

# Spectris Half year results 2020



*Value  
beyond  
measure*

Andrew Heath  
Chief Executive

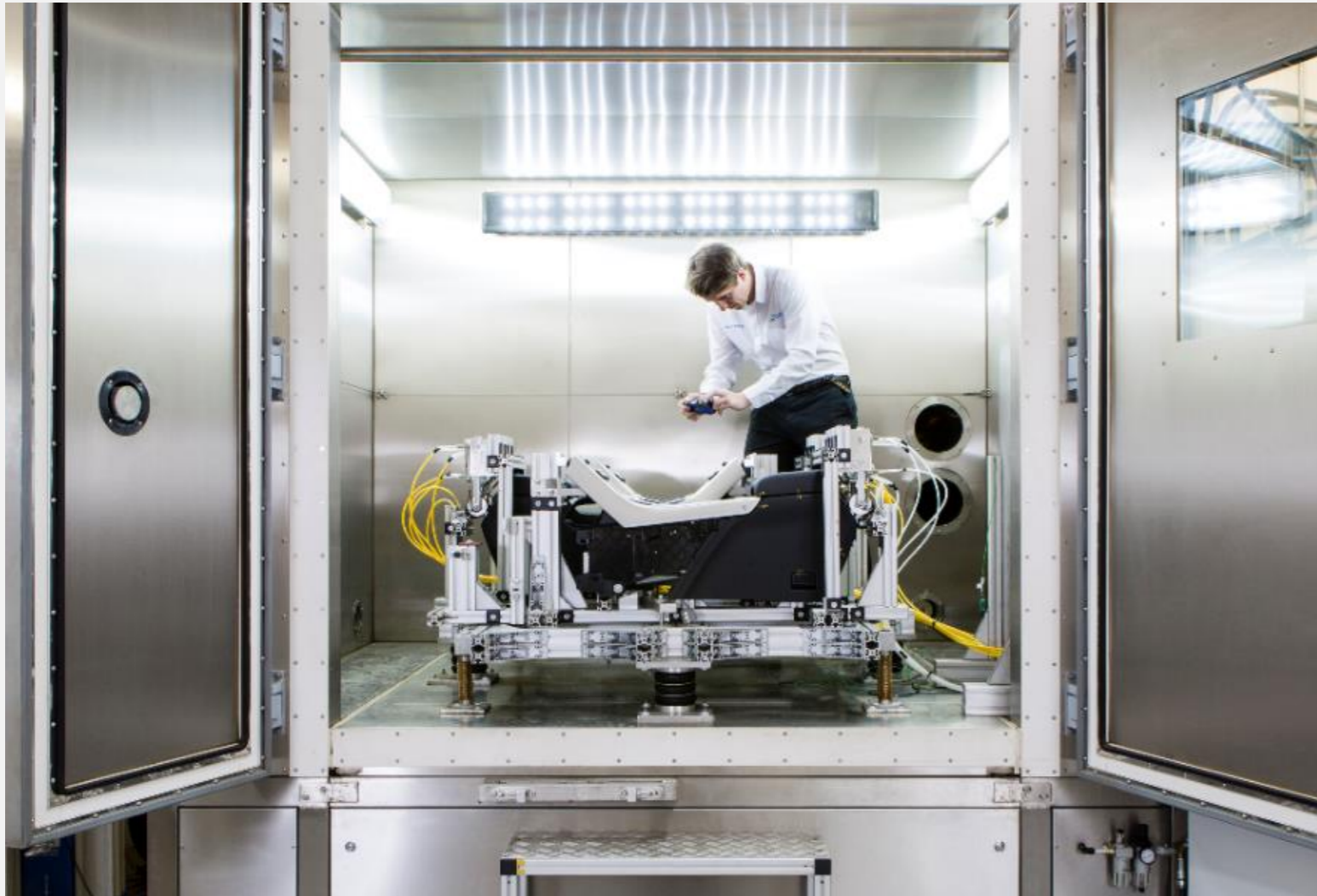
# Agenda

- H1 2020 headlines
- Financial performance
- Operational performance
- Summary and outlook

# H1 2020 headlines

- Continuing to prioritise the well-being of our people and taking a balanced approach to managing our business through this challenging period
- Better than expected Q2 performance: H1 sales of £599.0 million, a 14% LFL sales decrease
- Keen focus on cost control: continued execution of profit improvement programme and implementation of short-term, temporary cost measures delivered 11% reduction in LFL overheads
- Profit drop through of 32%: adjusted operating profit decreased 41%, on a LFL basis, to £44.1 million
- Strong cash generation: net cash of £94.3 million at 30 June and adjusted cash flow conversion of 201%
- Dividend reinstated: additional interim dividend of 43.2 pence per share to be paid in October in lieu of 2019 final dividend; interim dividend of 21.9 pence per share declared for payment in November
- Addressing new economic reality: profit improvement programme on track to deliver £20 million of benefits in 2020; restructuring programme announced and expected to deliver further benefits of £20 million in 2021
- Continued focus on strategy execution: deliver growth, drive operating margin expansion and optimise the portfolio

# A balanced approach to managing our business



Deliver as strong a financial performance in 2020 whilst addressing the needs of all our stakeholders

## **React**

- Support employees, customers and suppliers

## **Respond**

- Reduce costs & preserve cash to protect the business

## **Reset**

- Prepare for the recovery

Reinstate payments to stakeholders

Balanced scorecard to assess performance



# Reset – prepare for the recovery

## Prepare for the recovery

- Extended recovery period expected
- Need to switch temporary cost measures to more sustainable cost reductions
- Maintaining and protecting our strengths & capabilities
- Targeted initiatives at the most impacted businesses
- Sustain new working practices to be a lower cost organisation
- Profit improvement on track to deliver £20 million in 2020; new restructuring programme expected to deliver a further £20 million in 2021
- Benefits from:
  - Footprint rationalisation
  - Permanent reduction in discretionary spend
  - Resizing our capacity and headcount reductions
  - Portfolio optimisation - disposal programme and cessation/sale of low profitability business activities



# Reinstate payments to stakeholders

## Reinstate payments to stakeholders

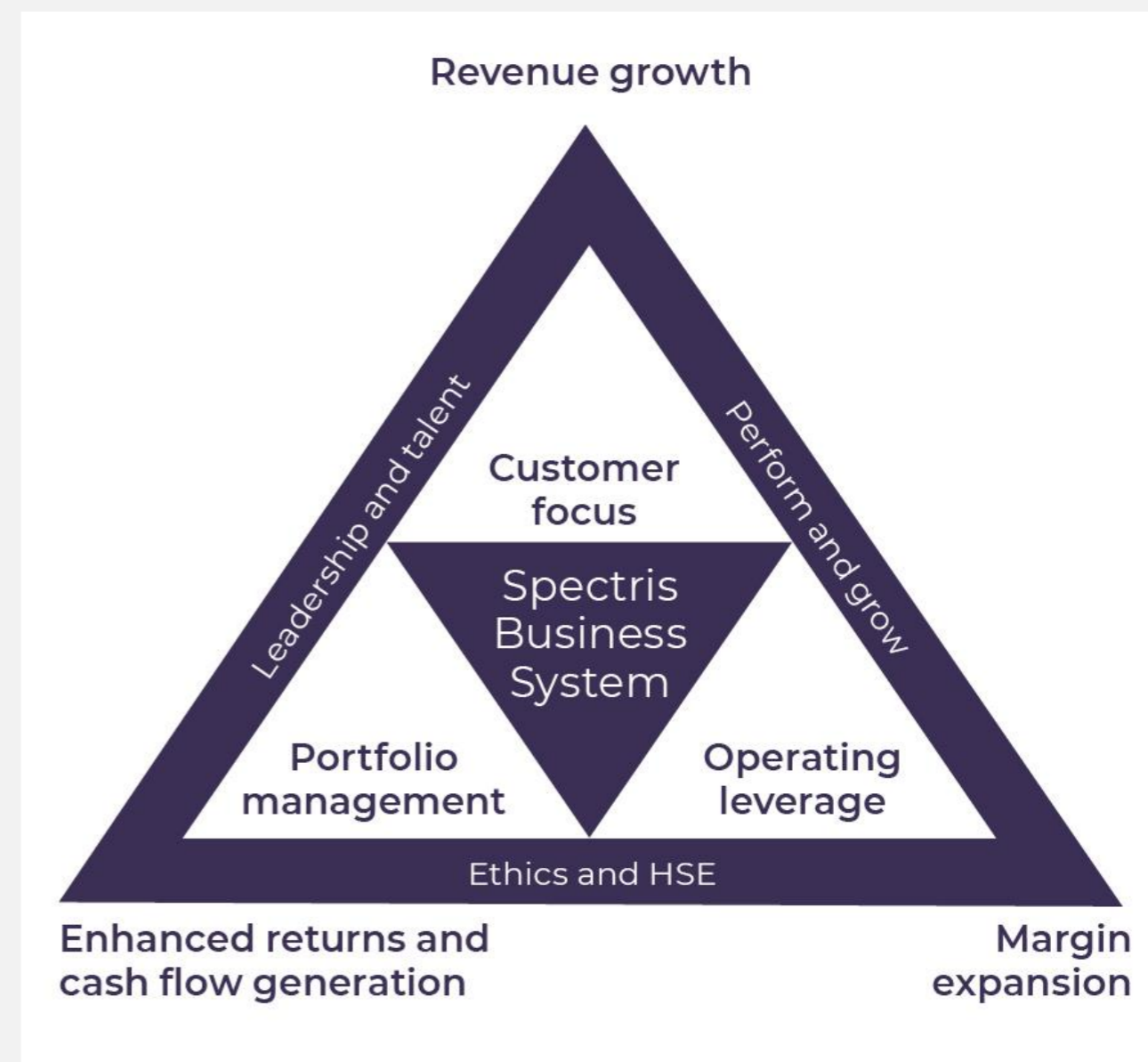
- Return to a sense of normality
- Incentivising all stakeholders
- Supported by strong H1 cashflow generation
- Employees
  - Salaries & full-time working reinstated August/September
  - Executive Director salaries & Board fees reinstated October
- Shareholders
  - Additional interim dividend of 43.2 pence to be paid in October, in lieu of 2019 final dividend
  - Interim dividend for H1 2020 of 21.9 pence to be paid in November





# Strategic direction remains unchanged

- Drive growth
  - Strategic growth initiatives further enhance the product proposition, including:
    - Automation solutions at Malvern Panalytical
    - Simulation/eDrive offering at HBK
    - New product launches at Omega
- Margin expansion
  - Self-help initiatives to drive cost-efficiency
- Portfolio optimisation
  - Activity returning after initial COVID-19 halt
  - No change to divestment candidates
  - Acquisition pipeline continues to be worked
  - Maintain capital discipline
- Spectris Business System





## Delivering *value beyond measure*

### Our new Values and Code of Business Ethics

#### **Be true**

We believe in absolute integrity. It's how we win for stakeholders, the environment and each other

#### **Own it**

We believe in teamwork and keeping our promises. It's how we build our brands and businesses

#### **Aim high**

We believe in being bold and positive. It's how we perform at our best and achieve greater success



# Derek Harding Chief Financial Officer

# Challenging market conditions

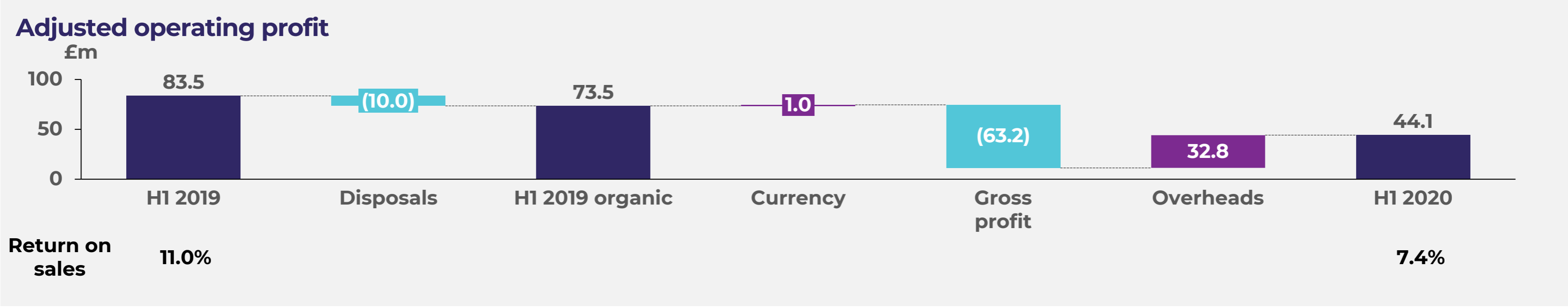
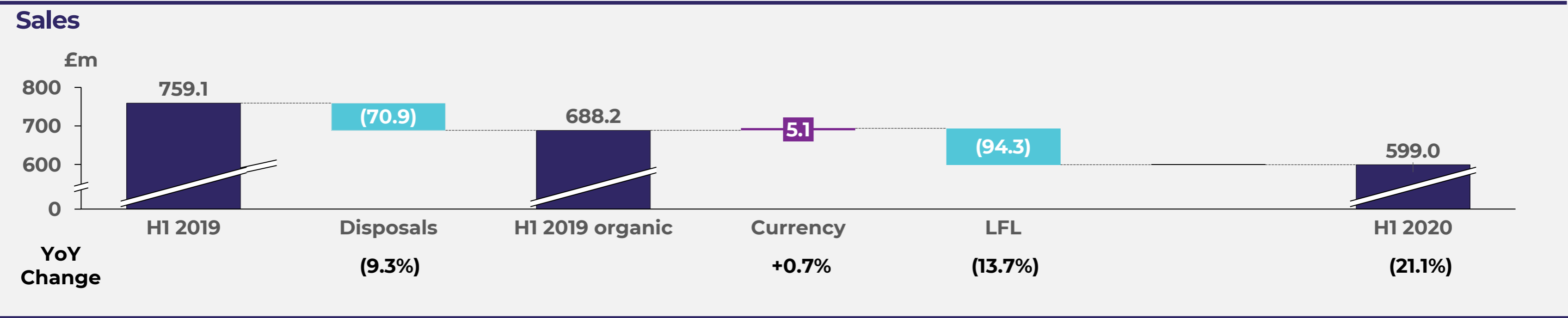
	H1 2020	H1 2019	Change	Like-for-like change <sup>(2)</sup>
Sales (£m)	<b>599.0</b>	759.1	(21.1%)	(13.7%)
Adjusted operating profit (£m) <sup>(1)</sup>	<b>44.1</b>	83.5	(47.2%)	(41.0%)
Adjusted operating margin (%) <sup>(1)</sup>	<b>7.4%</b>	11.0%	(360 bps)	(340 bps)
Adjusted profit before tax (£m) <sup>(1)</sup>	<b>40.4</b>	77.2	(47.7%)	
Adjusted effective tax rate (%) <sup>(1)</sup>	<b>22.0%</b>	21.5%	(50 bps)	
Adjusted EPS (pence) <sup>(1)</sup>	<b>27.2p</b>	52.4p	(48.1%)	
DPS (pence)	<b>21.9p</b>	21.9p	-	
Adjusted cash conversion (%) <sup>(1)</sup>	<b>201%</b>	89%	112pp	
Net cash / (debt) (£m)	<b>94.3</b>	(312.6)	n.m.	
Return on gross capital employed (%) <sup>(1)</sup>	<b>11.3%</b>	13.4%	(210 bps)	

## Notes

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

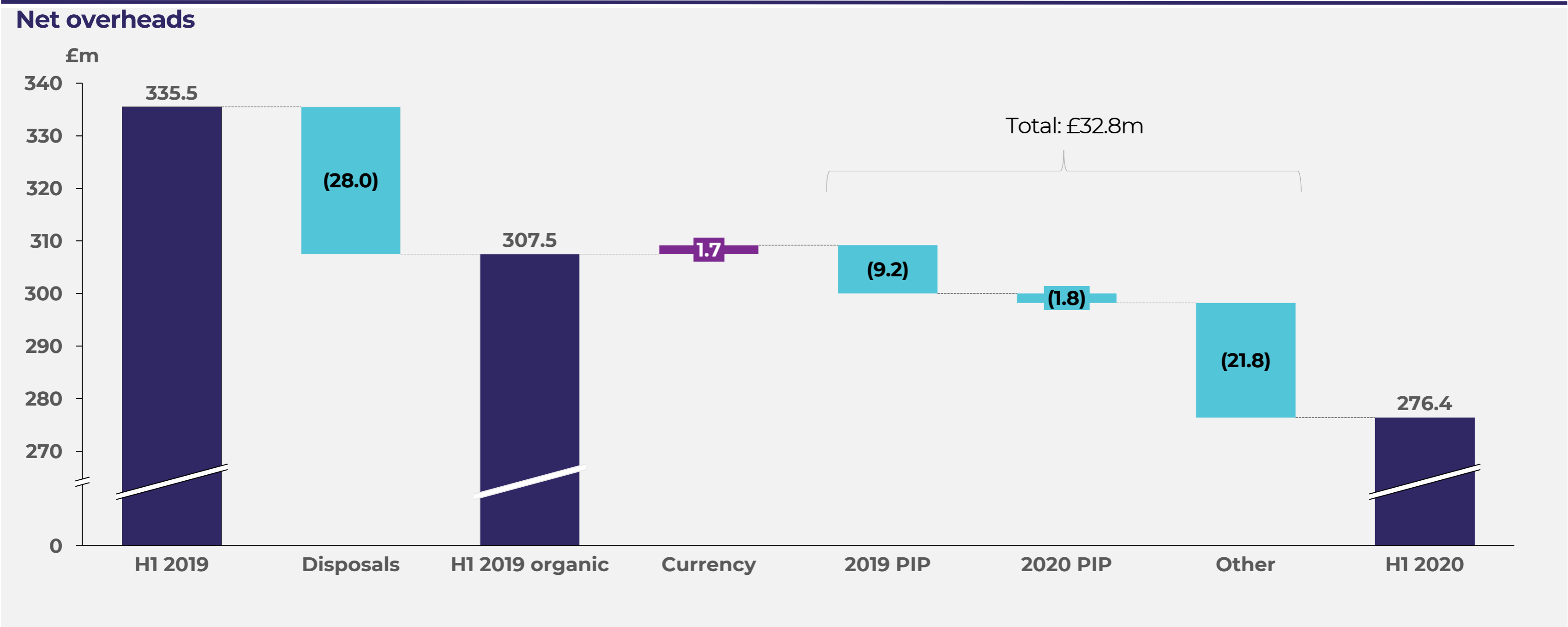
(2) At constant exchange rates and including acquisitions and disposals on a comparable basis ('LFL').

# LFL sales and profit decline

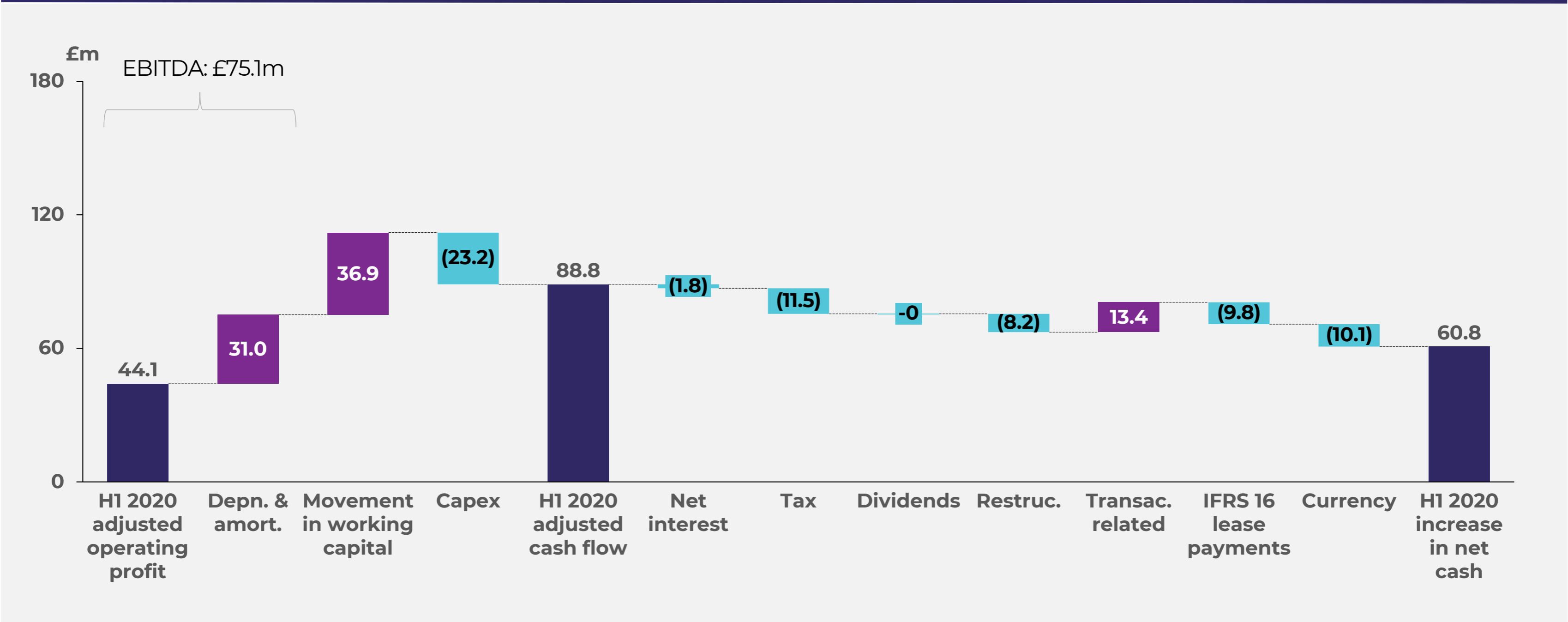




# Cost reduction measures



# Strong cash flow conversion



# Adjusted and statutory operating profit/(loss)

	H1 2020	H1 2019
Adjusted operating profit <sup>(1)</sup>	44.1	83.5
Restructuring costs	(3.0)	(29.1)
Net transaction-related costs and fair value adjustments	(2.0)	(6.3)
Depreciation of acquisition-related fair value adjustments to property, plant and equipment	(0.4)	(0.4)
Profit on disposal of property	-	5.2
Impairment of goodwill	(58.4)	(35.1)
Amortisation and impairment of acquisition-related intangible assets and impairment of other property plant and equipment	(36.5)	(63.9)
<b>Statutory operating loss</b>	<b>(56.2)</b>	<b>(46.1)</b>

Notes

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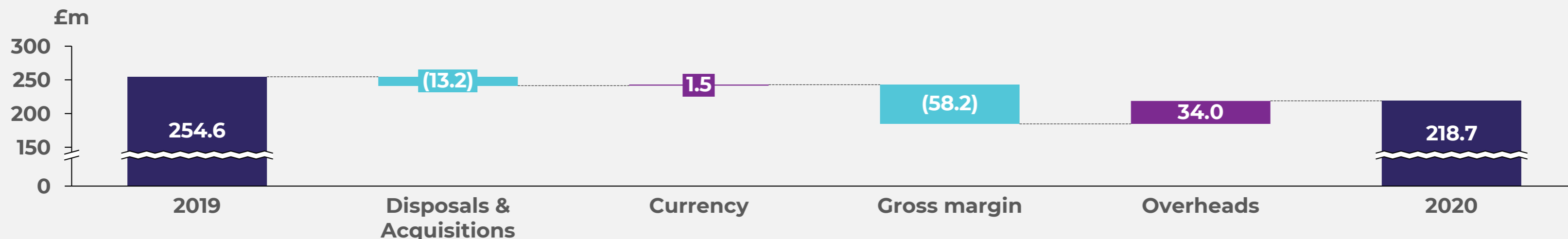
# Statutory loss before tax

	H1 2020	H1 2019
<b>Statutory operating loss</b>	<b>(56.2)</b>	<b>(46.1)</b>
Share of post-tax results of joint venture	-	(2.8)
Profit on disposal of businesses	5.1	-
Financial income	0.6	4.4
Finance costs	(15.0)	(5.6)
<b>Statutory loss before tax</b>	<b>(65.5)</b>	<b>(50.1)</b>

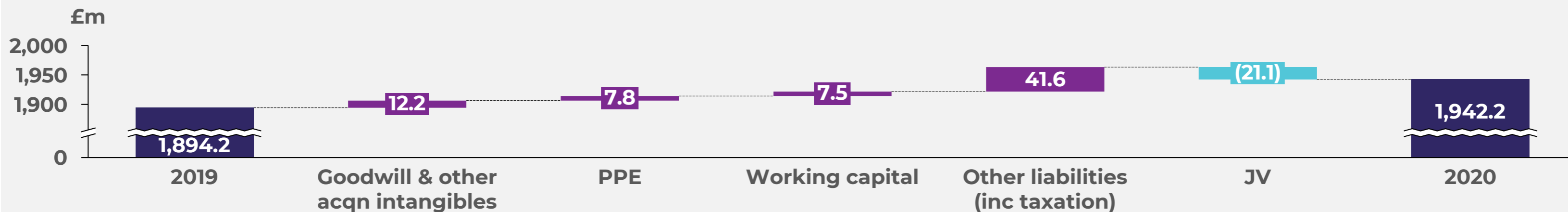


# Return on gross capital employed

## Adjusted operating profit



## Average gross capital employed



ROGCE 13.4%

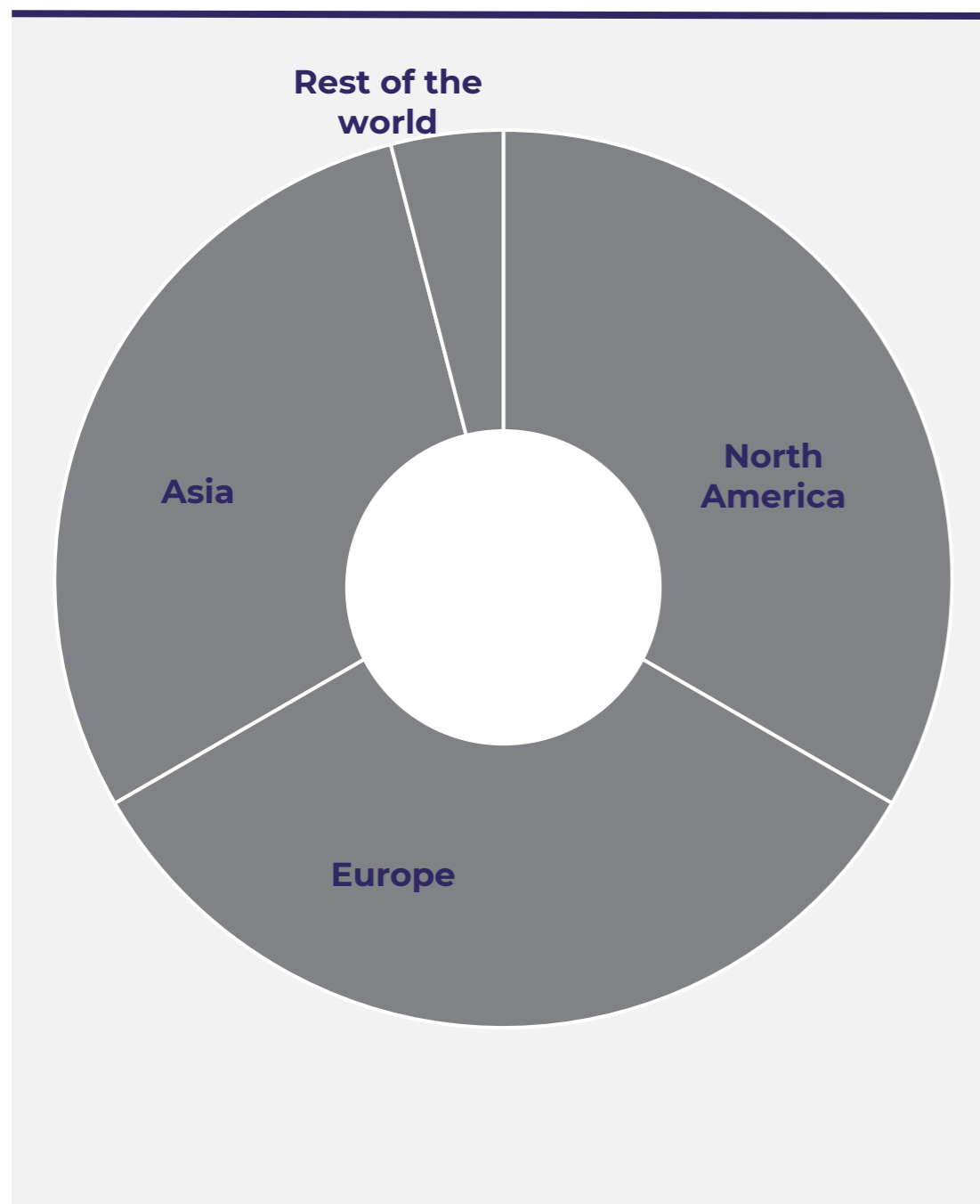
11.3%

# H2 2020 considerations

Headwinds	Tailwinds
<ul style="list-style-type: none"><li>• Potential further lockdowns</li><li>• US-China trade challenges</li><li>• Unwind of H1 temporary costs measures (salary sacrifice/furloughs/government subsidies)</li></ul>	<ul style="list-style-type: none"><li>• Economic recovery? – shape &amp; timing uncertain</li><li>• Profit improvement programme benefits – further £9 million to be delivered</li><li>• Continued product launches</li><li>• Self help – Spectris Business System</li></ul>

# Andrew Heath Business update

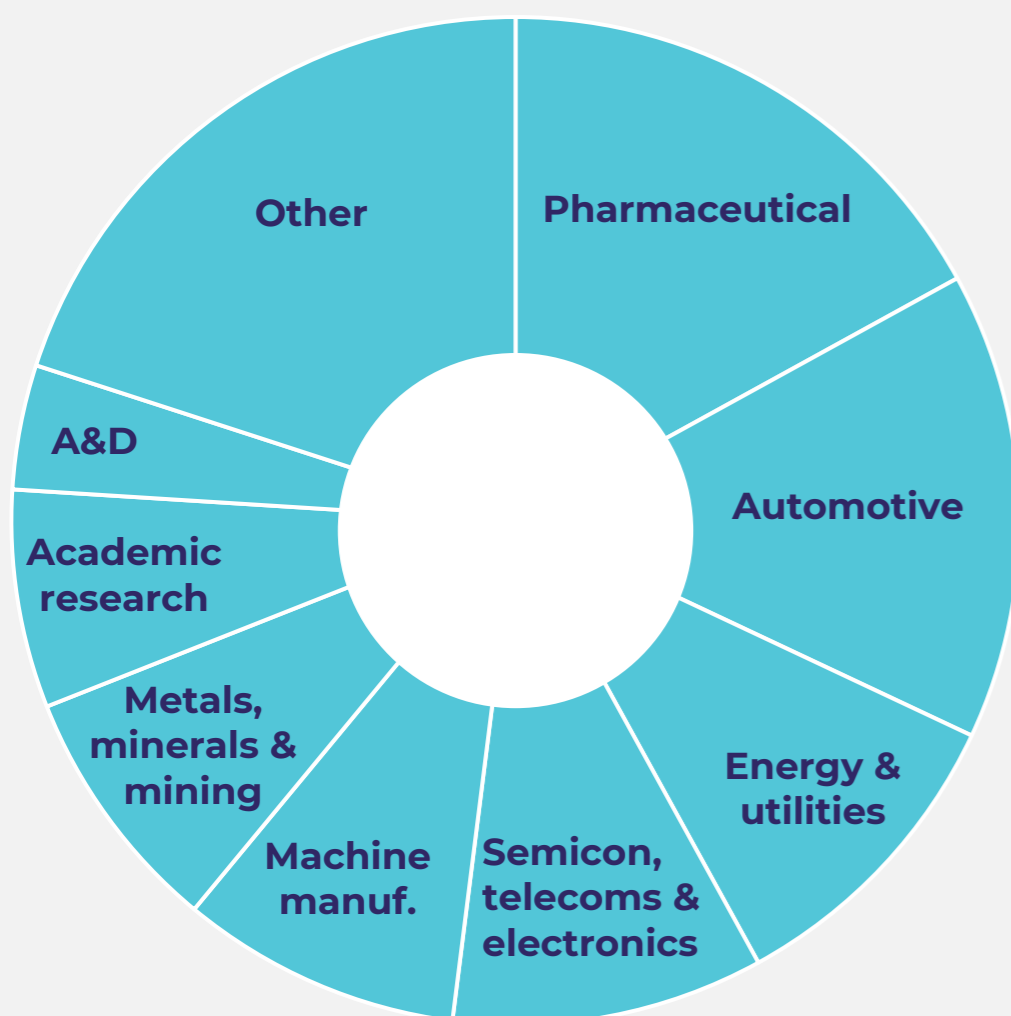
# Sales by destination



End market	% of Group sales	LFL change H1 2020	LFL change H1 2019
North America	33%	<b>(11%)</b>	(3%)
Europe	33%	<b>(15%)</b>	(2%)
Germany	9%	<b>(13%)</b>	(4%)
UK	8%	<b>(15%)</b>	(7%)
Asia	29%	<b>(16%)</b>	7%
China	13%	<b>(9%)</b>	(2%)
Japan	6%	<b>(11%)</b>	5%
Rest of the world	5%	<b>(11%)</b>	14%



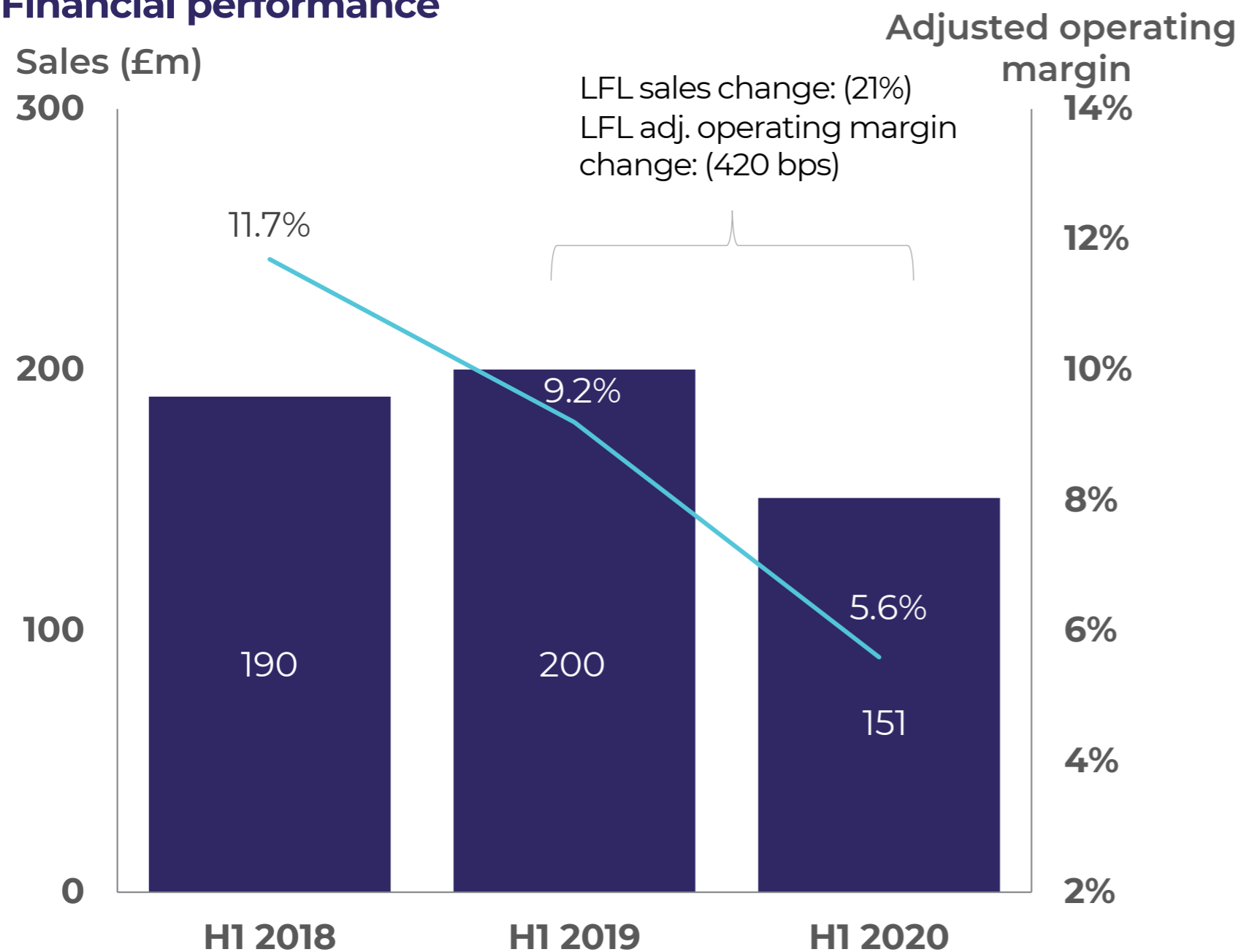
# Sales by end market



End market	% of Group sales	LFL change H1 2020	LFL change H1 2019
Pharmaceutical	17%	<b>(3%)</b>	1%
Automotive	15%	<b>(11%)</b>	(7%)
Energy & utilities	10%	<b>(14%)</b>	8%
Semiconductor, telecoms & electronics	10%	<b>(20%)</b>	5%
Machine manufacturing	9%	<b>(4%)</b>	(7%)
Metals, minerals & mining	8%	<b>(24%)</b>	(1%)
Academic research	7%	<b>(21%)</b>	26%
Aerospace & defence	4%	<b>(17%)</b>	(0.1%)

# Malvern Panalytical – financial and end market performance

## Financial performance



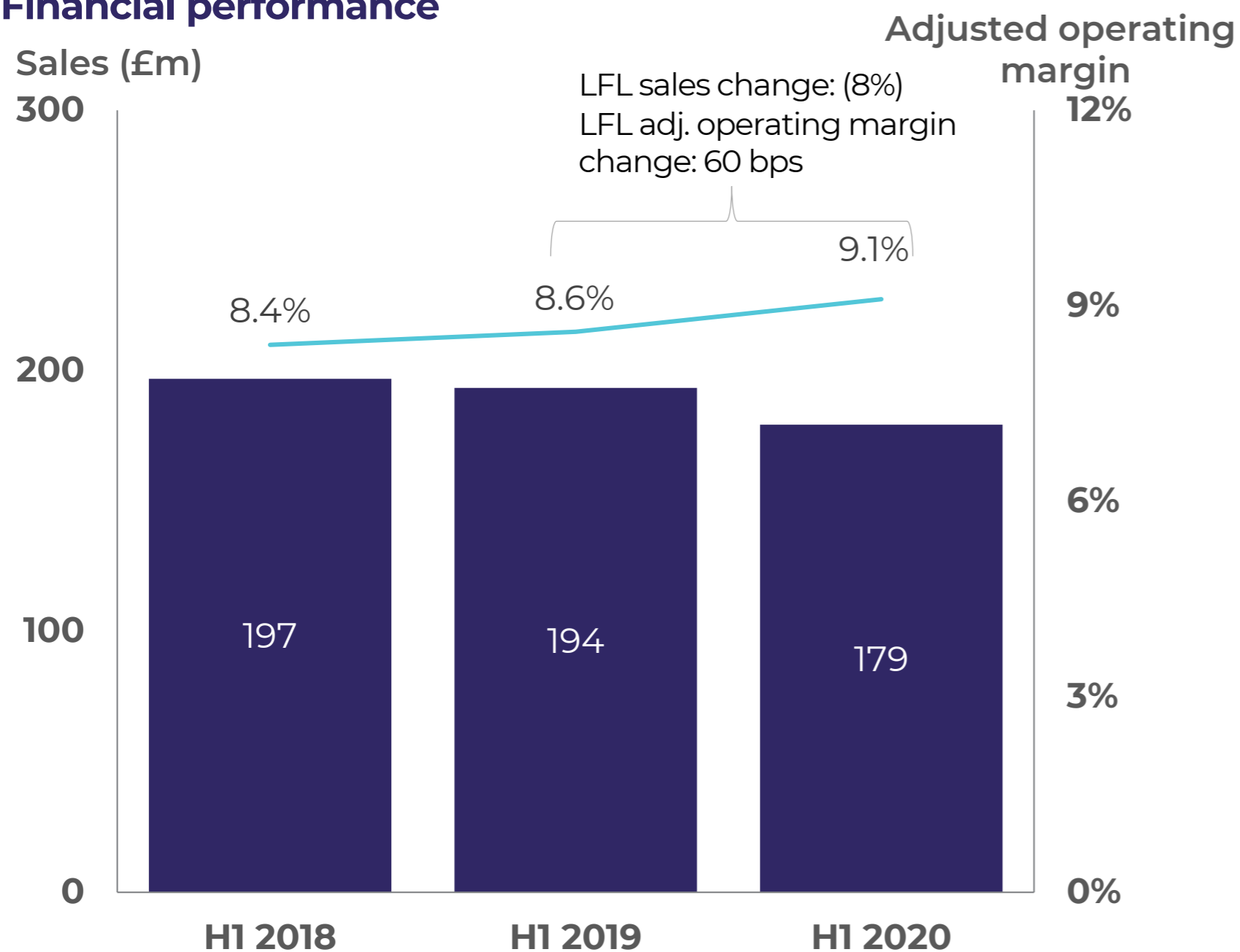
## H1 2020 LFL performance

Pharmaceuticals and food	
↓ ↓	<ul style="list-style-type: none"> <li>Laboratories and research institutes closed</li> <li>Shift in focus to production from R&amp;D with COVID-19-related research prioritised and other projects paused</li> <li>Food manufacturing/quality control more resilient</li> </ul>
Primary materials:	
↓ ↓	<ul style="list-style-type: none"> <li>Mine closures to meet social distancing requirements</li> <li>Metal suppliers dependent on customers impacted by COVID-19 (e.g. auto, aerospace)</li> <li>Building materials demand less impacted</li> </ul>
Advanced materials:	
↓ ↓	<ul style="list-style-type: none"> <li>Laboratories and research institutes closed</li> <li>Supply chain for batteries disrupted</li> </ul>

Single arrow: 0-9% movement, double arrow: >10% movement

# HBK – financial and end market performance

## Financial performance



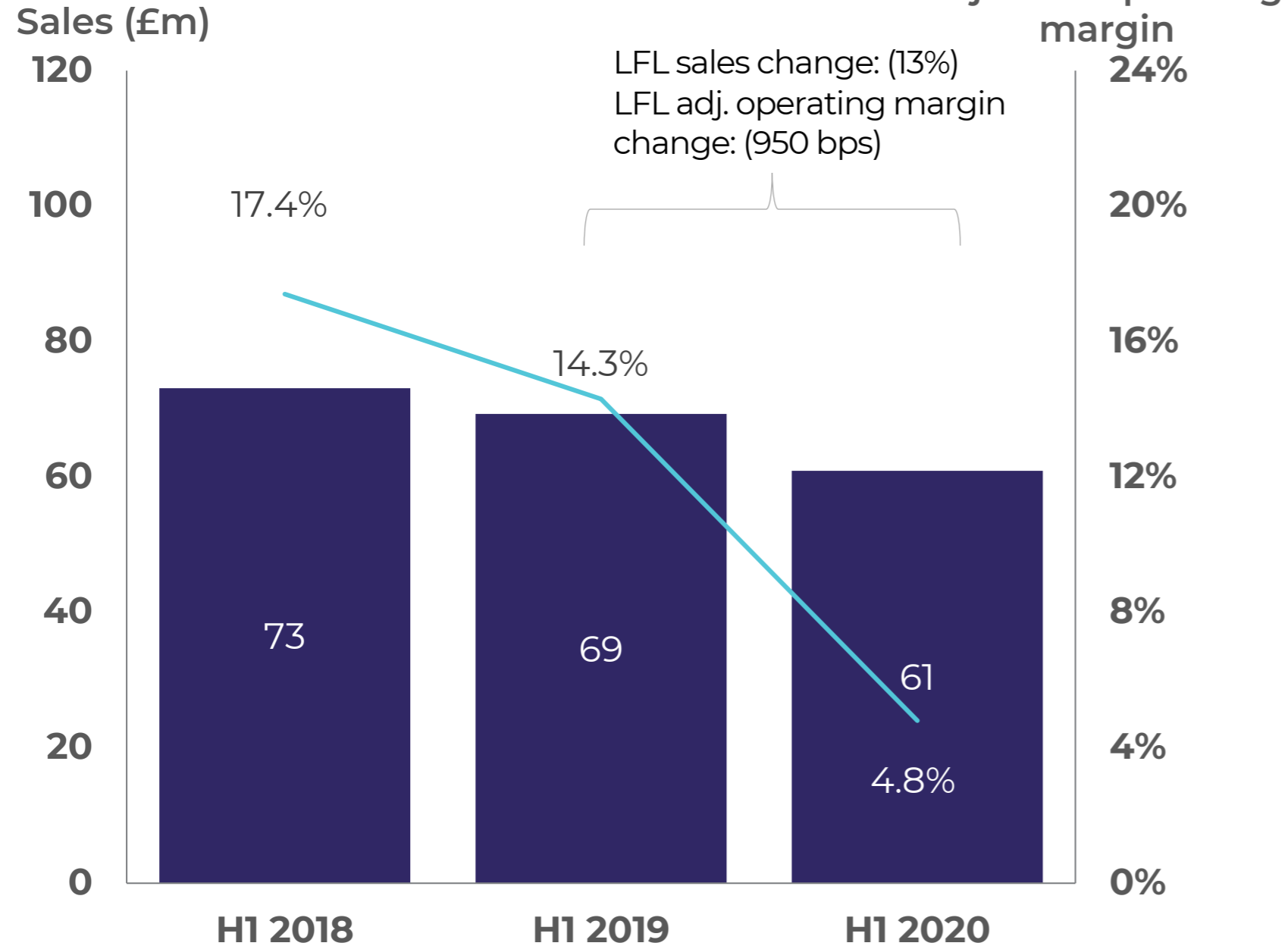
## H1 2020 LFL performance

Automotive	
↓ ↓	<ul style="list-style-type: none"> <li>• Slowdown in global automotive</li> <li>• Resilient demand for electric vehicle testing, R&amp;D and simulation</li> </ul>
Machine manufacturing	
↓	<ul style="list-style-type: none"> <li>• Strong growth in North America from automotive supply chain</li> <li>• Good onward demand for weighing technologies from the process and medical markets</li> </ul>
Aerospace and defence	
↓ ↓	<ul style="list-style-type: none"> <li>• Large investment programmes still running in the short to medium term</li> <li>• Defence and satellite spending impacted to a lesser degree</li> </ul>
Consumer electronics and telecoms	
↓ ↓	<ul style="list-style-type: none"> <li>• Weaker consumer demand &amp; delayed product launches</li> </ul>

Single arrow: 0-9% movement, double arrow: >10% movement

# Omega – financial and end market performance

## Financial performance



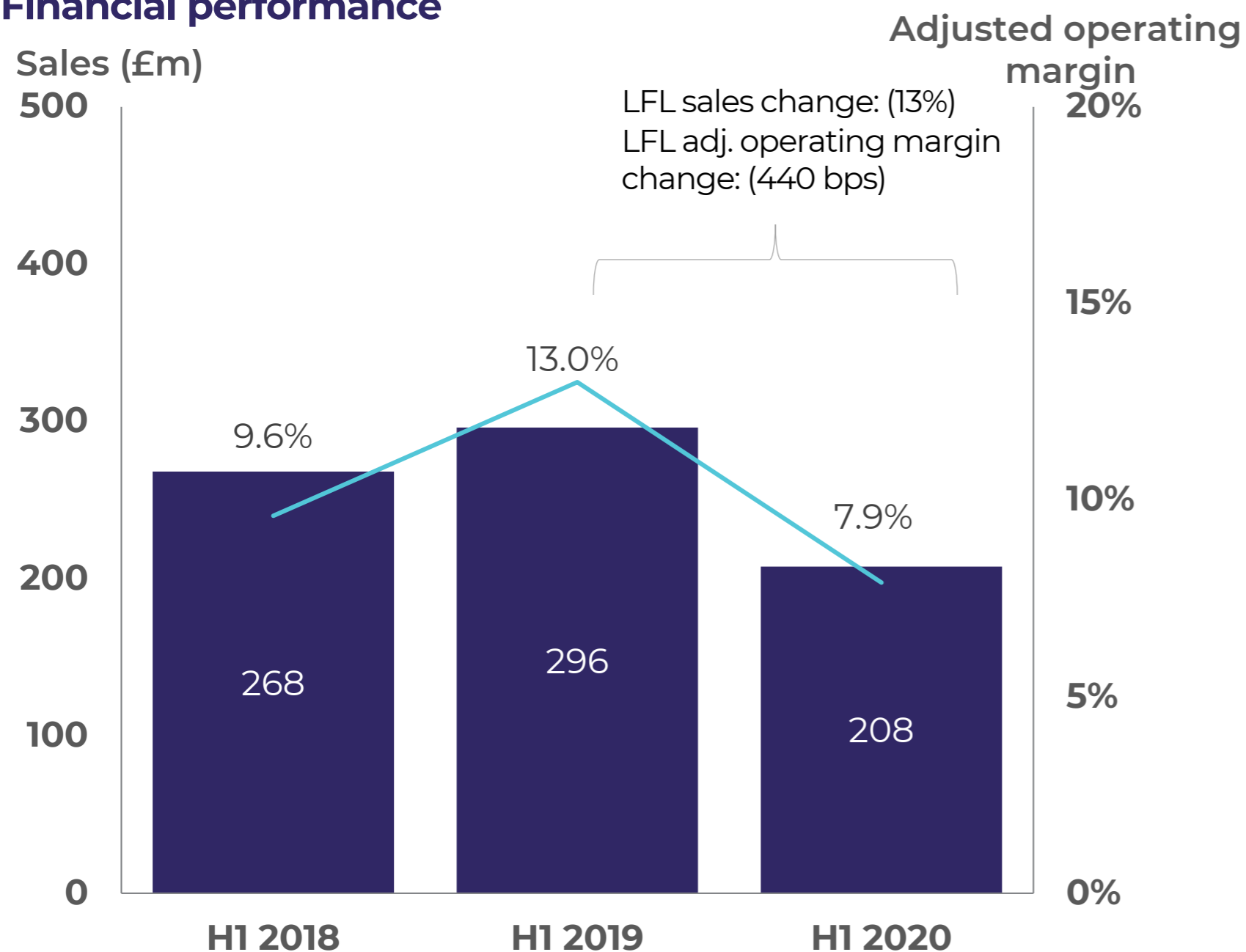
## H1 2020 LFL performance

North America	
↓ ↓	<ul style="list-style-type: none"> <li>• Business disruption stemming from COVID-19</li> <li>• US industrial production falling to record lows</li> </ul>
Europe	
↓ ↓	<ul style="list-style-type: none"> <li>• Significant slowdown in electronics and telecoms demand in UK and Germany</li> </ul>
China	
↓ ↓	<ul style="list-style-type: none"> <li>• Business disruption stemming from COVID-19</li> </ul>
Other	
S. Korea ↑ ↑	<ul style="list-style-type: none"> <li>• Strong performance in South Korea and Japan, with semiconductor demand continuing to improve</li> <li>• Demand for wireless sensors growing rapidly</li> </ul>
Japan ↑	

Single arrow: 0-9% movement, double arrow: >10% movement

# Industrial Solutions – financial and end market performance

## Financial performance



## H1 2020 LFL performance

Energy and utilities	
↓↓	<ul style="list-style-type: none"> <li>• Collapse in oil price and reduction in demand impacting capex budgets</li> <li>• Demand in wind strong</li> </ul>
Pharmaceutical	
↑	<ul style="list-style-type: none"> <li>• Rapid increase in demand for oxygen sensors in response to COVID-19</li> <li>• Good demand in North America for environmental monitoring projects</li> </ul>
Semiconductor and electronics	
↓↓	<ul style="list-style-type: none"> <li>• Slowdown in semiconductor and electronics</li> <li>• Good demand for high-purity products</li> </ul>
Automotive	
↓	<ul style="list-style-type: none"> <li>• Increase in testing capacity at Millbrook</li> <li>• Underlying sales impacted by customer cost pressure</li> </ul>

Single arrow: 0-9% movement, double arrow: >10% movement

# Summary and outlook

- Balanced, socially responsible approach to managing our business; support from all stakeholders
- Ensured focus on cost control which delivered 11% reduction in LFL overheads
- Profit drop-through of 32%, strong cashflow generation, strengthened balance sheet & liquidity position
- Enabling us to restore salaries, bring people back to work and reinstate dividend
- However, extended recovery now necessitates sustainable cost actions – restructuring programme expected to deliver £20 million of benefits in 2021
- Our long-term target end markets are still attractive
- Strategic direction remains unchanged and forms the basis for delivering enhanced shareholder value

# Appendix



# Balance sheet

Summary (£m)	H1 2020	H1 2019
Goodwill and intangible assets	783.9	942.6
Property, plant and equipment	368.9	398.0
Investment in equity instruments	0.8	-
Net investment in JV	-	43.2
Working capital:		
- Inventories	221.8	240.0
- Receivables	298.1	347.1
- Payables	(324.6)	(357.0)
- Provisions	(29.4)	(35.9)
Derivatives & taxation (net)	(11.2)	(19.7)
Lease liabilities	(59.8)	(70.2)
Retirement benefits (net)	(29.5)	(41.7)
Net capital employed	1,219.0	1,446.4
<b>Net cash / (debt)</b>	<b>94.3</b>	<b>(312.6)</b>
<b>Net assets</b>	<b>1,313.3</b>	<b>1,133.8</b>

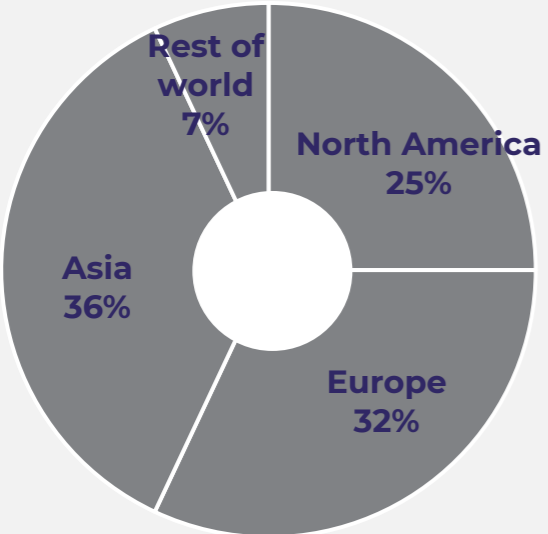
# Technical guidance for 2020

- Underlying effective tax rate – 22%
- Planned capex of c. £55 million, including £15 million relating to Millbrook
- Foreign exchange sensitivities

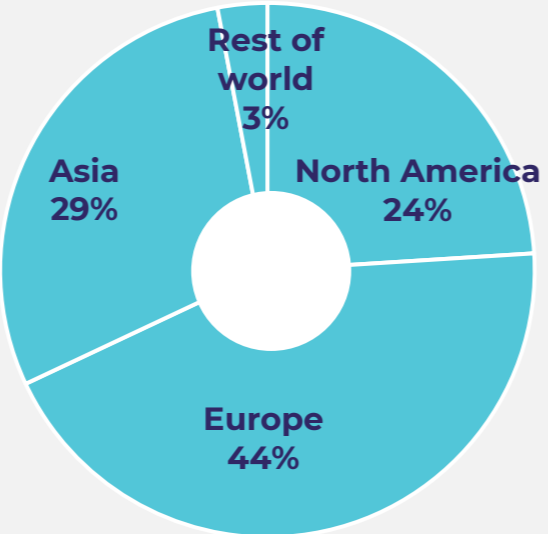
<b>Impact of 1 cent change versus GBP</b>	<b>2020 FY sales £m</b>	<b>2020 FY adjusted operating profit £m</b>
EUR	2.7	0.4
USD	3.2	0.4

# H1 2020 segmental sales

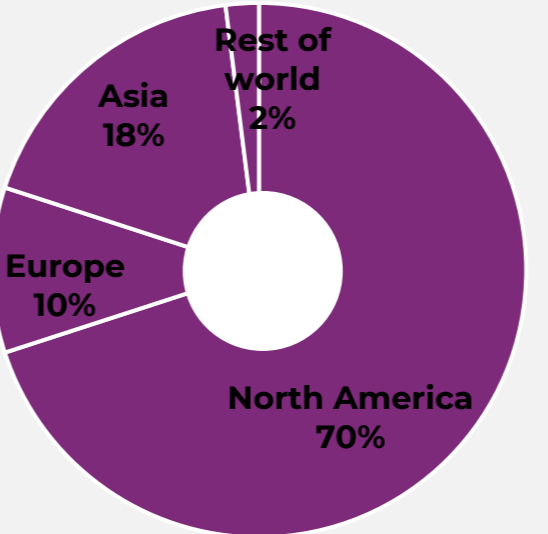
**Malvern Panalytical**



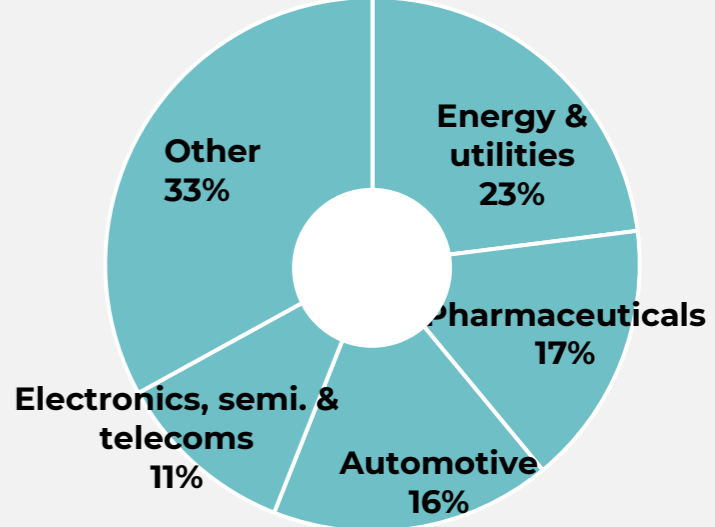
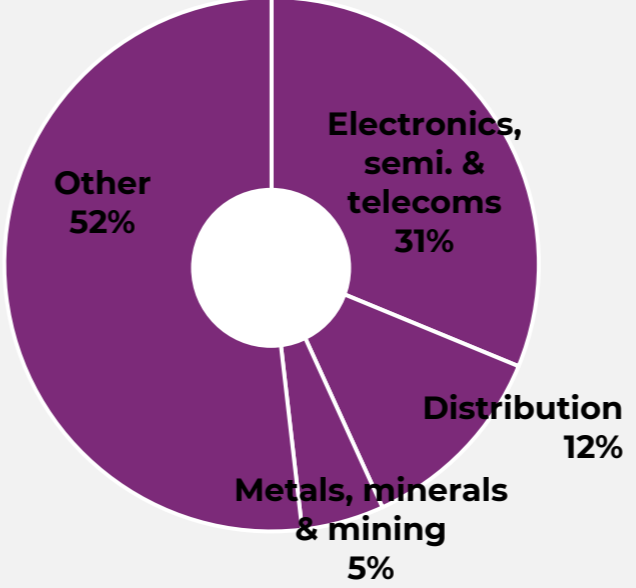
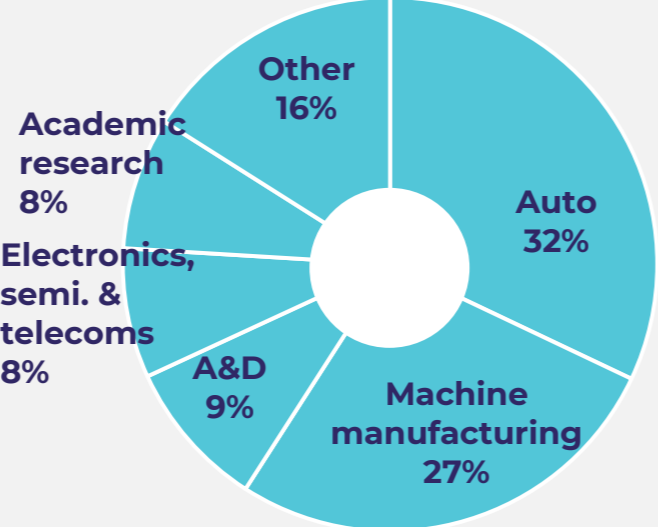
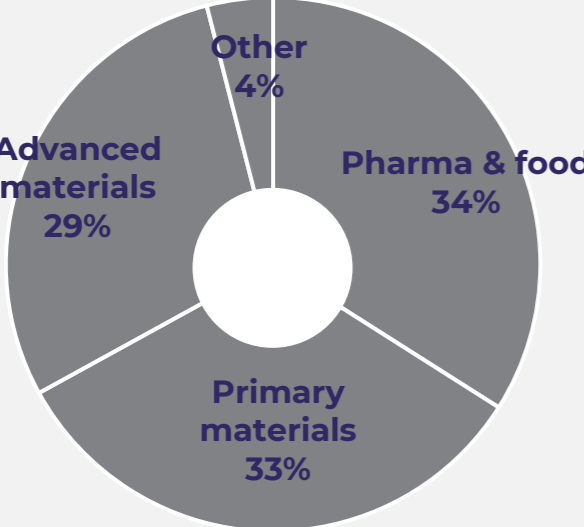
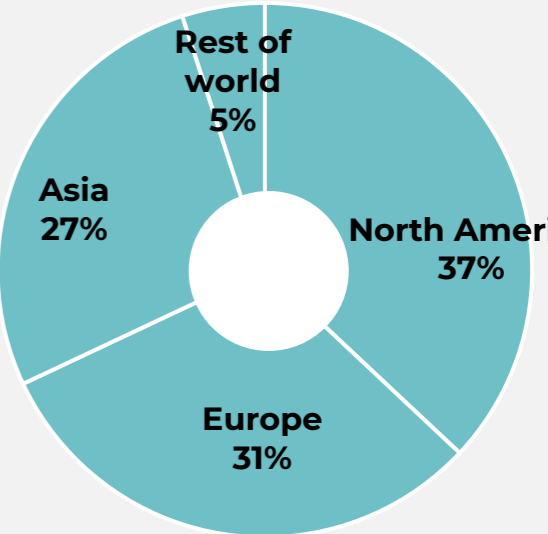
**HBK**



**Omega**



**Industrial Solutions**



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