

2018 RESULTS

YEAR ENDED 31ST DECEMBER 2018

Nicholas Anderson (Group Chief Executive)

Kevin Boyd (Chief Financial Officer)



Agenda



2018 Highlights

Nicholas Anderson



2018 Financial Review

Kevin Boyd



Operations and Outlook

Nicholas Anderson

2018 Highlights

- Revenue growth over 15%; organic sales growth over 7%⁺
- Adjusted operating profit growth over 12%^{*}
- Adjusted operating margin of 23.0%^{*}; organic margin up 120 bps to 25.2%
- Strong organic growth in Steam Specialties, Watson-Marlow and Chromalox
- Acquisitions performing in line with plan; adding 12% to sales, 6% to profit
- Net debt of £235.8 million; 0.8x EBITDA
- Full Year dividend increased by 14%

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

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

Agenda



2018 Highlights

Nicholas Anderson



2018 Financial Review

Kevin Boyd



Operations and Outlook

Nicholas Anderson

Financial performance

Strong organic growth, plus full-year contribution from acquisitions

- Organic sales up 7%; growth in all segments of Steam Specialties and Watson-Marlow
- Good contribution from Gestra and Chromalox
- Operating profit up 12% organically
- EPS +13%; organic growth and acquisitions, partially offset by exchange

	2018	2017	Reported	Organic ⁺
Revenue	£1,153.3m	£998.7m	+15%	+7%
Operating profit*	£264.9m	£235.5m	+12%	+12%
Operating profit margin*	23.0%	23.6%	-60 bps	+120 bps
Net finance expense	(£10.3m)	(£6.4m)		
Pre-tax profit*	£254.6m	£229.1m	+11%	
Tax rate*	27.6%	29.1%	-150 bps	
EPS*	250.0p	220.5p	+13%	
DPS	100.0p	87.5p	+14%	

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

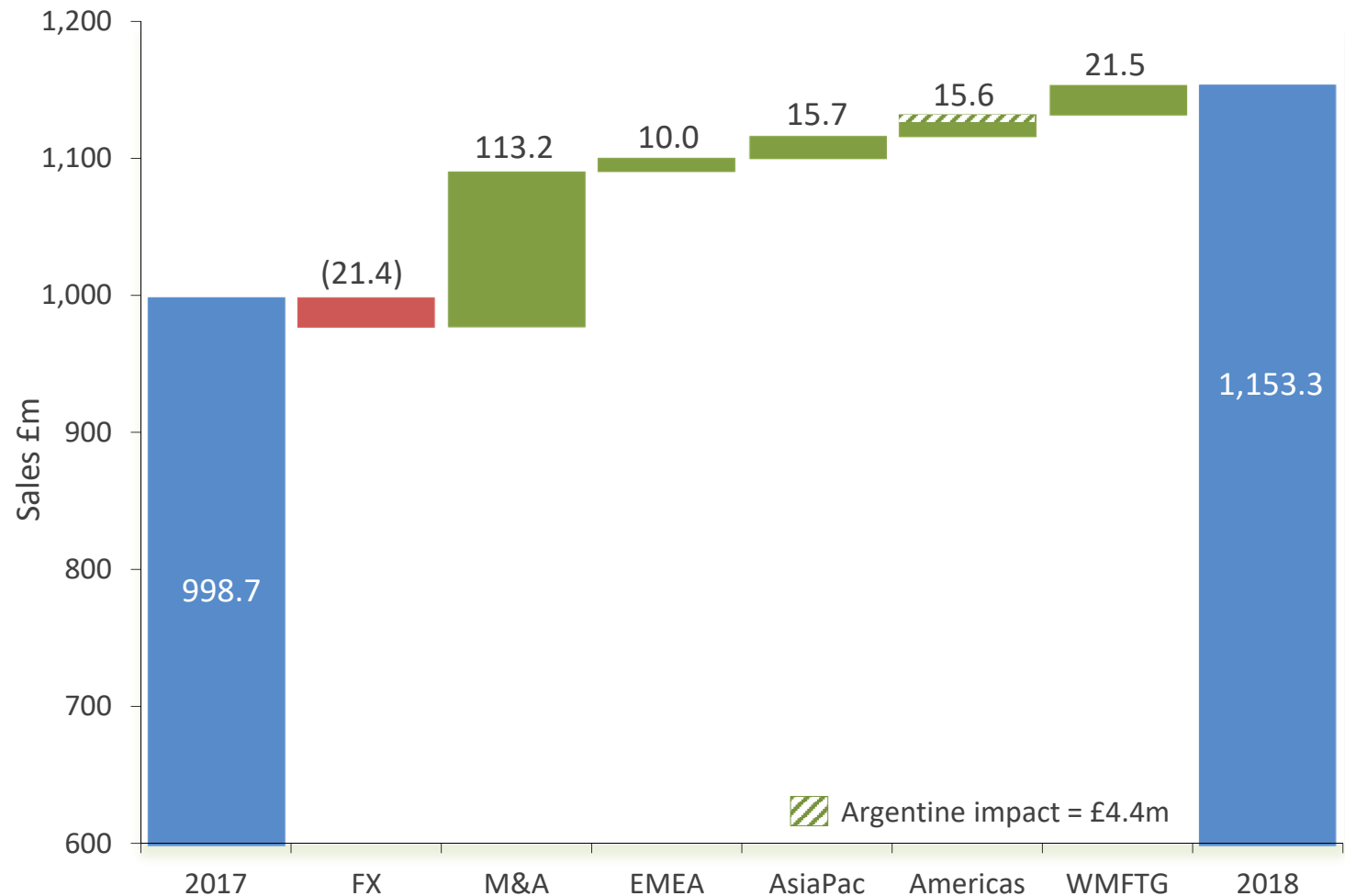
* See Appendix IV for definition of adjusted profit measures.

Sales bridge

Increase in sales

- Currency (FX) loss of 2%
- Total organic⁺ growth of over 7%; Steam Specialties +7%, Watson-Marlow +9%
- Acquisitions and a disposal added a net 12%

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

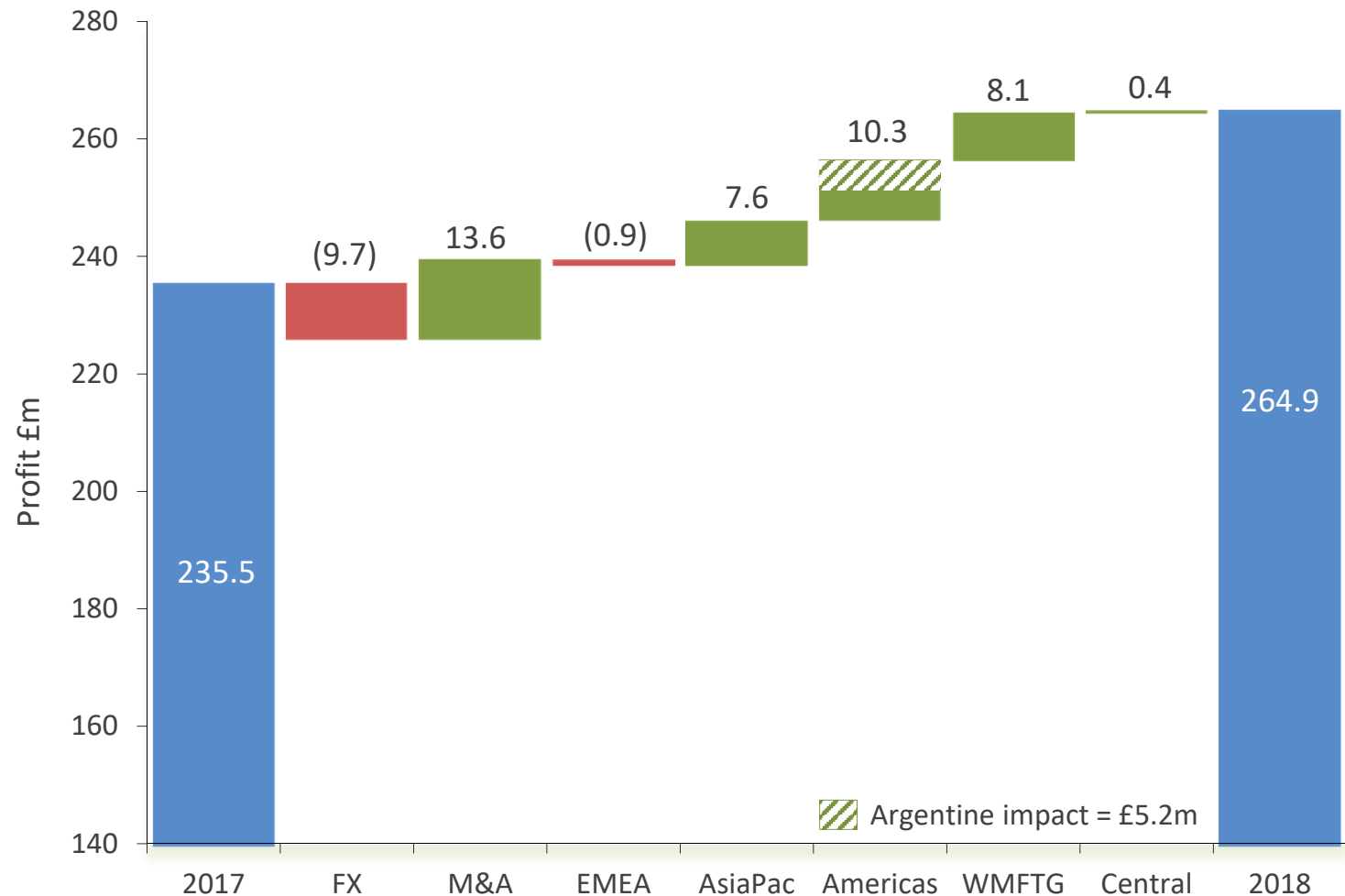


Profit bridge

Increase in adjusted operating profit

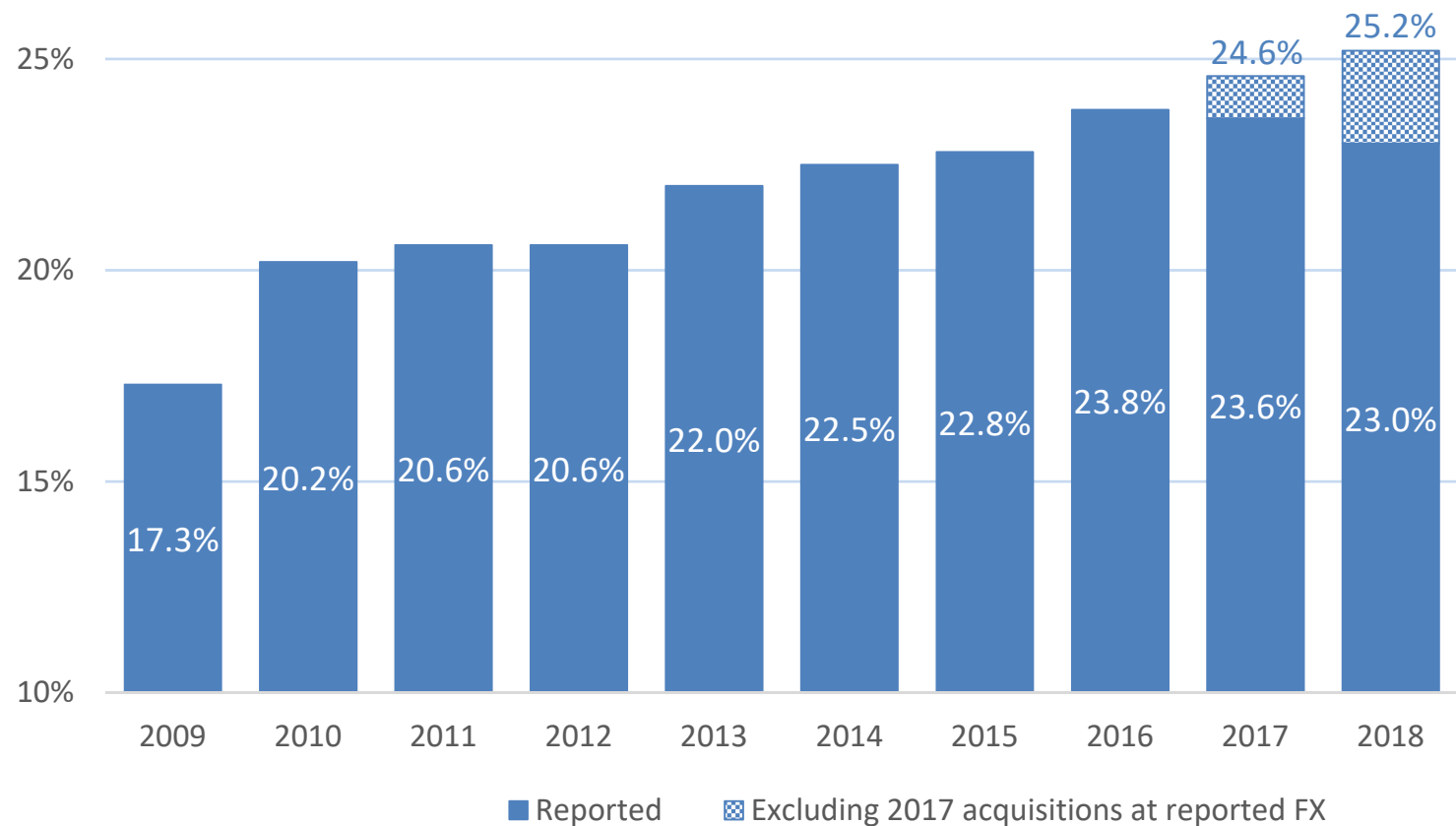
- Adjusted operating profit* +12%
- 4% currency (FX) headwind
- Benefit from Argentine peso devaluation
- Acquisitions and a disposal added a net 6%
- Organic profit growth of 12%

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



Operating margin

- Excluding 2017 acquisitions, margin up 120 bps organically to 25.2%
- Steam Specialties margin up 120 bps organically
- Watson-Marlow margin up 50 bps organically
- Margin excluding HygroMatik and Argentine benefit 22.5%



Strong cash flow

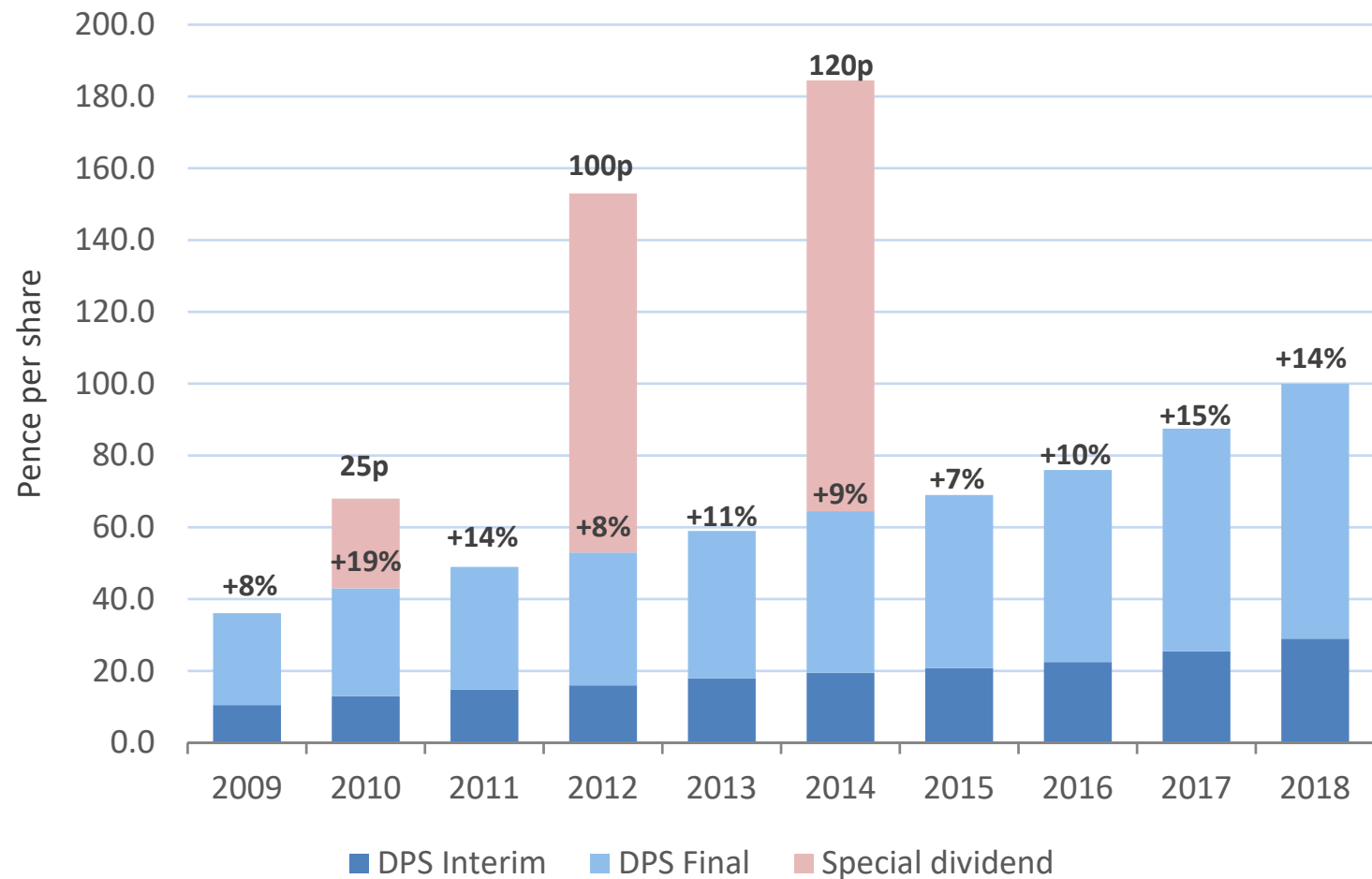
- Good cash generation; 91% cash conversion
- Dividends paid £67.3m
- Disposal of HygroMatik
- 2018 closing net debt of £235.8m, x0.8 EBITDA
- ROCE +200 bps

Adjusted cash flow	Pounds (£) million	31 st December 2018	31 st December 2017
Adjusted operating profit*		264.9	235.5
Depreciation and amortisation		32.9	31.6
Adjusted earnings before interest, tax, depreciation and amortisation		297.8	267.1
Pensions/Share plans		1.1	4.7
Working capital changes		(23.3)	(34.2)
Capital additions (including software and development)		(43.4)	(38.4)
Capital disposals		9.9	3.4
Adjusted cash from operations		242.1	202.6
Net interest		(6.7)	(6.4)
Income taxes paid		(61.6)	(61.0)
Free cash flow		173.8	135.2
Net dividends paid		(67.3)	(58.4)
Proceeds from issue of shares/purchase of employee benefit trust shares		(5.0)	2.4
Disposals/(Acquisitions) (including costs)		48.8	(484.3)
Other		0.8	1.2
Cash flow for the year		151.1	(403.9)
Exchange movements		(13.3)	2.9
Net debt at 31st December		(235.8)	(373.6)
ROCE		54.9%	52.9%

* See Appendix IV for definition of adjusted profit measures.















Dividend growth

- Total dividend up 14% to 100.0p
- Final dividend up 15% to 71.0p
- Maintains dividend cover at 2.5x
- 51 years of dividend progress with a CAGR of 11%



Underlying margin drivers

Effects on margins*

	2018	2019
Currency movements		
Operating leverage		
Sales pricing (vs. inflation)		
Manufacturing strategies		
Business and product mix		
Business development investment		
Impact of acquisitions and disposals		

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

Agenda



2018 Highlights

Nicholas Anderson



2018 Financial Review

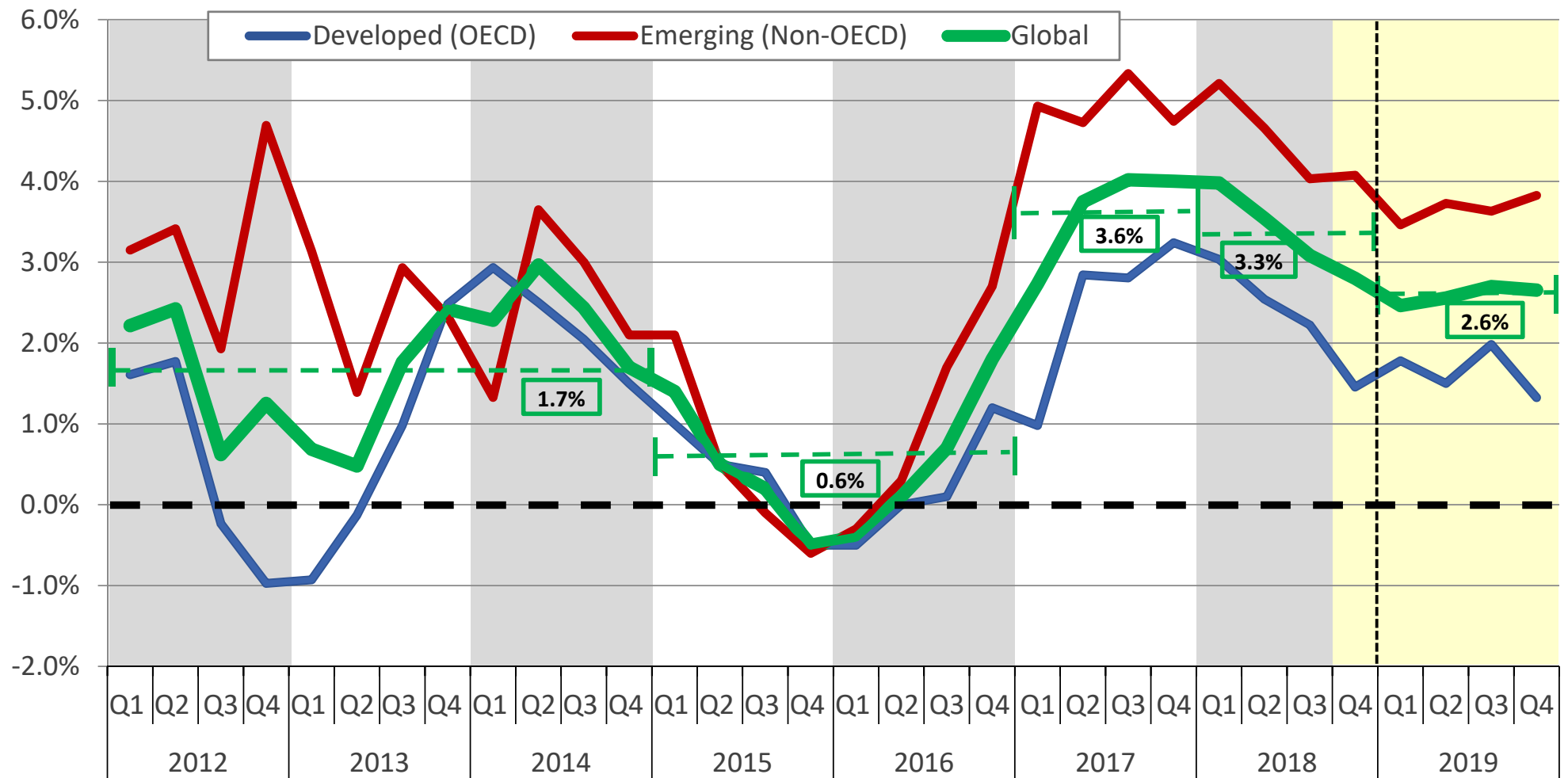
Kevin Boyd



Operations and Outlook

Nicholas Anderson

Annual IP growth rates by quarter 2012-2019



Preliminary data

Source: CHR Economics, Oxford Economics

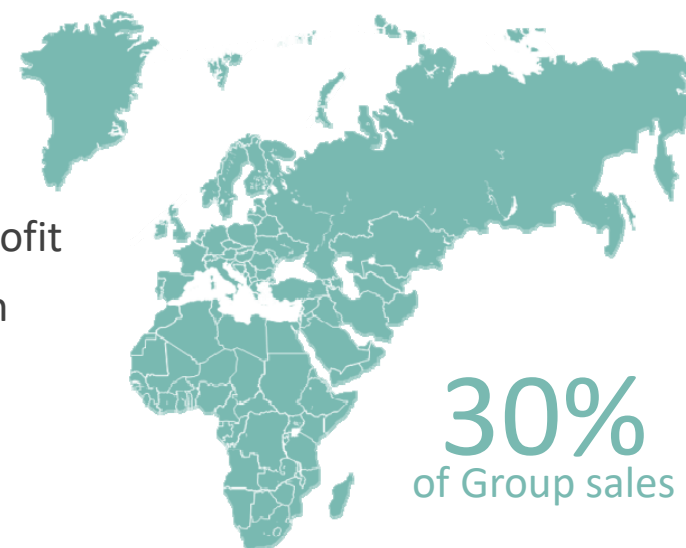
Europe, Middle East and Africa

	2017 Base	2017 Acquisitions	31 st Dec 2017	Exchange	Organic	Acquisitions and disposals	31 st Dec 2018	Organic ⁺	Reported
Sales	£259.5m	£45.8m	£305.3m	£0.8m	£10.0m	£28.3m	£344.4m	+4%	+13%
Op profit*	£59.0m	£7.1m	£66.1m	£0.5m	(£0.9m)	£3.6m	£69.3m	-1%	+5%
Margin*			21.7%				20.1%	-120 bps	-160 bps

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

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 4%; organic operating profit down 1%
- Sales growth in the UK, Germany, Iberia; France down
- Additional 8 months of Gestra adds £29.4m to sales; £3.9m to profit
- HygroMatik divestment reduced sales by £1.1m; profits by £0.3m
- Gestra integrating well; good growth in key markets
- Margin down 160 bps; Gestra dilution and strategic investments
- Confident of progress in 2019 despite increased uncertainties



Steam Specialties Asia Pacific

Spirax-Sarco Engineering plc

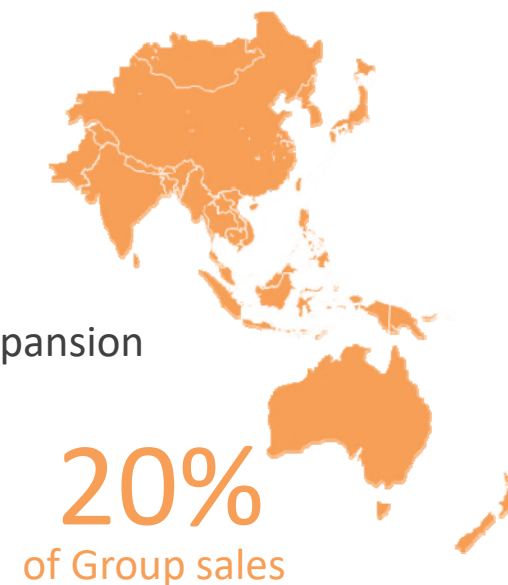
www.spiraxsarcoengineering.com

	2017 Base	2017 Acquisitions	31 st Dec 2017	Exchange	Organic	Acquisitions	31 st Dec 2018	Organic ⁺	Reported
Sales	£215.9m	£2.1m	£218.0m	(£2.3m)	£15.7m	£1.3m	£232.7m	+7%	+7%
Op profit*	£56.9m	£0.0m	£56.9m	(£0.7m)	£7.6m	£0.1m	£63.9m	+13%	+12%
Margin*			26.1%				27.5%	+150 bps	+140 bps

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

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 7%; organic operating profit up 13%
- China strongly ahead, good growth in Australasia and SE Asia; Korea flat
- India making progress; strong growth in sales and manufacturing volumes
- Gestra increased direct sales presence; delivering growth and geographic expansion
- Singapore distribution centre delivering improved customer service
- Margin up 140 bps to 27.5%; organic increase +150 bps
- Remain well placed for progress, despite macroeconomic uncertainties



Steam Specialties Americas

Spirax-Sarco Engineering plc

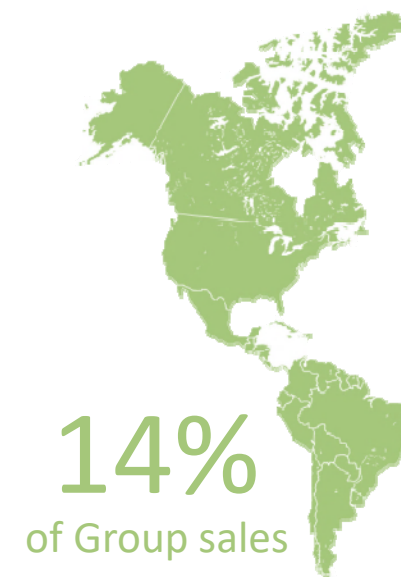
www.spiraxsarcoengineering.com

	2017 Base	2017 Acquisitions	31 st Dec 2017	Exchange	Organic	Acquisitions	31 st Dec 2018	Organic ⁺	Reported
Sales	£148.5m	£3.6m	£152.1m	(£13.7m)	£15.6m	£2.4m	£156.4m	+12%	+3%
Op profit*	£31.1m	£0.5m	£31.6m	(£5.5m)	£10.3m	£0.5m	£36.9m	+40%	+17%
Margin*			20.8%				23.6%	+490 bps	+280 bps

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

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 12%; up 8% excluding Argentine effect
- Organic operating profit up 40%; up 20% excluding Argentine benefit
- North America – organic sales up 5%; good direct sales growth in USA
- Latin America – organic sales up 22%; up 14% excluding Argentine effect
- Brazil, Hiter and Colombia strongly ahead; Argentina flat in real terms
- Gestra performing strongly; expands Americas sales by 2%
- Organic margin up 490 bps; excluding Argentine benefit up 200 bps
- Well positioned for further progress despite continued uncertainties



Chromalox

	31 st Dec 2017	Exchange	Organic	Acquisitions	31 st Dec 2018	(For reference only) Full Year 2017 ⁺	
Sales	£75.1m	(£1.7m)	-	£81.2m	£154.6m	£142m	+9%
Op profit*	£13.8m	(£0.4m)	-	£9.4m	£22.8m	£25m	-10%
Margin*	18.4%				14.7%	17.8%	-310 bps

⁺ At constant currency.

* See Appendix IV for definition of adjusted profit measures.

- Sales of £154.6m up 9% on 2017; order book up 11%
- MRO small projects strong; growth in all product sectors
- Stepped up investments: people, property and processes
- Profit down 10% on 2017; investments for growth
- Operating margin 14.7%; consistent with H1 2018
- Overall performance in line with expectations; good medium and long-term prospects confirmed
- Acquiring Thermocoax for €158m; completion in Q2 2019



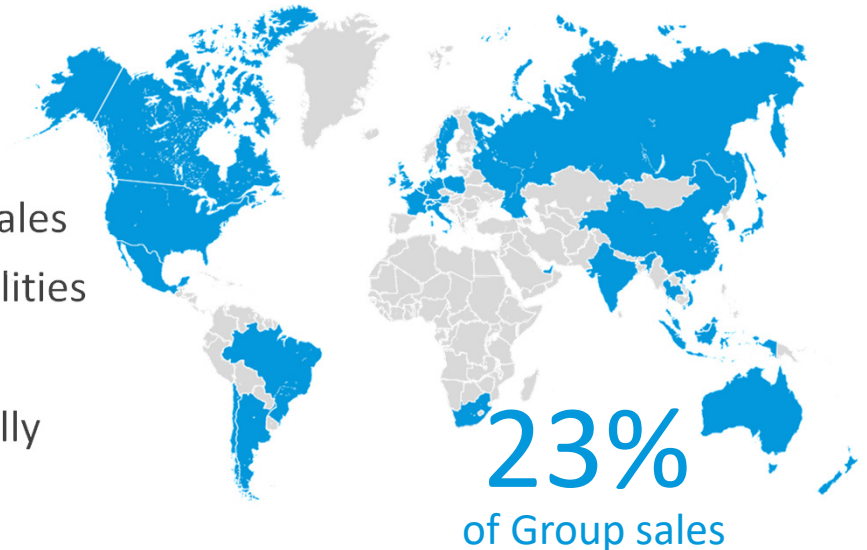
Watson-Marlow

	2017 Base	2017 Acquisitions	31 st Dec 2017	Exchange	Organic	Acquisitions	31 st Dec 2018	Organic ⁺	Reported
Sales	£248.2m	-	£248.2m	(£4.5m)	£21.5m	-	£265.2m	+9%	+7%
Op profit*	£80.3m	-	£80.3m	(£3.6m)	£8.1m	-	£84.8m	+11%	+6%
Margin*			32.4%				32.0%	+50 bps	-40 bps

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

* See Appendix IV for definition of adjusted profit measures.

- Organic sales up 9%; growth in all regions
- Good growth in Pharma & Biopharm and Food & Bev
- Aflex sales and profit strongly up; benefiting from direct sales
- Small pre-revenue acquisition; to expand technical capabilities
- Organic operating profit up 11%, despite investments
- Margin down 40 bps due to exchange; up 50 bps organically
- Strong growth drivers; expect further progress



Notable progress in 2018

- Spirax Sarco Academy programmes extended:
 - Covering over 1,200 sales engineers and sales support staff across 60 countries
 - Group EH&S, Sustainability, ABC training rolled out via Academy platform (+5,200 users)
- Geographical expansion:
 - 5 new sales companies across Spirax-Sarco, Watson-Marlow and Chromalox
 - Gestra direct sales engineers: Brazil, Middle East, Indonesia, Malaysia, Thailand, Korea
 - Chromalox direct sales offices: Chile, Norway, Sweden, Spain, UAE, Western USA
- Spirax-Sarco India becomes a Group manufacturing unit
- Released 21 new products across the Group's three businesses
- HygroMatik divestment sharpens strategic focus

Exclusive negotiations to acquire Thermocoax

Announced 18th February 2019



- Designs and manufactures highly engineered electrical thermal solutions for critical applications in high added-value industries
- 2018 revenue of €49.8 million (£43.9m); 2018 EBITDA of €12.9 million (£11.4m)
- Established 1957; head offices in Paris, France; manufacturing facilities: Normandy (France), Georgia (USA), Heidelberg (Germany). Total employees: 303
- Core technology: small diameter mineral insulated cable - single or multiple conductor wires insulated by magnesium oxide, enclosed in a tubular metal sheath
- Direct sales business model, mostly to major OEMs in Europe and USA

- Consideration: €158 million (£139m)
- Multiple of 12.2x EBITDA 2018
- Completion expected Q2 2019
- Accretive to Group earnings in 2019

- Extends capabilities of the Chromalox electrical process heating business
- Broadens customer base in Europe
- Chromalox will support Thermocoax market penetration in the USA
- Compatible direct sales business model

Our purpose: increasing process efficiency

Reducing virus filtration times, USA



The issue: challenging process efficiency requirements in high-volume, two-stage virus purification, filtration and concentration process, in biopharmaceutical manufacture

The solution: Quantum 600 bioprocessing pump; delivering consistent, low-pulsation flow

The result: 1,500 litres of product concentrated to 100 litres in just 7 hours, $\frac{1}{3}$ of the time previously taken



$\frac{2}{3}$
reduction in
processing
time

**WATSON
MARLOW**

Fluid Technology Group

Our purpose: improving product quality

Maximising rice grain length, India



The issue: steam system inefficiencies causing low dryer temperature, leading to rice grain breakage in de-husking process



3%

reduction in
rice grain
breakage

The solution: engineered solution with automatic pump traps, steam injectors, temperature and pressure controls

The result: 3% reduction in rice grain breakage, reduced waste, increased customer revenue



**spirax
sarco**
First for Steam Solutions

Our purpose: providing safer working environments

Safely warming liquefied natural gas, USA



Reduced risk of
explosion

\$200,000
per annum saved in
operating costs



The issue: cooled to -160°C , natural gas liquefies, improving ease of transportation and storage; however, pumps and pipes can freeze, requiring controlled warming

The solution: Chromalox temperature management system with line-sensing technology, self-regulating heat tracing cables and IntelliTRACE control panels

The result: reliable heating with reduced risk; \$300,000 installation cost savings and \$200,000 per annum operating cost savings



Summary and Outlook

- Reported revenue up over 15%; organic revenue up over 7%
- Operating profit up over 12% on reported and organic basis
- Operating margin 23.0%; organic margin up 120 bps to 25.2%
- Overall performance of Gestra and Chromalox in line with expectations
- Global IP growth rates forecasted to slowdown further in 2019
- Anticipate organic revenue growth to moderate in 2019; off a base adjusted for the divestment of HygroMatik and Argentina's devaluation-driven sales uplift
- Anticipate operating margin in 2019 to be at a similar level to 2018, despite the absence of the higher margin HygroMatik and the devaluation-driven profit boost from Argentina

Spirax-Sarco Engineering plc

Full year results for year ended 31st December 2018

Engineering opportunities for growth; creating shareholder value





Appendices

Appendix I - Return on capital employed

	Pounds (£) million	2018	2017
Working Capital			
Inventories		160.6	145.4
Trade receivables		245.1	237.5
Prepayments and other current assets		43.7	46.3
Trade, other payables, current provisions and current tax		(195.7)	(176.9)
Total working capital		253.7	252.3
Property, plant and equipment		230.8	227.5
Total Capital Employed		484.5	479.8
Average Capital Employed		482.2	444.9
Adjusted Operating Profit *		264.9	235.5
ROCE*		54.9%	52.9%
Working Capital/Sales		22.0%	25.3%

* See Appendix IV for definition of profit measures.

Appendix II - Cash conversion

	Pounds (£) million	2018	2017
Adjusted cash generated from operations		242.1	202.6
Adjusted Operating Profit*		264.9	235.5
Cash conversion		91%	86%

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

Appendix III - Currencies

Average exchange rates

	2017	2018	%
Spirax weighted index	100.0	102.4	-2%
Bank of England index	77.6	78.3	-1%
US\$	1.30	1.33	-2%
Euro	1.15	1.13	+2%
RMB	8.75	8.82	-1%
Won	1,464	1,461	+0%
Brazilian Real	4.16	4.85	-17%
Argentine Peso	21.68	37.44	-73%

Appendix IV - 2018 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 items which are analysed below.

	Pounds (£) million	2018	2017
Profit on disposal of business		47.4	-
Profit on disposal of property		6.5	-
Post-retirement benefit plan in the USA being frozen to future accrual		6.0	-
Equalising guaranteed minimum pensions for the UK post-retirement benefit plans		(0.7)	-
Amortisation of acquisition-related intangible assets		(25.2)	(18.4)
Impairment of goodwill*		-	(3.2)
Acquisition related items		0.2	(7.8)
Reversal of acquisition related fair value adjustments to inventory		-	(7.2)
Total adjustment to operating profit		34.2	(36.6)
Total adjustment to pre-tax profit		34.2	(36.6)

* In respect of Spirax Sarco Colombia