



Innovative customer solutions to enhance productivity

# Spectris plc

## 2016 Interim Results

28 July 2016

- Summary and Outlook
- Financial Performance
- Strategic Progress and Business Update
- Summary and Outlook

- Good performance despite challenging trading conditions in H1
- Delivered good strategic progress:
  - Three acquisitions completed, two additional ones completed in July; enhancing our software and services capabilities
  - Good overhead cost control; now expect £10 million restructuring benefit in 2016
  - Project Uplift, a group-wide productivity improvement programme, launched
- Expected overall outcome for 2016 is unchanged
- Dividend up 4%, underpins confidence that company is well positioned for the future

# Financial Performance

Clive Watson  
Group Finance Director

- Reported sales growth +3%, comprising:
  - 2% contribution from acquisitions
  - 5% benefit from foreign exchange currency movements
  - Like-for-like ('LFL') sales decline of 3%
- Stable adjusted operating margin reflecting good overhead cost control
- Adjusted basic earnings per share increased by 2%
- Dividend per share increased by 4%
- Robust adjusted operating cash conversion of 134%
- Strong balance sheet - net debt of £103.5 million, 0.5x adjusted EBITDA

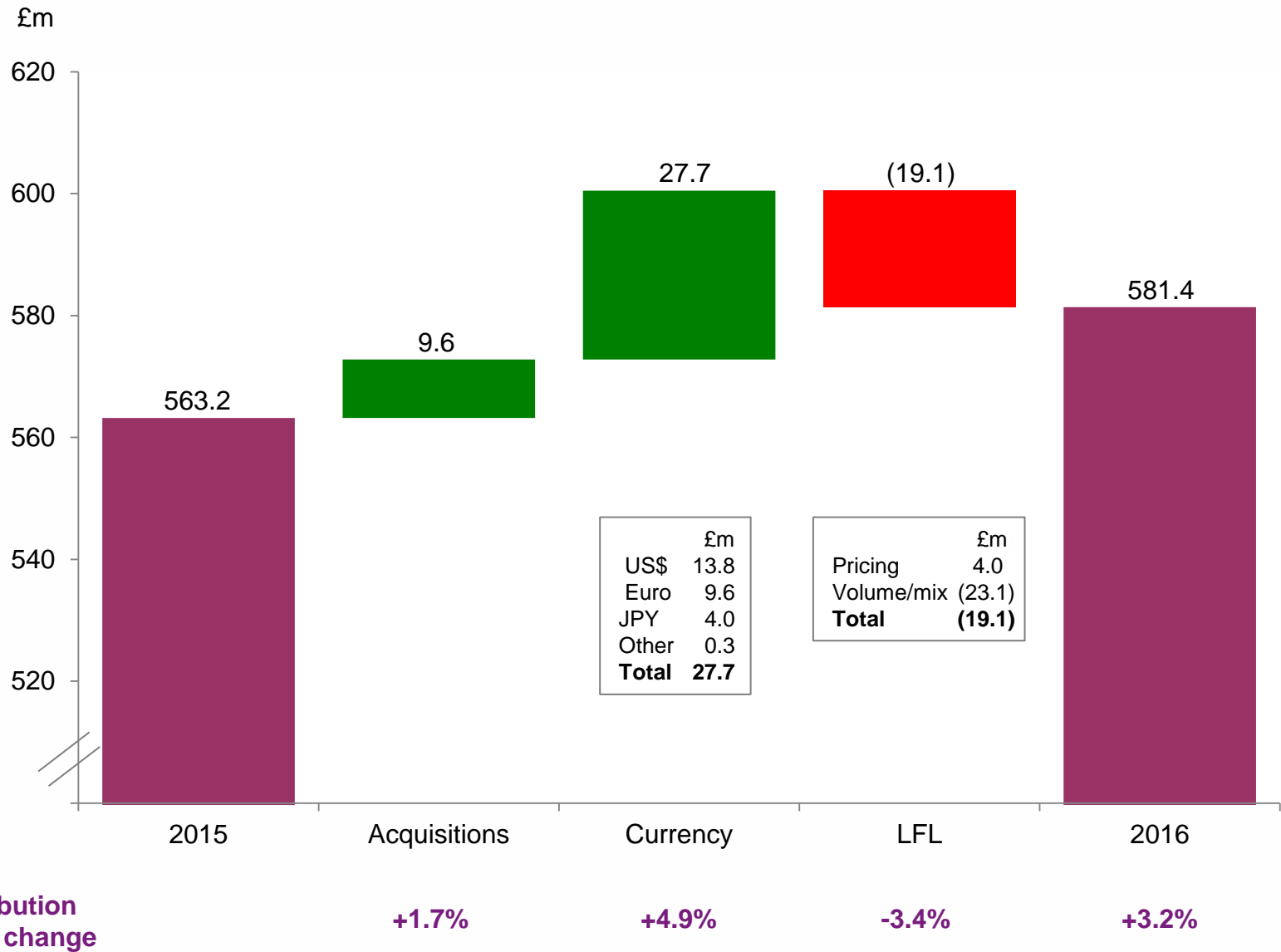
	H1 2016	H1 2015	Change	Change at CER <sup>(2)</sup>	Like-for-like change <sup>(3)</sup>
Sales (£m)	<b>581.4</b>	563.2	+3.2%	-1.7%	-3.4%
Adjusted operating profit (£m) <sup>(1)</sup>	<b>68.9</b>	67.4	+2.3%	-3.8%	-6.9%
Adjusted return on sales (%) <sup>(1)</sup>	<b>11.9</b>	12.0	-0.1pp		
Adjusted profit before tax (£m) <sup>(1)</sup>	<b>66.5</b>	64.9	+2%		
Adjusted effective tax rate (%) <sup>(1)</sup>	<b>23.0</b>	23.0	-		
Adjusted basic EPS (pence) <sup>(1)</sup>	<b>43.0</b>	42.0	+2%		
DPS (pence)	<b>18.0</b>	17.3	+4%		
Adjusted operating cash flow (£m) <sup>(1)</sup>	<b>92.4</b>	57.3	+61%		
Adjusted operating cash conversion (%) <sup>(1)</sup>	<b>134</b>	85	49		
Net debt (£m)	<b>103.5</b>	148.7	-30%		

## Notes

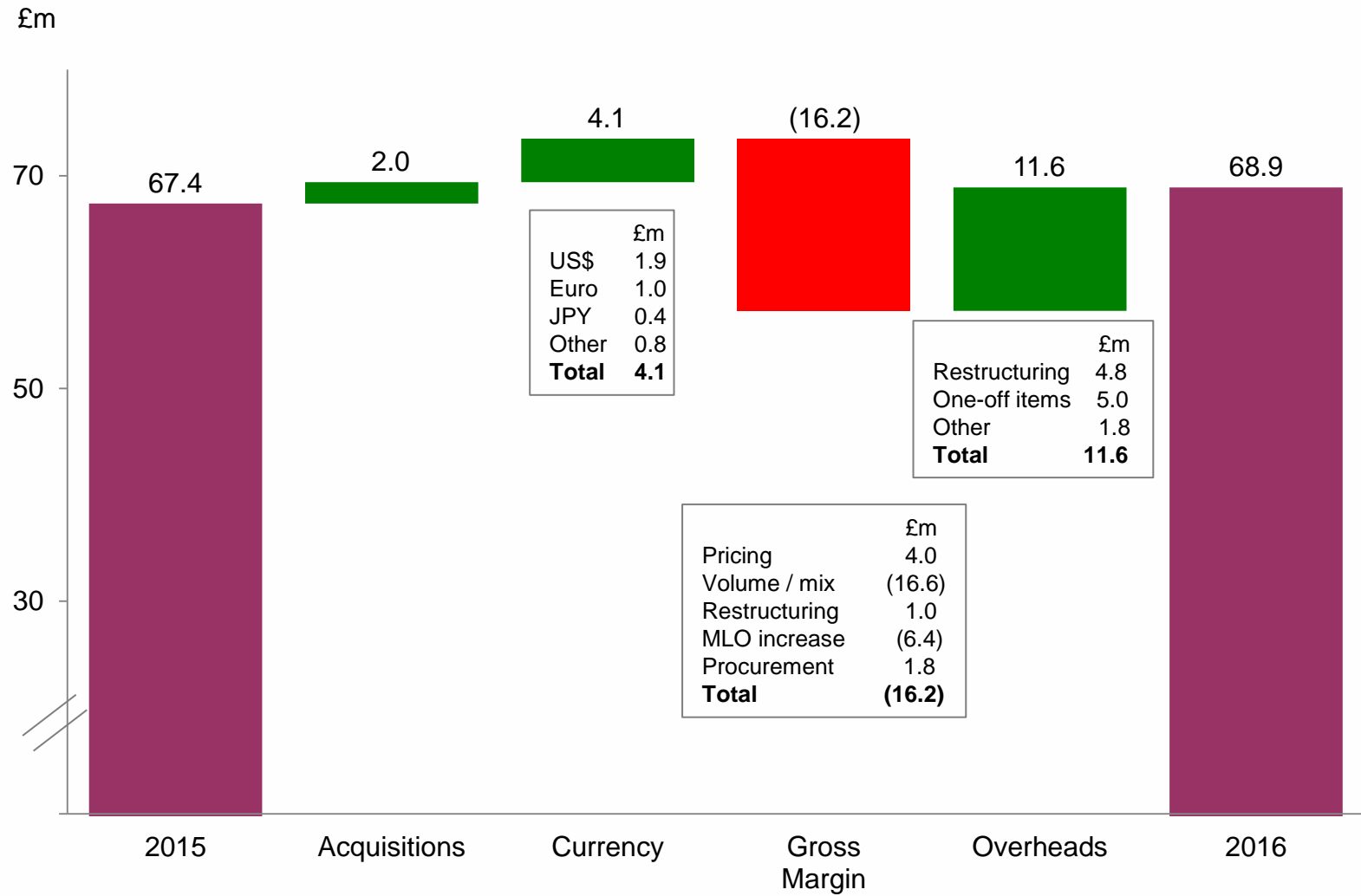
(1) These adjusted performance measures represent the statutory results excluding certain non-operational items.

(2) At constant exchange rates (CER) using the prior period's exchange rates.

(3) At constant exchange rates and excluding acquisitions ('LFL').



Contribution to yoy change



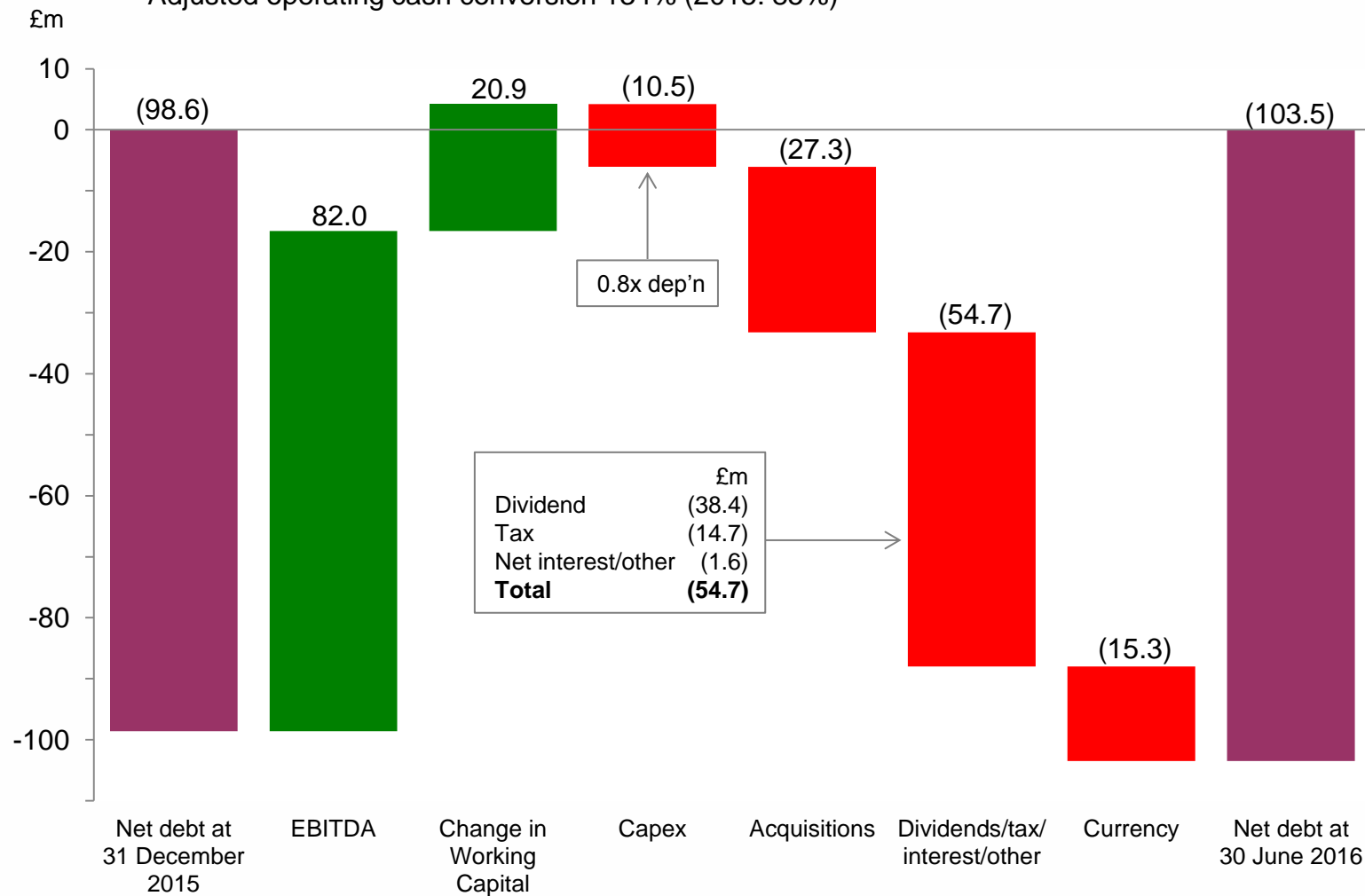
ROS 12.0%

ROS 11.9%



Adjusted operating cash flow = £92.4m (2015: £57.3m)

Adjusted operating cash conversion 134% (2015: 85%)



**Net debt:**  
**Adjusted EBITDA**     **0.7x**

**0.5x**

	Materials Analysis		Test and Measurement		In-line Instrumentation		Industrial Controls		Total	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Sales (£m)	<b>175.6</b>	165.7	<b>170.1</b>	164.2	<b>118.7</b>	120.5	<b>117.0</b>	112.8	<b>581.4</b>	563.2
LFL sales change	-	4%	<b>-4%</b>	-	<b>-6%</b>	-1%	<b>-5%</b>	-1%	<b>-3%</b>	1%
Adjusted operating profit (£m) <sup>(1)</sup>	<b>21.0</b>	14.6	<b>18.5</b>	18.7	<b>10.9</b>	13.8	<b>18.5</b>	20.3	<b>68.9</b>	67.4
LFL operating profit change	<b>36%</b>	-10%	<b>-9%</b>	-6%	<b>-26%</b>	-9%	<b>-23%</b>	-7%	<b>-7%</b>	-8%
Adjusted return on sales <sup>(1)</sup>	<b>11.9%</b>	8.8%	<b>10.9%</b>	11.4%	<b>9.2%</b>	11.4%	<b>15.8%</b>	18.0%	<b>11.9%</b>	12.0%
LFL return on sales change	<b>3.2pp</b>	-1.1pp	<b>-0.7pp</b>	-0.7pp	<b>-2.4pp</b>	-1.2pp	<b>-3.3pp</b>	-1.2pp	<b>-0.5pp</b>	-1.1pp
Aftermarket sales %	<b>34%</b>	33%	<b>21%</b>	20%	<b>46%</b>	44%	<b>1%</b>	1%	<b>26%</b>	25%

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

Impact of 1 cent change versus GBP (translational impact only):	FY Sales £m	FY Operating Profit £m
Euro	2.5	0.5
US Dollar	3.0	0.5

Average exchange rates:	H1 2015	FY 2015	H1 2016
GBP: Euro	1.37	1.38	1.28
GBP: US Dollar	1.52	1.53	1.43

- In H1, the *translational* fx gain on operating profit of £4.1 million was partly offset by a *transactional* fx loss of £2.0 million

Transactional impact will partly offset translational effects

Cost reduction measures	H1 2015 £m	H2 2015 £m	FY 2015 £m	H1 2016 £m
Costs	(1.2)	(5.6)	(6.8)	
Benefits	0.8	2.9	3.7	5.4
<b>Net (cost) / benefit</b>	<b>(0.4)</b>	<b>(2.7)</b>	<b>(3.1)</b>	<b>5.4</b>

- Now expect to deliver annualised benefits of around £10 million in 2016, up from £7 million

Manage costs to better align cost growth with sales growth

# Strategic Progress and Business Update

John O'Higgins  
Chief Executive



## Customer solutions



Improving processes

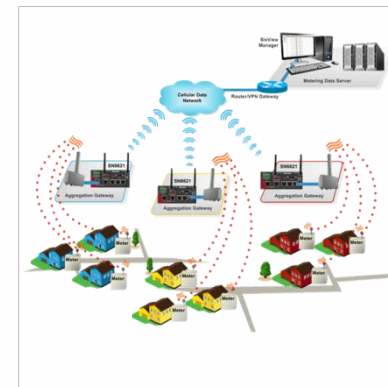
Reducing time to market

## Deploy capital for M&A



**CAPSTONE TECHNOLOGY**

## Strategic markets



Life sciences

Industrial connectivity

## Operational Excellence

'Lean manufacturing' techniques

Consolidating activities eg distribution centres at Omega; coating blade facilities

Productivity improvement programme, *Project Uplift*, launched

## Comprehensive group-wide productivity improvement programme

- Optimise efficiency and effectiveness within **and** across our operating companies
- Entrepreneurial culture and autonomy of operating companies will be preserved
- Cast a critical eye over the ‘variety versus complexity’ equation
- Project in its infancy and details on costs, benefits and timing will follow in due course once plans have crystallised

Freeing up resources to invest in strategic growth initiatives  
and deliver higher returns to shareholders



## Laboratory / off-line businesses

### Materials Analysis

Metals/minerals/mining  
Pharma/fine chemicals  
Academic research  
Semiconductors

### Test and Measurement

Automotive  
Aerospace  
Electronics  
Energy  
Academic research

## Process / manufacturing businesses

### In-line Instrumentation

Process industries  
Pulp, paper & tissue  
Energy & utilities  
Web/converting

### Industrial Controls

Manufacturing  
Process industries  
Energy  
Electronics  
Healthcare



**% Group Sales H1 2016:**

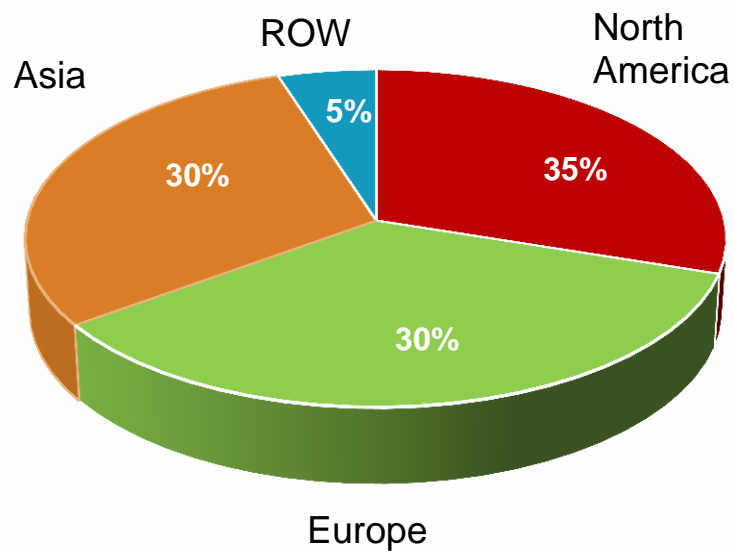
**30%**

**30%**

**20%**

**20%**

H1 2016 Reported Sales



Region / country	H1 2016 £m	Change vs. H1 2015	LFL change H1 2016	LFL change H1 2015
North America	206.6	+4%	-4%	-2%
Europe	174.2	+1%	-6%	+4%
Germany	51.6	+3%	-4%	+1%
Asia	172.1	+8%	+3%	+1%
China	76.9	+9%	+5%	-4%
Japan	31.5	+24%	+8%	-5%
Rest of the world	28.5	-13%	-15%	-2%
<b>Group</b>	<b>581.4</b>	<b>+3%</b>	<b>-3%</b>	<b>+1%</b>

- Sales growth in pharmaceuticals, academic research, electronics, semiconductor and telecoms markets
- Sales declines in metals, minerals and mining industries
- Good sales growth in Asia and North America, declines in Europe and ROW
- Acquisition of CAS Clean Air Service AG enhances offering in strategic life sciences market
- Adjusted operating margin increase reflects benefits of prior year cost reduction measures

	H1 2015	H1 2016			Change vs. H1 2015			
		Organic	FX	Acq.	Reported	CER	LFL	
<b>Sales (£m)</b>	165.7	0.4	7.2	2.3	<b>175.6</b>	6%	2%	0%
<b>Adjusted Op Profit (£m)</b>	14.6	5.3	1.0	0.1	<b>21.0</b>	43%	37%	36%
<b>Adjusted return on sales</b>	8.8%				<b>11.9%</b>	3.1pp		3.2pp



- Sales growth in machine manufacturers, electronics and telecoms markets, with automotive remaining flat
- Reduced sales to aerospace, environmental noise monitoring, unconventional oil and gas markets
- Sales growth in Asia, driven by China, with sales declines in all other regions
- Acquisition of Discom GmbH in July enhances our NVH offering

	H1 2015				H1 2016	Change vs. H1 2015		
		Organic	FX	Acq.		Reported	CER	LFL
<b>Sales (£m)</b>	164.2	(6.0)	8.9	3.0	<b>170.1</b>	4%	-2%	-4%
<b>Adjusted Op Profit (£m)</b>	18.7	(1.7)	1.3	0.2	<b>18.5</b>	-1%	-8%	-9%
<b>Adjusted return on sales</b>	11.4%				<b>10.9%</b>	-0.5pp		-0.7pp



- Sales growth in pulp & paper, reflecting successful diversification away from graphic paper
- Sales declined in hydrocarbon processing, chemicals, plastics, converting, energy & utilities
- Sales growth in North America, with sales declines in Europe, Asia and ROW
- Acquisition of Capstone Technology Corporation enables us to offer combination of market-leading instruments and software to process industries
- Adjusted operating margin decrease reflects lower sales volumes and adverse mix effects

	H1 2015				H1 2016	Change vs. H1 2015		
		Organic	FX	Acq.		Reported	CER	LFL
<b>Sales (£m)</b>	120.5	(7.7)	5.6	0.3	<b>118.7</b>	-1%	-6%	-6%
<b>Adjusted Op Profit (£m)</b>	13.8	(3.7)	0.7	0.1	<b>10.9</b>	-21%	-26%	-26%
<b>Adjusted return on sales</b>	11.4%				<b>9.2%</b>	-2.2pp		-2.4pp



- Broad-based weakness in US industrial production
- Good sales growth outside North America from Omega and Microscan
- Label Vision Systems acquisition from H2 2015 performing very well
- Adjusted operating margin decline reflects:
  - Lower volumes and adverse mix
  - Inventory adjustments / incremental costs post ERP implementation at Omega
  - £2 million gain on sale of property

	H1 2015				H1 2016	Change vs. H1 2015		
		Organic	FX	Acq.		Reported	CER	LFL
<b>Sales (£m)</b>	112.8	(5.8)	6.0	4.0	<b>117.0</b>	4%	-2%	-5%
<b>Adjusted Op Profit (£m)</b>	20.3	(4.5)	1.1	1.6	<b>18.5</b>	-9%	-14%	-23%
<b>Adjusted return on sales</b>	18.0%				<b>15.8%</b>	-2.2pp		-3.3pp



- Good performance despite challenging trading conditions in H1
- Delivered good strategic progress:
  - Three acquisitions completed, two additional ones completed in July; enhancing our software and services capabilities
  - Good overhead cost control; now expect £10 million restructuring benefit in 2016
  - Project Uplift, a group-wide productivity improvement programme, launched
- Expected overall outcome for 2016 is unchanged
  - Net FX benefits but increased macro uncertainty and limited visibility on H2 trading
- Dividend up 4%, underpins confidence that company is well positioned for the future



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Q&A