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Spirax-Sarco Engineering plc

[www.spiraxsarcoengineering.com](http://www.spiraxsarcoengineering.com)



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

## 2017 HALF YEAR RESULTS

Six months ended 30th June 2017

Bill Whiteley – Chairman

Nicholas Anderson – Chief Executive

Kevin Boyd – Group Finance Director

# Agenda



Bill Whiteley



Nicholas Anderson



Kevin Boyd

2017 H1 Highlights

2017 H1 Financial Review

Operations and Outlook

Appendices

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# 2017 First half year highlights



	30 <sup>th</sup> June 2017	30 <sup>th</sup> June 2016
Reported sales	£428.6m	£344.0m
Organic sales growth <sup>+</sup>	+5%	+5%
Operating profit margin*	23.6%	22.5%
EPS*	95.5p	73.1p
DPS	25.5p	22.5p

<sup>+</sup> Organic measures are at constant currency and exclude acquisitions and disposals.

\* See Appendix III for definition of adjusted profit measures.

- Organic sales growth of 5%
- Adjusted operating profit up 31%
- Adjusted operating margin increased 110 bps
- Good growth in both the Steam Specialties and Watson-Marlow businesses
- Acquisition of Gestra (2<sup>nd</sup> May) and Chromalox (post half-year end)
- Dividend growth of 13%

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Kevin Boyd

## 2017 H1 Financial Review

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# Financial performance

- Organic sales +5%
- Organic sales growth in EMEA and Asia Pac of the Steam Specialties business, flat in the Americas. Good organic growth in Watson-Marlow
- Operating profit +8% on an organic basis
- Small decrease in tax rate
- EPS +31%

	30 <sup>th</sup> June 2017	30 <sup>th</sup> June 2016	Reported	Constant currency	Organic <sup>+</sup>
Revenue	£428.6m	£344.0m	+25%	+13%	+5%
Operating profit*	£101.2m	£77.5m	+31%	+13%	+8%
Operating profit margin*	23.6%	22.5%	+110 bps	+10 bps	+50 bps
Net finance expense	(£2.0m)	(£1.3m)			
Pre-tax profit*	£99.2m	£76.2m	+30%		
Tax rate*	29.1%	29.6%	-50 bps		
EPS*	95.5p	73.1p	+31%		
DPS	25.5p	22.5p	+13%		

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

\* See Appendix III for definition of adjusted profit measures.

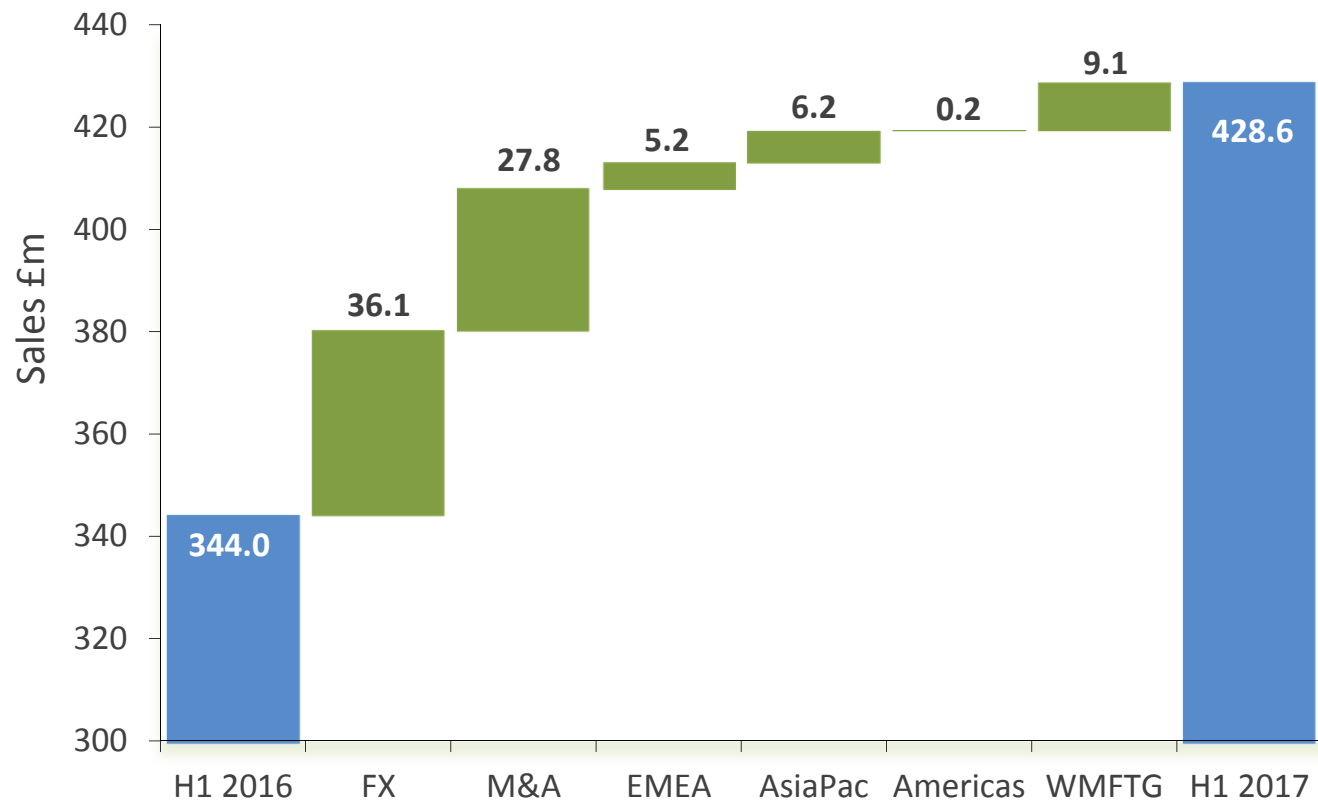
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# Sales bridge

## Increase in sales

- Currency gain of 10%
- Total organic\* growth of 5%; Steam Specialties +4%, Watson-Marlow +9%
- Acquisitions add 7%

\* Organic measures are at constant currency and exclude acquisitions



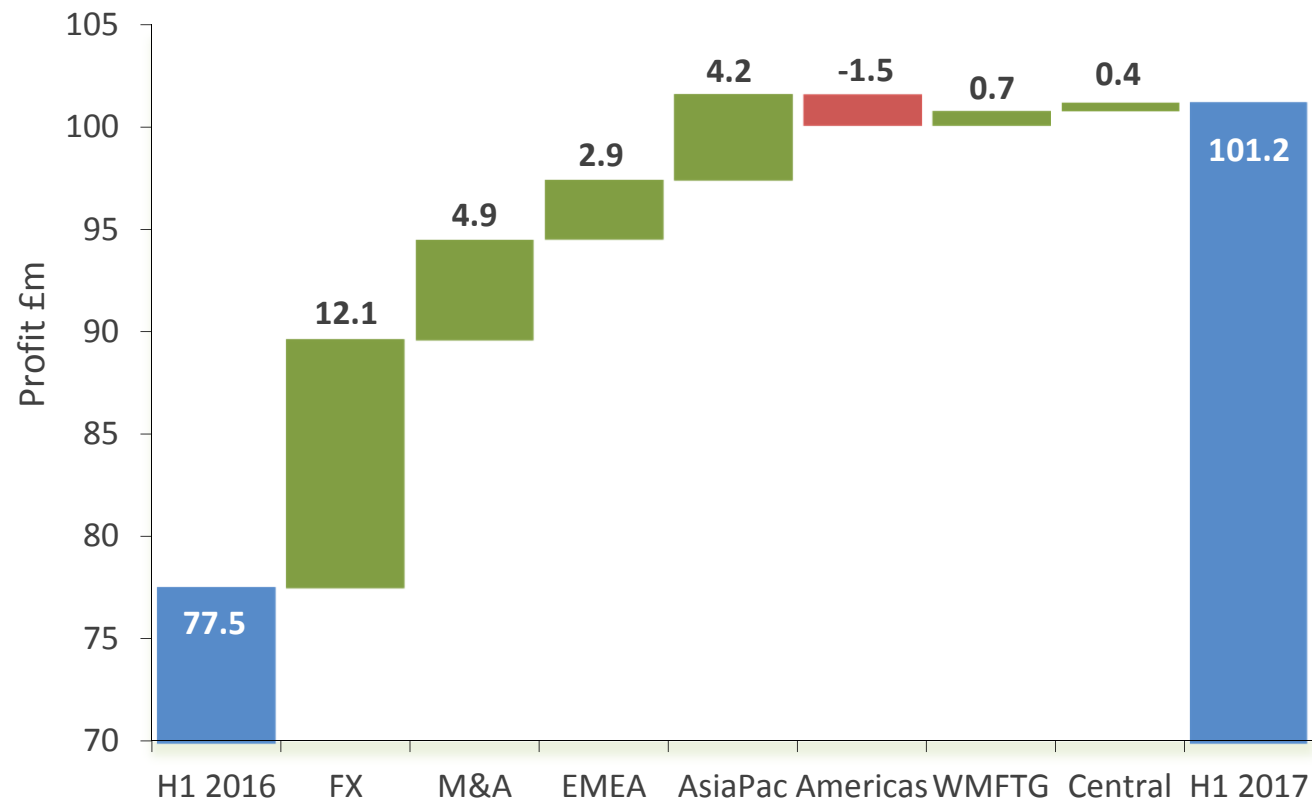
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# Profit bridge

## Increase in adjusted operating profit

- Adjusted operating profit\* +31%
- Currency impact +16%
- Organic increase +8%
- Acquisitions add 5%
- Americas down due to non-recurrence of Argentine currency devaluation benefit

\* See Appendix III for definition of adjusted profit measures

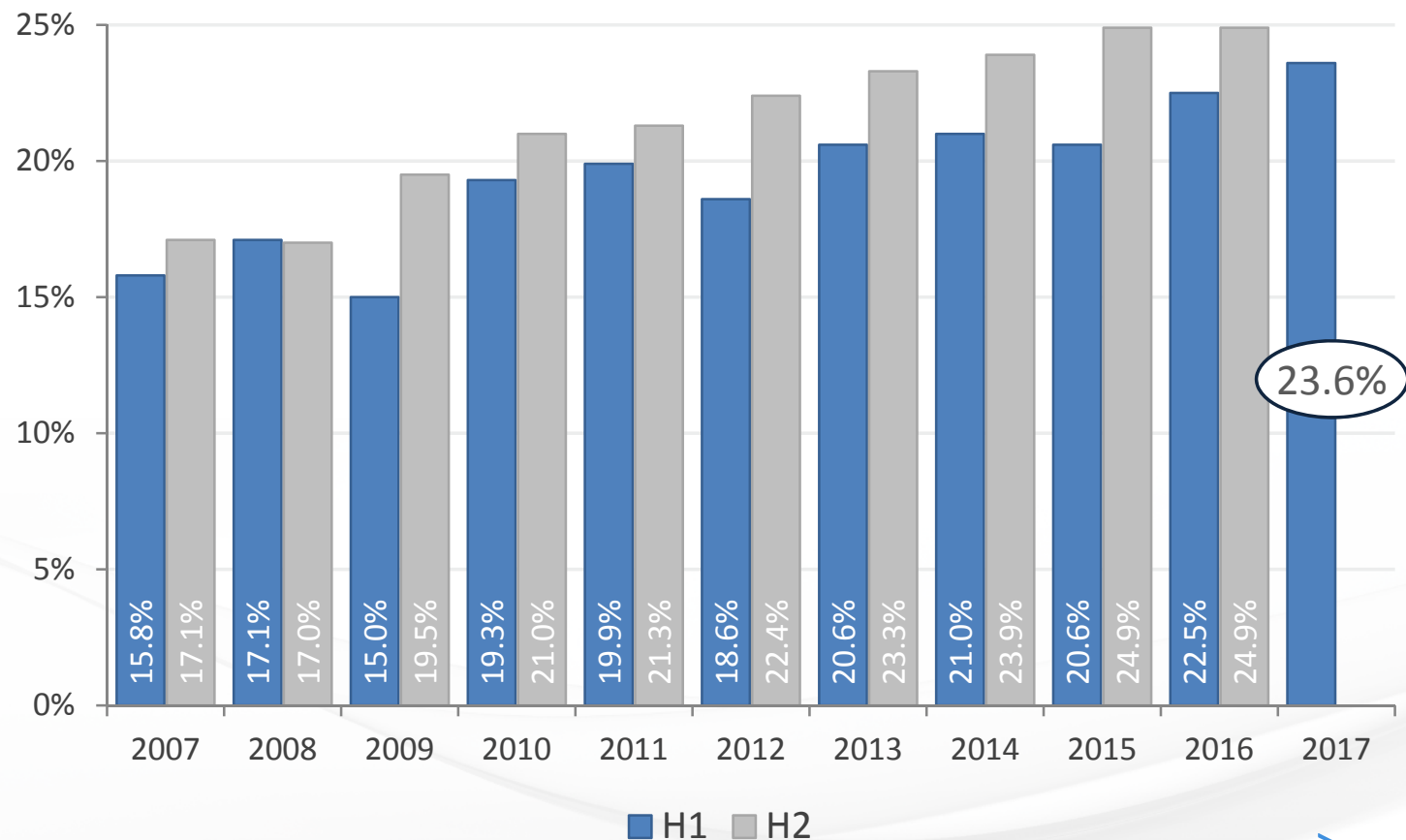


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# Record H1 operating profit margin of 23.6%

- Operating margin\* +110 bps ahead in Steam Specialties business
- Operating margin -150 bps in Watson-Marlow as we invest for growth
- Record H1 margin, despite dilutionary impact of acquisitions

*\* See Appendix III for definition of adjusted profit measures*

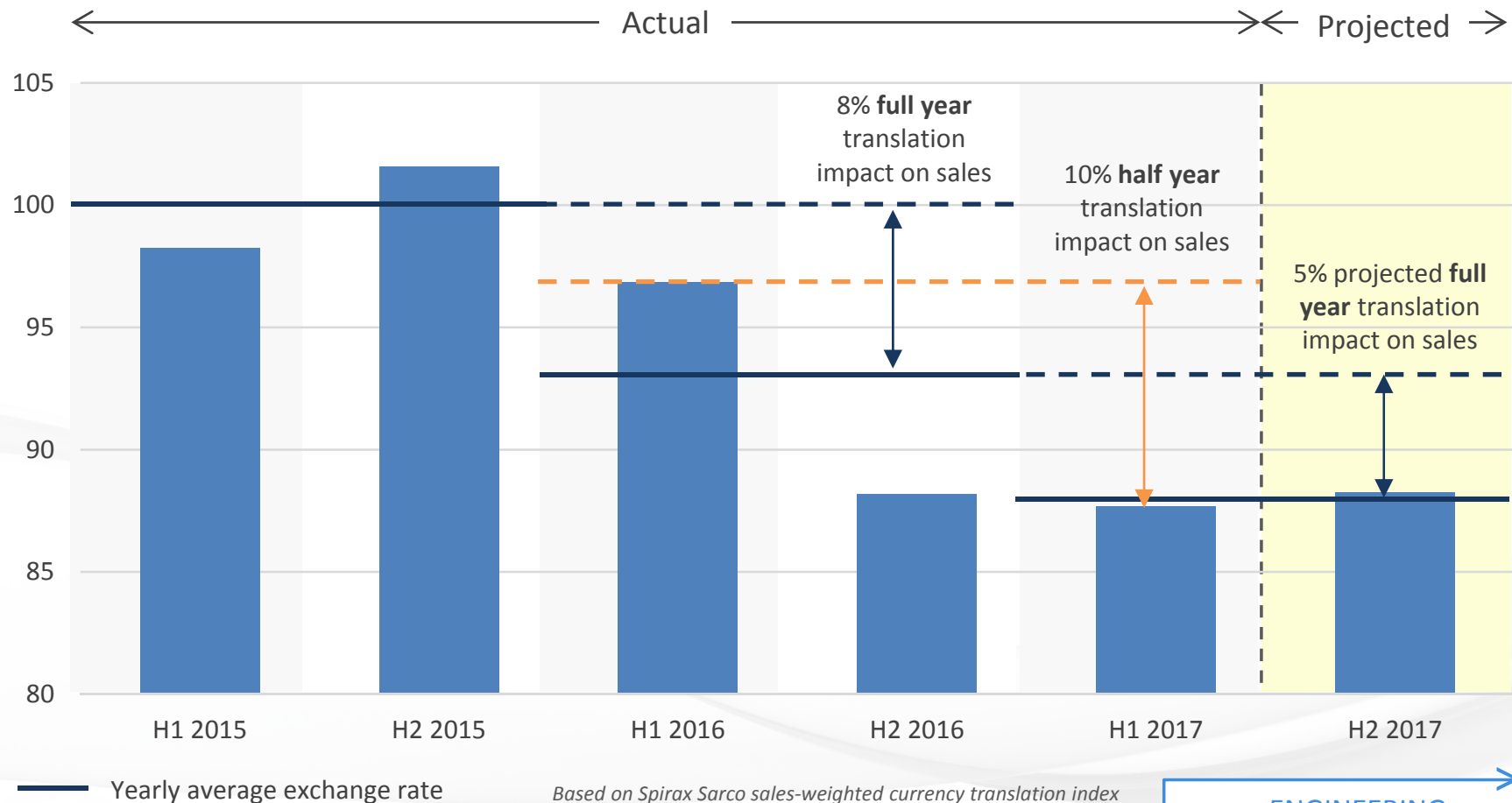


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# Currency movements

## FX translation impact on sales 2015-2017



# Adjusted cash flow

- 84% cash conversion
- Net debt at 30<sup>th</sup> June 2017 of £113.8 million
- Acquisition of Gestra in May 2017

\* See Appendix III for definition of adjusted profit measures

	Pounds (£) million	30 <sup>th</sup> June 2017	30 <sup>th</sup> June 2016
<b>Adjusted operating profit*</b>		<b>101.2</b>	<b>77.5</b>
Depreciation and amortisation		14.0	12.6
<b>Adjusted earnings before interest, tax, depreciation and amortisation</b>		<b>115.2</b>	<b>90.1</b>
Cash payments to the pension schemes less than the charge to operating profit		2.1	0.1
Share plans/provisions		1.7	3.9
Working capital changes		(19.5)	(5.1)
Net capital expenditure (including software and development)		(14.6)	(16.8)
<b>Cash from operations</b>		<b>84.9</b>	<b>72.2</b>
Net interest		(0.3)	0.1
Income taxes paid		(25.8)	(27.3)
<b>Free cash flow</b>		<b>58.8</b>	<b>45.0</b>
Net dividends paid		(39.4)	(35.5)
Proceeds from issue of shares		0.6	1.0
Acquisitions (including costs)		(158.0)	(0.1)
Cash flow for the period		(138.0)	10.4
Exchange movements		(3.2)	5.4
Opening net cash		27.4	4.8
<b>Closing net (debt)/cash at 30<sup>th</sup> June</b>		<b>(113.8)</b>	<b>20.6</b>

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# Operating margin factors

Indicative effects on operating margins\*



	H1 2017	H2 2017
Currency movements	↑	→
Operating leverage	↑	↑
Sales pricing (vs. inflation)	→	→
Material prices	↓	↓
Manufacturing strategies	↑	↑
Business & product mix	↑	→
Business development investment	↓	↓
Acquisitions	→	↓

\* The arrows as shown are qualitative and indicate direction only  
H1 2017 and H2 2017 arrows are an indication versus H1 and H2 2016 respectively

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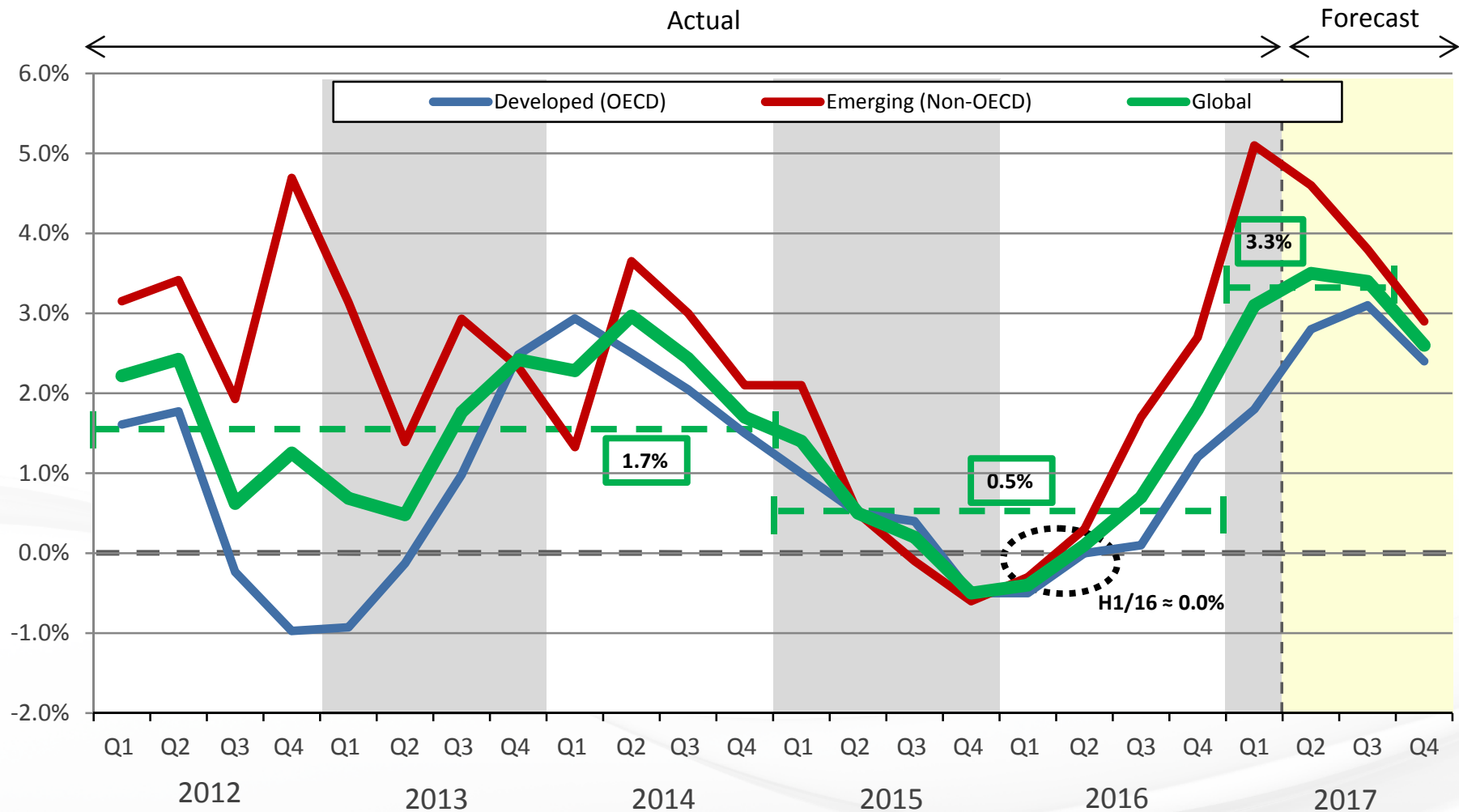


Nicholas Anderson

## Operations and Outlook

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# Annual IP growth rates by quarter 2012-2017



Source: CHR Economics – July 2017

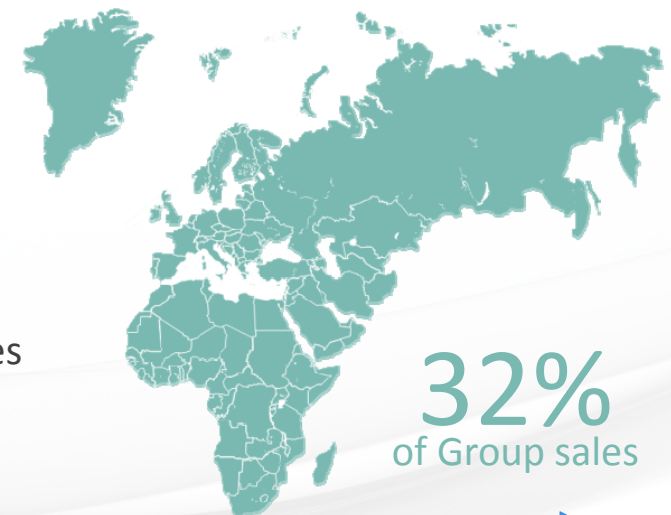
# Europe, Middle East and Africa (EMEA)

	30 <sup>th</sup> June 2016	Exchange	Organic	Acquisition	30 <sup>th</sup> June 2017	Organic <sup>+</sup>	Reported
Sales	£112.1m	£9.8m	£5.2m	£10.8m	£137.9m	+4%	+23%
Op profit*	£23.1m	£2.6m	£2.9m	£1.8m	£30.4m	+11%	+32%
Margin*	20.6%				22.0%	+140 bps	+140 bps

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

\* See Appendix III for definition of adjusted profit measures.

- Organic sales up 4%; organic operating profit up 11%
- Strong currency tailwind: sales up 9%, profit up 11%
- Strong sales growth in the UK, Italy and France
- Gestra acquisition (2<sup>nd</sup> May) adds 9% to sales, 7% to profit
- Operating margin ahead 140 bps, good manufacturing efficiencies
- Well placed for further progress in 2017



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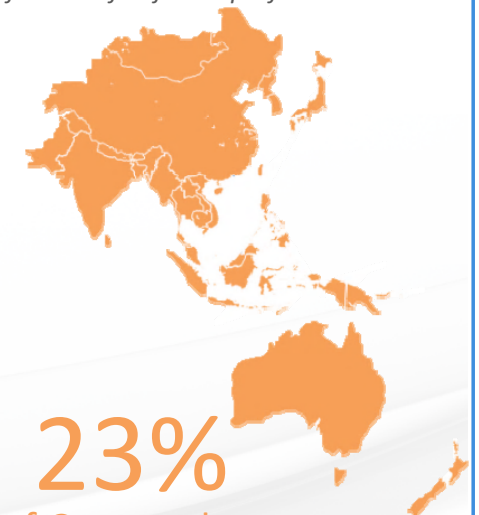
# Asia Pacific

	30 <sup>th</sup> June 2016	Exchange	Organic	Acquisition	30 <sup>th</sup> June 2017	Organic <sup>+</sup>	Reported
Sales	£82.0m	£9.2m	£6.2m	£0.5m	£97.9m	+7%	+19%
Op profit*	£18.1m	£2.7m	£4.2m	£0.0m	£25.0m	+20%	+38%
Margin*	22.0%				25.5%	+290 bps	+350 bps

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

\* See Appendix III for definition of adjusted profit measures.

- Organic sales up 7%, organic operating profit up 20%
- Strong currency tailwind: sales up 11%, profit up 15%
- China, Korea and Japan performed strongly
- India performing in line with expectations
- Exceptional organic profit growth; favourable project mix
- Expect good progress in 2017, despite relative H2 slowdown



23%  
of Group sales

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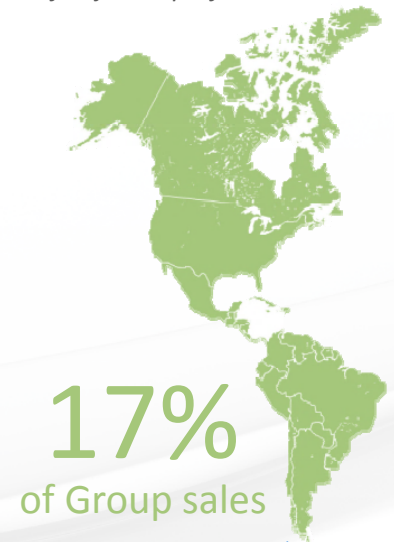
# Americas

	30 <sup>th</sup> June 2016	Exchange	Organic	Acquisition	30 <sup>th</sup> June 2017	Organic <sup>+</sup>	Reported
Sales	£61.6m	£7.5m	£0.2m	£3.0m	£72.3m	+0%	+17%
Op profit*	£13.4m	£2.0m	(£1.5m)	(£0.1m)	£13.8m	-10%	+3%
Margin*	21.7%				19.1%	-220 bps	-260 bps

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

\* See Appendix III for definition of adjusted profit measures.

- Organic sales flat; organic operating profit down 10%
- Strong currency tailwind: sales up 12%, profit up 15%
- North America – sales marginally down; distribution markets recovering
- Latin America – good organic sales; Argentina flat, Brazil down
- Hiter acquisition (Brazil) making good progress; robust MRO business
- Organic profit down; non-recurrence of £1.5m Argentine devaluation benefit
- Well positioned to resume organic growth in H2, despite uncertainties



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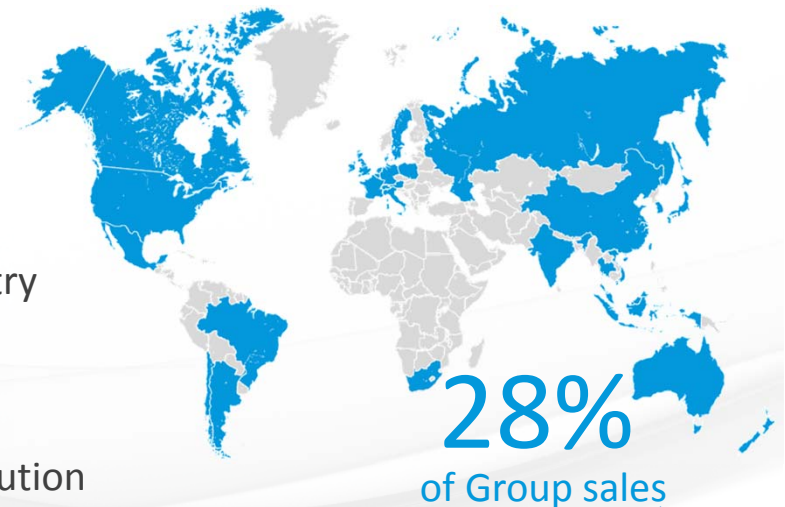
# Watson-Marlow

	30 <sup>th</sup> June 2016	Exchange	Organic	Acquisition	30 <sup>th</sup> June 2017	Organic <sup>+</sup>	Reported
Sales	£88.3m	£9.7m	£9.1m	£13.4m	£120.5m	+9%	+36%
Op profit*	£29.0m	£4.9m	£0.7m	£3.3m	£37.9m	+2%	+30%
Margin*	32.9%				31.4%	-230 bps	-150 bps

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

\* See Appendix III for definition of adjusted profit measures.

- Organic sales up 9%; benefited from 2016 order book
- Strong currency tailwind: sales up 11%, profit up 17%
- Pharma & Biotech market: slower start to the year
- Good growth in OEM, Food & Beverage and General Industry
- Aflex acquisition performing well; expands sales 14%
- Organic profit up 2%; accelerating investments for growth
- Margin down 150 bps due to growth investments, Aflex dilution



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# Acquisitions

## Gestra and Chromalox



**Gestra:** *advanced industrial steam boiler control systems, valves and controls*

- Acquired for €186 million
- 2016 revenue of €92.5 million, EBITDA €16.6 million, EBIT €15.2 million
- Increases Steam Specialties global market share from 13% to 15%
- Completed May 2017, added £12.1 million sales in H1 2017



**Chromalox:** *electrical solutions for industrial process heating and temperature management*

- Acquired for US\$415 million
- 2016 revenue of US\$201 million, EBITDA US\$43 million, EBIT US\$37 million
- Expands addressable market by £2.1 billion
- Completed July 2017

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# Implementing our strategy for growth

Notable progress in H1 2017



- Spirax Sarco Academy: global roll out to 40% of sales engineers
- Strengthened sales team sectorisation
- Strengthened global Strategic Account Management
- Six new operating companies
- Further innovative product launches
- Gestra acquisition: increased market share, products, technology
- Chromalox acquisition: increased addressable market

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## Case study: Spirax Sarco Middle East

Heat recovery solution generates significant cost savings

The Address Hotel, Dubai



- **Problem:** high energy costs when generating hot water for hotel guests, laundry and kitchen
- **Requirement:** energy cost savings
- **Solution:** energy audit identified inefficiencies; Turflow heat exchanger recovers heat energy from flash steam; pump package improves condensate return to boiler house
- **Result:** US\$100,000 annual savings, reduced gas consumption

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## Case study: Watson-Marlow China

Bredel pumps replace piston pumps in costal concrete grouting projects



- **Problem:** piston pumps leaking, component wear and difficult maintenance
- **Requirement:** pumping of abrasive cement slurries without water separation, leakage and pump wear
- **Solution:** 90 Bredel heavy duty pumps worth €1.8m. 45 large *Bredel 80* pumps to draw cement from mixing tanks plus 45 smaller *Bredel 65* pumps to meter grouting
- **Result:** increased uptime, lower maintenance costs, leakage free pumping and improved environmental performance

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# Summary and outlook



- Reported revenues up 25%, organic revenues up 5%
- Operating profit up 31%, organic increase 8%
- Currency tailwind: 10% on sales and 16% on profit
- Acquisitions added 7% to sales and 5% to profit
- Operating profit margin increased 110 bps to 23.6%
- Interim dividend up 13%
- Accelerating investments in support of organic growth strategies
- Expect to sustain H1 margins, excluding acquisitions, in H2 2017
- Confident of continued progress in 2017

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# Spirax-Sarco Engineering plc

Half Year Results to 30<sup>th</sup> June 2017

Focused on consistent growth and creating shareholder value



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# Appendices



# Appendix I

## Cash conversion



	Pounds (£) millions	30 <sup>th</sup> June 2017	30 <sup>th</sup> June 2016
Adjusted cash generated from operations		84.9	72.2
Adjusted operating profit*		101.2	77.5
Cash conversion		<b>84%</b>	<b>93%</b>

\* See Appendix III for definition of profit measures

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## Appendix II

### Currencies

- Bank of England sterling index weakened by 10% overall

Average exchange rates	30 <sup>th</sup> June 2016	30 <sup>th</sup> June 2017	%	2017*	%
<b>Spirax weighted index</b>	100.0	89.6	+10%	89.5	+5%
Bank of England sterling index	86.5	77.7	+10%	77.6	+6%
US\$	1.42	1.27	+11%	1.28	+6%
Euro	1.29	1.16	+10%	1.15	+7%
Renminbi	9.33	8.71	+7%	8.75	+3%
Won	1,677	1,452	+13%	1,467	+7%
Real	5.26	4.06	+23%	4.17	+14%
Argentine Peso	20.38	20.06	+2%	20.76	-4%

\* 2017 rates assume that June rates prevail until the end of 2017 and compare with 2016 full year average exchange rates

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## Appendix III

### 2017 note on first half 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 (£) millions	30 <sup>th</sup> June 2017	30 <sup>th</sup> June 2016
Amortisation of acquisition-related intangible assets	5.2	2.7
Acquisition costs	4.2	0.1
Reversal of acquisition related fair value adjustments to inventory	1.3	-
<b>Total adjustments to pre-tax profit</b>	<b>10.7</b>	<b>2.8</b>

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