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Spirax-Sarco Engineering plc

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

# Acquisition announcement



Spirax-Sarco Engineering plc to acquire Chromalox, Inc.  
26th May 2017

# Strategic rationale



“Chromalox represents an excellent opportunity to expand our addressable markets through the acquisition of a clearly related business that shares our strong direct sales business model. Chromalox will enhance our growth and sustainable value creation for customers and shareholders.”

Nicholas Anderson, Chief Executive

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# Strong strategic fit with long-term potential

## Group acquisition strategy:

1. Create significant shareholder value
2. **Increase our addressable market into related sectors**
3. Expand the capabilities of our niche businesses through new technologies, skills or geographic coverage

**Related acquisition:** expands addressable market and accelerates opportunities for growth

Direct sales business model



Provide products or services where there is a high cost of non-performance to the customer



Increase sales in our core markets



Potential for geographical or technology expansion



Capable of achieving Group margins



Strong MRO content and recurring revenues



Source: Acquisition criteria as set out in the Group's 2014 Annual Report

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# Chromalox, Inc., USA

## Background and timings

- Market leading provider of electrical solutions for industrial process heating and temperature management
- Delivers Thermal Energy Management solutions through direct sales model
- Expands Spirax-Sarco's addressable market
- Reinforces the Group's long-term strategy for growth
- Followed Chromalox since 2008; priority raised since 2014 corporate strategy review
- Requires USA anti-trust clearance (Hart-Scott-Rodino)
- Expected to complete H1 2017

# Acquisition details

## Financial information

- Transaction Enterprise Value US\$415 million (£319 million)
- 2016 performance: revenue US\$201 million; EBITDA US\$43 million; EBIT US\$37 million
- Multiple of 9.7x EBITDA 2016
- Funded in cash with facilities from Barclays and HSBC
- Expected net debt to EBITDA ratio of 1.5 by 31<sup>st</sup> Dec 2017; 1.0 by 31<sup>st</sup> Dec 2018
- Earnings accretive in 2017
- No significant acquisitions anticipated during next 12 to 18 months

# Established market leader in the USA

100 years of innovative solutions

- Three core technologies:
  - **Industrial Heaters and Systems:** engineered industrial heating solutions
  - **Heat Tracing:** flexible cables and controls to heat or maintain temperature in pipes, valves and tanks
  - **Component Technologies:** component heating solutions for industrial equipment manufacturers
- Founded in 1917; headquartered in Pittsburgh, Pennsylvania
- Owned by Emerson 1968-2001, private equity since then
- Approx. 1,150 employees globally
- Five manufacturing plants across the USA, Mexico, France and China
- Chromalox's "Red Book" is product catalogue of reference for industrial electric heating
- Exciting pipeline of innovative product developments

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# Chromalox products and services

Deep knowledge of material science, thermal engineering and fluid dynamics

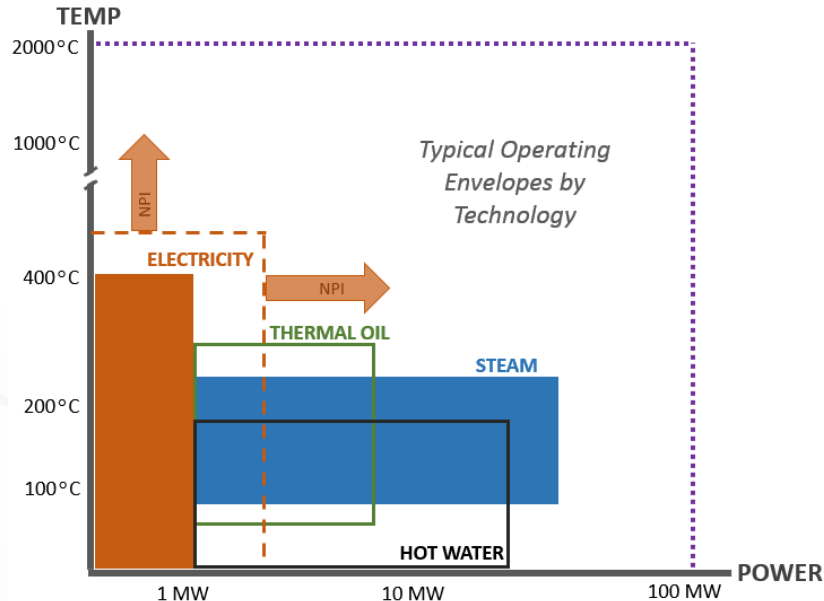
	Industrial Heaters and Systems (IH&S)	Heat Trace (HT)	Component Technologies (CT)
<b>% of sales</b>	54%	23%	23%
<b>Description</b>	<ul style="list-style-type: none"> <li>• Process heating solutions for mission-critical industrial processes</li> <li>• Engineering and site services</li> </ul>	<ul style="list-style-type: none"> <li>• Temperature management solutions for piping, valves and tanks</li> <li>• Project management, engineering and site services</li> </ul>	<ul style="list-style-type: none"> <li>• Component heating solutions for industrial equipment manufacturers</li> <li>• Foundation for complex industrial heaters and systems</li> </ul>
<b>Representative products</b>	<ul style="list-style-type: none"> <li>• Heat transfer systems</li> <li>• Circulation heaters</li> <li>• Immersion heaters</li> <li>• Tank heaters</li> <li>• Air heaters</li> <li>• Control systems</li> </ul>	<ul style="list-style-type: none"> <li>• Self-regulating heat trace cables</li> <li>• Mineral insulated heat trace cables</li> <li>• Constant wattage heat trace cables</li> <li>• Hazardous area heat trace cables</li> <li>• Skin effect heat trace cables</li> <li>• Control/sensor systems</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible heaters</li> <li>• Band and nozzle heaters</li> <li>• Strip and ring heaters</li> <li>• Temperature coolers and sensors</li> <li>• Power controls</li> <li>• Tubular heaters</li> </ul>
<b>Key customer segments</b>	General industrial; Power generation; Petrochemical; Chemical; Oil & gas; Building & construction	General industrial; Power generation; Petrochemical; Chemical; Oil & gas; Building & construction	Commercial food service; Transportation; Industrial equipment; Plastics/packaging; Naval and commercial marine

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# Expands addressable market

**Thermal Energy Management** – electricity and steam have complementary uses

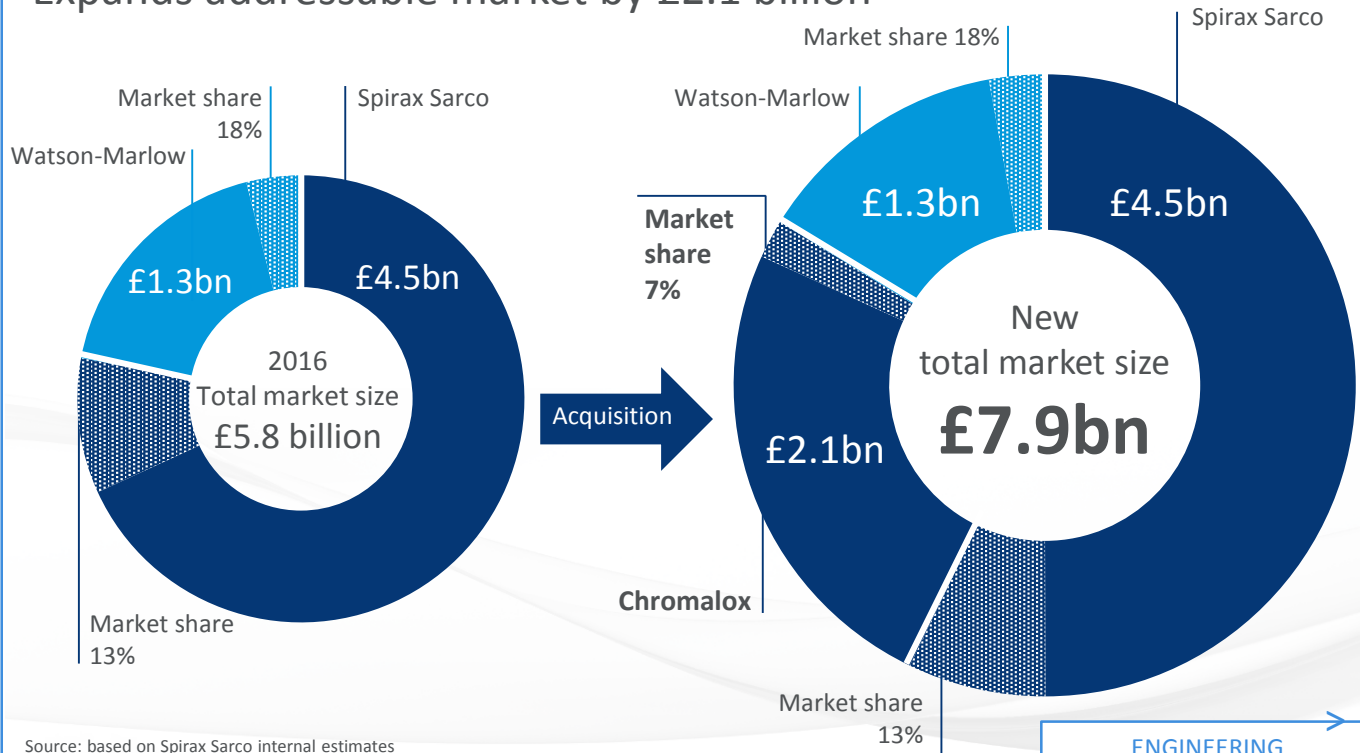
Choice between heating mediums driven by application needs or customer circumstances



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# Market size and share

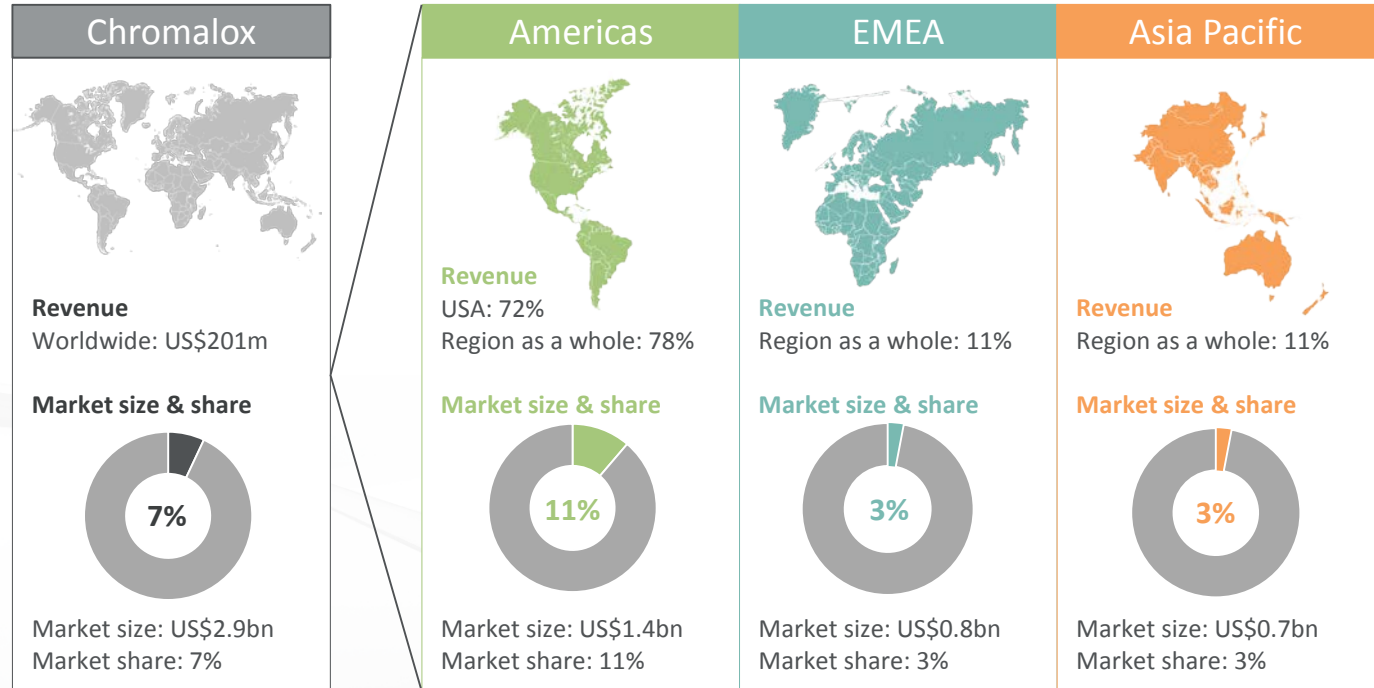
Expands addressable market by £2.1 billion



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# Chromalox market size and share, 2016

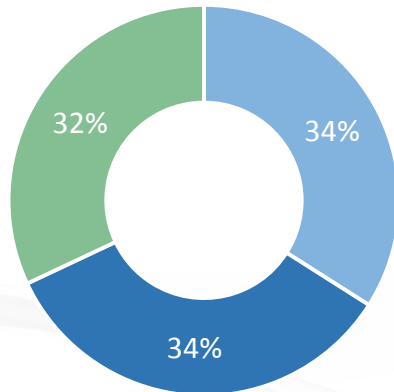
US\$2.9bn (£2.1bn) addressable market: headroom for growth



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# Direct sales business model

Chromalox's routes to market, 2016



- Direct: end users, contractors, consultants
- Direct: OEMs
- Distributors

## Direct sales business model:

- Chromalox: 68% direct, 32% distributor
- Group post-acq'n: 73% direct, 27% distributor
- Over 20,000 customers

## Primarily driven by customers' Opex budgets:

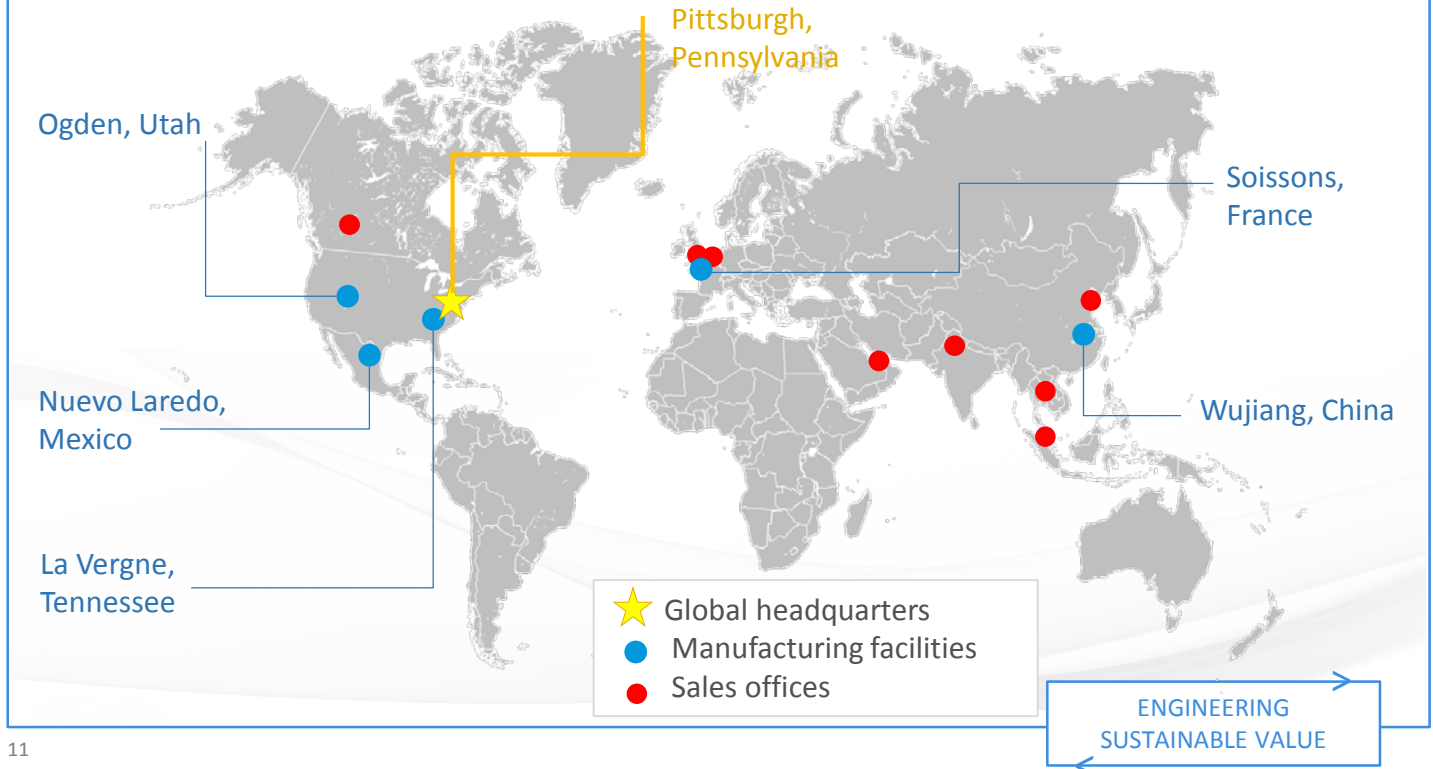
- Chromalox: 67% Opex, 33% Capex
- Group post-acq'n: 82% Opex, 18% Capex

Average Invoice Value	US\$
Industrial Heaters & Systems	3.3k
Heat Trace	1.4k
Component Technologies	1.0k

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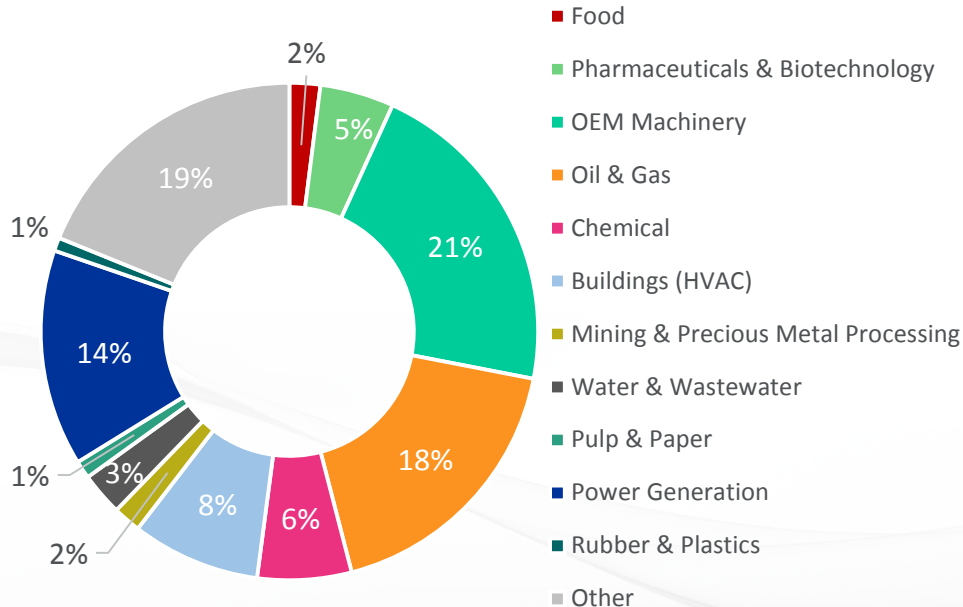
# Chromalox's global operations

Growth opportunities from leveraging Spirax Sarco's global footprint



# Operating in our core markets

Chromalox revenue by industry, 2016



- Broad market diversity
- Similar industries and customer needs
- Low technology overlap
- Heating medium driven by customer processes and circumstances
- Defensive industries c.48% of Group revenue post acquisition

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# Financial performance

Medium to long-term growth prospects

US\$ millions	2016	2017 (est.)
Revenue	201	190
Operating profit (EBIT)	37	32
Profit (EBIT) margin	18.4%	17.1%

- Oil & Gas market c.18% of sales
- Revenue decline consistent with peers
- Good operating margins
- Low capital intensity; high cash generation

## Outlook

- Recent order intake and market activity levels indicate improving growth prospects
- Growth opportunities by leveraging Spirax Sarco's global footprint
- Margin improvement opportunities in medium to long term

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# Corporate structure and reporting



- Closely related to Steam Specialties business
- Strong management team continues post acquisition
- Stand-alone business unit; minimal integration required

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# Case study – industrial heaters & systems

Electrically heated oil in moulds produces uniform imitation stone

## The challenge:

- Uniform heating of moulds for consistent production of imitation landscaping stones

## The solution:

- Hot oil circulation (375°F) determined the best method for heating moulds
- Chromalox Electric Circulation Heater, NWHO-3901, installed at each press

## The result:

- Compact, easy to install heating package
- Oil temperature consistently maintained at 375°F
- Improved product quality and production efficiency
- Economic, energy efficient heating solution



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# Case study – heat tracing

## Heat trace cable keeps oil flowing in Indonesia

### The challenge:

- Crude oil with waxy consistency solidifies and blocks pipeline when temperatures drop at oil production facility in Indonesia

### The solution:

- Chromalox SRM/E self-regulating heat trace cable; 2,400m installed
- SRM/E cable can be overlapped without burnout; ideal for in-line process equipment

### The result:

- Easy installation
- Energy efficient solution
- Crude oil temperature regulated, kept liquid and flowing
- Heat loss prevention from pipes



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# Summary

- Leading provider of electrical solutions for industrial process heating and temperature management; operates through a direct sales business model
- Highly complementary to Spirax Sarco Steam Specialties business
- Expands addressable market by £2.1 billion; broadens technology offering
- Opportunity to leverage Spirax Sarco's global presence to accelerate Chromalox's growth
- Exciting pipeline of innovative new products
- Compelling financial returns; accretive to earnings in 2017; closing in H1 2017
- Group maintains strong Balance Sheet and cash generation



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## Cautionary statement

This presentation may contain certain forward-looking statements, beliefs or opinions with respect of the financial condition and business operations of the Company or Chromalox, as well as certain plans and objectives of the Company. By their nature, forward-looking statements involve risk and uncertainty, because they depend on circumstances and events that may or may not occur in the future. Past performance of the Company or Chromalox cannot be relied on as a guide to future performance, and any actual results and developments may differ materially from those expressed in or implied by such forward-looking statements. The Company can give no assurance that such expectations will prove to have been correct and the Company therefore cautions any person not to place undue reliance on these forward-looking statements which speak only as at the date of this presentation.