

Spectris plc

2019 Half Year Results



- H1 2019 Headlines
- Financial Performance
- Operational Performance
- Summary and Outlook

- Sales of £759.1 million, reflecting a 1% LFL sales increase
- Adjusted operating profit of £83.5 million; adjusted operating margin up 0.3pp on a LFL basis
- Strong operating cash flow conversion of 89%
- Adjusted earnings per share up 4%, dividend per share increase of 7%
- Strategic review completed and now focused on executing our strategy for profitable growth
- Benefits from profit improvement programme in 2019 now expected at the upper end of the £15-20 million range; 2019 exit run-rate of £30 million re-confirmed
- Further restructuring as part of strategic review, leading to a charge of £35.1 million relating to an impairment of goodwill and £45.8 million relating to other intangibles

- Strategic review now complete
 - Confirmed the selection of Malvern Panalytical, HBK and Omega as platforms
 - Direction for Industrial Solutions businesses decided
 - Capital allocation approach re-defined
- Strategic review and focus on profit improvement has led us to critically appraise all assets
- This has resulted in a non-cash impairment of goodwill and other intangibles
 - Cessation of a business line in the Test and Measurement segment
 - Concept Life Sciences restructuring

Financial Performance

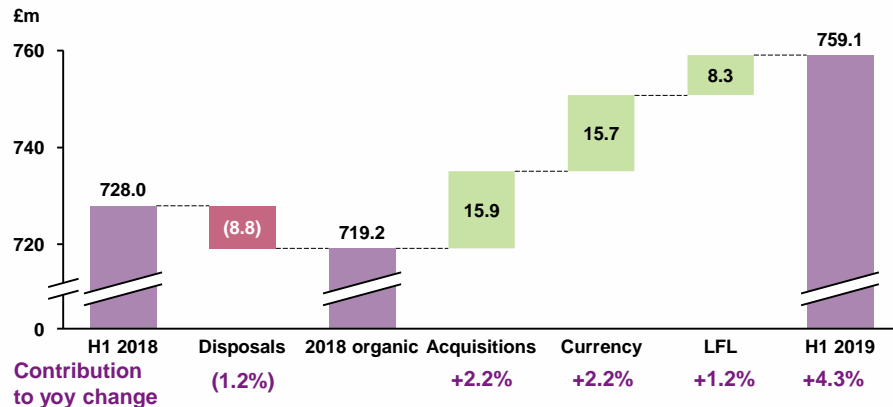
Derek Harding
Chief Financial Officer

	H1 2019	H1 2018	Change	Like-for-like change ⁽²⁾
Sales (£m)	759.1	728.0	4%	1%
Adjusted operating profit (£m) ⁽¹⁾	83.5	77.2	8%	4%
Adjusted operating margin (%) ⁽¹⁾	11.0%	10.6%	0.4pp	0.3pp
Adjusted profit before tax (£m) ⁽¹⁾	77.2	74.1	4%	-
Adjusted effective tax rate (%) ⁽¹⁾	21.5%	19.0%	2.5pp	-
Adjusted EPS (pence) ⁽¹⁾	52.4	50.4	4%	-
DPS (pence)	21.9	20.5	7%	-
Adjusted operating cash conversion (%) ⁽¹⁾	89%	69%	20pp	-
Net debt (£m)	(312.6)	(231.5)	(35%)	-
Return on gross capital employed (%) ⁽¹⁾	13.4%	14.2%	(0.8pp)	-

Notes

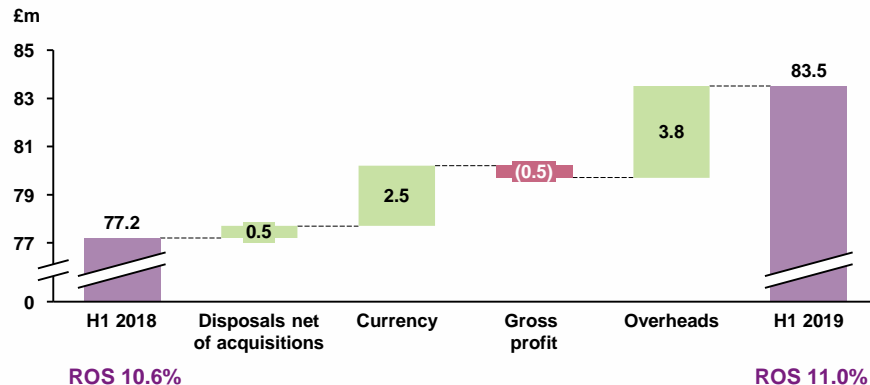
- (1) These adjusted performance measures represent the statutory results excluding certain items.
(2) At constant exchange rates and including acquisitions and disposals on a comparable basis ('LFL').

Sales

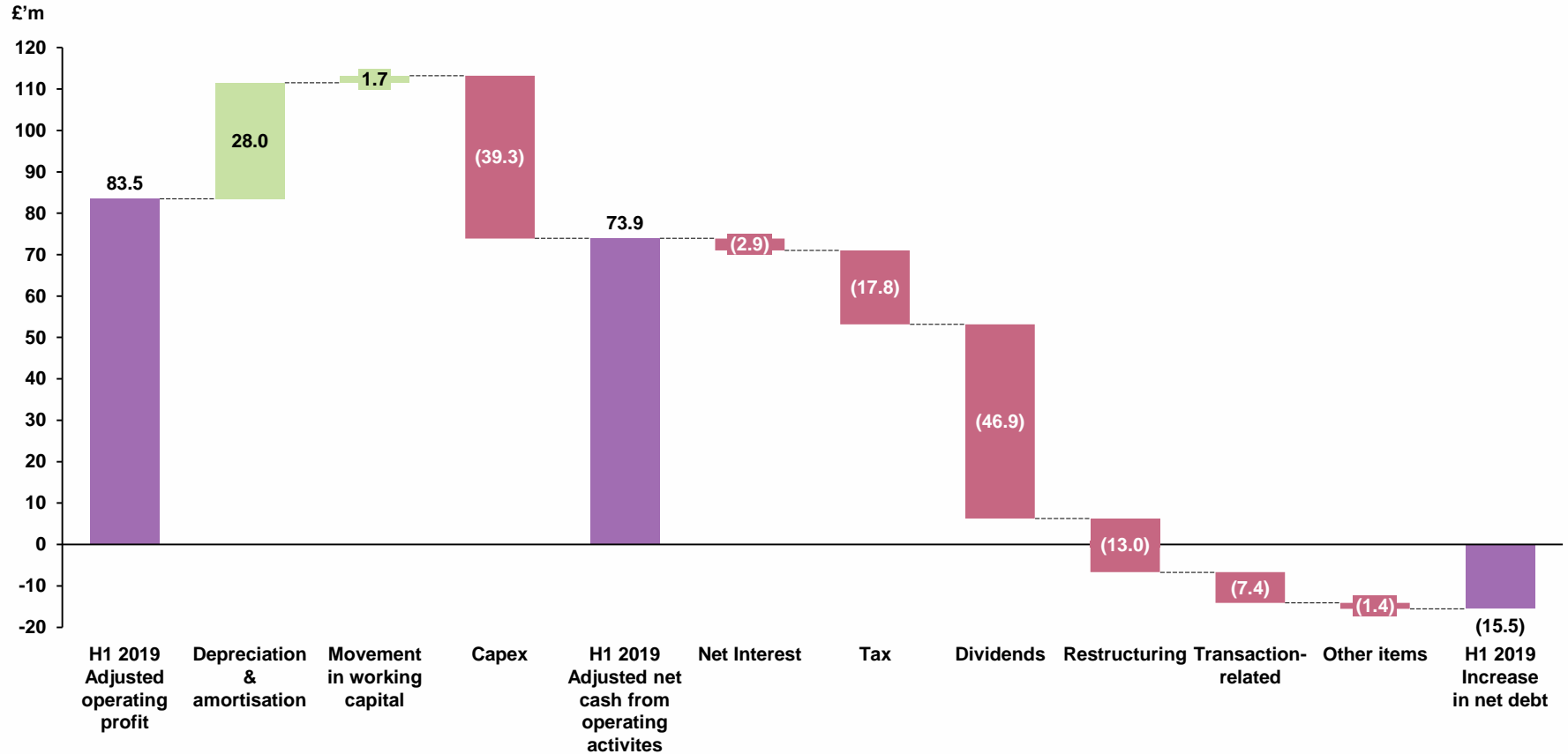


- Disposal of £8.8m reflects 5 months of EMS B&K
- Acquisitions: VI-grade £8.7m; CLS £3.8m; Revolution Engineering £3.4m
- Currency due to weaker £ to \$
- Like-for-like growth driven by strong pricing focus

Adjusted operating profit



- Pricing benefit in gross profit offset by higher production overheads and change of mix, resulting in small decline in gross margin
- Employee costs flat as profit improvement programme offsets inflation
- Additional depreciation and transactional FX offset by capitalised R&D
- Marketing, travel and consulting spend all down



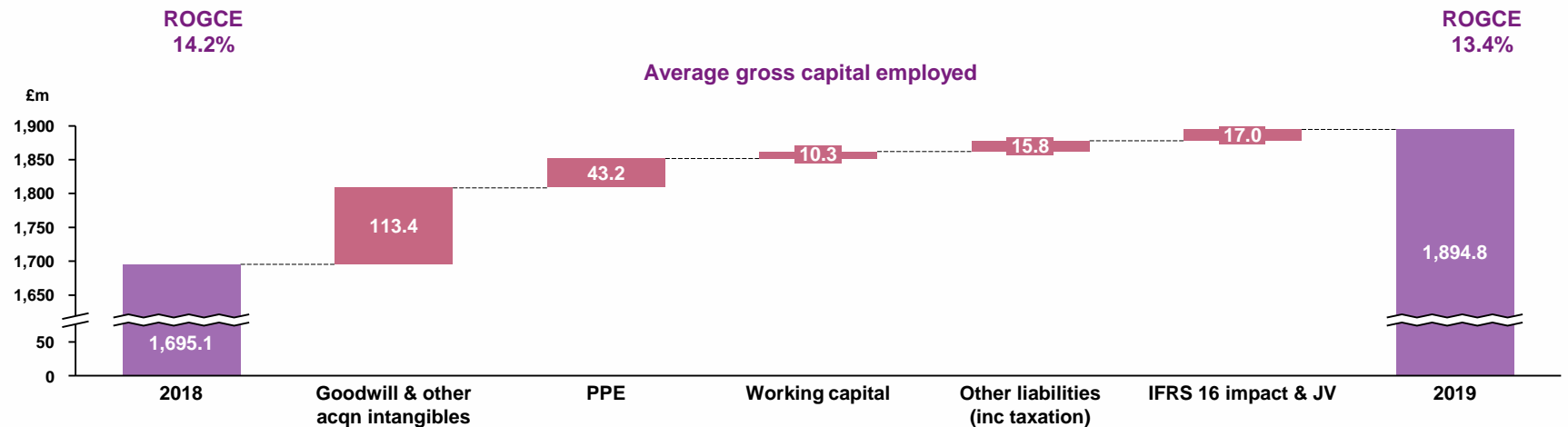
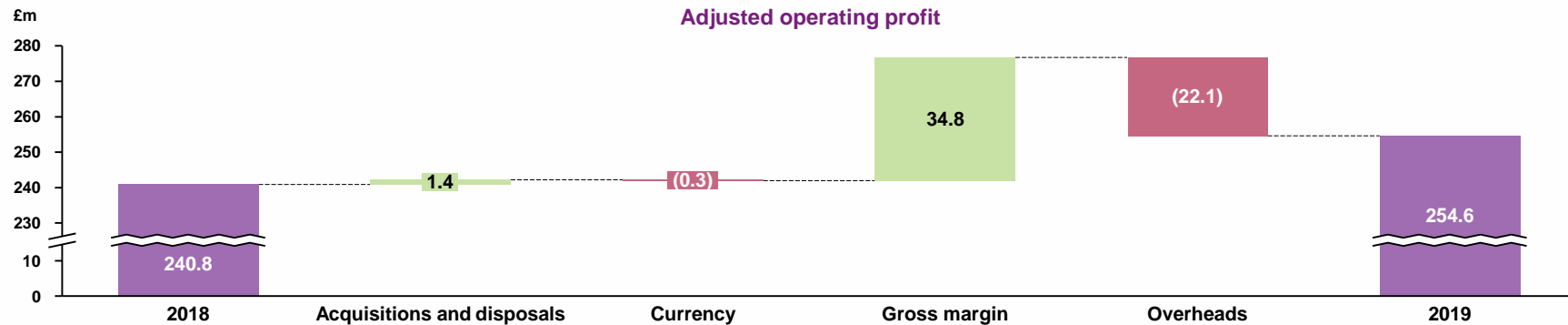
	H1 2019	H1 2018
Adjusted operating profit (£m) ⁽¹⁾	83.5	77.2
Restructuring costs	(29.1)	(6.7)
Net transaction-related costs and fair value adjustments	(6.3)	(5.8)
Depreciation of acquisition-related fair value adjustments to property, plant and equipment	(0.4)	(0.4)
Profit on disposal of property	5.2	-
Impairment of goodwill	(35.1)	-
Amortisation and impairment of acquisition-related intangible assets	(63.9)	(18.8)
Statutory operating (loss)/profit	(46.1)	45.5
Share of post-tax results of joint venture	(2.8)	-
Profit on disposal of businesses	-	57.0
Financial income	4.4	0.3
Finance costs	(5.6)	(6.2)
Statutory (loss)/profit before tax	(50.1)	96.6

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').

Summary (£m)	H1 2019	H1 2018	FY 2018
Goodwill and intangible assets	942.6	1,000.6	1,029.6
Property, plant and equipment	398	308.5	331.5
Net investment in JV	43.2	44.4	43.9
Assets held for sale	-	-	3.9
Working capital:			
- Inventories	240	212.8	216.4
- Receivables	347.1	311.9	381.5
- Payables	(357.0)	(423.0)	(371.5)
- Provisions	(35.9)	(26.9)	(31.6)
Derivatives & taxation (net)	(19.7)	(28.2)	(41.6)
Lease liabilities	(70.2)	-	-
Retirement benefits (net)	(41.7)	(36.8)	(32.1)
Net capital employed	1,446.4	1,363.3	1,530.0
Net debt	(312.6)	(231.5)	(297.1)
Net assets	1,133.8	1,131.8	1,232.9

- Goodwill and intangibles reduced following impairment - added back for return on gross capital employed
- PPE increased due to IFRS16 offset by new £70.2m provision for lease liabilities
- Investment in JV generated as part of the disposal of EMS - dependent on future value upon an ultimate exit of the joint venture
- Working capital as a percentage of sales within the range of 11 – 15%
- Net pension liabilities increased slightly since the year end, not material in the context of the group



Headwinds	Tailwinds
<ul style="list-style-type: none"> ▪ Uncertain political and economic environment, slowing growth in Q2 compared to Q1 ▪ Lack of visibility into the final part of the year ▪ Cost inflation continues ▪ North American industrial market concerns ▪ Continued uncertainty in the automotive sector 	<ul style="list-style-type: none"> ▪ Profit improvement programme benefits in H2 ▪ CLS restructuring ▪ HBK sales and marketing merger complete ▪ Millbrook capex coming on-line ▪ Omega digital platform launch and supplier outsource complete

- Underlying effective tax rate – 21.5%
- Planned capex of c. £90 million, of which growth capex £40 million, principally Millbrook
- Foreign exchange sensitivities

Impact of 1 cent change versus GBP	2019 FY sales £m	2019 FY adjusted operating profit £m
EUR	3.0	0.5
USD	4.0	0.6

Operational Performance

Andrew Heath
Chief Executive

Region	LFL sales change
North America	(3%)
Europe	(2%)
Asia	7%
Rest of the world	14%

Segment	LFL sales change
Materials Analysis	6%
Test and Measurement	(3%)
In-line Instrumentation	7%
Industrial Controls	(7%)

- Good LFL sales growth +6%, particularly in semiconductor and academic research; adjusted operating margin of 11.7%
- Pharma sales flat, reflecting tough comparator; underlying demand robust, particularly in Asia
- New Malvern Panalytical products launched; university partnership to develop more predictive/prescriptive solutions
- PMS delivered strong performance, especially in Asia; launched new cleanroom monitoring software
- Restructuring at CLS – proposed exit from analytical services division; integrated drug development business still attractive
- Sales growth and improved pricing drives margin expansion at Malvern Panalytical and PMS, CLS loss dilutive to segment



	H1 2018	H1 2019	Change vs. H1 2018	
	Reported	Reported	Reported	LFL
Sales (£m)	233.9	254.6	+9%	+6%
Adjusted operating profit (£m)	28.7	29.7	+3%	+3%
Adjusted operating margin (%)	12.2%	11.7%	(0.5pp)	(0.2pp)

- LFL sales declined 3% - tough comparator in automotive, especially Asia & Europe; adjusted operating margin of 7.4%
- Still see good opportunities in automotive R&D and well positioned here:
 - HBK's new solutions for testing hybrid and electric vehicles
 - Millbrook capacity expansion including new battery test chambers, new ADAS/CAV test facility/equipment, supported by 5G network
 - Growing US position – new US California test facility and VI-grade partnership for simulation centre in Detroit
- HBK merger progressing – 2019 a transition year
 - Extended leadership team being formed
 - Integrated go to market model being implemented
- Margin flat - lower sales and higher depreciation offset by lower overheads and ESG move into profitability



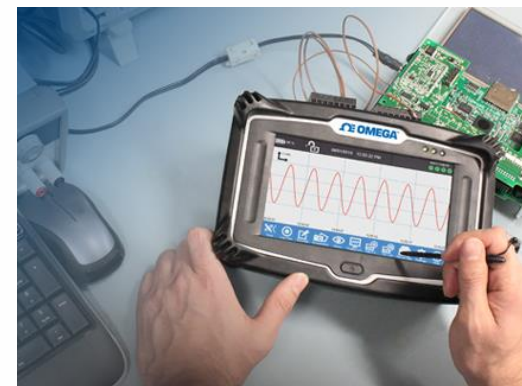
	H1 2018	H1 2019	Change vs. H1 2018	
	Reported	Reported	Reported	LFL
Sales (£m)	239.8	238.2	(1%)	(3%)
Adjusted operating profit (£m)	17.2	17.6	2%	(3%)
Adjusted operating margin (%)	7.2%	7.4%	0.2pp	-

- Good LFL sales growth +7%, though easier comparator, with growth broadly spread across most key end markets; strong growth in North America and Asia; adjusted operating margin of 11.8%
- Good sales growth in pulp/paper; led by strong tissue growth in Europe and Asia
- Growth in energy, particularly in Asia/N. America; strong growth in gas analysing business
- Higher sales and gross margin at BTG/Servomex drives margin expansion

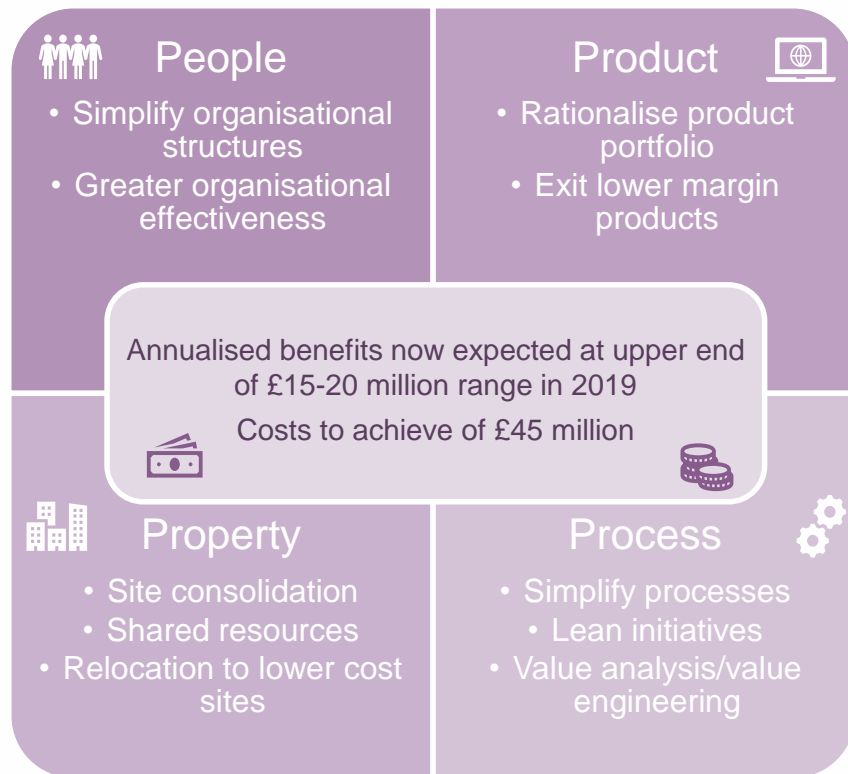


	H1 2018	H1 2019	Change vs. H1 2018	
	Reported	Reported	Reported	LFL
Sales (£m)	141.8	156.1	+10%	+7%
Adjusted operating profit (£m)	11.2	18.4	+64%	+56%
Adjusted operating margin (%)	7.9%	11.8%	+3.9pp	+3.6pp

- LFL sales declined 7%; adjusted operating margin of 16.2%
- Reflecting:
 - Slowing US industrial production
 - Impact of USA/China tariffs
 - Temporary disruption to activity at Omega – supplier change and launch of digital platform
- Omega product refresh and launch of new digital platform expected to drive future sales
 - New product introduction programme on track
 - Website traffic back to pre-launch levels - enhanced customer experience
- Margin decline reflects lower sales volumes



	H1 2018	H1 2019	Change vs. H1 2018	
	Reported	Reported	Reported	LFL
Sales (£m)	112.5	110.2	(2%)	(7%)
Adjusted operating profit (£m)	20.1	17.8	(11%)	(16%)
Adjusted operating margin (%)	17.9%	16.2%	(1.7pp)	(1.9pp)



- Initiatives continue at pace across all OpCos
 - Reduced headcount through organisational restructuring
 - Closure of facilities at Malvern Panalytical, NDCT, CLS
 - Retirement of lower margin products and cessation of unprofitable business lines

- Delivered H1 savings of £8 million, costs £29 million

- Now expect benefits at upper end of £15-20 million in 2019

- Exit run rate of £30 million by end 2019 re-confirmed

- Costs to achieve increased to £45 million
 - Increase reflects the impact of other strategic decisions, the largest of these related to CLS restructuring

- Process improvement at the heart of SBS
- Tried and tested tools to reduce waste, drive growth, improve profitability
- Kaizen as a way of life
- Deployment being accelerated
- Seeing notable improvements in efficiency across sales, marketing and assembly processes
- Making good progress; considerably more to do



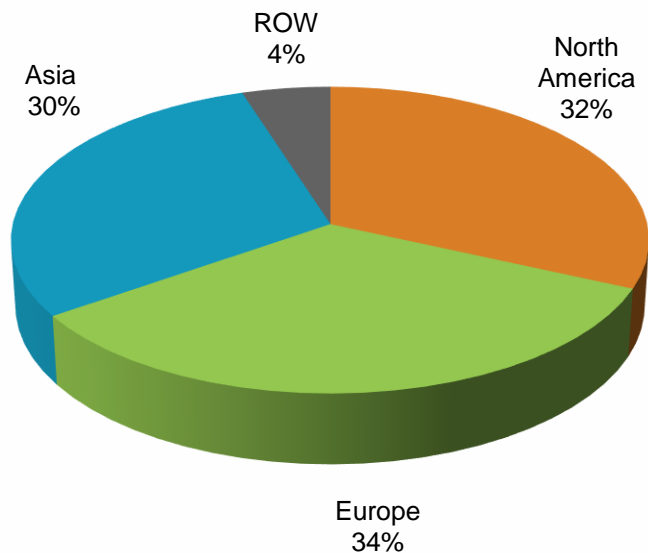
- Delivered results in line with expectations, despite the more challenging macroeconomic conditions
 - 1% LFL sales increase
 - Adjusted operating margin up 0.3pp on a LFL basis
 - 89% operating cash flow conversion
- Our full-year expectations remain unchanged, recognising that the current backdrop makes it more challenging
- Focusing on what we can control – targeted growth initiatives and driving margin expansion
- Strategic review completed and now focused on executing our strategy for profitable growth

Spectris plc

Appendix

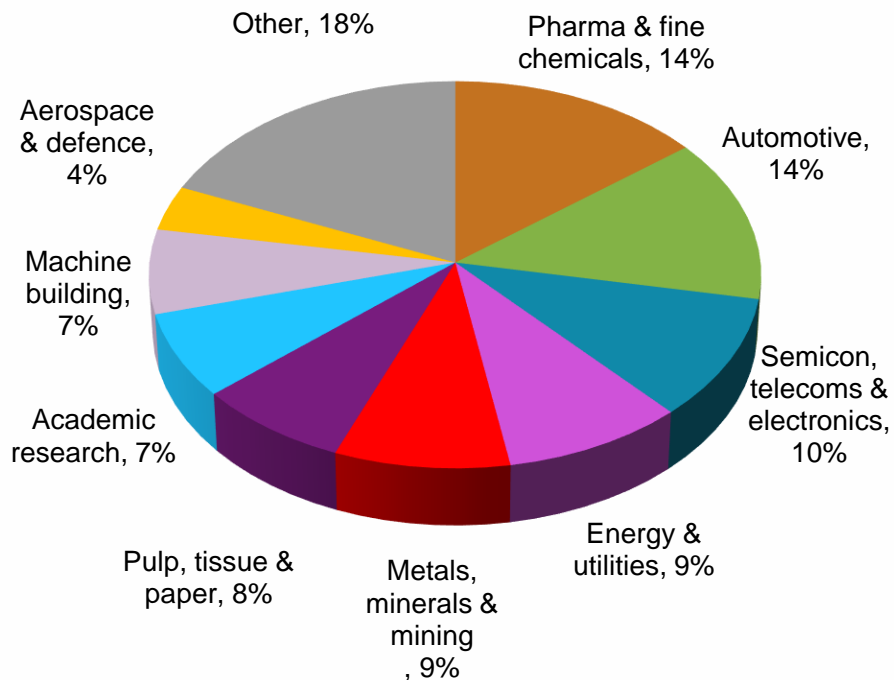


H1 2019 % of Group sales



Region/country	LFL change H1 2019 vs H1 2018	LFL change H1 2018 vs H1 2017
North America	(3%)	+5%
Europe	(2%)	+6%
Germany	(4%)	+1%
UK	(7%)	+20%
Asia	+7%	+6%
China	(2%)	+18%
Japan	+5%	(3%)
Rest of the world	+14%	+1%
Group	+1%	+5%

H1 2019% of Group sales



End-user market	LFL change H1 2019	LFL change H1 2018
Pharma & fine chemicals	+1%	+11%
Automotive	(7%)	+14%
Semicon, telecoms & electronics	+5%	+3%
Metals, minerals & mining	(1%)	+9%
Energy & utilities	+8%	+6%
Machine building	(7%)	+1%
Pulp, tissue & paper	+6%	+1%
Academic research	+26%	(1%)
Aerospace & defence	(0%)	+4%

	H1 2018				H1 2019	Change vs. H1 2018	
	Reported	Organic	FX	Acq.	Reported	Reported	LFL
Sales (£m)	233.9	13.1	3.8	3.8	254.6	+9%	+6%
Adjusted operating profit (£m)	28.7	0.9	0.6	(0.5)	29.7	+3%	+3%
Adjusted operating margin (%)	12.2%				11.7%	(0.5pp)	(0.2pp)



	H1 2018	H1 2018				H1 2019	Change vs. H1 2018	
	Reported	Reported excl. disposal	Organic	FX	Acq.	Reported	Reported	LFL
Sales (£m)	239.8	231.0	(7.7)	2.8	12.1	238.2	(1%)	(3%)
Adjusted operating profit (£m)	17.2	17.6	(0.6)	-	0.6	17.6	2%	(3%)
Adjusted operating margin (%)	7.2%	7.6%				7.4%	0.2pp	-



	H1 2018			H1 2019		
	Reported	Organic	FX	Reported	Reported	LFL
Sales (£m)	141.8	10.6	3.7	156.1	+10%	+7%
Adjusted operating profit (£m)	11.2	6.3	0.9	18.4	+64%	+56%
Adjusted operating margin (%)	7.9%			11.8%	+3.9pp	+3.6pp



	H1 2018			H1 2019		
	Reported	Organic	FX	Reported	Reported	LFL
Sales (£m)	112.5	(7.7)	5.4	110.2	(2%)	(7%)
Adjusted operating profit (£m)	20.1	(3.3)	1.0	17.8	(11%)	(16%)
Adjusted operating margin (%)	17.9%			16.2%	(1.7pp)	(1.9pp)



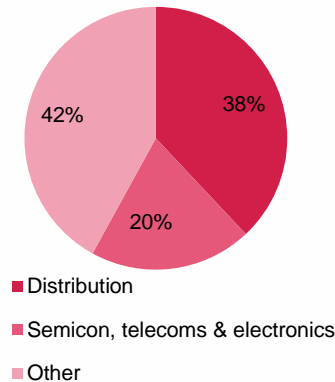
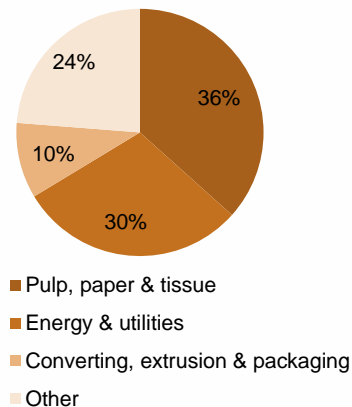
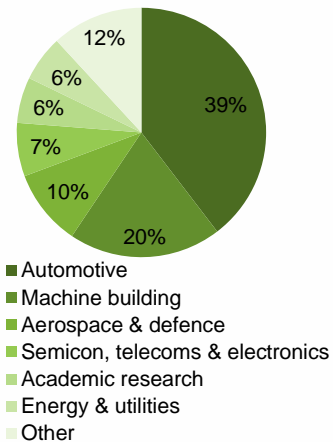
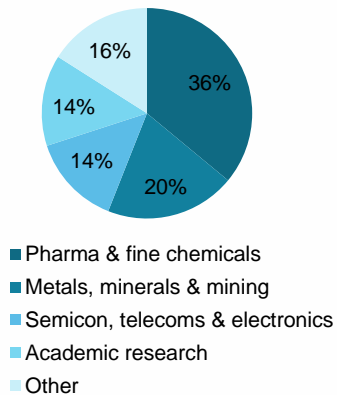
Materials Analysis

Test and Measurement

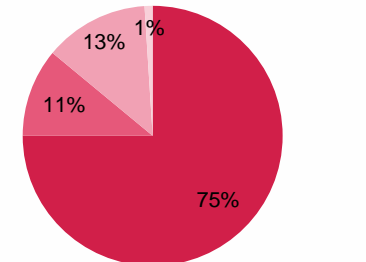
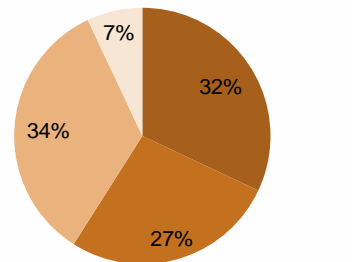
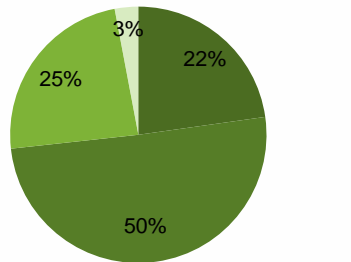
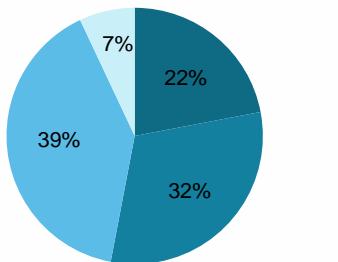
In-line Instrumentation

Industrial Controls

H1 2019 sales by end-user market



H1 2019 sales by destination



■ North America ■ Europe ■ Asia ■ ROW

■ North America ■ Europe ■ Asia ■ ROW

■ North America ■ Europe ■ Asia ■ ROW

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