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Spirax-Sarco Engineering plc

www.spiraxsarcoengineering.com



*Vicky Ming, Training Executive, Technical Sustainability Department,
in Spirax Sarco's Steam Training Centre, China*

2016 RESULTS

YEAR ENDED 31ST DECEMBER 2016

Bill Whiteley (Chairman)

Nicholas Anderson (Group Chief Executive)

Kevin Boyd (Group Finance Director)

Agenda



Bill Whiteley



Nicholas Anderson



Kevin Boyd

2016 Highlights

2016 Financial Review

Operations and Outlook

Appendices

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Bill Whiteley

2016 Highlights

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2016 Highlights



	2016	2015
Reported sales	£757.4m	£667.2m
Organic sales growth ⁺	+4%	+2%
Operating profit margin [*]	23.8%	22.8%
EPS [*]	171.5p	142.6p
DPS	76.0p	69.0p
Cash conversion	101%	95%

⁺ Organic measures are at constant currency and exclude acquisitions and disposals.

^{*} See Appendix IV for definition of adjusted profit measures.

- Organic sales increased 4%
- Record operating margin 23.8%
- Another excellent performance in Watson-Marlow
- Robust cash generation, 101% cash conversion
- Full Year dividend increased by 10%

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Kevin Boyd

2016 Financial Review

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Financial performance

- Organic sales +4%; growth in all divisions of the Steam Specialties business and Watson-Marlow
- Operating profit +8% on an organic basis
- Tax rate down 70 bps
- EPS +20%; profit increase, lower tax rate and 2015 share consolidation

	2016	2015	Reported	Organic ⁺
Revenue	£757.4m	£667.2m	+14%	+4%
Operating profit*	£180.6m	£152.4m	+18%	+8%
Operating profit margin*	23.8%	22.8%	+100 bps	+80 bps
Net finance expense	(£2.6m)	(£1.5m)		
Associates*	(£0.1m)	£0.2m		
Pre-tax profit*	£177.9m	£151.1m	+18%	
Tax rate*	29.1%	29.8%	-70 bps	
EPS*	171.5p	142.6p	+20%	
DPS	76.0p	69.0p	+10%	

⁺ Organic measures are at constant currency and exclude acquisitions and disposals.

* See Appendix IV for definition of adjusted profit measures.

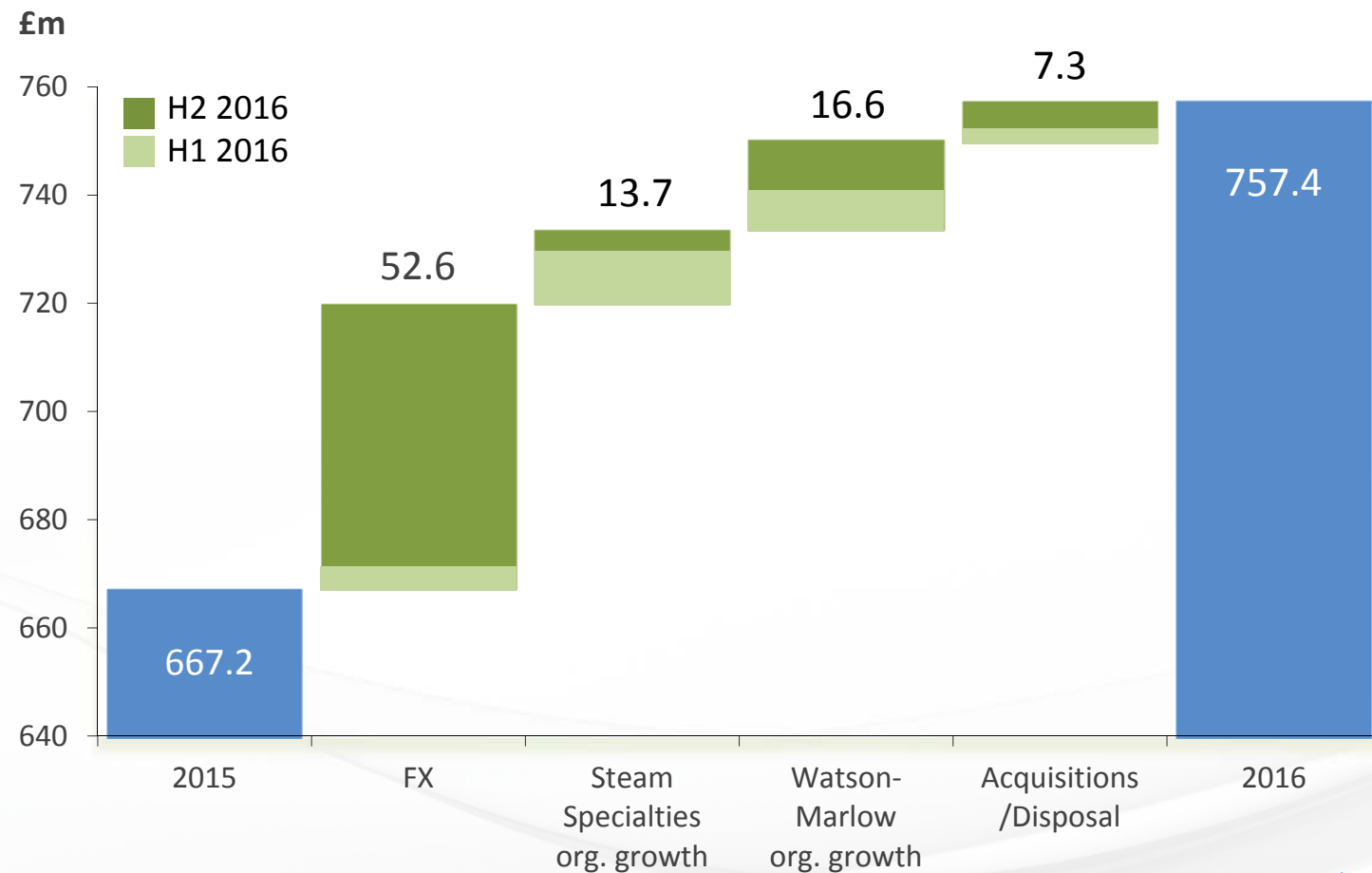
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Sales bridge

Increase in sales

- Currency (FX) gain of 8%
- Total organic⁺ growth of 4%; Steam Specialties over 2%, Watson-Marlow 10%
- Acquisitions net of disposal add 1%

⁺ Organic measures are at constant currency and exclude acquisitions and disposals



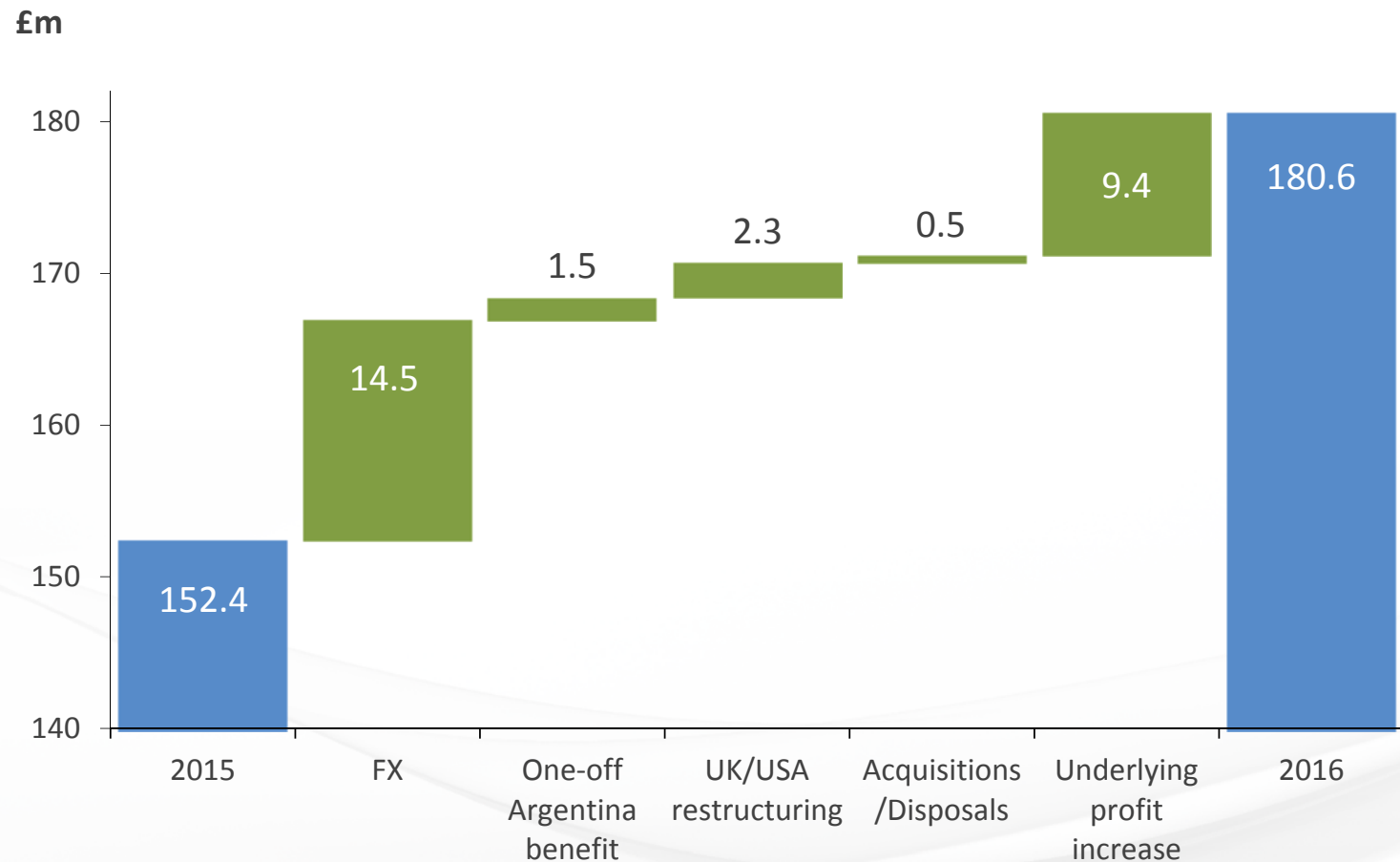
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Profit bridge

Increase in adjusted operating profit

- Adjusted operating profit* +18%
- Significant exchange benefit
- Non-recurring contribution from Argentina
- Restructuring in H1 2015
- Good underlying profit increase

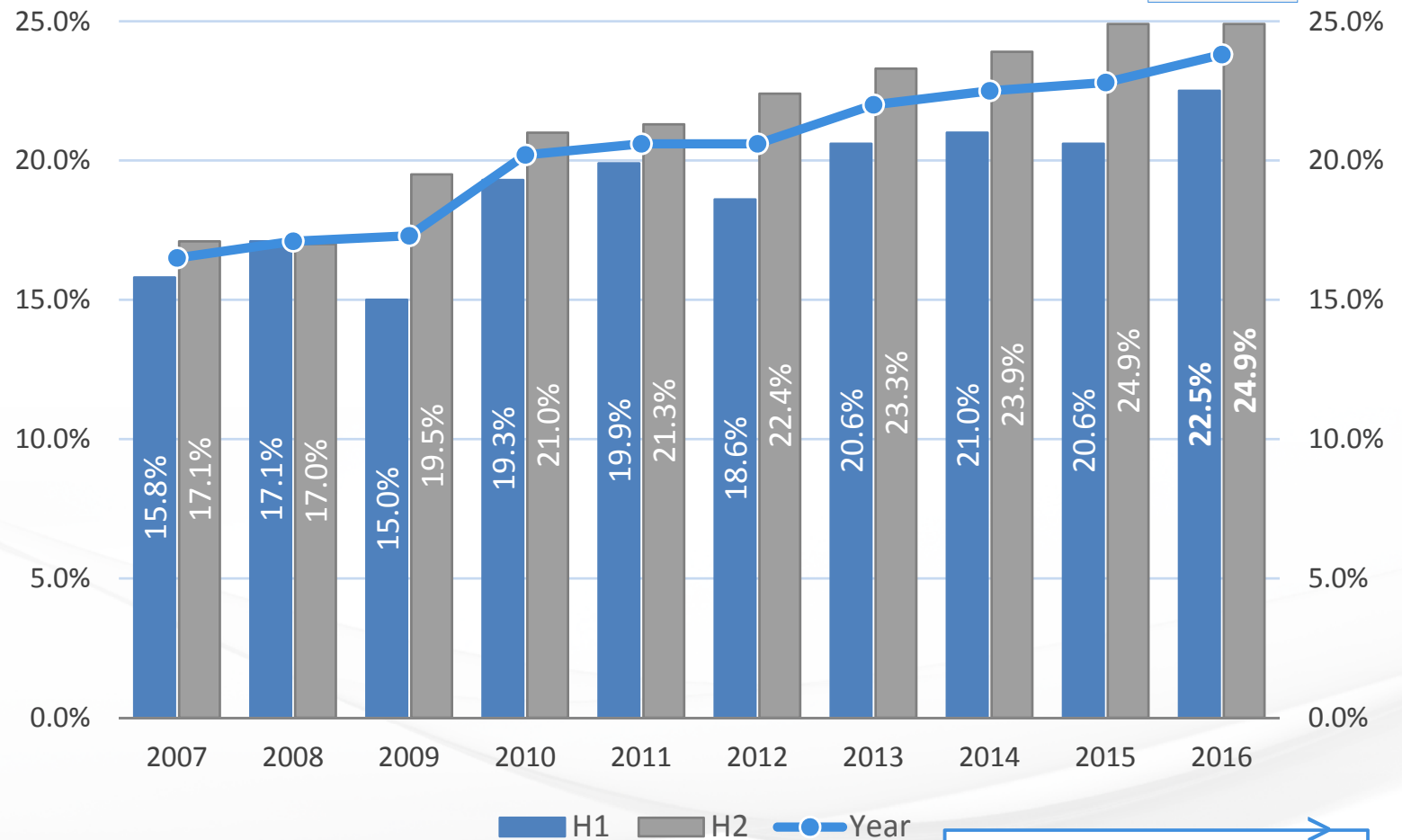
** See Appendix IV for definition of adjusted profit measures*



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Record operating margin of 23.8%

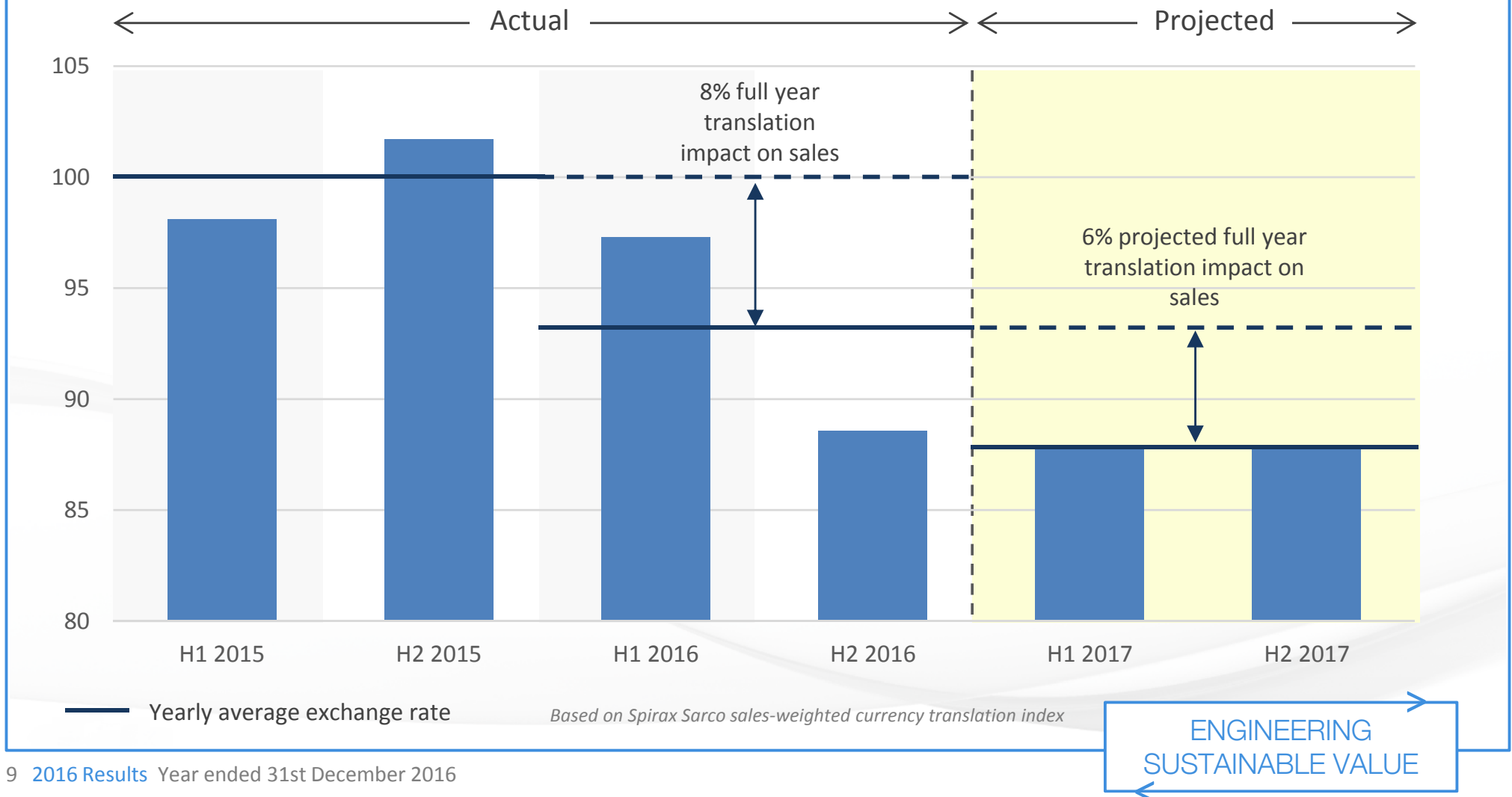
- Continued margin expansion
- H1 2016 margin +190 bps
- H2 2016 margin in-line with H2 prior year
- Steam Specialties business up 60 bps to 22.9%
- WMFTG up 170 bps to an exceptional 33.1%



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Currency movements

FX translation impact on sales 2015-2017



Strong cash flow

- Strong cash generation; 101% cash conversion
- Working capital inflow
- Dividends paid £52.1m (prior year includes special)
- Acquisitions of £66.5m
- Closing net cash of £27.4m
- ROCE up 380 bps

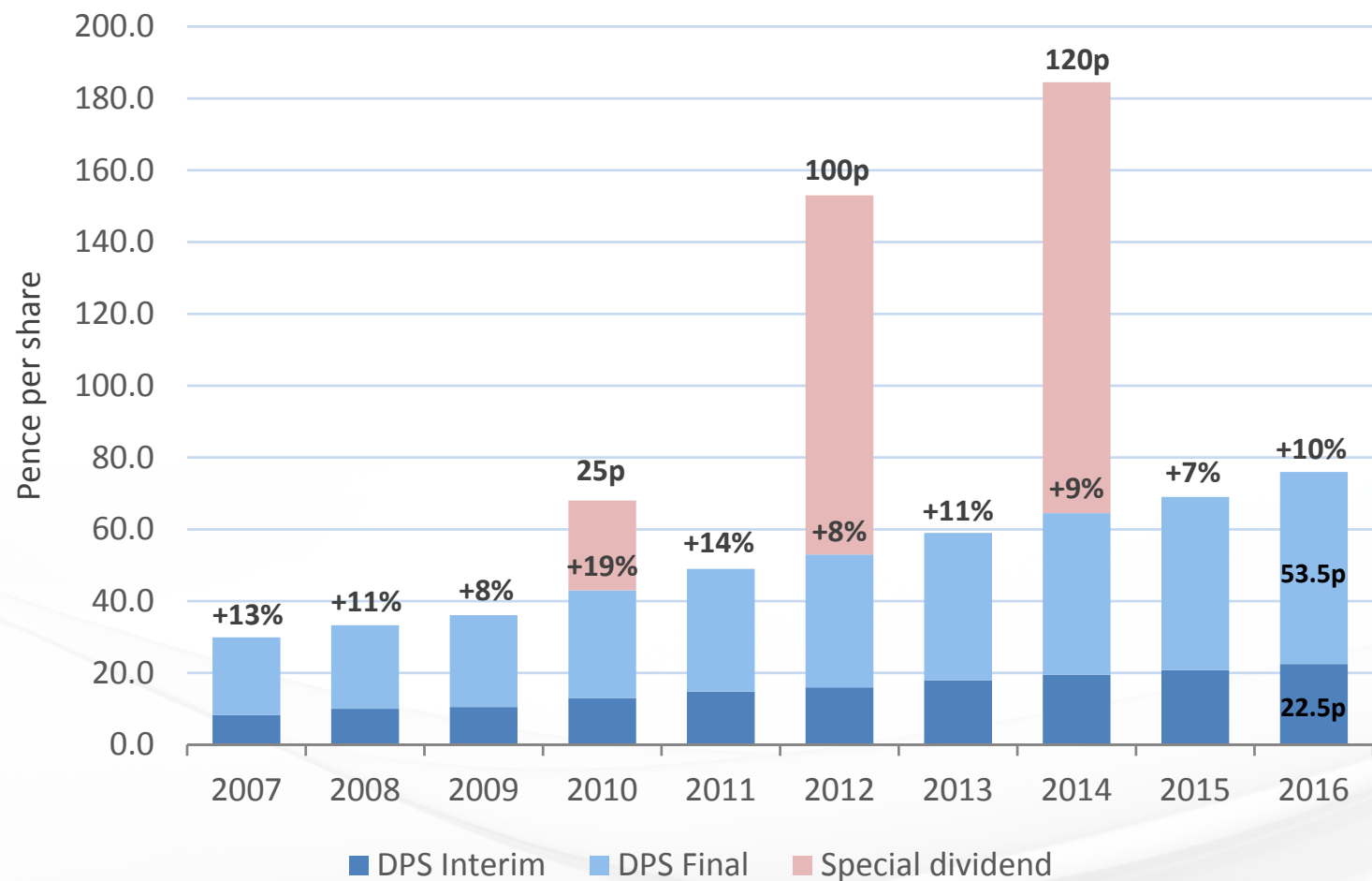
	Pounds (£) million	2016	2015
Adjusted operating profit*		180.6	152.4
Depreciation, pensions and share schemes		29.1	26.7
Working capital		4.3	(2.7)
Capital expenditure (including capitalised R&D)		(31.3)	(30.9)
Adjusted cash from operations		182.7	145.5
Net interest		0.0	0.8
Tax paid		(56.5)	(43.3)
Free cash flow		126.2	103.0
Dividends paid (net)		(52.1)	(140.5)
Proceed from issue of shares		1.3	4.7
Acquisitions and disposals		(66.5)	(10.2)
Other		1.8	(1.4)
Cash flow for the period		10.7	(44.4)
Net cash balance		27.4	4.8
ROCE		47.9%	44.1%

* See Appendix IV for definition of profit measures.

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Dividend growth

- Total dividend up 10% to 76.0p
- Final dividend up 11% to 53.5p
- Dividend cover of 2.3x
- 49 years of dividend growth with a CAGR of 11%



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Underlying margin factors

Effects on underlying margins*



	2016	2017
Currency movements	↑	↑
Operating leverage	→	→
Sales pricing (vs. inflation)	→	→
Material prices (constant currency)	→	↓
Manufacturing strategies	↑	↑
Business and product mix	→	→
Business development investment	↓	↓

* The arrows as shown are qualitative and indicate direction only.

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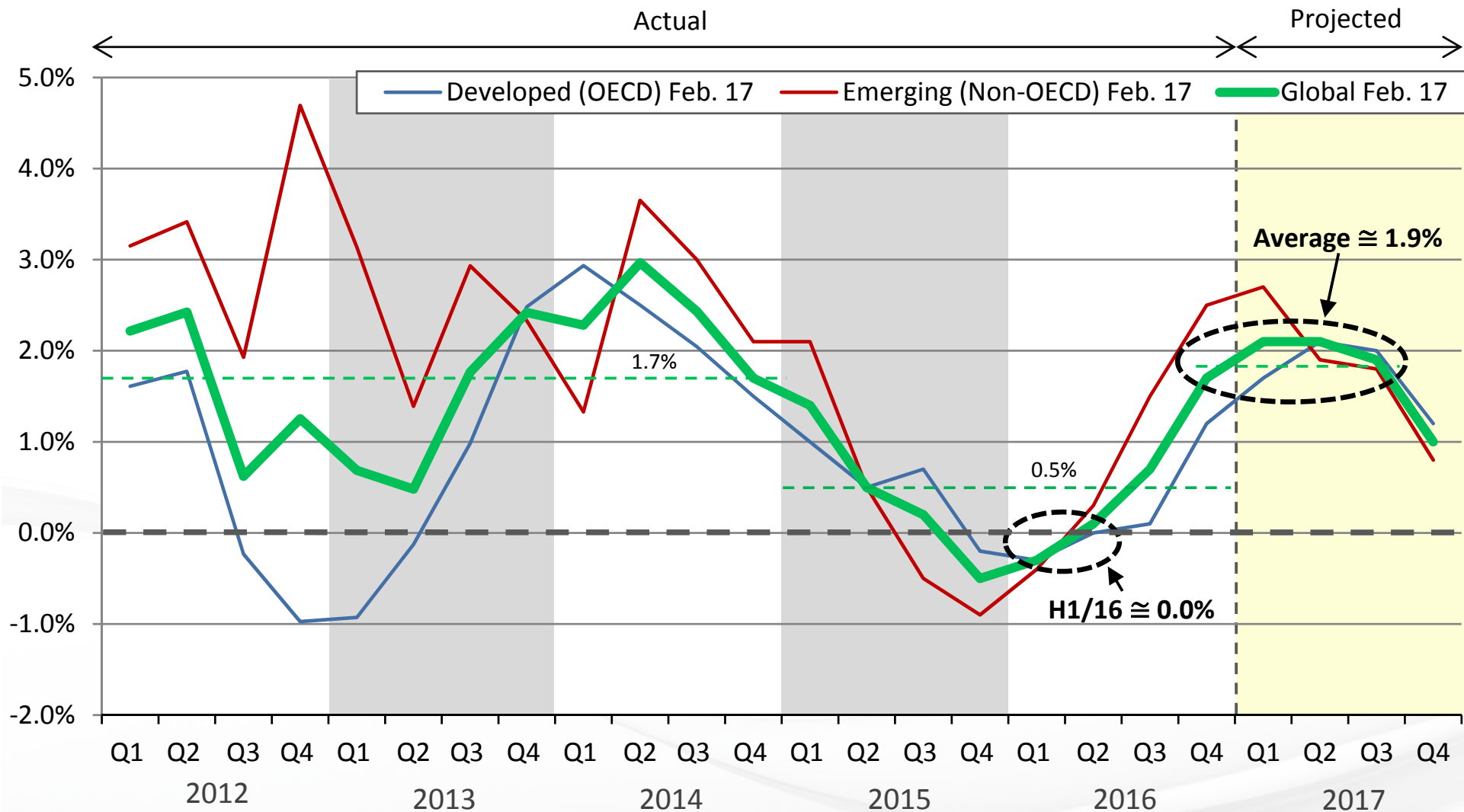


Nicholas Anderson

Operations and Outlook

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Annual IP growth rates by quarter 2012-2017



Source: CHR Economics – February 2017

Europe, Middle East and Africa (EMEA)

	31 st Dec 2015	Exchange	Organic	Disposal	31 st Dec 2016	Organic ⁺	Reported
Sales	£219.4m	£17.5m	£1.4m	(£4.0m)	£234.3m	+1%	+7%
Op profit*	£42.7m	£3.6m	£4.5m	(£0.8m)	£50.0m	+10%	+17%
Margin*	19.5%				21.3%	+180 bps	+190 bps

* Organic measures are at constant currency and exclude acquisitions and disposals.

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 1%; operating profit up 10%
- Industrial Production growth remained very low, around 1%
- Sales growth in the UK and Germany, lower in France and Italy
- Strong currency tailwind more than off-set M&M disposal in 2015
- Manufacturing efficiencies boost profit margin by 140 bps
- Well positioned for another challenging year



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Asia Pacific

	31 st Dec 2015	Exchange	Organic	Acquisition/ Disposal	31 st Dec 2016	Organic ⁺	Reported
Sales	£171.8m	£15.4m	£6.1m	-	£193.3m	+3%	+13%
Op profit*	£44.7m	£4.9m	£0.3m	-	£49.9m	+1%	+12%
Margin*	26.0%				25.8%	-70 bps	-20 bps

* Organic measures are at constant currency and exclude acquisitions and disposals.

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 3%, ahead in almost all countries
- China performed strongly, self-generated sales and profits up
- Korea sales and profit slightly higher; project sales carried over from 2015
- State-of-the-art manufacturing facility opened in India
- Investments for growth reduce profit margins by 20 bps
- Well positioned to self-generate growth in soft markets



25%
of Group sales

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Americas

	31 st Dec 2015	Exchange	Organic	Acquisition	31 st Dec 2016	Organic ⁺	Reported
Sales	£123.4m	£5.6m	£6.2m	£0.7m	£135.9m	+5%	+10%
Op profit*	£27.1m	£0.2m	£2.6m	(£0.7m)	£29.2m	+9%	+8%
Margin*	22.0%				21.5%	+90 bps	-50 bps

* Organic measures are at constant currency and exclude acquisitions and disposals.

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 5%; operating profit up 9%
- North America – distribution markets down; weak Oil & Gas market
- Latin America – strong organic growth in all operations except Brazil
- Profit margin improved by manufacturing efficiencies and Argentina pricing
- Hiter acquisition dilutes profit margin by 60 bps
- Well positioned for further progress despite continued uncertainty



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Watson-Marlow

	31 st Dec 2015	Exchange	Organic	Acquisitions	31 st Dec 2016	Organic ⁺	Reported
Sales	£152.6m	£14.1m	£16.6m	£10.6m	£193.9m	+10%	+27%
Op profit*	£48.0m	£5.7m	£8.6m	£2.0m	£64.3m	+16%	+34%
Margin*	31.4%				33.1%	+180 bps	+170 bps

⁺ Organic measures are at constant currency and exclude acquisitions and disposals.

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up an outstanding 10%
- Strong growth in Pharma & Biotechnology sector
- Good growth in all regions, Asia Pacific outstanding
- Acquisitions performed well, boost sales by £10.6m
- Aflex Hose acquired for £61.4m in November
- Profit up 16% by operational gearing and factory efficiencies



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Implementing our strategy for organic growth

Notable progress in 2016



- Strengthened direct sales sectorisation, accelerating growth
- Established the Spirax-Sarco Academy
- New operating companies in Vietnam, Canada, Ireland
- Innovative product launches, leveraging R&D investments
- Improving supply chain efficiencies and effectiveness
- New state-of-the-art manufacturing facilities in India and UK
- Group-wide roll out of sustainability strategy

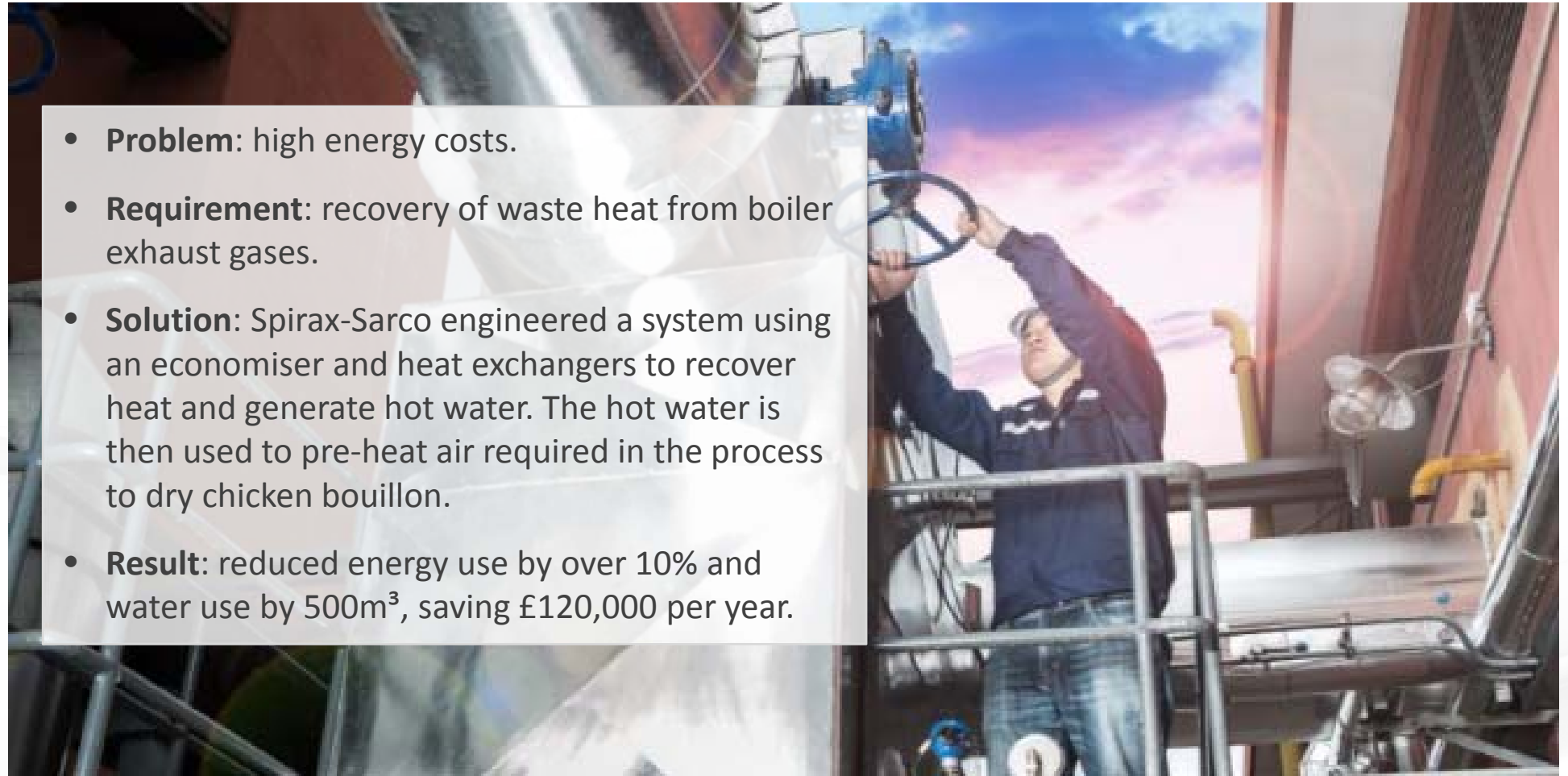
Delivering self-generated growth that outperforms our markets

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Case study: Shanghai Totole Food Ltd, China

Engineering sustainable value through innovative solutions

- **Problem:** high energy costs.
- **Requirement:** recovery of waste heat from boiler exhaust gases.
- **Solution:** Spirax-Sarco engineered a system using an economiser and heat exchangers to recover heat and generate hot water. The hot water is then used to pre-heat air required in the process to dry chicken bouillon.
- **Result:** reduced energy use by over 10% and water use by 500m³, saving £120,000 per year.



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Case study: Goldsteig Käsereien Bayerwald, Germany

Engineering sustainable value through product innovation

- **Problem:** pumping of shear-sensitive fluids.
- **Requirement:** gentle handling of cream and whey. Hygienic and easy to clean pump.
- **Solution:** the new MasoSine Certa™ pump from Watson-Marlow.
- **Result:** up to 50% more gentle handling than rotary lobe pumps. Reduced clean-in-place maintenance down-time and increased production hygiene. Described as “simply outstanding” by the customer’s Operations Manager.



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Summary and outlook



- Sales up 14%, operating profit up 18%
- Operating margin increased to record 23.8%
- Robust cash generation, 101% cash conversion
- Dividend increased 10%
- Implementing strategy for organic growth
- In 2017, prioritise investments for growth over further margin expansion
- Expect further progress in 2017

Spirax-Sarco Engineering plc

Full year results for year ended 31st December 2016



- Outperforming our markets
- Generating consistent growth
- Creating shareholder value

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APPENDICIES

Appendix I - Return on capital employed



	Pounds (£) million	2016	2015
Working Capital			
Inventories		112.5	92.5
Trade receivables		185.5	152.1
Prepayments, other current assets		38.8	35.3
Trade, other payables & current tax		(128.6)	(105.3)
Total working capital		208.2	174.6
Property, plant & equipment		201.8	169.9
Total Capital Employed		410.0	344.5
Average Capital Employed		377.3	345.4
Adjusted Operating Profit *		180.6	152.4
ROCE*		47.9%	44.1%
Working Capital/Sales		27.5%	26.2%

* See Appendix IV for definition of profit measures.

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Appendix II - Cash conversion



Pounds (£) million	2016	2015
Adjusted cash generated from operations	182.7	145.5
Adjusted Operating Profit*	180.6	152.4
Cash conversion	101%	95%

** See Appendix IV for definition of profit measures.*

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Appendix III - Currencies

- Bank of England sterling index weakened by 10% overall

Average exchange rates

	2015	2016	%	2017*	%
Spirax weighted index	100.0	92.1	+8%	86.4	+6%
Bank of England index	91.4	82.3	+10%	77.4	+6%
US\$	1.53	1.36	+11%	1.24	+9%
Euro	1.38	1.23	+11%	1.17	+5%
RMB	9.60	9.00	+6%	8.56	+5%
Won	1,728	1,574	+9%	1,418	+10%
Brazilian Real	5.11	4.74	+7%	3.89	+18%
Argentine Peso	14.28	19.99	-40%	19.34	+3%

* 2017 rates are average assuming February rates prevail until the end of 2017.

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Appendix IV - 2016 note on profit measures

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. The Group's management believes these measures provide valuable additional information for users of the financial statements in understanding the Group's performance. Adjusted operating profit and pre-tax profit excludes certain non-operational items which are analysed below.

Pounds (£) million	2016	2015
Amortisation of acquisition-related intangible assets	(6.0)	(4.7)
EMCO closure costs	-	(3.8)
Disposal of M&M – recycled exchange losses	-	(0.3)
Acquisition and disposal costs	(0.5)	(0.8)
Total adjustment to operating profit	(6.5)	(9.6)
Amortisation of acq'n intangibles in Associates	-	(0.2)
Spirax Marshall (India) – recycled exchange losses and impairment	-	(1.6)
Total adjustment to pre-tax profit	(6.5)	(11.4)