



# Spectris plc

## 2018 Full Year Results

- FY 2018 Highlights
- Financial Performance
- Strategy for Profitable Growth
- Summary

- Sales of £1,604.2 million reflects a 5% LFL sales increase, building on progress in 2017
- Adjusted operating profit of £248.3 million, LFL adjusted operating margin up 0.3pp
- Adjusted earnings per share up 7%, dividend per share increase of 8%
- Strategy for profitable growth:
  - Profit improvement programme to deliver benefits of more than £30 million, with £15-20 million in 2019
  - Strategic review initial conclusions presented:
    - Group would benefit from becoming a more focused and simplified business
    - Assessing which operating companies can drive the greater shareholder value:
      - Scalable, in attractive high growth markets, with strongest capabilities & greatest performance potential
      - Identified three platform businesses so far - Malvern Panalytical, HBK, Omega
  - Greater focus on shareholder value creation - asset optimisation, portfolio management, capital allocation

# Financial Performance

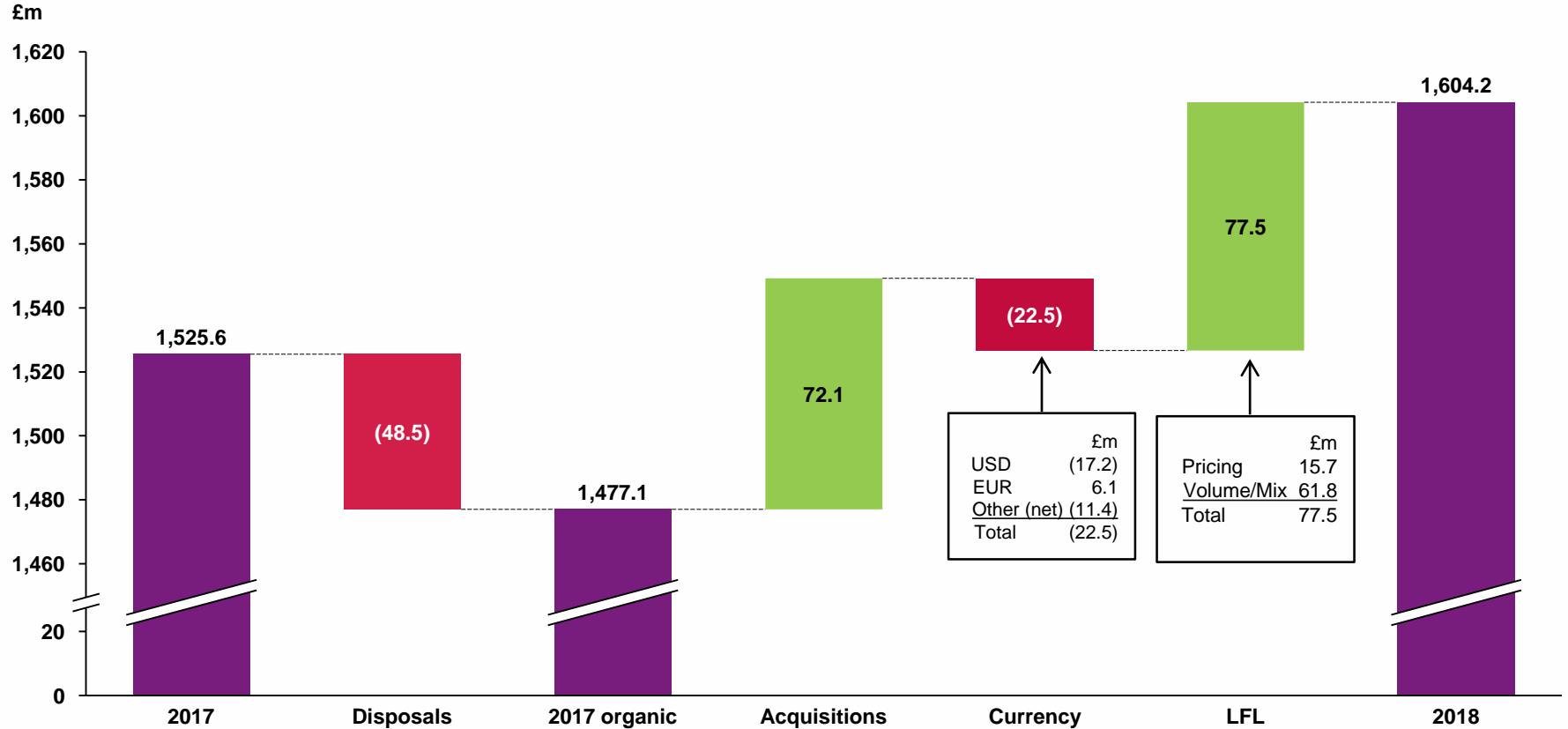
Clive Watson

Group Finance Director

	FY 2018	FY 2017	Change	Like-for-like change <sup>(2)</sup>
Sales (£m)	<b>1,604.2</b>	1,525.6	5%	5%
Adjusted operating profit (£m) <sup>(1)</sup>	<b>248.3</b>	239.3	4%	7%
Adjusted operating margin (%) <sup>(1)</sup>	<b>15.5%</b>	15.7%	(0.2pp)	0.3pp
Project Uplift costs (£m)	<b>(10.8)</b>	(15.8)	32%	
Adjusted operating profit after Project Uplift costs (£m) <sup>(1)</sup>	<b>237.5</b>	223.5	6%	
Adjusted profit before tax (£m) <sup>(1)</sup>	<b>241.4</b>	234.2	3%	
Adjusted effective tax rate (%) <sup>(1)</sup>	<b>19.7%</b>	21.3%	(1.6pp)	
Adjusted EPS (pence) <sup>(1)</sup>	<b>164.9</b>	154.6	7%	
DPS (pence)	<b>61.0</b>	56.5	8%	
Adjusted operating cash conversion (%) <sup>(1)</sup>	<b>59%</b>	77%	(18pp)	

## 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').



	£m
USD	(17.2)
EUR	6.1
Other (net)	(11.4)
<b>Total</b>	<b>(22.5)</b>

	£m
Pricing	15.7
Volume/Mix	61.8
<b>Total</b>	<b>77.5</b>

Contribution to yoy change

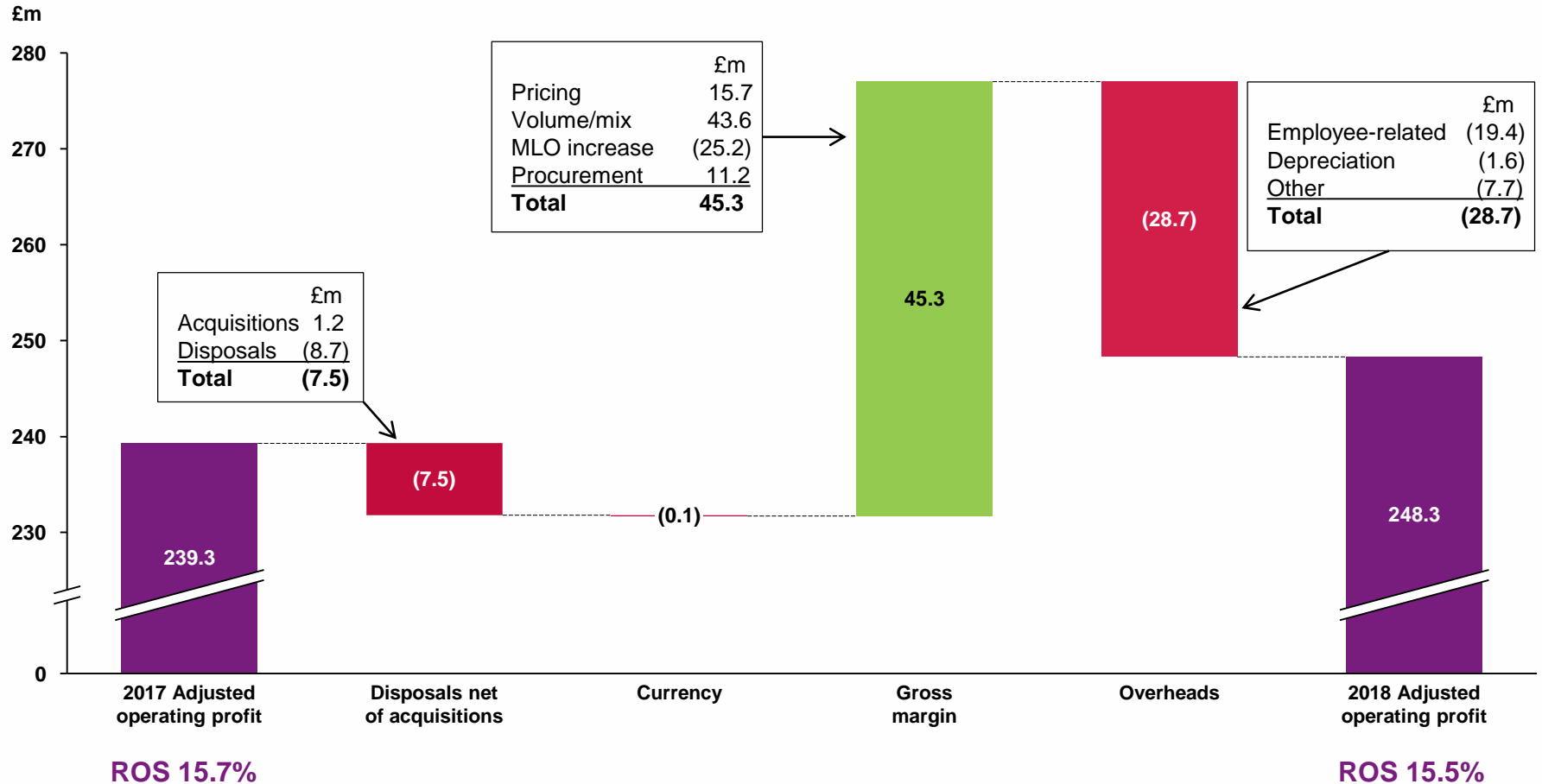
(3.2%)

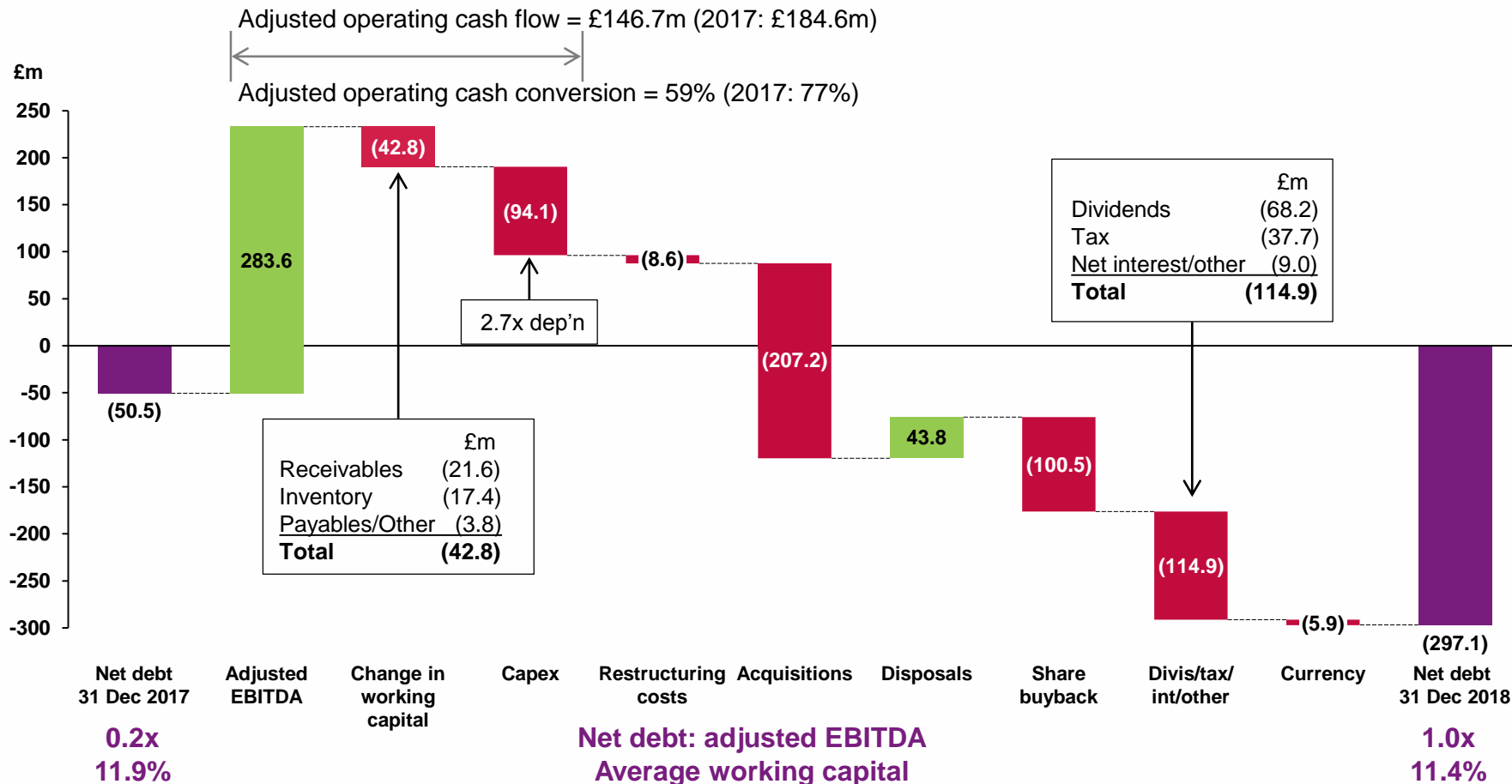
+4.9%

(1.5%)

+5.2%

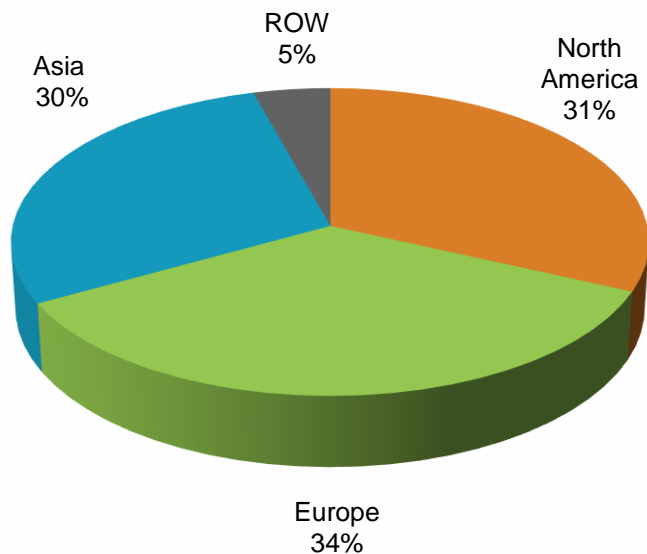
+5.2%







FY 2018 % of Group sales



Region/country	LFL change FY 2018 vs FY 2017	LFL change FY 2017 vs FY 2016
North America	+4%	+4%
Europe	+3%	+6%
Germany	+2%	+5%
UK	+7%	+13%
Asia	+10%	+9%
China	+16%	+11%
Japan	+3%	+9%
Rest of the world	+1%	+1%
<b>Group</b>	<b>+5%</b>	<b>+6%</b>

	Materials Analysis		Test and Measurement		In-line Instrumentation		Industrial Controls		Total	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Sales (£m)	<b>541.1</b>	464.9	<b>522.6</b>	487.3	<b>312.2</b>	310.9	<b>228.3</b>	262.5	<b>1,604.2</b>	1,525.6
LFL sales change	<b>8%</b>		<b>6%</b>		<b>1%</b>		<b>3%</b>		<b>5%</b>	
Adjusted operating profit (£m) <sup>(1)</sup>	<b>95.4</b>	87.3	<b>67.2</b>	74.2	<b>42.6</b>	36.0	<b>43.1</b>	41.8	<b>248.3</b>	239.3
LFL operating profit change <sup>(1)</sup>	<b>11%</b>		<b>(9%)</b>		<b>17%</b>		<b>19%</b>		<b>7%</b>	
Adjusted operating margin <sup>(1)</sup>	<b>17.6%</b>	18.8%	<b>12.9%</b>	15.2%	<b>13.6%</b>	11.6%	<b>18.9%</b>	15.9%	<b>15.5%</b>	15.7%
LFL adjusted operating margin change <sup>(1)</sup>	<b>0.4pp</b>		<b>(2.0pp)</b>		<b>1.8pp</b>		<b>2.6pp</b>		<b>0.3pp</b>	
Project Uplift cost (£m)	<b>(3.0)</b>	(4.2)	<b>(3.3)</b>	(5.3)	<b>(2.0)</b>	(2.8)	<b>(2.5)</b>	(3.5)	<b>(10.8)</b>	(15.8)
Adjusted operating profit after Project Uplift costs (£m)	<b>92.4</b>	83.1	<b>63.9</b>	68.9	<b>40.6</b>	33.2	<b>40.6</b>	38.3	<b>237.5</b>	223.5

- Sales growth +16%: LFL sales +8%, acquisitions +10%, currency (2%)
- Good LFL pharma sales growth; investment in biopharma/generics, increasing regulation
- Good growth in minerals/mining impacted by weaker demand in metals
- Strong growth in academic research, especially N. America/Asia as funding/win-rate improves
- Strong growth in electronics/semiconductor continues for PMS, especially in Asia
- Concept Life Sciences below expectations, but remedial action already impacting

	FY 2017				FY 2018	Change vs. FY 2017	
	Reported	Organic	FX	Acq.	Reported	Reported	LFL
<b>Sales (£m)</b>	464.9	39.3	(7.6)	44.5	<b>541.1</b>	+16%	+8%
<b>Adjusted operating profit (£m)</b>	87.3	9.5	(0.2)	(1.2)	<b>95.4</b>	+9%	+11%
<b>Adjusted operating margin (%)</b>	18.8%				<b>17.6%</b>	(1.2pp)	+0.4pp



- Sales growth +7%: LFL sales +6%, acquisitions (net of disposals) +2%, currency (1%)
- Strong LFL sales growth in automotive, from Millbrook capacity expansion and at BKSV
- Acquired Revolutionary Engineering and VI-grade to expand automotive offering
- Aerospace LFL sales lower year-on-year, but good pipeline of opportunities
- From January 2019, BKSV and HBM merging their activities into new company, HBK

	FY 2017	FY 2017				FY 2018	Change vs. FY 2017	
	Reported	Reported excl. disposal	Organic	FX	Acq.	Reported	Reported	LFL
<b>Sales (£m)</b>	487.3	471.7	28.6	(3.6)	25.9	<b>522.6</b>	+7%	+6%
<b>Adjusted operating profit (£m)</b>	74.2	70.0	(6.2)	0.7	2.7	<b>67.2</b>	(9%)	(9%)
<b>Adjusted operating margin (%)</b>	15.2%	14.8%				<b>12.9%</b>	(2.3pp)	(2.0pp)



- Sales growth 0.4%: LFL sales +1%, acquisitions +1%, currency (1%)
- Sales grew strongly in Asia, especially China, mostly offset by lower sales in EU/N. America
- Modest LFL sales growth in pulp/paper; diversifying towards tissue/pulp/packaging markets
- Growth in energy despite tough year-on-year comparator for wind business
- NDCT sales lower but key development in sensors for lithium-ion battery manufacturing

	FY 2017				FY 2018	Change vs. FY 2017	
	Reported	Organic	FX	Acq.	Reported	Reported	LFL
Sales (£m)	310.9	3.6	(4.0)	1.7	<b>312.2</b>	+0.4%	+1%
Adjusted operating profit (£m)	36.0	6.2	0.7	(0.3)	<b>42.6</b>	+18%	+17%
Adjusted operating margin (%)	11.6%				<b>13.6%</b>	+2.0pp	+1.8pp



- Sales decline (13%): LFL sales +3%, disposal of Microscan (13%), currency (3%)
- Good LFL sales growth in Asia, especially China and Japan
- Operational improvements at Omega deliver higher gross and operating margins
- Omega product refresh & new e-commerce platform/digital marketing to drive sales growth
- Red Lion's focus on key vertical markets drives growth in sales and access to new markets

	FY 2017	FY 2017			FY 2018	Change vs. FY 2017	
	Reported	Reported excl. disposal	Organic	FX	Reported	Reported	LFL
<b>Sales (£m)</b>	262.5	229.6	6.0	(7.3)	<b>228.3</b>	(13%)	+3%
<b>Adjusted operating profit (£m)</b>	41.8	37.3	7.1	(1.3)	<b>43.1</b>	+3%	+19%
<b>Adjusted operating margin (%)</b>	15.9%	16.2%			<b>18.9%</b>	+3.0pp	+2.6pp



- H1:H2 phasing – sales and adjusted operating profit
- Acquisitions and disposals
  - 2018 acquisitions/disposals – sales £10 million, adjusted operating profit £1 million
- Profit improvement programme benefits
- Underlying effective tax rate – up to 22%
- Planned capex of c. £90 million, of which growth capex £45 million, principally Millbrook
- Foreign exchange sensitivities

Impact of 1 cent change versus GBP	2019 FY sales £m	2019 FY adjusted operating profit £m
EUR	4.0	0.6
USD	4.0	0.6

# Strategy for Profitable Growth

Andrew Heath  
Chief Executive



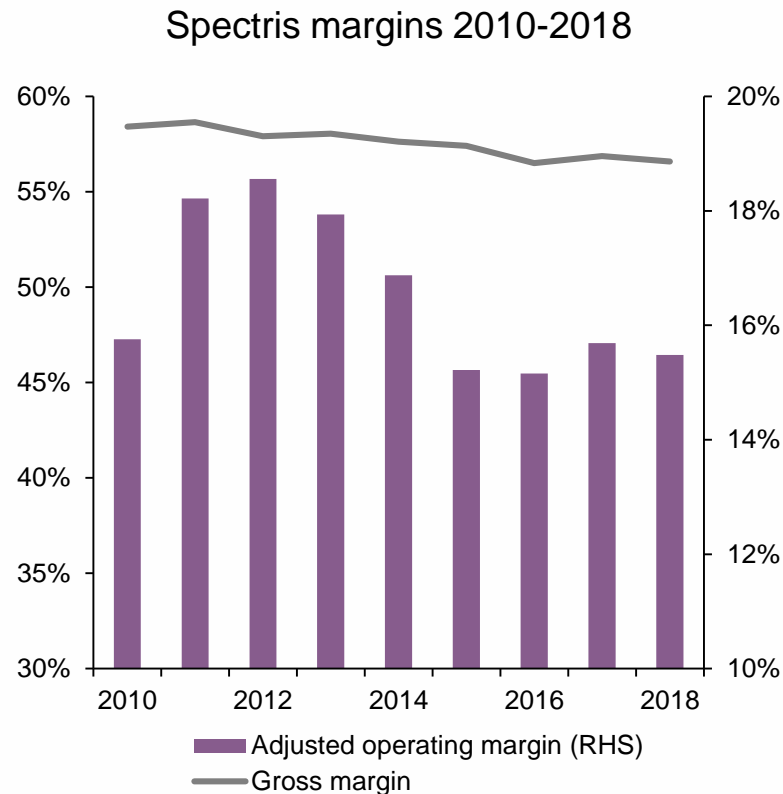
### Strong fundamentals

- High-quality businesses and products
- Strongly-recognised brands & leading technologies
- Domain knowledge and application expertise
- Strong market positions
- Exposure to growing end markets
- Good customer relationships
- Talented people
- High gross margins
- Good cashflow generation
- Strong balance sheet

### Areas for improvement

- Enhance operational efficiency to drive margin expansion
- Strengthen Lean deployment
- Reduce complexity
- Focus on attractive end markets where best placed to drive growth and profitability
- Asset optimisation supported by active portfolio management and synergistic acquisitions
- More rigorous capital allocation

- Spectris has strong gross margin businesses...
- ...but operating margin performance remains below both historic highs and our peers
- Undertaking self-help measures to drive margin expansion:
  - Numerous initiatives identified
  - Programme now being implemented
- Driving greater operational gearing in 2019...
  - ...and beyond – continuous improvement culture being strengthened
- Aim to return our operating margin to at least our previous highs





## People

- Simplify organisational structures
- Greater organisational effectiveness



## Product

- Rationalise product portfolio
- Exit lower margin products

Annualised benefits of more than £30 million,  
of which £15-20 million in 2019

Costs to achieve of £35 million



## Property






- Site consolidation
- Shared resources
- Relocation to lower cost sites

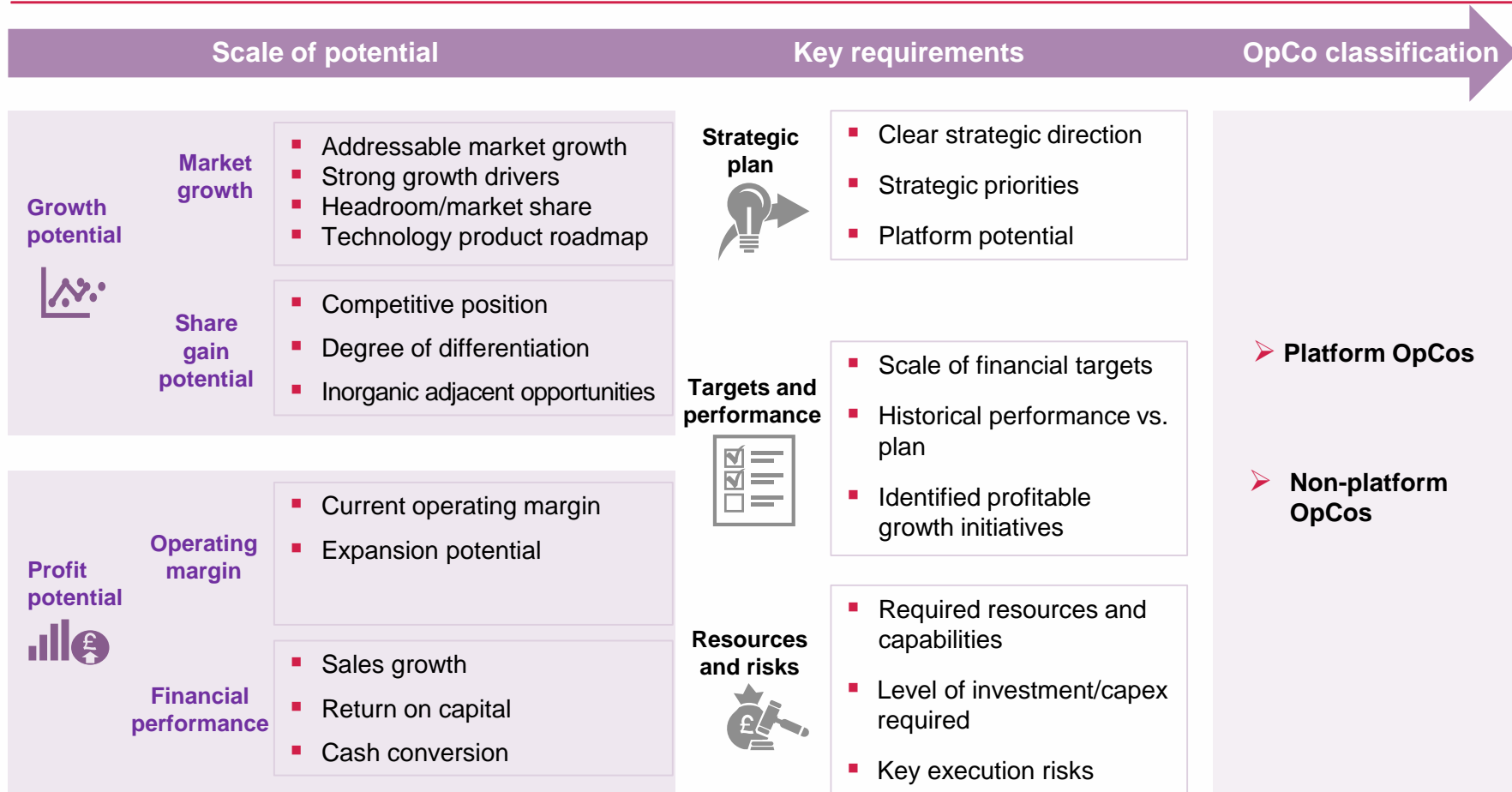


## Process

- Simplify processes
- Lean initiatives
- Value analysis/value engineering

- Spectris has a diverse portfolio of high-quality businesses
- ...but will benefit from becoming a more focused and simplified business
- Ongoing strategic assessment of every OpCo to consider its value creation potential
- Identify platform businesses which are:
  - Scalable and strongly aligned to attractive markets with GDP+ growth characteristics
  - High gross margins and asset light
  - Have the strongest capabilities and greatest value creation potential
- Will continue to extend our instrumentation businesses into associated services & software
- Greater focus on performance management and capital allocation to deliver:
  - Sales growth and margin expansion
  - Operating cash conversion and FCF growth
  - Shareholder value creation

	Market trend	Opportunities for Spectris
 <div data-bbox="266 170 537 334">Pharma</div>	<ul style="list-style-type: none"> <li>▪ Drug complexity</li> <li>▪ Reducing development time and cost</li> <li>▪ More stringent trials</li> <li>▪ Advanced data analytics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing spend on R&amp;D</li> </ul>
 <div data-bbox="266 349 537 513">Automotive</div>	<ul style="list-style-type: none"> <li>▪ Rate of new product launches</li> <li>▪ Vehicle electrification - hybrid/EVs</li> <li>▪ Connected &amp; autonomous vehicles</li> <li>▪ Rising use of simulation/software</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing requirements for instruments &amp; test equipment</li> <li>▪ Increasing sophistication of instruments &amp; test equipment</li> </ul>
 <div data-bbox="266 526 537 690">Electronics and semi-conductors</div>	<ul style="list-style-type: none"> <li>▪ Processing power and speed</li> <li>▪ Miniaturisation</li> <li>▪ 5G</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing use of software</li> </ul>
 <div data-bbox="266 705 537 869">Metals, minerals, mining</div>	<ul style="list-style-type: none"> <li>▪ Energy efficiency</li> <li>▪ Autonomous operations</li> <li>▪ Predictive analytics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customers seeking greater insights through software and advanced analytics</li> </ul>
 <div data-bbox="266 880 537 1043">Technology-led industrials</div>	<ul style="list-style-type: none"> <li>▪ IIoT</li> <li>▪ Process automation</li> <li>▪ Additive manufacturing</li> </ul>	



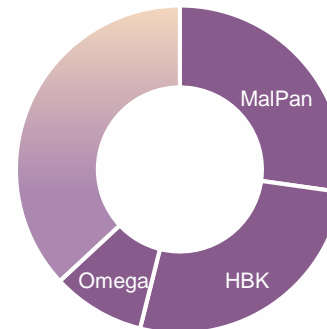
Platform OpCos

- 3 platform businesses identified to date:
  - Malvern Panalytical
  - HBK
  - Omega
- Scalable characteristics
- Positioned in attractive end markets
- High margin and asset light
- Attractive growth and profit potential
- Top priority for investment



% of 2018 sales

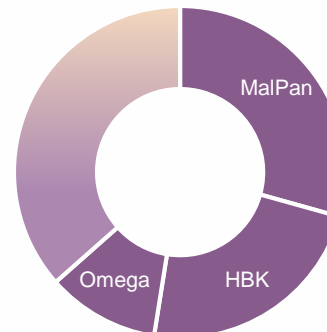
Run for value  
Platform potential



Platform OpCos

% of 2018 adjusted operating profit

Run for value  
Platform potential



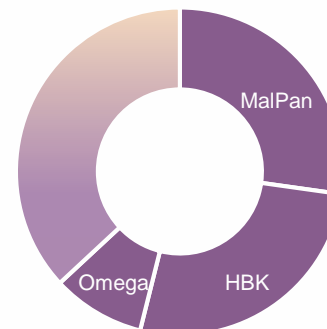
Platform OpCos

Non-platform OpCos

- Portfolio still being fully evaluated
- Platform potential:
  - Attractive growth and profit potential
  - Targeted investments
  - Manage for full potential
  - Possible future platforms
- Run for value:
  - Focus on performance enhancement
  - Manage for value
  - Potential divestment candidates

% of 2018 sales

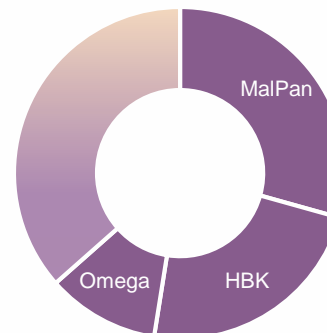
Run for value  
Platform potential



Platform OpCos

% of 2018 adjusted operating profit

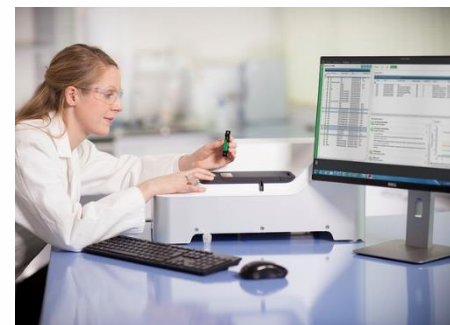
Run for value  
Platform potential



Platform OpCos



- Highly complementary portfolio of instruments for materials analysis
- Serving a broad range of industries: pharma/advanced materials/minerals & mining
- Strong reputation for quality of instruments and customer support
- Served addressable market of c.£3bn, growing at 4-5% pa
- Concept Life Sciences to become part of the Malvern Panalytical platform
- Growth potential:
  - Existing markets through additional products and instruments
  - Extension into insight-creating software and solutions
  - Adjacent markets, leveraging and replicating its domain expertise
- Scalable go-to-market approach:
  - Significant market headroom and increased value-based selling
  - Opportunities for bolt-on M&A



- Highly complementary portfolio of testing and measurement products
- Leading player in technically advanced segments of mechanical & noise, vibration, harshness testing
- Diversified end-market presence: automotive, aerospace, telecoms, industrials
- Recognised by customers for leading technology & application expertise
- Large addressable market worth £3bn+ globally, growing at 4-6% pa
- VI-grade to become part of the HBK platform
- Broad range of growth opportunities:
  - Increasing share in core markets
  - Technology adjacencies plus new and emerging applications
  - Expanding offering in application analytics
- Merger presents additional value-enhancing opportunities:
  - Greater customer intimacy and joint product/solutions design
  - Broader 'product physics' offer
  - Common data handling capabilities



- Specialist distributor of temperature, pressure, flow sensors & instrumentation
- Differentiated business model, a leader in North America & overseas presence
- Provides domain and application expertise via technical product support
- Highly diversified customer base of engineers across numerous end markets
- c.£2bn addressable market, growing at 4-5% pa
- Financially efficient and highly scalable business model
- Benefits from long-term purchasing trend towards remote & online ordering
- Significant value-creation opportunities:
  - Further expansion through product extension and enhanced online platform
  - Targeted international expansion
  - Evaluating curated market-place for third-party products



- Focusing on high-end instrumentation plus associated software and services
- Improving productivity and operational efficiency
- Simplifying the portfolio with fewer platform businesses and a focused end-market strategy
- Actively managing the portfolio to prioritise and optimise
- More disciplined and targeted capital allocation
- Improving financial performance:
  - Sustainable organic revenue growth and enhanced margins
  - Stronger free cashflow generation
  - Higher returns on capital employed

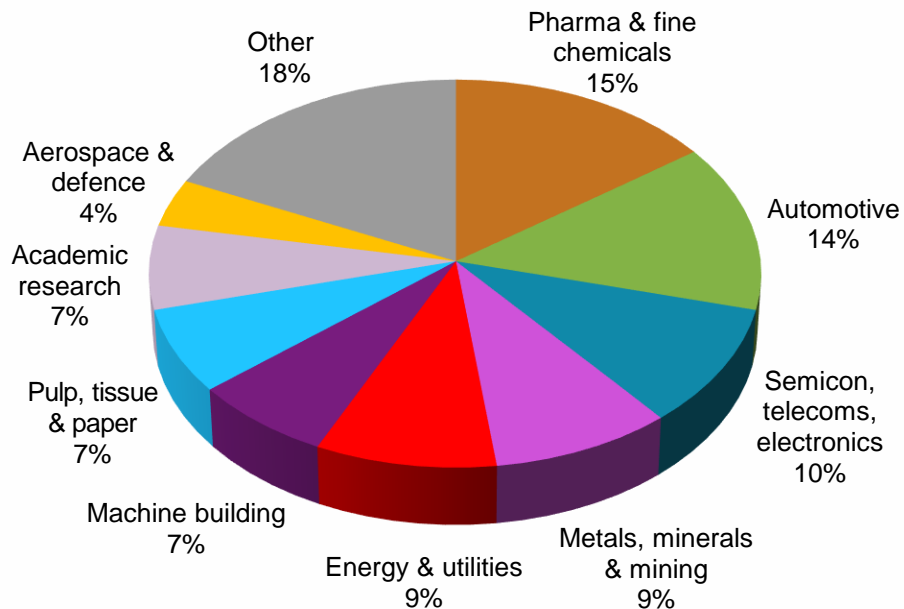
***Enhancing shareholder value***



## Spectris plc

# Appendix

FY 2018 % of Group sales



End-user market	LFL change FY 2018	LFL change FY 2017
Pharma & fine chemicals	<b>+7%</b>	+7%
Automotive	<b>+11%</b>	+15%
Semicon, telecoms & electronics	<b>+7%</b>	+14%
Metals, minerals & mining	<b>+2%</b>	+15%
Energy & utilities	<b>+6%</b>	+8%
Machine building	<b>+5%</b>	(3%)
Pulp, tissue & paper	<b>+3%</b>	+2%
Academic research	<b>+13%</b>	(8%)
Aerospace & defence	<b>(5%)</b>	+9%

Laboratory/off-line businesses

Materials Analysis

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

Test and Measurement

Automotive  
Aerospace  
Electronics  
Energy  
Academic research

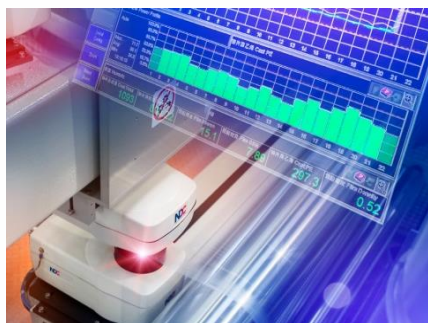
Process/manufacturing businesses

In-line Instrumentation

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

Industrial Controls

Manufacturing  
Process industries  
Energy  
Electronics  
Healthcare



% Group Sales FY 2018:

34%

33%

19%

14%

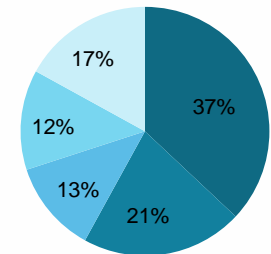
## Materials Analysis

## Test and Measurement

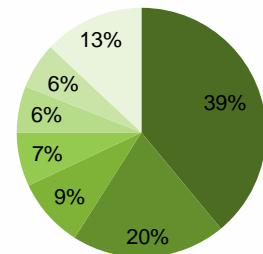
## In-line Instrumentation

## Industrial Controls

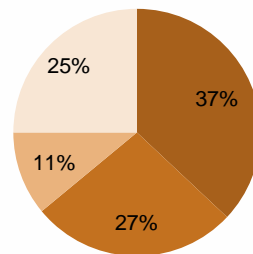
2018 sales by end-user market



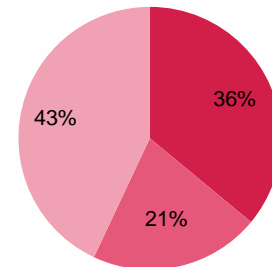
- Pharma & fine chemicals
- Metals, minerals & mining
- Semicon, telecoms & electronics
- Academic research
- Other



- Automotive
- Machine building
- Aerospace & defence
- Semicon, telecoms & electronics
- Academic research
- Energy & utilities
- Other

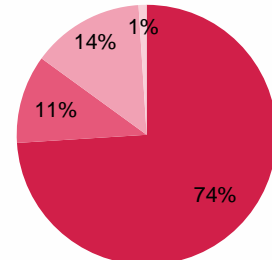
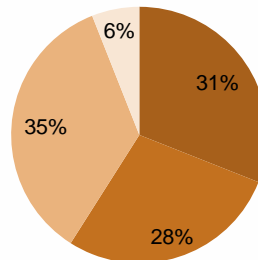
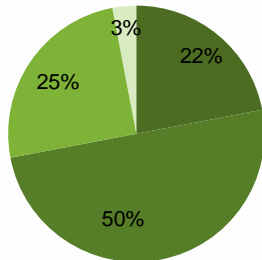
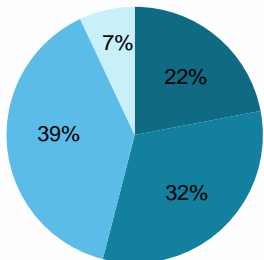


- Pulp, paper & tissue
- Energy & utilities
- Converting, extrusion & packaging
- Other



- Distribution
- Semicon, telecoms & electronics
- Other

2018 sales by destination



- North America
- Europe
- Asia
- ROW

- North America
- Europe
- Asia
- ROW

- North America
- Europe
- Asia
- ROW

- North America
- Europe
- Asia
- ROW



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