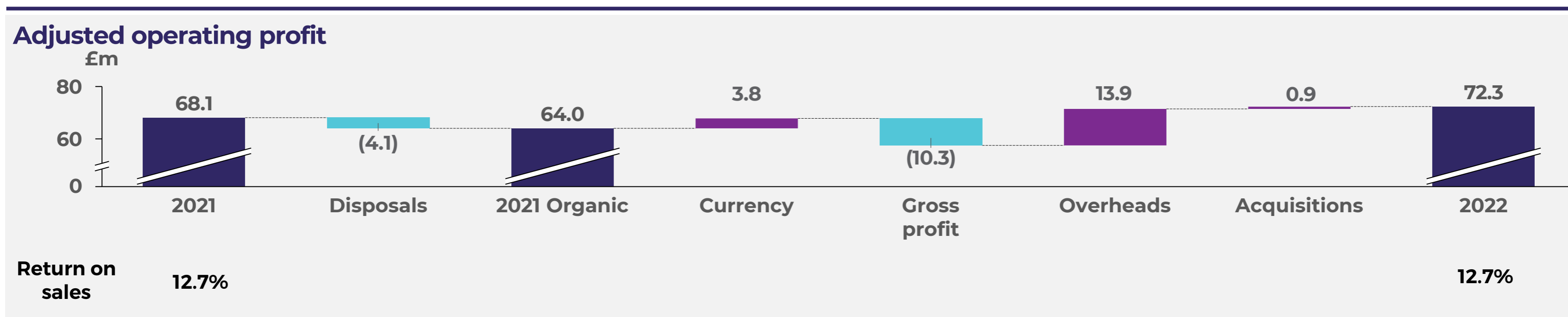
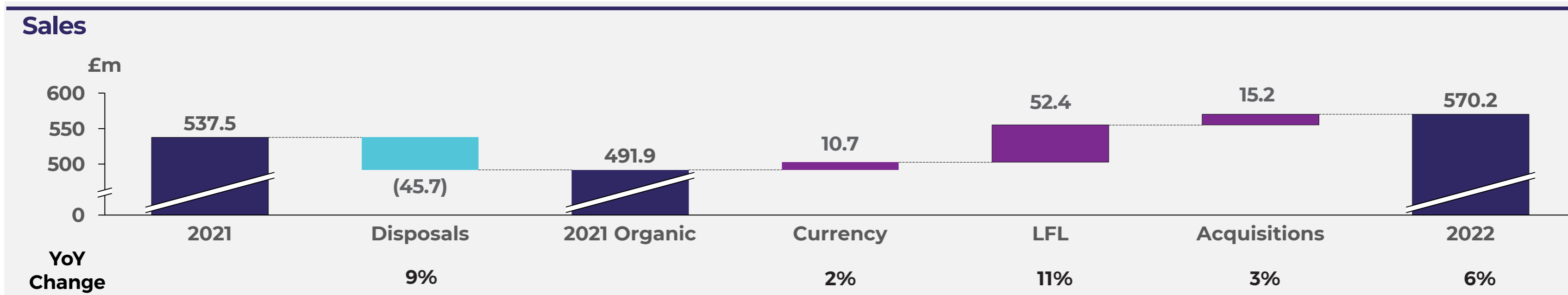
# Strong financial performance

Continuing operations	H1 2022	H1 2021 <sup>2</sup>	Change	Like-for-like change vs 2021 <sup>3</sup>
Sales (£m)	<b>570.2</b>	537.5	6%	11%
Adjusted operating profit (£m) <sup>1</sup>	<b>72.3</b>	68.1	6%	6%
Adjusted operating margin (%) <sup>1</sup>	<b>12.7%</b>	12.7%	-	(60bps)
Adjusted profit before tax (£m) <sup>1</sup>	<b>70.3</b>	65.1	8%	
Adjusted effective tax rate (%) <sup>1</sup>	<b>22.0%</b>	21.8%	20bps	
Adjusted EPS (pence) <sup>1</sup>	<b>49.8p</b>	44.0p	13%	
DPS (pence)	<b>24.1p</b>	23.0p	5%	
Adjusted cash flow conversion (%) <sup>1</sup>	<b>39%</b>	117%	(78pp)	
Net (debt)/cash (£m) <sup>1</sup>	<b>(98.3)</b>	272.8	n/m	
Return on gross capital employed <sup>4</sup> (%) <sup>1</sup>	<b>13.8%</b>	12.4%	140bps	

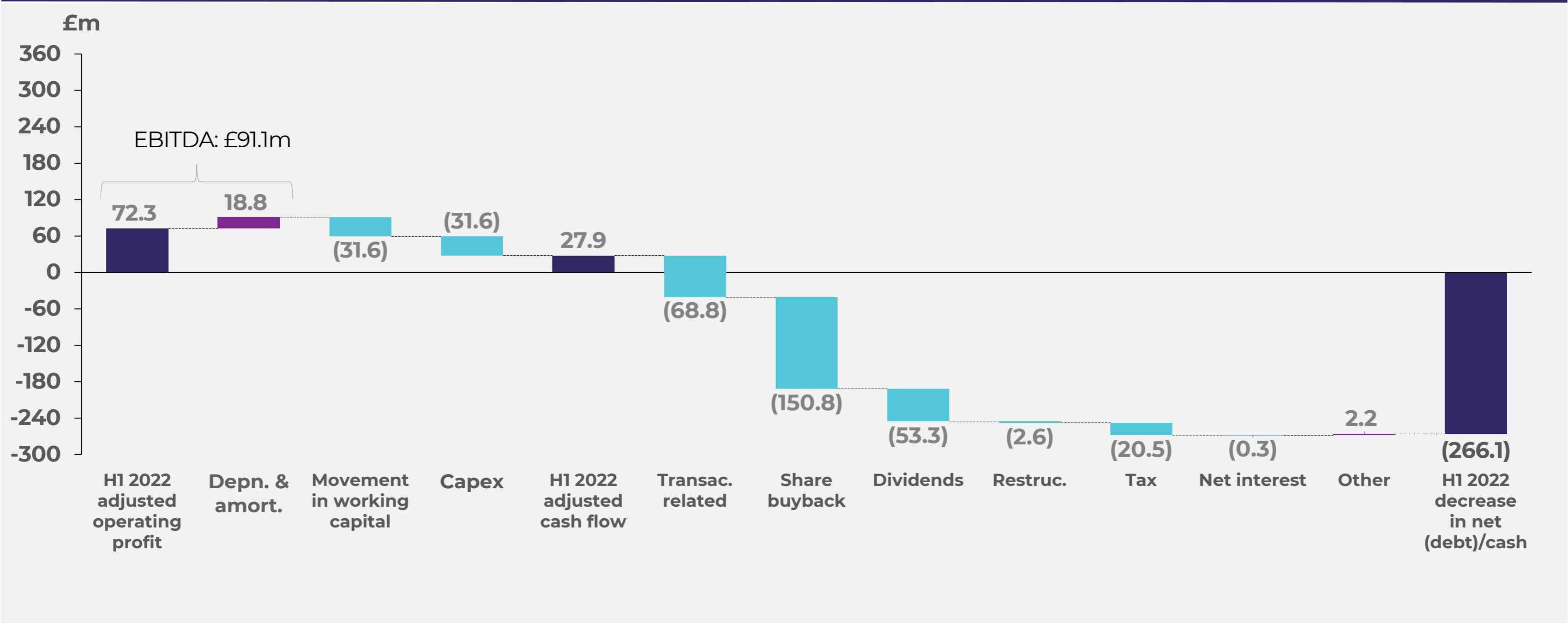
## Notes

1. These adjusted performance measures represent the statutory results excluding certain items.
2. H1 2021 results have been re-presented to exclude discontinued operations (Omega).
3. At constant exchange rates and including acquisitions and disposals on a comparable basis ('LFL').
4. To ensure consistency, ROGCE includes Omega in both numerator and denominator. 2021 ROGCE has been restated for SaaS.

# Increased R&D investment maintains operating margin



# Cash outflow driven by share buyback



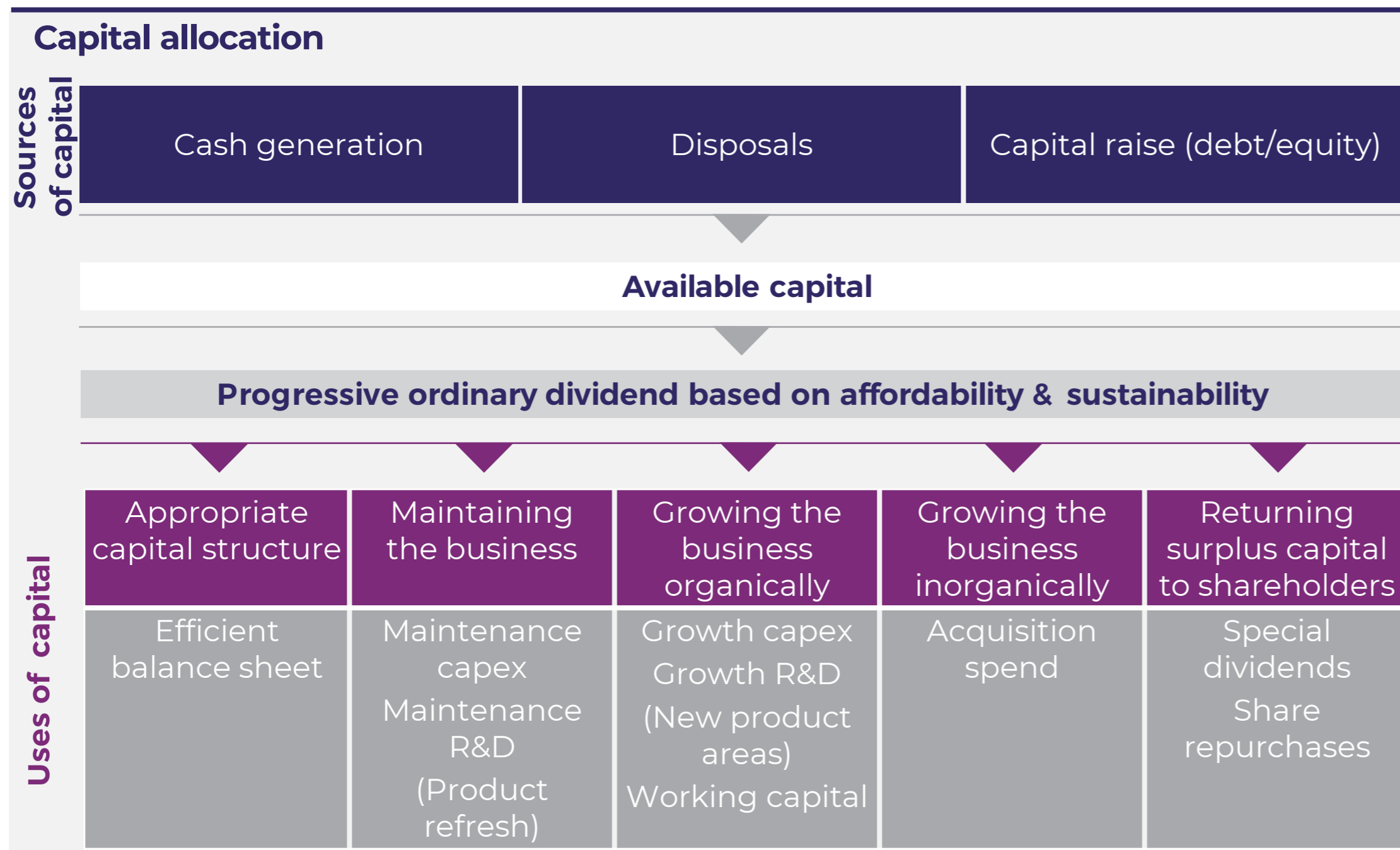
# Adjusted and statutory operating profit/loss and PBT

Continuing operations £m	H1 2022	H1 2021 <sup>2</sup>
<b>Adjusted operating profit<sup>1</sup></b>	<b>72.3</b>	<b>68.1</b>
Restructuring costs	-	(3.8)
Net transaction-related costs and fair value adjustments	(6.8)	(3.4)
Depreciation of acquisition-related fair value adjustments to property, plant and equipment	(0.1)	(0.1)
Configuration and customisation costs carried out by third parties on material SaaS projects	(2.3)	-
Amortisation of acquisition-related intangibles	(8.8)	(5.4)
<b>Statutory operating profit</b>	<b>54.3</b>	<b>55.4</b>
Share of results of associates	0.1	-
Profit on disposal of businesses	0.2	117.7
Financial income	0.3	11.9
Finance costs	(13.1)	(3.1)
<b>Statutory profit before tax from continuing operations</b>	<b>41.8</b>	<b>181.9</b>

## Notes

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# Disciplined capital allocation approach



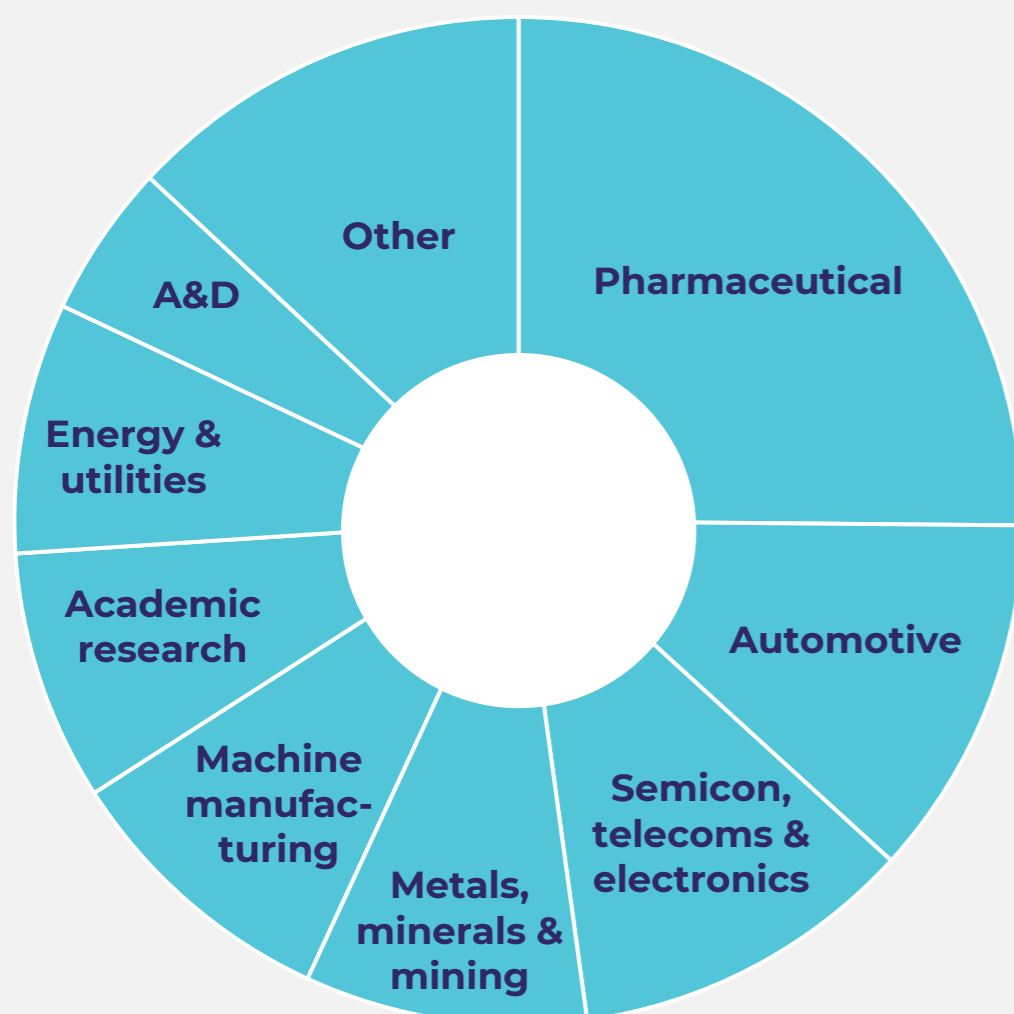
- Continued strong cash generation from operations and disposals
- Net debt to EBITDA at 30 June 0.6x, cash positive following the receipt of Omega proceeds of £410m
- Increased investment in capex and R&D
- Tactical increase in working capital to address supply chain challenges
- Acquisition spend of £48m in H1
- Ordinary dividend increased 5%
- £150 million of share buyback completed in H1

# Updated considerations for FY 2022

Headwinds				Tailwinds
<ul style="list-style-type: none"> <li>Continued supply chain disruption</li> <li>Availability of key components</li> <li>Cost inflation</li> </ul>				<ul style="list-style-type: none"> <li>Record order book</li> <li>Continued pricing power</li> <li>Increased pricing already in the order book</li> <li>Improving productivity using SBS</li> </ul>
Impact of 1 cent change versus GBP	2022 sales £m	2022 adj op profit £m	Assumed rate for 2022	Financial guidance
USD	3.1	0.5	1.38	<ul style="list-style-type: none"> <li>Capex anticipated to be c. £50-60 million</li> <li>Incremental R&amp;D investment to be c. £15 million</li> <li>SaaS costs to be c.£20 million</li> <li>Adjusted tax rate of 22%</li> <li>Working capital 11% ~ 15% of sales</li> </ul>
EUR	2.5	0.5	1.16	

# Andrew Heath Business update

# Sales by end market

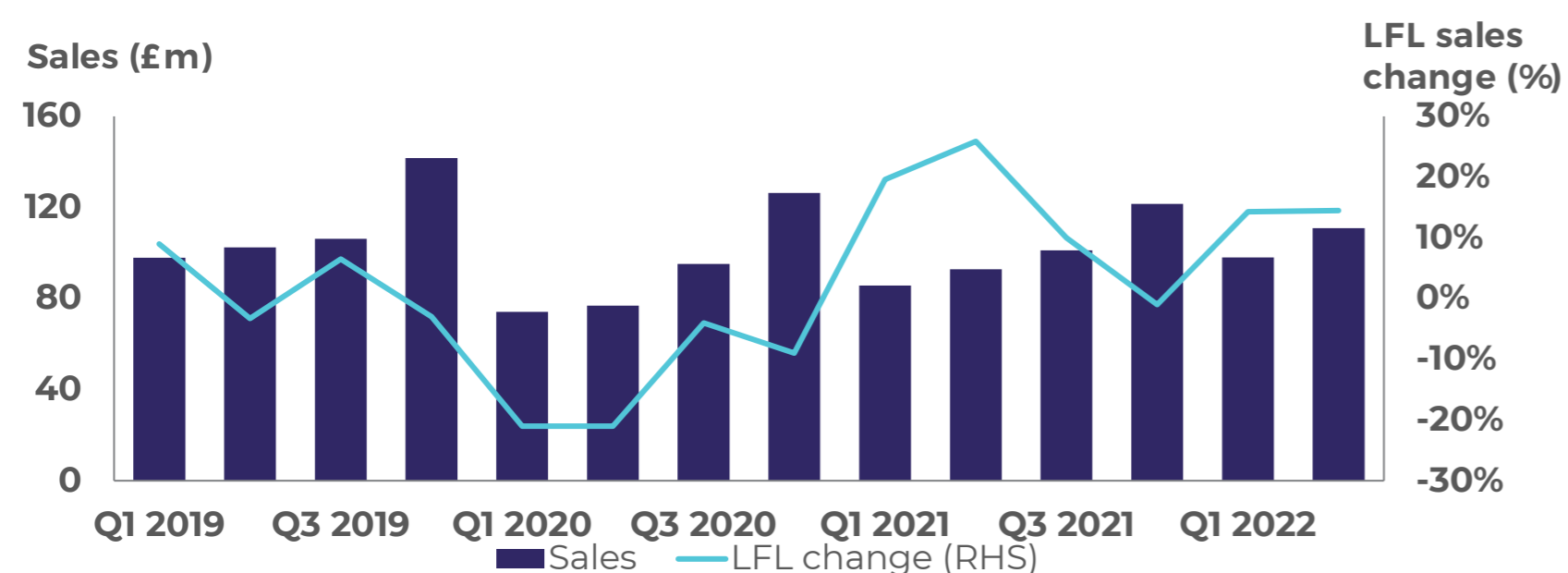
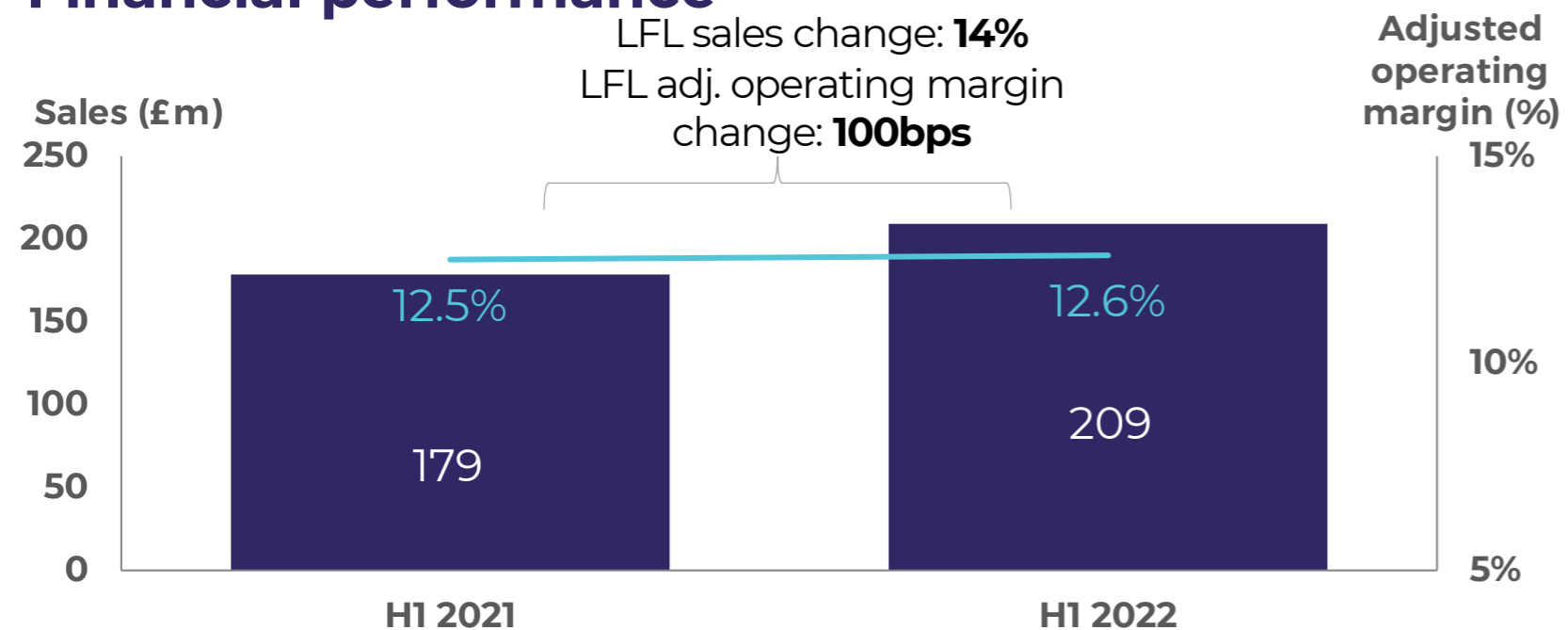


End market	% of Group sales	LFL change H1 2022	LFL change H1 2021
Pharmaceutical	25%	<b>12%</b>	<b>27%</b>
Automotive	12%	<b>15%</b>	<b>(7%)</b>
Semiconductor, telecoms & electronics	11%	<b>13%</b>	<b>26%</b>
Metals, minerals & mining	9%	<b>5%</b>	<b>16%</b>
Machine manufacturing	9%	<b>4%</b>	<b>41%</b>
Academic research	8%	<b>3%</b>	<b>6%</b>
Energy & utilities	8%	<b>20%</b>	<b>(9%)</b>
Aerospace & defence	5%	<b>13%</b>	<b>2%</b>



# Malvern Panalytical – record order book; higher LFL margins

## Financial performance

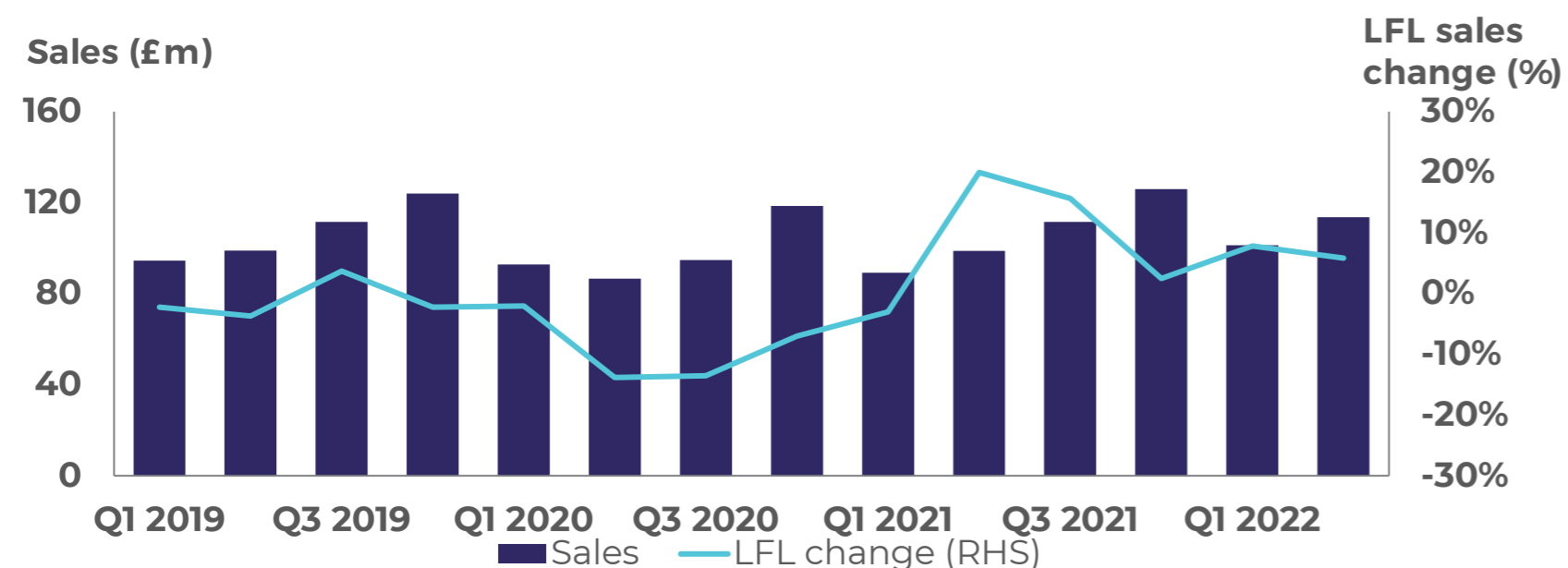
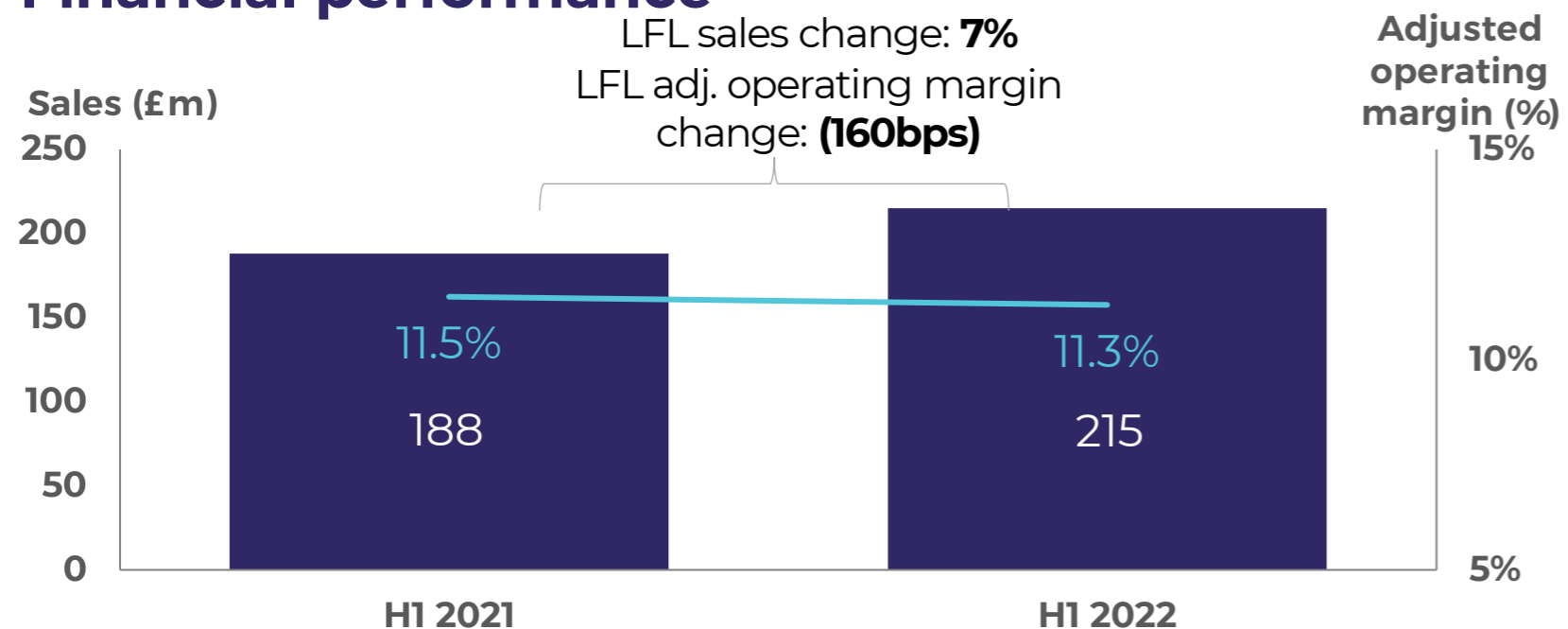


## Strategic update

- 12% LFL growth in orders
- Record order book reflecting robust customer demand, share gains and new product launches
  - Pharma – rising R&D investment; increase in onshoring; success of new products such as Zetasizer and OmniTrust
  - Primary materials – improving order growth; good aftersales revenues
  - Advanced materials – strong demand, especially for battery materials and new energy technologies
- Strengthening our position as the differentiated leader in the advanced measurement and characterisation of materials
  - Enhancing performance of products; developing new solutions
  - Increased R&D spend and ERP investment
- Strategic focus on pharma – Creoptix acquisition strengthens offering in drug affinity space

# HBK – order momentum; acquisitions strengthen offering

## Financial performance

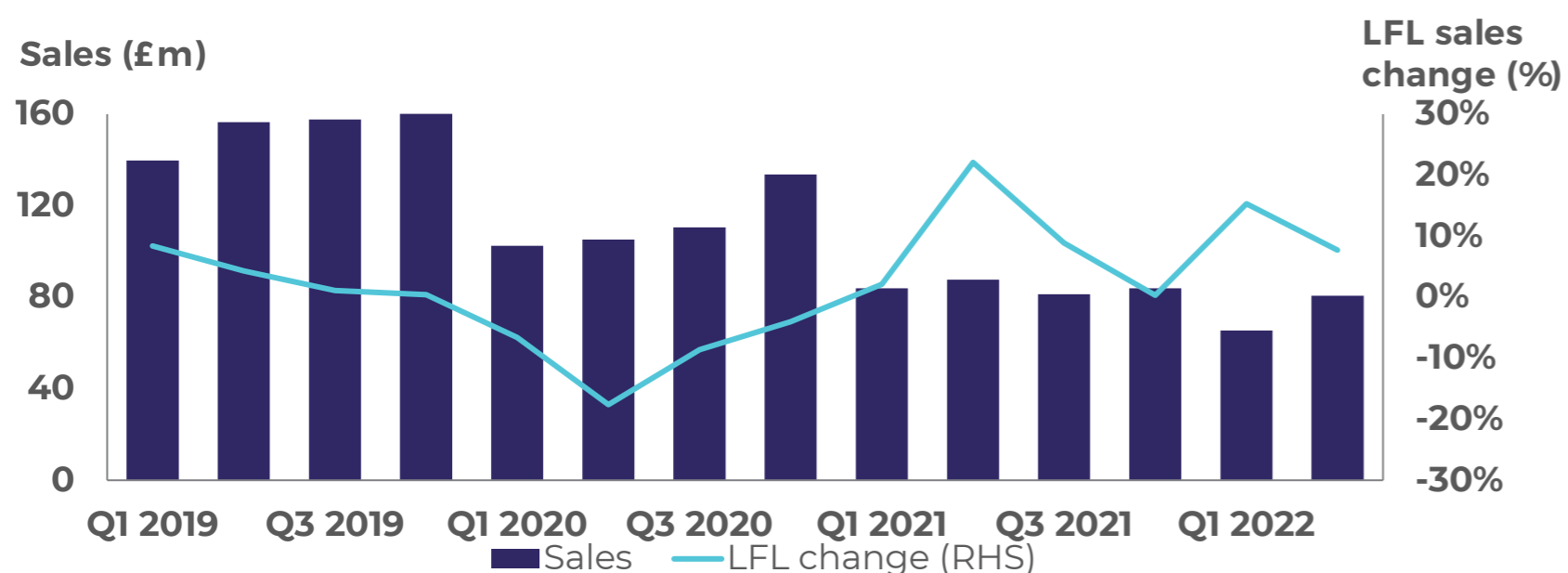
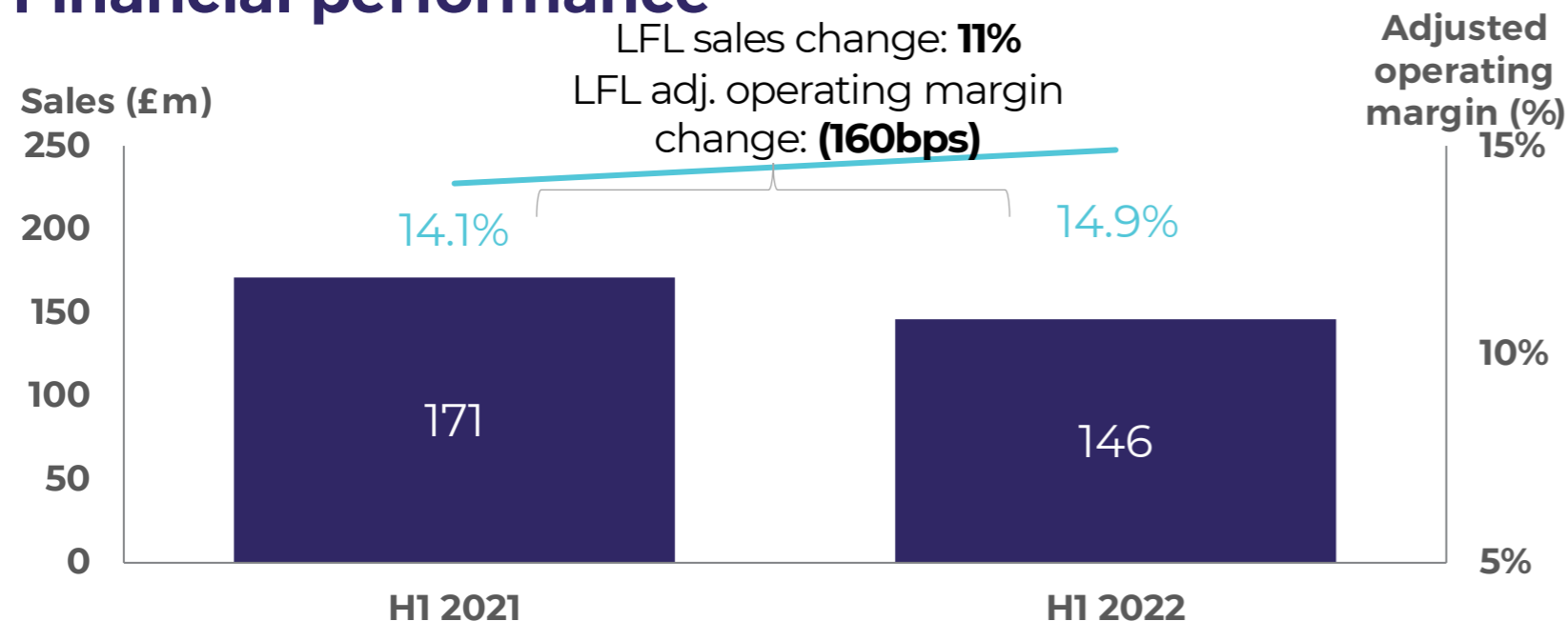


## Strategic update

- 23% LFL growth in orders
- Key markets back to growth
  - Machine manufacturing – continued robust demand for OEM sensor solutions, accelerometers and weighing solutions; especially agriculture smart sensing and medical
  - Automotive – strong growth, especially for EV projects including simulators, torque sensors and high speed DAQ
  - A&D – strong growth from large project orders won in 2021; highly complex testing requires breadth of testing solutions
- Strategic initiatives are better positioning HBK
  - Product launches/upgrades – AutoHawk/C5 force sensors/Tescia- aligned to strategic growth drivers in virtual testing and simulation; physical testing and software
  - Strengthening the organisation – new go-to-market model and CRM being rolled out; new ERP to be implemented
- Dytran Instruments acquisition and Blueberry JV strengthen offering

# Industrial Solutions – record order book; remain stand-alone







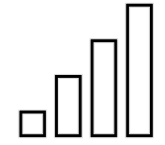
## Financial performance



## Strategic update

- 28% LFL growth in orders
- Robust growth, especially semiconductor, pharma and Asia
  - Semicon/electronics – rising chip demand and onshoring trend supporting investment; market share gains and strong backlog entering 2022 at PMS; strong growth into Asia at Servomex
  - Pharma - increase in onshoring and biologics manufacturing, PMS’ sterility assurance solutions supporting growth
  - Energy – improving trend; emissions control and increasing focus on environmental issues supportive, as well as automation
  - Expansion in digital, automation solutions and connectivity
- Centred around being a leading provider of high precision, in-line sensing and monitoring solutions
  - Decision taken to not pursue further integration – companies to remain on a stand-alone basis; deploy SBS to drive efficiencies
  - Invest organically - each business continues its customer-oriented strategic initiatives and product development strategies to drive growth
  - ISD management layer removed to take out additional cost

# Aligning our strategy with key sustainability themes

<b>Advancements in health</b> 	<b>Transformation of mobility</b> 	<b>Energy transition</b> 	<b>Responsibility in sourcing and production</b> 	<b>Environmental protection</b> 	<b>Evolution of food and agriculture</b> 	<b>More productive</b> 
<ul style="list-style-type: none"> <li>Pharma sales now 25% of Group</li> <li>Demand supported by success of new products and services</li> <li>Zetasizer and OmniTrust software generating incremental sales of £15m</li> </ul>	<ul style="list-style-type: none"> <li>Supporting electric transportation in automotive and aerospace</li> <li>Sales of HBK electric powertrain testing suite more than doubled in 3 years</li> <li>Virtual test division – incremental sales of £60m since 2018</li> </ul>	<ul style="list-style-type: none"> <li>Malvern Panalytical supports development of advanced materials technologies; £11m in new revenue in H1 for battery/new energy</li> <li>HBK’s mechanical vibration and electrical testing accelerates battery development; expect £40m sales in 2022</li> </ul>	<ul style="list-style-type: none"> <li>Malvern Panalytical process automation and digital solutions, help improve quality and yield</li> </ul>	<ul style="list-style-type: none"> <li>Servomex’s gas analysis solutions for emissions monitoring; strong growth in H1</li> </ul>	<ul style="list-style-type: none"> <li>HBK OEM smart sensors – strong sales into advanced agriculture</li> </ul>	<ul style="list-style-type: none"> <li>Products help customers improve productivity in their processes – saving time, cost in product development, ensuring yield maximisation in manufacturing</li> </ul>

*Well positioned in attractive end markets, with strong fundamentals, supported by key sustainability themes, with the ability to compound growth at a higher rate through the cycle*

# Increasing investment to accelerate growth

- Higher R&D spend on key product development areas

- Malvern Panalytical - expanding range of X-ray spectrometers and particle analysers, including a robot driven sample automation for the Mastersizer; next generation calorimeters and analytics software
- HBK - new DAQ hardware and software platform, Advantage & Fusion; electric powertrain testing, smart sensing and virtual test offering
- PMS - seven new products, including several that use novel IP
- Red Lion - product refresh and new industrial ethernet switch line
- Servomex - product refresh for ultra trace moisture/oxygen analysers and photometric process analyser

- Higher capex on key infrastructure projects

- New facility for PMS, more than doubling capacity
- ERP investments at Malvern Panalytical and HBK



# Deploying our capital for value enhancing M&A

## Malvern Panalytical

- Creoptix strengthens and expands offering in the affinity (drug binding) area
- Provides industry-leading instruments and software, measuring real-time biological and molecular interactions
- Opportunity to scale Creoptix's superior technology, in terms of speed and sensitivity, leveraging Malvern Panalytical customer base



## HBK

- Dytran Instruments strengthens piezo-electric sensor offering, adds new MEMS capability and expands sales in North America
- Supporting space, aerospace, industrial, automotive industries in product development testing and embedded monitoring solutions
- JV agreement with DEWESoft, helps accelerate development of new Fusion DAQ platform, and create new industry, open standard for DAQ products



## Red Lion

- MB connect line adds high security hardware and software solutions for remote monitoring and configuration



# More productive

A red Ford car is mounted on a complex mechanical simulator rig. The rig is positioned on a virtual city street, with a large curved screen in the background displaying a cityscape with modern buildings and other vehicles. The car is viewed from a side-rear perspective, and the rig's mechanical components, including hydraulic cylinders and suspension parts, are visible.

Ford Motor Co is continuously looking to speed up the product development process. Ford recently installed a VI-grade turnkey solution at its Dearborn Development Center, Michigan to help on this front. It incorporated a DiM 250 simulator, equipped with the VI-DriveSim software suite and active technology.

Incorporating simulation into product development brings numerous advantages. Engineers can test scenarios that are too expensive or too radical to build prototypes for. Mid-cycle improvements and fixes on existing models can be identified, and different configurations tried out more quickly in-situ. The presence of a driver in the loop adds a human element to a process that might previously have been solely computer contained.

Critically, it saves time, cost, risk and environmental impact – real and quantifiable benefits for Ford.

*“This success builds on our long-standing collaboration with Ford Motor Company”*  
*Guido Bairati, managing director, VI-grade*

*“Simulation and simulators at Ford have really given us the ability to enhance our development process in all aspects”*  
*Louis Jamail, core methods and simulation supervisor at Ford*  
(quote courtesy of Jordyn Grzelewski, The Detroit News)

# Driving our ambition to be a leading sustainable business

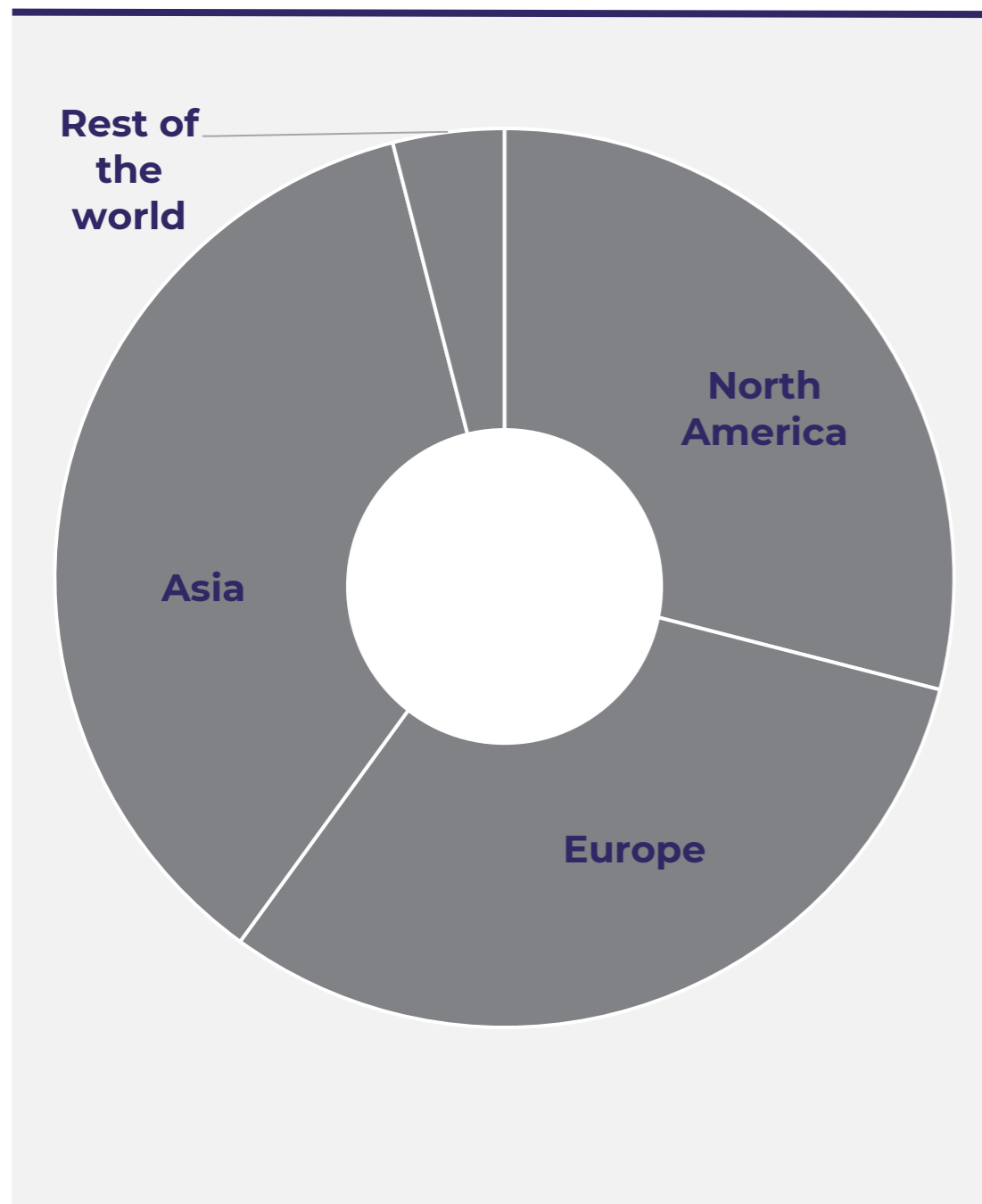
- Delivered a good financial performance in H1 2022
- Confidence in delivering high single digit organic sales growth and margin expansion for the full year
- Entering the next phase of our strategy
  - Purpose-led, with sustainability at the heart
  - More focused, more profitable, higher quality and more resilient business, with a robust balance sheet
  - Well positioned in attractive end markets, with strong fundamentals, supported by key sustainability themes
  - Confidence in our ability to return the Group to previous margin highs, exceeding them over the longer term
  - Strong position to meet our ambition to be a leading sustainable business

*Confident in our ability to compound growth at a higher rate through the cycle  
and deliver margin expansion*



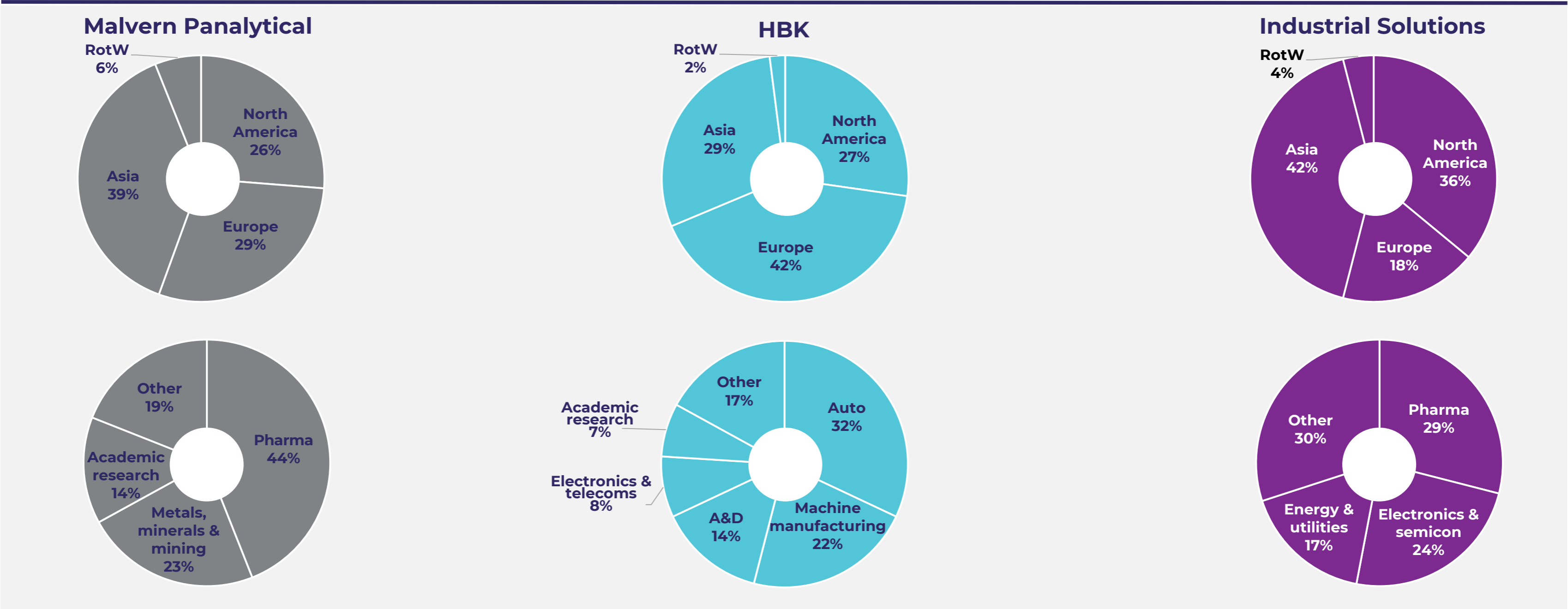
# Appendix

# Sales by destination



Destination	% of Group sales	LFL change H1 2022	LFL change H1 2021
North America	29%	<b>15%</b>	<b>7%</b>
Europe	31%	<b>7%</b>	<b>10%</b>
Germany	9%	<b>11%</b>	<b>4%</b>
UK	5%	<b>22%</b>	<b>(2%)</b>
Asia	36%	<b>12%</b>	<b>25%</b>
China	17%	<b>9%</b>	<b>31%</b>
Japan	6%	<b>5%</b>	<b>3%</b>
Rest of the world	4%	<b>6%</b>	<b>9%</b>

# Sales by destination and end market



# Balance sheet

Summary (£m)	H1 2022	H1 2021 <sup>1</sup>
Goodwill and intangible assets	729.3	661.1
Property, plant and equipment & Right-of-use assets	217.8	182.4
Investment in associates, equity & debt instruments	55.1	47.1
Assets held for sale (net) excluding £7.7m of cash	179.6	-
Working capital:		
- Inventories	231.3	178.0
- Receivables	335.7	275.3
- Payables	(350.1)	(329.5)
- Provisions	(20.1)	(19.3)
Derivatives & taxation (net)	(27.2)	12.5
Lease liabilities	(65.2)	(38.4)
Retirement benefits (net)	(11.3)	(17.8)
<b>Net capital employed</b>	<b>1,274.9</b>	<b>951.4</b>
Net (debt)/cash including £7.7m of assets classified as held for sale	(98.3)	272.8
<b>Net assets</b>	<b>1,176.6</b>	<b>1,224.2</b>

Note

1. H1 2021 is restated for SaaS

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