

BUSINESS MODEL

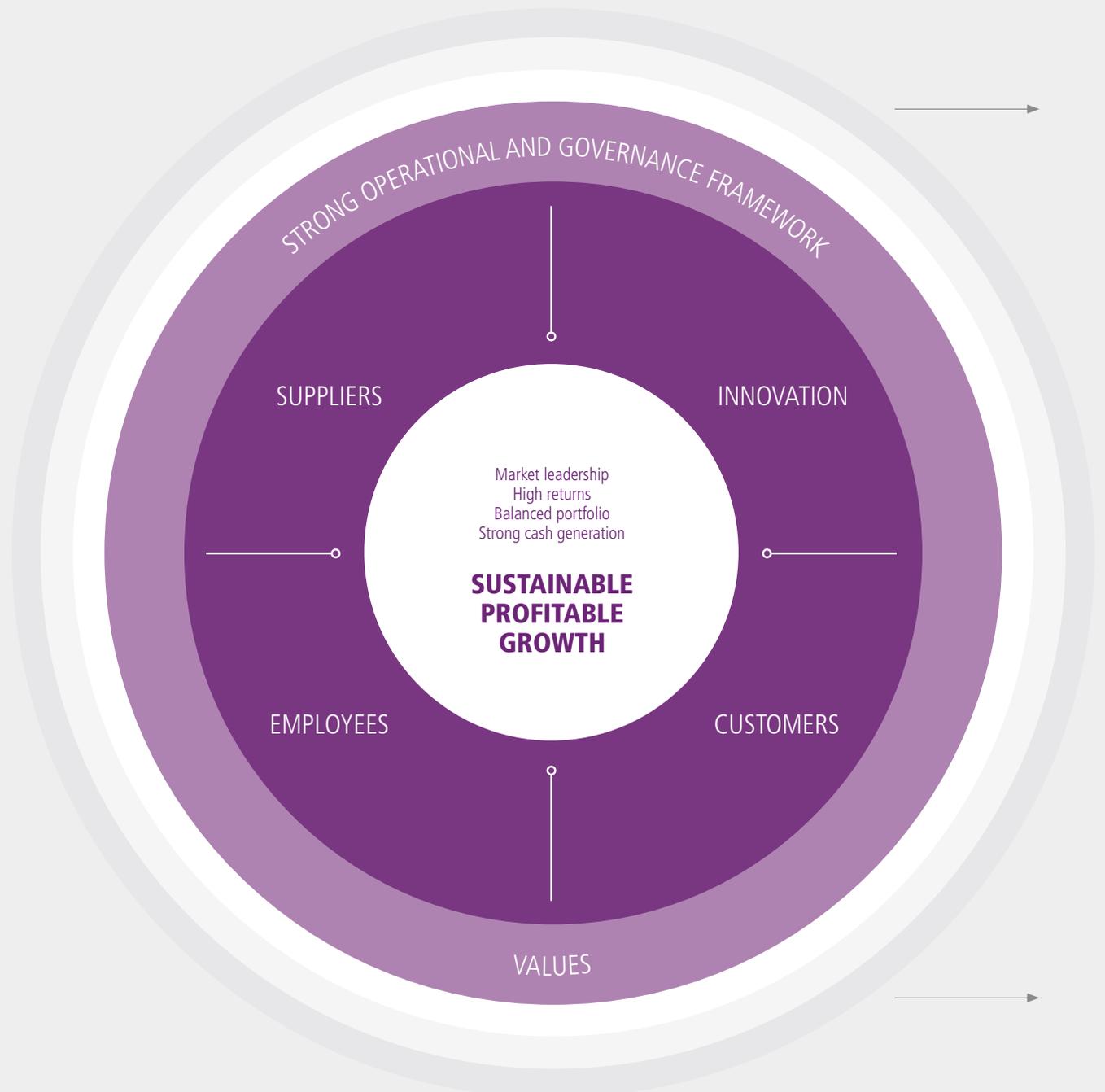
CREATING LONG-TERM SHAREHOLDER VALUE

We create value by applying our expertise to enhance productivity for our customers.

The four key inputs to our business model which are essential to our success are innovation, customers, employees and suppliers. The way we manage these resources and relationships delivers the outputs to generate sustainable profitable growth.

Underpinning this approach are our values and a strong operational and governance framework.

This model is difficult to replicate and brings significant competitive advantage.



HOW WE CREATE VALUE

Enhancing productivity for our customers is the key driver of our growth. We build long-term relationships with our customers and work closely with them to develop an in-depth knowledge of their business. Our highly-skilled staff then provide solutions to their productivity challenges.

Strong operational and governance framework

Governance

We are committed to maintaining high standards of corporate governance. This is fundamental to the effective and responsible management of the business and for the delivery of shareholder value over the long term.

Financial controls

We have a robust internal control framework which is routinely monitored through a combination of certification, self-assessment and internal audit reviews, complemented by a sound risk management process.

Values

Our values define how we operate and are essential to our business success. They underpin the way we work, guide our decision-making, are central to our Code of Business Ethics and shape our culture across the Group.

Capital allocation

Our business is not capital intensive and our strong cash generation allows us to maintain a sound balance sheet, enabling us to invest in the business, either via R&D or selective acquisitions, whilst also growing the dividend.

Resources and relationships

Innovation

We invest around 7% of sales each year in R&D in order to maintain our market-leading positions. Bolt-on acquisitions provide an alternative route to new technology and we also enter into licence agreements with third parties.

Customers

We build long-term relationships with our customers and seek to develop a deep understanding of their business and processes. We also offer a full range of services such as consultancy, training and aftermarket support.

Employees

We are a very specialised business and rely on the skills and applications expertise of our 8,300 people around the world, many of whom are highly-qualified engineers and technicians.

Suppliers

We outsource the majority of component and sub-assembly production to suppliers who can deliver high quality at a competitive cost, and focus our own resources on design, assembly and testing. We aim to increase value in the supply chain whilst helping our suppliers to meet our environmental and social standards.

Sustainable profitable growth

Market leadership

We focus on niche markets with high barriers to entry where our products typically involve low capital expenditure but provide significant and rapid payback for our customers.

High returns

High barriers to entry, generated via long-term customer relationships, strong intellectual property and continuous innovation, lead to limited pricing pressure and high gross margins.

Balanced portfolio

A broad spread of customers, end markets and geographies limits the risk to the business from sudden economic or political changes in any given territory.

Strong cash generation

Our high operating margins and asset-light manufacturing model result in steady and strong cash generation.

RESOURCES AND RELATIONSHIPS

HOW WE DRIVE FINANCIAL PERFORMANCE

Our business model is built upon four close relationships, which together drive our success:

- _ Continuous innovation.
- _ Long-term customer relationships.
- _ In-depth expertise of our people.
- _ Reliable suppliers who meet our exacting standards.

INNOVATION

We invest around 7% of sales in R&D every year. New products and solutions serve to protect our market position and enhance organic growth by providing innovative solutions to customers' problems.

Our continuous focus on innovation means that we own a large number of patents, trademarks and intellectual property licences, and processes are in place to protect and maximise the value of this proprietary technology. This brings high barriers to entry for our competitors.

Bolt-on acquisitions provide an alternative route to new technology and many of our smaller acquisitions bring new products and the associated inventors.



CUSTOMERS

We pride ourselves on building long-term business relationships and over 80% of our sales come from customers who have purchased from us in the preceding two years. We work closely with our customers to understand the challenges they face and often involve them in the development and testing of new products.

Our customers are buying our knowledge and the technology that will help them to improve their business. We improve productivity for them through streamlining processes, saving time, increasing yield and improving quality, and we work alongside them – often within their plants – in order to help install our products and ensure that the maximum benefits are achieved.

We then offer a full range of aftermarket services and support including training, technical support, calibration and maintenance.



Streamlining processes



Saving time



Increasing yield



Improving quality

EMPLOYEES

We employ around 8,300 highly-skilled people, many of whom work directly with customers, which gives them a deep understanding of their business and the productivity challenges they face.

We understand that intelligent innovation requires a way of working that supports the development of new ideas and taking of reasonable and measured risks. Our entrepreneurial culture offers a creative working environment with scope for individual responsibility and personal achievement.

We seek to attract and retain the best talent and are committed to providing equal employment opportunities, competitive remuneration and training and development programmes.



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SUPPLIERS

We believe that suppliers, and other business partners, should have the opportunity to benefit from their relationship with us. What this means in practice is working together to minimise and manage business risk and improve business practices, through education, training and the sharing of good practice.

Whilst each supply partner has the responsibility to manage its business practices in accordance with its own standards, values and local legislative framework, we will work with them to embrace our principles with the aim of creating a more sustainable business.

See our Supply Chain Management Policy at www.spectris.com for more information.

