Transcription

Spectris Trading Update

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22 April 2021

PRESENTATION

Operator

Welcome to the Spectris trading update. Throughout the call, all participants will be in listen-only mode, so there's no need to meet your own individual lines, and afterwards, there will be a question-and-answer session. Just to remind you, this call is being recorded. Today, I'm pleased to present Andrew Heath, Chief Executive; and Derek Harding, Chief Financial Officer. Please begin your meeting.

Andrew Heath

Thank you very much, and good morning, everybody, and welcome to the Spectris Q1 trading update. I really do hope that you're keeping safe and well at this time. I'm joined by Derek Harding, our CFO, to discuss our performance in the first quarter of 2021.

While it’s pleasing to see many economies and markets recovering during the first quarter, albeit at varying speeds, we’re again seen COVID-19 cases rising and lockdown still prevalent in a number of the countries in which we operate. Therefore, we continue to take a balanced approach to managing our business in line with our culture and values as we did through last year. Our priority remains ensuring we support both our employees and our customers whilst continuing to progress our strategic initiatives to take advantage of the recovery.

And I have to say this approach is working well for us. We have started the year strongly. As you remember, at the time of our full year results, we stated that the order intake in the last quarter of 2020 provided good momentum coming into this year. And that's certainly been borne out. The order book has been further strengthened through the first quarter. I’m very pleased with the Group’s performance, which is ahead of our expectations at the year end, with the growth in sales reflecting both the execution of our strategic growth initiatives as well as the recovery in many of our end markets.

For the Group as a whole, like-for-like sales increased 5% in the first quarter with a particularly strong performance in March. Like-for-like orders also increased, similarly, by 5%. And if we exclude the businesses divested, i.e. Millbrook and BK Vibro, the order book was even stronger, at 10%. In all regions, the backdrop has improved, although sales in Europe and North America remained lower year on year. Like-for-like sales increased 24% in Asia, albeit against an easier comparator, reflecting the earlier impact of COVID there in 2020. In China, growth was notably strong, with sales up by more than 50% in the period.

Turning now to our businesses. Malvern Panalytical recorded a 20% increase in like-for-like sales in the first quarter. Although it was an easier comp, given the high Asia exposure and early impact from COVID last year, there was strong growth across all regions. Sales in the pharmaceutical customers were very robust, reflecting the market growth and also the recent product introductions such as our Zetasizer Advance and Amplify Analytics programme in bio-pharma. Like-for-like sales into academic research remained lower. However, they have started to recover as research institutes open up further around the world.

Moving onto HBK, and reflecting its later cycle exposure and, therefore, a tougher comparator, like-for-like sales here declined 3%. Machine manufacturing, though, continued the strong performance from 2020, which reflects good onward demand in our weighing technologies, in particular. Sales into the electronics, telecoms, and aerospace customers also rose year on year. And although automotive like-for-like sales were lower, the rate of decline is easing, and we expect good demand for our simulation software and electric power applications here.

Despite the lower like-for-like sales, order momentum did improve at HBK through the quarter with key wins, including new VI-grade NVH-simulators, sensor orders to the process and aerospace industries, strong software renewals, as well as our new eDrive and eGrid solutions with major auto OEMs.

At Omega, like-for-like sales were 1% higher, broadly flat in North America - its main market - but with good growth in Asia, particularly China and South Korea. The strong recovery in Asia and the improving trend in North America has led to a good backlog going into the second quarter. Order growth in the quarter exceeded that of sales. In particular, we've seen a robust growth in demand for our temperature products, which should underpin sales growth in Q2.

In Industrial Solutions, like-for-like sales here increased 2%, with all but one of the retained businesses posting growth in the quarter. Sales were strongest into semiconductor, electronics, and pharmaceutical end markets, reflecting our order backlog coming into the year, but also market growth and some market share gains.

PMS has seen particularly strong demand for its Ultra DI 20 and UltraChem 20 instruments, with high urgency for environmental monitoring systems, which is primarily driven by increased demand for vaccines and onshoring of production.

Servomex has seen good gains in petrochem in China, and also, semiconductors, generally.

Red Lion have won notable projects with their new FlexEdge automation platform from energy customers and this is underpinning growth above market.

Turning now to our balance sheet and M&A.

Our businesses remain highly cash generative. At the end of March, we had £334.8 million of cash on the balance sheet. We have further added around $52 million or £38 million to that in April, with the proceeds from our holding in the US listed company where the merger has now completed. This represents a gain of almost $33 million. And activities to establish the Spectris Foundation using part of this gain are well underway.

This week we have also agreed another divestment, that of ESG, our microseismic solutions business. This is the fourth in our portfolio optimisation programme, and although small in scale, ESG has margins lower than the group average. I'd just like to take this opportunity to thank all of our ESG employees for their contribution to Spectris over the years and to wish them well in the next stage of their journey.

We remain on track to complete the acquisition of Concurrent Real-Time during the quarter. I'm delighted that we are adding Concurrent to our HBK platform. Simulation is one of the key strategic growth areas for HBK, and Concurrent's highly-complementary technology will strengthen and expand our virtual testing solutions. Their hardware and software solutions are used for testing critical systems to ensure they work correctly within real time applications, and are already used by HBK to power its VI-grade simulators. Combining the two businesses will create a more complete and compelling offering for our customer base, helping them bring high quality products to market faster and at lower cost. And we do really look forward to the team joining us post-completion.

So, in summary, I am very pleased with our performance in the first quarter. At our full-year results, we said that the order book coming into the year provided good momentum for the first quarter, but in fact sales came in ahead of our expectations. We are obviously benefiting from the market recovery, but also by executing on our strategic growth initiatives. The numerous recent product launches are certainly driving incremental growth beyond just the market. Expansion in our order book provides confidence that the momentum we are seeing should continue. And with our improved cost base, this creates a strong operating leverage opportunity. And as such, we are well-positioned for the continued market recovery in 2021.

Our strategic objects of organic growth and margin expansion remain, and I'm pleased that we have continued to optimise our portfolio and announce our first acquisition. As ever, we remain focused on delivering sustainable, long-term value to our shareholders.

And with that, very happy to open up to questions.

Q&A

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name has been announced, you can ask your question. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel. So, once again, that's 01 to ask a question, or 02 if you need to cancel.

Our first question comes from the line of Andrew Wilson at JP Morgan. Please go ahead. Your line is open.

Andrew Wilson

Hi. Good morning, everyone, and thanks for taking my question. I've just got two. I'm interested in any colour on the conversations you've been having with some of the automotive customers. I think you've touched on, obviously, still some pressure in that market, but things improving. I'm interested how broad-based that improvement is. Is it just solely around EV development, or is it broader? And any sense on when we might start seeing that turning positive?

Andrew Heath

OK, do you want to take the questions in turn? Very happy to. Good to hear from you. From an auto perspective, we have certainly seen the recovery coming through regionally: particularly strong in Asia to start with, North America, and now progressively into Europe. And we're seeing that, certainly, in our HBK business, that things are now on the turn and starting to flow through.

You have to remember at HBK, we are 80% exposed to R&D activities within auto. So, yes, the new platforms is really what drives the demand, and customers have certainly been prioritised: the electrification, EVs, hybrid vehicles over more conventional internal combustion engine programmes, in general. So, we are seeing a disproportionate growth there, relative to what we've seen historically.

But I think, as we said at the full year results, that's good news for us because we have a broader exposure to the new technologies within the drive for electrification, whether that's in terms of our simulator offerings, whether that's in terms of our e-drive, e-grid offerings, whether it's our noise measurement capability in the certification of drive-by noise. So, all of those things are certainly helping to stimulate the recovery for us within auto. Hope that answers your question.

Andrew Wilson

Very much so. The second one is slightly different; it's probably a little bit broader. Hearing a lot around supply chain challenges and also, potentially, customers pre-buying or trying to buy ahead of when they normally would, basically, to avoid shortages and get the months plan and reduce those lead times. Just interested if there's any real challenges on the supply chain side, and also any indications of customers potentially dragging forward some of the orders.

Andrew Heath

Let's start with the supply chain constraints. We haven't been immune, and there's been quite a lot in the media, but certainly, in all my reviews with the businesses - and this is a standing agenda item in our monthly discussions with the businesses - at the moment, we are seeing some disruptions. But the unanimous feedback is that it's manageable. We are seeing some of the semiconductor electronics constraints flowing through, but it's more of an irritant at the moment. Frequently, within semiconductors, electronics, there's always the obsolescence that you have to deal with. So, in many ways, this is similar to the level that we are familiar with, if you like.

The feedback from all our businesses is, at the moment, it's manageable, and certainly more on the metals side and component side, they're not seeing very much to anything impacting us. So, generally speaking, other than the odd product line having to have some extra engineering work done to it to either redesign a printed circuit board or something, it's pretty small. And then, I think, on the flipside of all that, in terms of inventory build back, for most of our businesses, that's not really the market that we serve; most of our orders are discrete requirements, rather than for general stocking or inventory purposes.

I think it's fair to say, though, that the businesses that are more distribution-focused like Omega, Red Lion, we have seen some of the distribution customers there certainly building back inventory, which has helped Omega, and is also helping Red Lion, to some extent, but generally speaking, the demand we are seeing is certainly some pent-up demand from last year still flowing through, but I think generally it's around new projects, new initiatives that customers are driving that we're looking to provide them with our instruments and test equipment.

Andrew Wilson

Perfect. Very clear. Thanks, Andrew.

Andrew Heath

Pleasure.

Operator

Thank you. Our next question comes from the line of Mark Davis-Jones of Stifel. Please go ahead. Your line is open.

Mark Davis-Jones

Thank you very much. Morning, Andrew. Morning, Derek. Can I ask about what you've referenced in the statement: there's a strong operating leverage opportunity, because I think this has been a key issue for a lot of us. As the revenue has come back in, what are you seeing in terms of trends in costs? Are you still able to keep a firm lid on those OpEx trends, even given some rather inflationary pressures in the backdrop globally at the moment? So, how are you thinking about the evolution of costs as we go through the next quarter or two?

Andrew Heath

Hello, Mark. Great to hear from you. Thanks for your question. Let me open it up and I'll pass it to Derek to pick up on some of the specifics. Certainly, it's not that long ago that we had our full-year results presentation, and we referenced Slide 16 of that deck in terms of the pro forma businesses and what we were endeavouring to do in terms of operating expense and overhead costs for this year. I think, even in a relatively short period of time since then, clearly, we are seeing demand coming back even more strongly than we expected at that point. We are working actively with the businesses in real time, looking at customers' demand, feedback from the market, analysts, economists, and generally seeing a more positive outlook continuing to build. So, as such, we are trying to be agile in how we build back the costs, support the growth, whilst at the same time, being very disciplined around our cost base and not allowing costs to creep back in unnecessarily.

And I'll let Derek just talk about maybe some specifics, but I think the areas that we are watching, certainly, supply input costs, we are starting to see those going up. Equally, in some of the geographies and locations we work, we're starting to see labour costs going up; some of the labour markets regionally are getting quite hot. So, there are pressures on the input costs, for sure. But as we said at the full-year results, we would expect to be able to pass the majority, if not all of that, through on pricing. But Derek, I don't know if you want to just pick up on anything else?

Derek Harding

Morning, Mark. The only thing I would really add is, clearly, it's really the volume-related element. If we find ourselves recovering significantly faster than we might have expected, then we will need to put in a little bit of cost into the gross margin, if you like, in order to get that product out of the door, but that should still contribute to the drop-through that we are aiming for. So, from a process perspective, we're almost running a quarterly cheque book internally. There's a huge amount of focus on holding the costs in the right place.

Having gone through all the work that we've done in the last two years of getting cost base right, there's a collective desire amongst all of the teams to keep them in the right place. So, on a quarterly basis, we look out, see what we think is coming. If there's a need to make good cost investment, if you like, in order to meet capacity or meet demand, then we're happy to do that, but seeing overheads and general costs floating back up is not something that we are expecting.

So, the guidance that we gave at the full year was on a pro forma basis. We were at 5:20 last year of costs. We thought that ten of that was temporary from last year, if you remember, so that would come back. We also thought we had around about ten million of inflationary costs that would come in. There's probably a little bit more than that that will come in now, driven by volume, but a little bit of that will depend on how the rest of the year goes. But the overarching shape of trying to drive a strong drop-through is still front of mind and top focus, and we will give you the actual profit numbers when we come to the half year and be able to update on our success or otherwise on that when we show you the half year numbers.

Mark Davis-Jones

Great. And I assume that mix probably helps a bit on that, given the strength of Malvern Panalytical as well, given the margins there.

Andrew Heath

Yes, and also, as you look at the quality of the businesses that remain, mix continues to help throughout. So, we announced this morning the ESG business leaving the Group. The margins of ESG are lower than the Group average, so that will continue to contribute, and we'll have a little bit of cost relating to Vibro and Millbrook for the couple of months that we own them, which is not in those pro forma numbers. So, if you actually look at the reported numbers, they'll be a little bit higher because of that. But you're right, the remaining businesses in the Group now are the higher-margin contributors, as well. So, that will also help.

Mark Davis-Jones

Great. And one final one from me, if I may. The first time we've heard some positive noises on Omega for quite some time. Is that just the market turning, or is that some sign of the benefits of the changes that you've been making there?

Derek Harding

This certainly is being helped by the market coming back, Mark, but also from both a renewed focus, with Amit coming into the business, simplifying what we're doing, getting the business more focused, prioritising the key things that need to be done as well as starting to see some of the benefits of the upgrades to the web platform that we made through the second half of '19 and 2020. So, it's a combination of the two. Clearly, as I said at the full year, we're looking for strong progress in every year, this year.

Mark Davis-Jones

Great. Thank you very much.

Derek Harding

Pleasure.

Operator

Thank you. Our next question comes from the line of Jonathan Herne at Barclays. Please go ahead. Your line is open.

Jonathan Herne

Good morning, guys. Just a few questions from me, please. Firstly, I just wondered if you'd give us a little bit more colour on the order book by division, just essentially, which divisions have the greatest order visibility, and maybe, just in terms of size of order books by division. That would be super helpful. That was the first one.

Andrew Heath

I can certainly give you the colour, Jonathan, and Derek maybe just to give you some flavour in terms of the quantums. I'll start with Malvern Panalytical. Here, we have certainly seen really strong recovery in Pharmaceuticals. We are up significantly in the first quarter. We talked a lot about Malvern Panalytical coming into 2020 with the market headwinds of around about 10% down, and then COVID hit, and they were early-cycle because of their exposure into Asia. So, it was a soft comp. But Pharma is up significantly.

And it's not just in Asia; we're seeing strong growth in North America and strong growth in Europe currently. And that’s certainly propelling Malvern Panalytical’s prospects currently. But equally, on top of that, Metals mineral mining is well up, driven, really, by Asia and China. Again, North America and Europe are still in a bit of a catch-up mode, but we're seeing, as economies come back, then the orders are really starting to flow through from the whole mining segment, helped by high commodity prices.

The other area to touch on within Malvern Panalytical is, as I mentioned earlier, just around academic research, the R&D aspects, universities, research institutes. It's still lower, but we are seeing quite good growth now coming through in Asia, and the decline decreasing generally. So, that’s Malvern Panalytical.

Within HBK, machine manufacturing remains really buoyant, our weighing technologies, our sensors for that area. We've upgraded a number of those sensors, launched a number of new sensors over the past 12-24 months. That’s certainly helping, and we are seeing continued strong demand through the first quarter, similar to last year.

Also, on the flipside, it’s still down quite significantly, but is recovering, but against quite a tough comp. We were actually up, orders-wise, in North America in auto in the first quarter of last year. So, we didn't really see the automotive start to dip until the May into June timeframe last year. So, from a comp perspective, it's a bit tougher to compare, but we are, on a sequential basis, we are seeing automated recovering, and then, within aerospace and defence, we’re up slightly there. we have less exposure into commercial aerospace, and the defence and space aspects of the end markets are holding up well. And then, we're seeing growth in electronics, semi-telecom in HBK, as well.

Omega, I touched on already, so I won’t repeat myself there. And then, with ISD, PMS is performing really well: strong semiconductor order intake last year; that's continuing, which is driving sales up. But also, as I mentioned, strong demand for their environmental monitoring solutions, instruments, and software into life science, clean room labs to support vaccine development, vaccine manufacturing, in particular, and also the onshoring trend there.

Servomex, as I mentioned: strong in electronics, their healthcare side of the business. Their Hummingbird products are doing well. And we are seeing, from an energy perspective, it's more regionally based as economies come back, but again, up in Asia.

So, I think, hopefully, that gives you a bit of a flavour. Derek. I don't know if you just want to touch on -

Derek Harding

The only thing I would add is that if you look at the ISD division, excluding the businesses that we've sold, and read that through to the Group, then the orders are actually up by 10% rather than the five in the statement. So, the year on year, like-for-like orders are down in Millbrook and Vibro for the period that we own them; so, that skews it. Actually, when you look at pro forma going forward, it's actually a slightly stronger position than the like-for-like position.

Jonathan Hurn

OK. That makes sense. Just in terms of the second question, just in terms of that 5% organic growth, is there some pricing within that? Can you just give us a rough feel for maybe how much is volume and how much is pricing?

Derek Harding

I would say it’s predominantly driven by volume. There will be a little bit of pricing in there Jonathan, but it was predominantly volume of that sort of scale. We typically try and get a couple of percent pricing to offset the couple of percent cost inflation that we would see, maybe make a little bit of improvement year on year in terms of our gross margins, but the bulk of that drive is volume, and obviously, in the case of Malvern Panalytical, in particular, it's against a difficult quarter one last year, particularly, in Asia.

So, what you're seeing, I think, with the revenue growth and the orders growth, is some lapping of some easier comps, but also actually a good lead indicator in the case of orders of Q2 activity, which is going to be difficult to measure, of course, because the Q2 last year is an even more challenging comp, if you like, or confusing comp, given how tough it was. But I think, fundamentally, you’re just seeing volume come through and activity really picking up.

Jonathan Hurn

OK. That’s clear. Thank you. And then, just maybe the last one. I know you're quite limited on what you can say on this, but just in terms of the M&A pipeline, and just looking forward, in terms of the size of the deals, are there still some quite big deals within that pipeline, or are they more in line with the recent ones, the one to 200 million-type size?

Derek Harding

We continually look at a wide range of opportunities, everything, as I said at the full year, from small bolt-ons, Jonathan, through to businesses the size equivalent to our current platform businesses or slightly larger, if it were a sensible acquisition. At the moment, I would say it's more at the smaller to mid-size of the range is what we're looking at, as more likely opportunities, but prices remain extremely frothy.

So, we've looked at a number. Clearly, we've signed Concurrent Real-Time. We’re excited by that. There are a couple of others we’ve looked at this year that we declined to participate or pulled out just because the pricing expectations are getting too high, but it's something that we absolutely continue to look at as part of executing on the strategy, but keeping our capital discipline is important.

Jonathan Hurn

That's very clear. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Robert Davies at Morgan Stanley. Please go ahead. Your line is open.

Robert Davies

Morning. Thanks for taking my questions. My first one is just around some of the trends you're seeing in Asia. I know you mentioned China was up more than 50%. Just to be curious, what was the growth comp that that was bumping against from last year? And then, just maybe within Asia, could you just give us a little more colour on some of the different countries of where you've seen those pockets of strength outside of China. That was my first question. Thank you.

Andrew Heath

Morning, Robert. Good to hear from you. China last year was significantly down, mainly as a consequence of being impacted both by Chinese New Year happening in January, then lockdowns through all of February, March and into April. So, from a comp perspective, it was easier, but just as I look at the numbers, we've more than compensated for that in the first quarter of this year. 50% growth in China more than offsets what was maybe nearer 30% decline last year.

Robert Davies

Thank you. And then, my other question was just more around the portfolio. Has anything over the last six months changed your ideas about the type of businesses you could sell that maybe the value that you can sell? You mentioned some of the assets you were looking to buy you turned down because the price was high. I guess you're in the position where you're also trying to sell assets. Have you seen an upward move in the value of some of the assets you are looking to sell, or no significant changes in terms of your disposal values that you are working on?

Andrew Heath

I think the market has definitely continued to move towards being much more of a sellers' market from a price-expectation perspective, multiple-expectation perspective over the last 12-24 months, for sure, which is helpful. But in terms of the disposal programme that we identified back in 2019 is still the programme that we are continuing to execute on. We did review all of those decisions last year, and confirmed that our analysis from '19 still held true in terms of those businesses that we wanted to invest in, where we saw we had the best growth prospects, the best margin prospects, the greatest value creation prospects versus those that were exposed either to industries or in markets where we didn't see the growth coming through, or we just didn't see the position of the business to be as attractive. So, when we repeated that analysis last year, we came to the same conclusion. So, we continue to execute on the disposal programme that we, effectively, identified at the Capital Markets Day back in '19.

Robert Davies

And then my final question was just around Malvern. You called out Pharma as being a particular point of strength. Just being curious, within the trend you're seeing in Pharma, is there any way of disaggregating the strength you're seeing in vaccine-related production versus underlying Pharma? Is there any way to give us any colour? I guess the question is how much of the boost is coming from vaccine-related production and response versus everything else? If that's even possible to split out?

Andrew Heath

It's not easy or even possible for us to split it out. It is certainly helping, but Malvern Panalytical traditionally has been more focused around these small molecule drug development activities, and clearly, the gene therapies, protein-based drug therapies, the larger molecules, the biologics has been an area of focus for us. So, we are getting stronger penetration of our Mastersizer, Zetasizer products into those areas, as well as some of our software solutions, like the Amplify Analytics that I spoke about.

So, certainly, the vaccine development production, viral vector manufacturing, the trended onshoring is all helping, and there's been a lot of government money that's gone into these mRNA drug development programmes, as well. And the fact that they've been successful has accelerated that whole activity by, it must be, years. So, that's stimulating demand in that area, as well. So, we're seeing across the board, really strong demand, clearly boosted by the whole vaccination programme. But equally, more generally than that, as well.

Robert Davies

Thank you. That's great. Thanks.

Operator

Thank you. Our next question comes from the line of George Featherstone at Bank of America. Please go ahead. Your line is open.

George Featherstone

Morning, Andrew. Morning, Derek. Thanks very much for taking my questions. First one would be: can you talk about the investment appetite among your customers at the minute? Are there any regions or markets where you'd expect customers to be increasing capacity and investment levels?

Andrew Heath

Morning, George. In terms of investment appetite, we just talked about Pharma; we're seeing a lot of the investment going into that. But equally, semiconductor and electronics are seeing significant demand, both at the machine tool manufacturing level; that certainly helped Omega at the end of last year and through Q1. Omega sales up in Asia, South Korea in particular, have been driven by a lot of machine tool manufacturing for semiconductor fabs.

But equally, our particle measuring systems business and Servomex have seen strong sales into that whole semiconductor sector. I think, given the shortage in semiconductors, we've seen the announcements by the likes of TSMC and Samsung and Intel in terms of responding to that capacity. And then, additionally, some onshoring into North America driving really strong demand. So, that's another area that's going well.

And then, machine manufacturing continues for us to remain very positive. So, I'd say that they're the three stand-out areas. And within the R&D academia, automotive markets, they're recovering. And then, metals, minerals, mining, as I said earlier, is a bit more regionally based. As we've seen economies coming back, then we're seeing that whole activity coming back, but it is flowing from region to region, certainly very strong currently in Asia, China, in particular, for us.

George Featherstone

That's great. Thanks for the colour. And then, maybe going back to the pricing questions. Is there any potential for you to raise prices again during the year to offset some cost inflation, if that's ahead of expectations? It's just that we've heard from a number of industrial companies that that might be a possibility.

Andrew Heath

Yes, it is absolutely a possibility, and it's a discussion that we are having with the businesses, in fact. Typically, we put our prices up either at the end of the year or at the end of the first quarter, just depending on which business and what they've historically done. But for most of our businesses and industries, it's not out of the question that you are limited to just one price rise a year. That's very much within our control. You do it carefully and with great consideration, with an eye to making sure that you're not upsetting your customers, but as I said earlier, we feel that we still retain good pricing power.

And with the demand we are seeing in a lot of our end markets, pricing is always a consideration for customers, but it's typically not in there for most of our businesses; it's not in their top three or four buying criteria. And when demand is high, capacity is maybe a bit constrained, then pricing gives us greater pricing power off the back of that. So, if we see our input costs going up greater than we anticipate, then that is an arrow in the quiver that we can use this year.

George Featherstone

Brilliant. Thanks a lot.

Operator

Thank you. And we have one further question in the queue so far. So, just as a reminder to participants, if you do wish to ask a question, please dial 01. The next question comes from the line of Michael Tingle at HSBC. Please go ahead. Your line is open.

Michael Tyndall

Morning, gents. Just a couple from me, if I may. You've mentioned new products at MalPan and new products at HBK. Is it possible at all to try and split out how much of your performance is potentially market share gains versus the actual overall market recovery? Just trying to link the two together. And then, the second question, and maybe I'm reading too much into this, is if I think about your disposals and your acquisitions, you're acquiring software businesses and disposing of manufacturing or physical assets. Is that a deliberate strategy, or is that just coincidence in terms of what was available at what time?

Andrew Heath

OK. Good to hear from you, Mike. Thanks for your questions. Let's start on the new products point. For us to be completely candid, we need to be highly definitive on market share gains. It is not easy because, typically, we're selling to a broad-based market of many, many customers. We have very low customer concentration really in all our businesses and that's something that we like and is part of the business model that we like to see in our businesses.

And typically, there aren't any single or any industry analysts out there who are asking all of the suppliers to provide monthly, quarterly data that lets you compare with all the competitors, and work out who's doing what. So typically, what we do is we correlate against our peers' and competitors' Q1 or quarterly trading results, and we're not yet there, we will need to see people reporting. But certainly in the reviews that Derek and I have with the businesses, it's one of the topics that we are always reviewing.

And certainly on a qualitative basis, the sense in all the businesses is that of the product launches that's come off the back of the strategy review and the focus on the end markets which we think have the highest growth and are the most attractive, where we've launched targeted products and services solutions, we are getting good traction, and things like the Zetasizer Advance in Malvern Panalytical is getting us into some of those bio-pharma applications that we weren't into before. Clearly, in HBK, that whole e-drive, e-grid drive-by noise for electric vehicles is all a new market, and we've had very tailored products, and we feel we're getting really good penetration there. PMS, I think, definitely the market leader in terms of the size of particles they can measure down to, and performed really well.

When we compared ourselves at the end of the year against a lot of the competitor companies for the platforms, our sense was that we are taking share. And I can't really be more definitive than that. So, we absolutely feel that we're getting a big boost from the market coming back strongly, but on top of that, what's driving our organic growth, if you strip out Millbrook and you strip out Brüel and Kjær Vibro from the Q1 results, we actually got 6% sales growth, rather than the 5% like-for-like that's in the press release. So, 10% order growth, 6% sales growth. Our sense is that we are growing ahead of the market.

So, that's your first question. Then, on the disposals acquisitions: is it software versus manufacturing? Not necessarily. Clearly, we like software. We like simulation, services. But as I made very clear at the Capital Markets Day back in '19, we are looking at acquisitions that are highly synergistic to our existing platforms or potential platform businesses. We're looking at, again, the high growth parts of their end markets where we think we can deliver best value over time. So, obviously, software, simulation, services, typically, are our high growth areas. So, that is an area that we'd focus on.

But equally, if we see good opportunities to expand our product offering, our instruments, our test equipment, our sensors, then, if we think that also makes sense, then we would be very happy to scale up our businesses that way, as well. What is being proven out is that for us, where we have premium products with precision at the highest levels, there is a strong demand for that sort of type of equipment. And as we've talked, we have good pricing power, as well. So, lots to like about it. So, to summarise, yes, software, services absolutely is part of our acquisition pipeline, but equally, we would look at scaling up in our sensors, products, test equipment, instruments, as well.

Michael Tyndall

Got it. Thank you.

Andrew Heath

Pleasure.

Operator

Thank you. We've had a couple more questions come through. The next is from the line of Harry Philips. Please go ahead. Your line is open.

Harry Philips

Good morning, everyone. Just a couple of questions from me. Two rather difficult ones to answer, but in terms of Industrial Solutions, how aggressive are you in terms of selling the businesses? Are there books out there, or are you waiting for someone to knock on the door to start a process? Obviously, trading in Q1 ahead of expectations, but there's no follow-through in terms of guidance or whatever. So, how should we interpret that particular comment?

Andrew Heath

OK. Morning, Harry. So, for ISD and how aggressive are we, we've basically been running a well-organised, planned disposal programme. So, we have done all the preparation work and run the processes accordingly in a phased approach over the last 18 months, and that continues, as we indicated previously. We will be looking to sell another couple of businesses this year. We've completed ESG, or we've signed ESG this week fairly quickly. And we've said we've got one more business that we're looking to complete the disposal of this year. So, that process is running as we speak. It's been a well-organised activity by our M&A team.

Just in terms of expectations for the year, yes, we haven't provided any particular guidance for the full year, albeit certainly, the order intake from Q4 absolutely supported Q1. The strong order intake in Q1 underpins growth in Q2; that recovery is well underway. There's, clearly, some concerns out there in terms of uncertainty around just how COVID may develop. We're seeing on a global basis cases at an all-time high. It doesn't necessary feel like that sitting in the UK, but Brazil, India are really suffering. Canada's got increased levels of restrictions and lockdowns. Certain parts of Europe are doing the same thing.

So, there's still some uncertainty out there, new variants, but on the basis that the vaccination programmes continue to roll out well and they're successful and the new variants don't cause any issues, then certainly, we see the recovery continuing, as we say in the statement, see the momentum carrying on, and the only other key point I'd bring out is a comment around strong operating leverage opportunity. We are reiterating what we said at the full year. As we talked earlier on the call, we're carefully controlling the costs; that's a key consideration in all our decisions as we respond to the market recovery, and we will balance the recovery with our cost growth to make sure we get a good drop-through. So, I would hope that gives you sufficient in terms of how we are seeing things and our expectations.

Harry Philips

That's great. Thank you very much indeed.

Operator

Thank you. And we've had one final question come through. That's from the line of Zing Lu of UBS. Please go ahead. Your line is open.

Xing Lu

Hi. Morning. Thank you for taking my questions. I have a couple, please, and I missed part of the call. So, if you've already answered them, apologies if I'm asking them again. But the first question is on how much of sales visibility actually do you have from current backlog? You mentioned that you have good backlog going into Q2, but any colour on visibility on sales would be great. And also any colour by division.

A second question is on academic research. Could you maybe elaborate a little bit on how much was it down in the quarter, and any colour on the pace of recovery there. And my last question is on China. Obviously, really good growth and probably good growth across the board for both you and your competitors, but generally on the market itself, how do you see the competition actually be developing in the past, let me say few quarters or the recent years, and then, also going forward do you actually see really competition intensifying in this market? That will be my three questions. Thank you very much.

Andrew Heath

OK, Zing Lu. Good to hear from you. Sales visibility. Typically, for Malvern Panalytical, HBK, we have good three, four months of visibility. Likewise, PMS, Servomex, again, that's the typical level of visibility that we have. Omega, Red Lion, being more distribution focused, it's much shorter term, but equally, if you look at those businesses, we've got good intel through the distribution network that we use in our own sales channels, as well. So, coming into a quarter, we have a pretty good idea of what the next quarter's prospects are going to be.

So, what we said at the end of last year: the strong Q4 order intake and what's happened in Q1. The Q4 order intake certainly underpins the first quarter this year, and actually, with the book and turn business that we are able to win through Q1 as well, we beat expectations going into Q2 off the back of strong order growth and order backlog. Building it through the first quarter of this year underpins Q2. Beyond that, then we start to use more voice of customer, industry reports, and our own salesforce to determine what we believe, then, the forecast will be for the rest of the year.

In terms of academia and your point on academia, to some extent, it was quite a tough comp., Q1 to Q1. We saw China turn down, but really didn't get Europe start again to lockdown in March last year, North America more in April. So, a lot of the R&D sales have been pretty strong for us all the way through '19 and coming into the first bit of '20. And we really saw the impact through April, May, June, July, through to the November time frame. And then, things starting to recover from there as, certainly, the Asian economy started to return. So, it's an improving trend, as we said. We're still 4% down from where we were, but we're seeing double-digit growth in Asia currently in that academia market.

And then, in terms of your question on China conditions, I'm not really sure I fully understand the question, but clearly, all our businesses are performing really well in China and Asia generally at the moment. But we are very conscious of both Western and, in particular, local competition in China, and making sure that we have a compelling offering there. And given the importance of China as a market, we're spending quite a lot of time internally also considering how best we serve China going forward, given, certainly, some of the ongoing tensions that exist between, certainly, the US and China, and Europe and China, albeit it's been less profile since the change of administration in the US. It's still something that we have to deal with, and we are actively working on making sure we have a strong route to market within China and also the other markets that China serves from there as well.

Xing Lu

Thank you very much.

Andrew Heath

Pleasure.

Operator

Thank you. Just as a final reminder. If any participants want to ask any final questions, please dial 01 on your telephone keypads now.

Since we have no further questions coming through, I’ll hand back to our speakers for the closing comments.

Andrew Heath

Thank you very much. Thank you, everyone, for your questions as ever. To summarise, I'm very pleased with our performance in the first quarter, with sales ahead of expectations so far, a robust order book that we've talked about, and our improved cost base. We do believe we are well-positioned for the continued market recovery in 2021, and look forward to updating you on progress at the half year. So, thank you very much for participating in the call today. Look forward to speaking to you in July. I hope you and your families continue to stay safe and well. Take care. Thanks very much.

Operator

This now concludes the conference. Thank you, all, very much for attending. You may now disconnect your lines.