



## 2019 Half Year Results

Six months ended 30<sup>th</sup> June 2019

Nicholas Anderson (Group Chief Executive)

Kevin Boyd (Chief Financial Officer)



# Agenda



## 2019 Half Year Highlights

Nicholas Anderson



## 2019 Half Year Financial Review

Kevin Boyd



## Operations and Outlook

Nicholas Anderson

## 2019 half year highlights

*“We are pleased to report strong organic sales growth of 8% in the first half of the year and organic operating profit growth of 4%, with all three businesses delivering organic sales growth ahead of industrial production. Both the Steam Specialties and Watson-Marlow businesses achieved strong organic sales growth and margin progression, reflecting the successful implementation of our strategy and its focus on self-generated growth. Chromalox also grew sales organically against a very tough comparison.*

*The only disappointment of this period was a profitability deterioration in Chromalox so we have intensified work to improve its operational performance. Our original expectations for this business remain unchanged. While the Group’s strong first half organic sales growth was ahead of our expectations, industrial production growth forecasts for the second half of the year have weakened below earlier estimates. As a result, our overall full year expectations remain unchanged.” (Nicholas Anderson)*

# Agenda



## 2019 Half Year Highlights

Nicholas Anderson



## 2019 Half Year Financial Review

Kevin Boyd



## Operations and Outlook

Nicholas Anderson

# Financial performance

Strong first half organic growth; full year expectations unchanged

- Organic sales up 8%; sales growth ahead of industrial production growth in all three businesses
- Thermocoax adds £5.8m to sales, largely off-setting divestment of HygroMatik
- Operating profit up 4% organically
- EPS +1%; organic growth, partially off-set by exchange and higher tax rate

	30 <sup>th</sup> June 2019	30 <sup>th</sup> June 2018	Reported	Organic <sup>+</sup>
Revenue	£591.2m	£547.6m	+8%	+8%
Operating profit*	£129.2m	£125.7m	+3%	+4%
Operating profit margin*	21.9%	23.0%	-110 bps	-70 bps
Net finance expense	(£4.6m)	(£5.1m)		
Pre-tax profit*	£124.6m	£120.6m	+3%	
Tax rate*	29.0%	27.1%	+190 bps	
EPS*	120.0p	119.2p	+1%	
DPS	32.0p	29.0p	+10%	
Net debt	£391.5m	£373.0m		

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

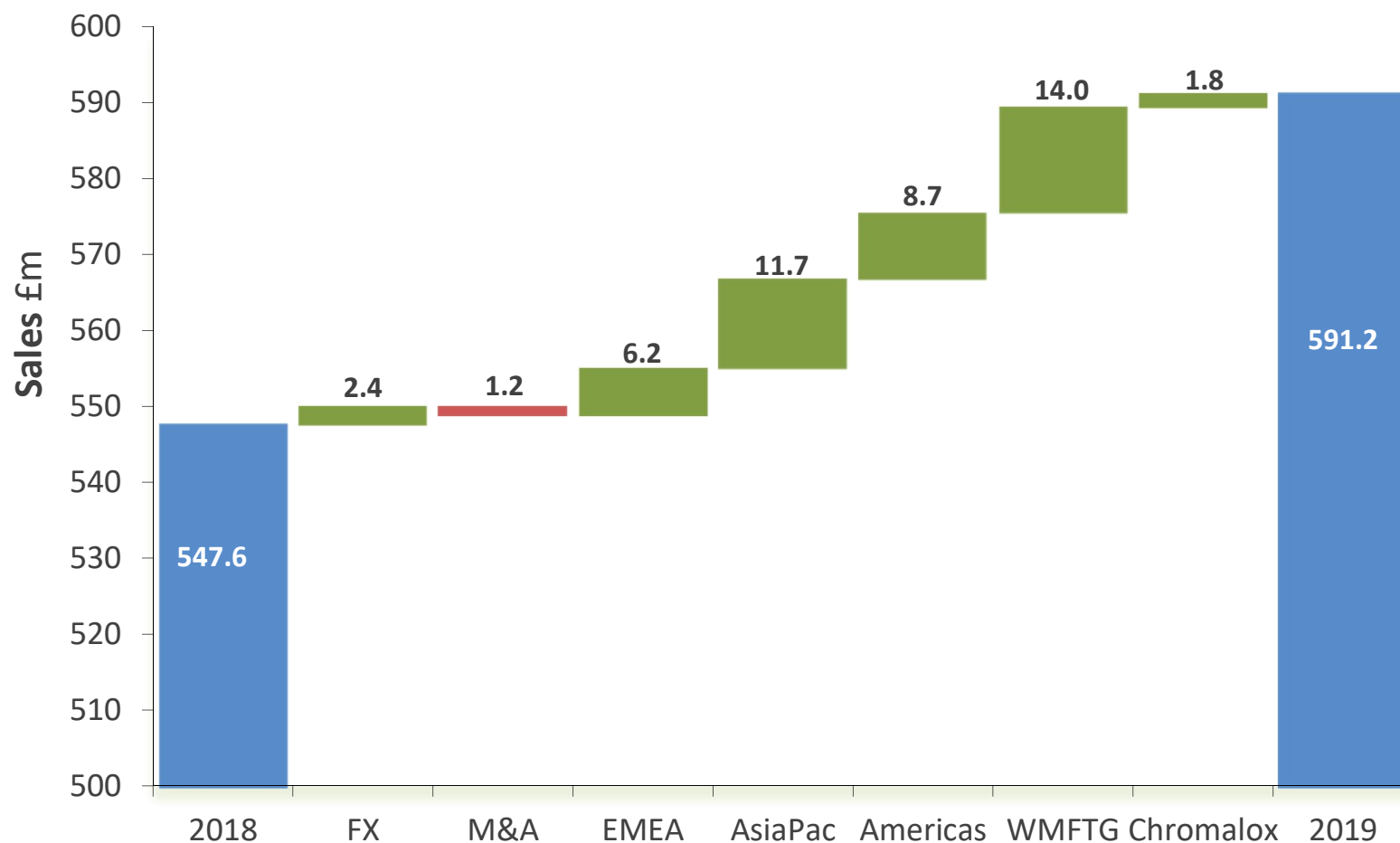
\* See Appendix III for definition of adjusted profit measures.

# Sales bridge

## Increase in sales

- Total organic<sup>+</sup> growth of 8%; Steam Specialties +8%, Chromalox +2%, Watson-Marlow +11%
- Acquisition and a disposal give a net £1.2m reduction
- Small exchange (FX) gain

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

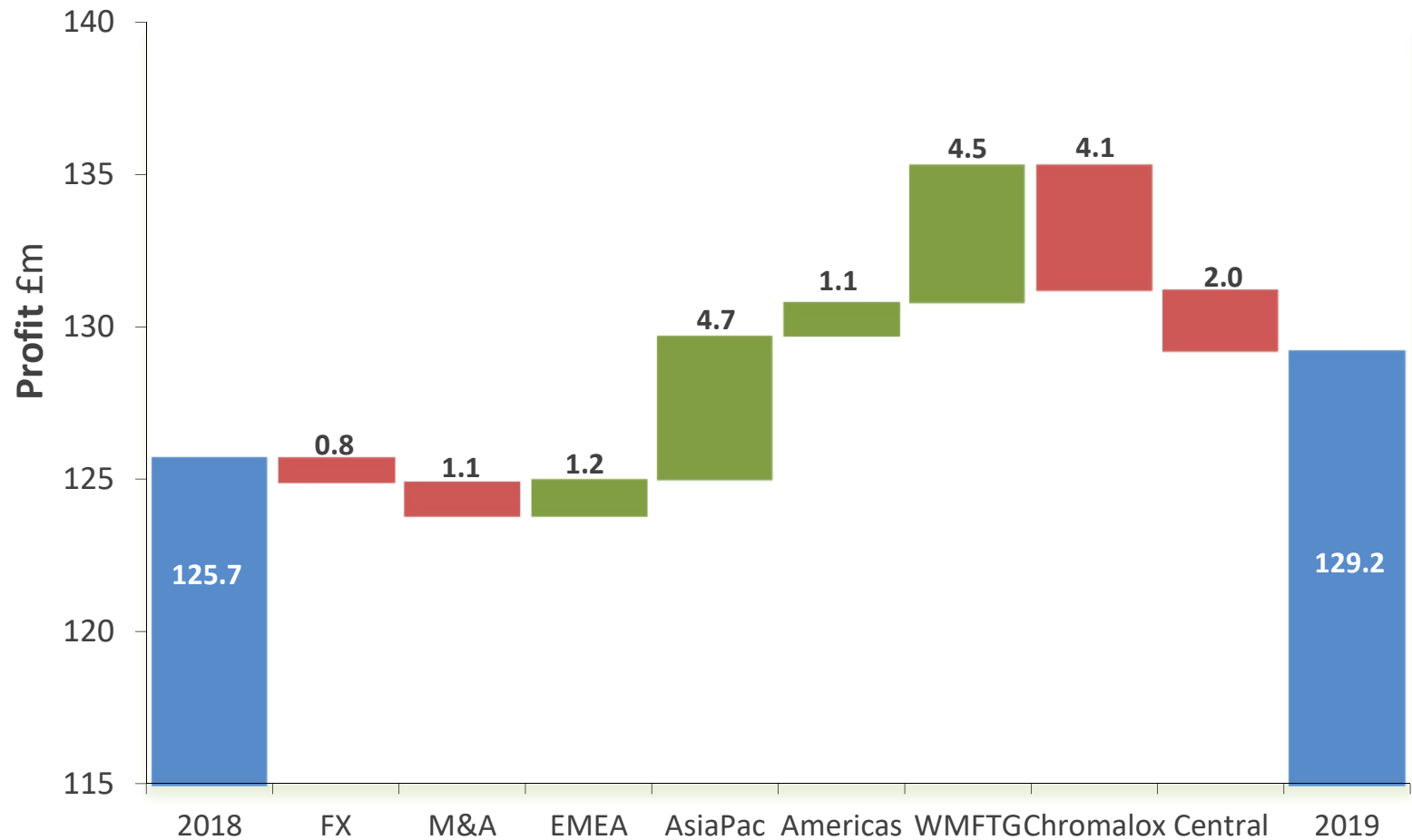


# Profit bridge

## Increase in adjusted operating profit

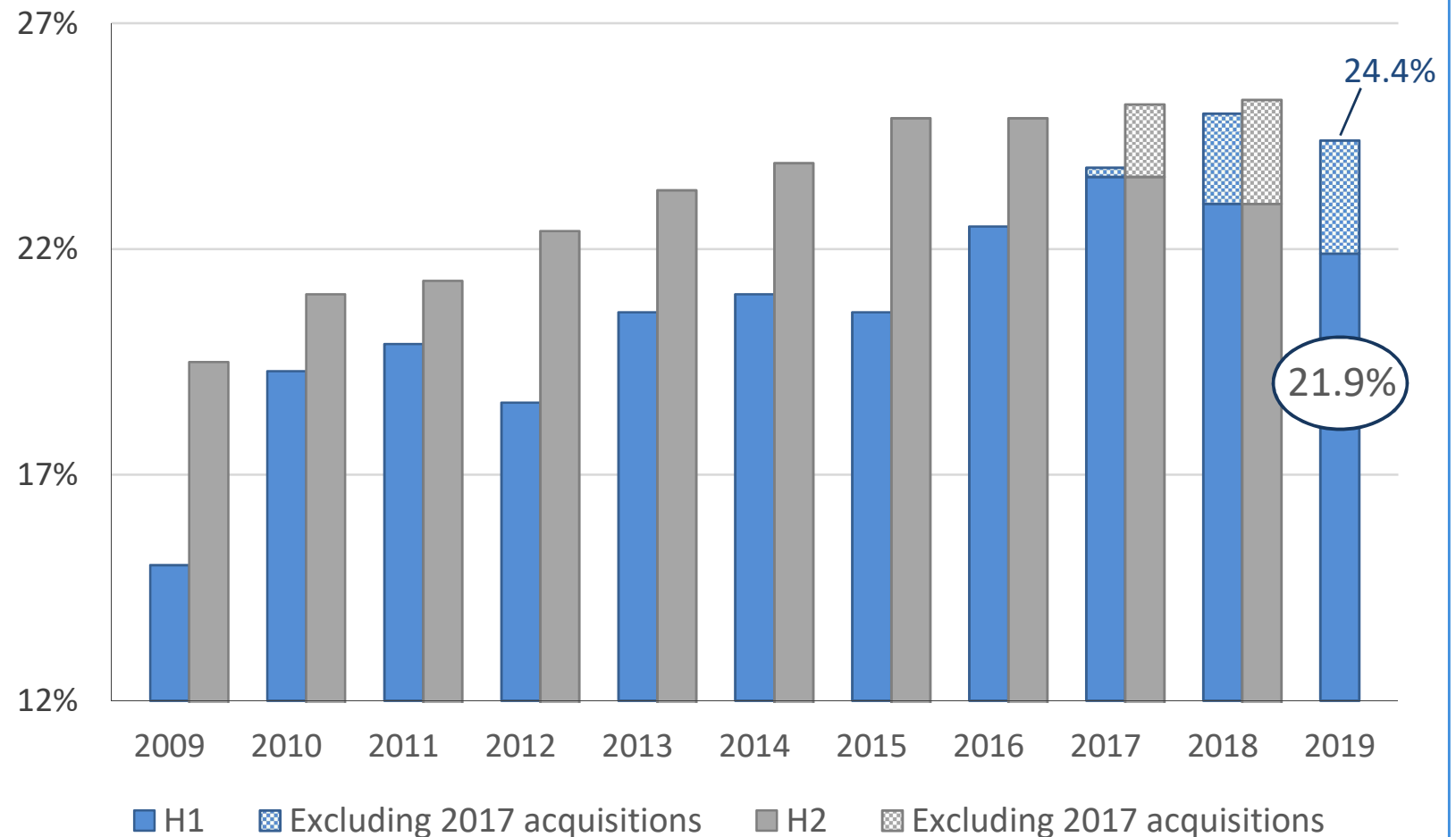
- Adjusted operating profit\* +3%
- Small exchange (FX) headwind
- Acquisition and a disposal give a net £1.1m reduction
- Organic profit growth +4%

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



# Operating profit margin of 21.9%

- Operating profit margin 21.9%
- Reported margin down 110 bps; M&A, FX, Chromalox and central costs
- Steam Specialties margin up 20 bps organically
- Chromalox margin down 560 bps organically
- Watson-Marlow margin up 10 bps organically



















# Cash flow

- Good cash generation; 71% cash conversion
- Working capital as a % of sales falls 50 bps at constant currency to 24.4%
- Net dividends paid £52.6m
- Acquisition of Thermocoax; £138m
- Net debt of £391.5m; 1.3x trailing 12 month EBITDA

Adjusted cash flow	Pounds (£) million	30 <sup>th</sup> June 2019	30 <sup>th</sup> June 2018
<b>Adjusted operating profit*</b>		<b>129.2</b>	<b>125.7</b>
Depreciation and amortisation		22.4	15.4
<b>Adjusted earnings before interest, tax, depreciation and amortisation</b>		<b>151.6</b>	<b>141.1</b>
Pensions/Share plans		0.8	2.5
Working capital changes		(40.9)	(34.1)
Net capital expenditure (including software and development)		(19.3)	(15.8)
<b>Adjusted cash from operations</b>		<b>92.2</b>	<b>93.7</b>
Net interest		(3.2)	(4.1)
Income taxes paid		(36.2)	(28.9)
<b>Adjusted free cash flow</b>		<b>52.8</b>	<b>60.7</b>
Net dividends paid		(52.6)	(45.9)
Purchase of employee benefit trust shares/proceeds from issue of shares		(7.5)	(6.6)
Disposals/(acquisitions) (including costs)		(137.7)	(2.9)
Repayments of principal under lease liabilities		(5.3)	-
<b>Cash flow for the period</b>		<b>(150.3)</b>	<b>5.3</b>
Exchange movements		(5.4)	(4.7)
Opening net debt		(235.8)	(373.6)
<b>Net debt at 30<sup>th</sup> June</b>		<b>(391.5)</b>	<b>(373.0)</b>

# Underlying margin factors

Effects on underlying margins\*

	H1 2019	H2 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.  
H1 2019 and H2 2019 arrows are an indication versus H1 and H2 2018 respectively.*

# Agenda



## 2019 Half Year Highlights

Nicholas Anderson



## 2019 Half Year Financial Review

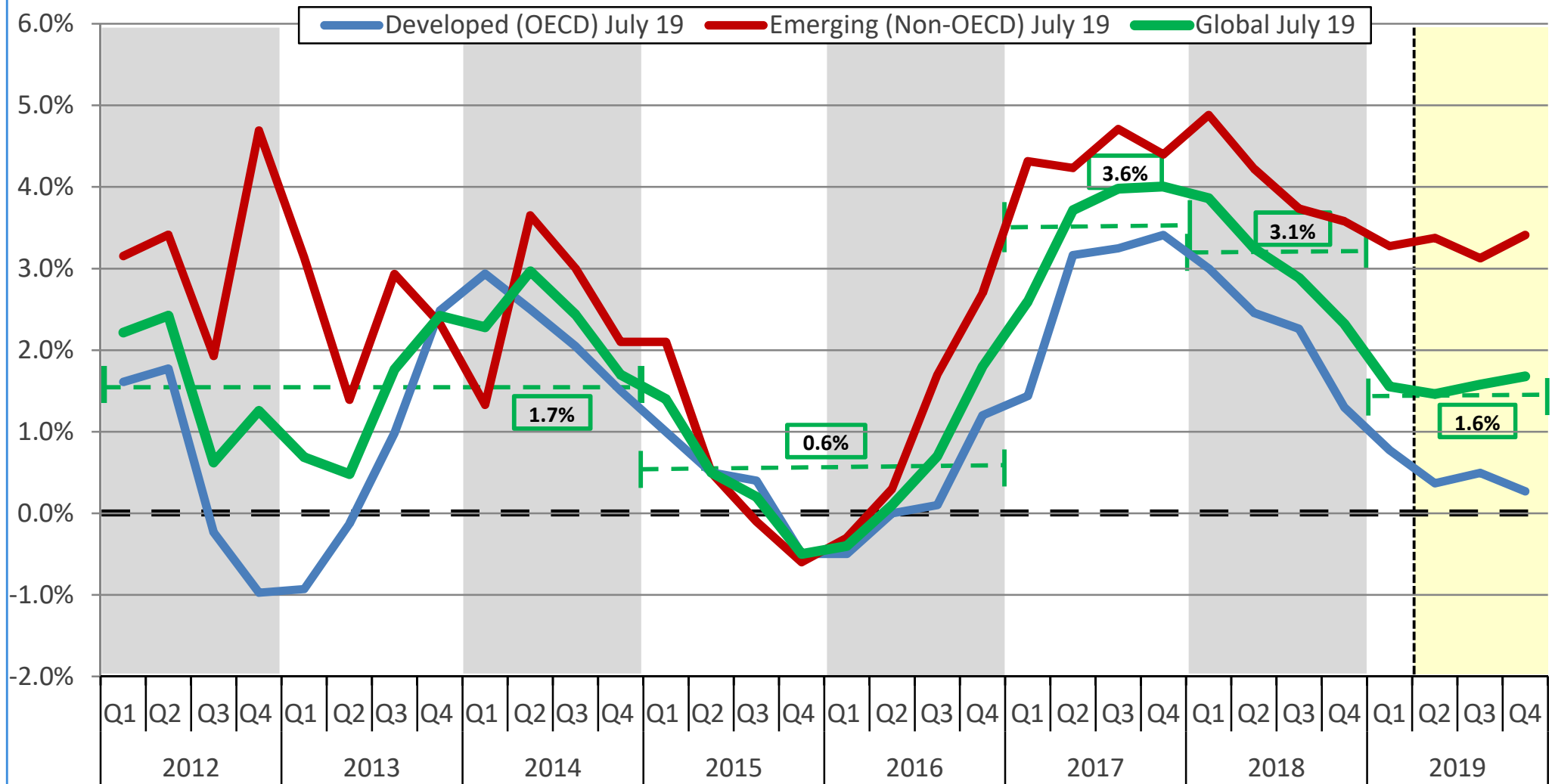
Kevin Boyd



## Operations and Outlook

Nicholas Anderson

# Annual IP growth rates by quarter 2012-2019



Preliminary data

Source: CHR Economics, Oxford Economics

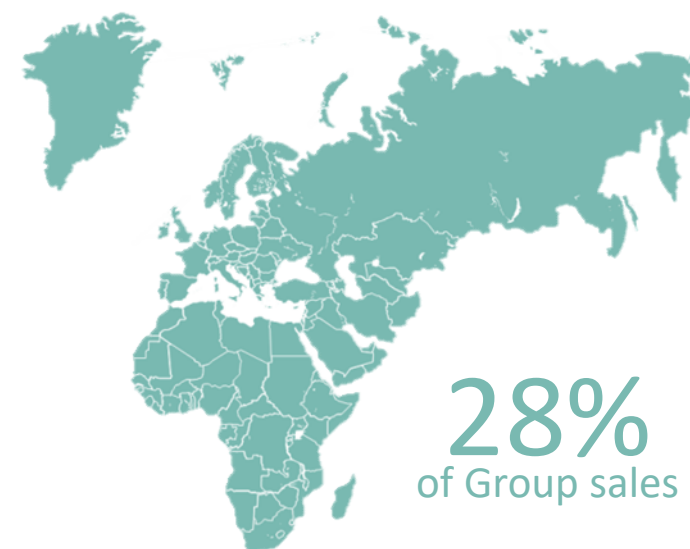
# Europe, Middle East and Africa

	30 <sup>th</sup> June 2018	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2019	Organic <sup>+</sup>	Reported
Sales	£169.1m	(£1.7m)	£6.2m	(£7.0m)	£166.6m	+4%	-2%
Op profit*	£35.8m	(£0.6m)	£1.2m	(£2.1m)	£34.3m	+4%	-4%
Margin*	21.2%				20.6%	0 bps	-60 bps

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

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

- Sales and operating profit up 4% organically
- Good sales growth in UK, Germany, Italy and Middle East
- Gestra – slower sales growth against tough compare; profit up
- HygroMatik divestment reduced sales by £7.0m; profit by £2.1m
- Reported margin down 60 bps; HygroMatik divestment and FX
- Confident of progress in 2019 despite market uncertainties



## Steam Specialties Asia Pacific

Spirax-Sarco Engineering plc

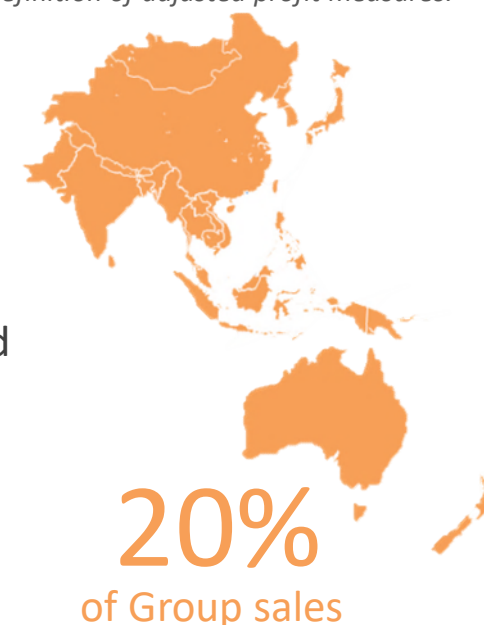
www.spiraxsarcoengineering.com

	30 <sup>th</sup> June 2018	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2019	Organic <sup>+</sup>	Reported
Sales	£104.7m	£0.4m	£11.7m	-	£116.8m	+11%	+12%
Op profit*	£28.5m	£0.4m	£4.7m	-	£33.6m	+16%	+18%
Margin*	27.2%				28.8%	+130 bps	+160 bps

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

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

- Organic sales up 11%; organic operating profit up 16%
- Double-digit growth in China and Korea despite weakening IP
- Mixed sales performance across other markets
- New Gestra sales company in China; new sales and training facility in Thailand
- Reported margin up 160 bps to 28.8%; organic margin up 130 bps
- Remain well placed for progress, despite macro-economic uncertainties



## Steam Specialties Americas

Spirax-Sarco Engineering plc

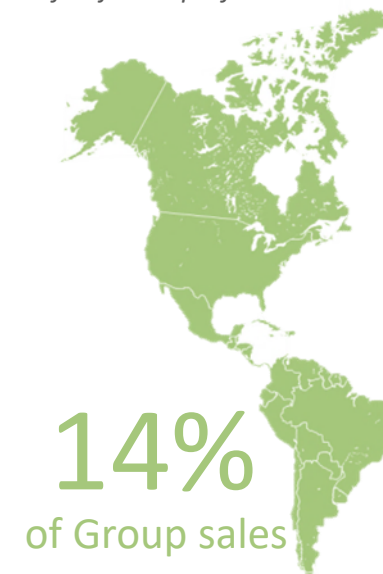
www.spiraxsarcoengineering.com

	30 <sup>th</sup> June 2018	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2019	Organic <sup>+</sup>	Reported
Sales	£75.1m	(£1.5m)	£8.7m	-	£82.3m	+12%	+10%
Op profit*	£17.2m	(£2.3m)	£1.1m	-	£16.0m	+7%	-7%
Margin*	22.9%				19.4%	-80 bps	-350 bps

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

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

- Organic sales up 12%; organic operating profit up 7%
- North America – organic sales up; 6% organic growth in USA
- Latin America – organic sales up 26%; benefit from Argentine peso devaluation
- Very strong organic sales growth in Gestra
- Margin down 350 bps; exchange headwind
- Well positioned for further progress despite continuing uncertainties, slowing IP



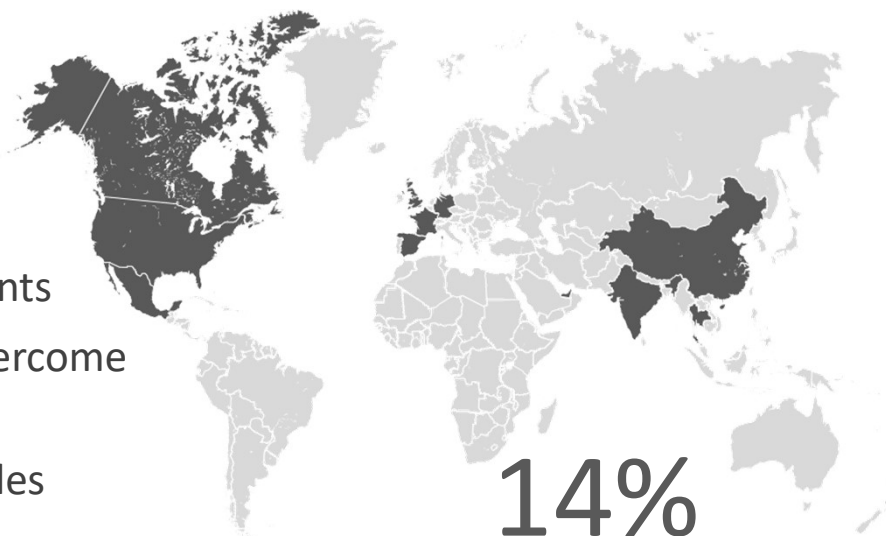
# Chromalox

	30 <sup>th</sup> June 2018	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2019	Organic <sup>+</sup>	Reported
Sales	£72.1m	£3.4m	£1.8m	£5.8m	£83.1m	+2%	+15%
Op profit*	£10.6m	£0.6m	(£4.1m)	£1.0m	£8.1m	-37%	-24%
Margin*	14.7%				9.7%	-560 bps	-500 bps

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

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

- Organic sales up 2% against strong comparator
- Strong order book expansion in Q2; weak demand in Q1
- Profit down 37%; supply chain inefficiencies, increased European losses, restructuring charges, growth investments
- Strengthened leadership team to deliver strategy and overcome operational challenges
- Thermocoax acquired in May for £135m; added 8% to sales
- Anticipate full year margin similar to 2018



**14%**  
of Group sales



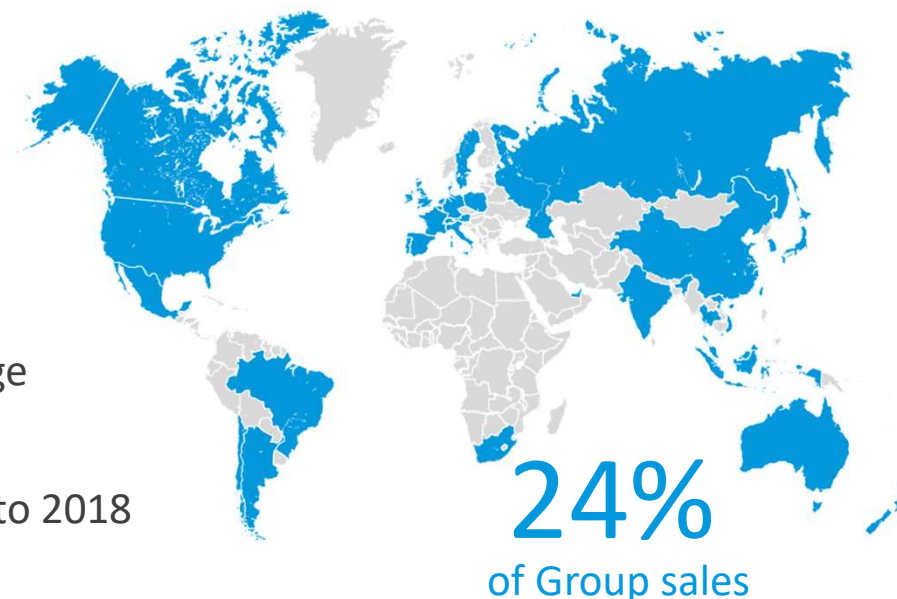
# Watson-Marlow

	30 <sup>th</sup> June 2018	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2019	Organic <sup>+</sup>	Reported
Sales	£126.6m	£1.8m	£14.0m	-	£142.4m	+11%	+13%
Op profit*	£39.4m	£1.1m	£4.5m	-	£45.0m	+11%	+14%
Margin*	31.1%				31.6%	+10 bps	+50 bps

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

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

- Organic sales up 11%; growth in all regions
- Strong BioPharm and Medical Device markets
- New sales companies in Colombia, Iberia, Philippines
- Operating profit up 14%; organic profit up 11%
- Margin up 50 bps to 31.6%; 40 bps benefit from exchange
- New Aflex factory construction underway
- Anticipate high single-digit sales growth; similar margin to 2018



# Case study: Spirax Sarco South Africa

## RCL Foods saves energy and water during peanut butter manufacture



- **Application:** Removing air bubbles from peanut butter using steam-induced vacuum
- **Problem:** Exhaust steam venting to atmosphere, wasting energy and a potential safety hazard
- **Requirement:** Energy savings and improved safety
- **Solution:** Exhaust vapour condenser, controls, pumps and traps to recover heat to generate hot water
- **Result:** Fuel savings of c.£9,000 and water savings of c.£2,000 per year, reduced safety risk

**spirax**  
**sarco**  
*First for Steam Solutions*



# Case study: Watson-Marlow UK

## Optimising product quality at A E Rodda and Son

- **Application:** Transferring cream from storage tanks
- **Requirement:** gentle and hygienic pumping to prevent product damage; low maintenance
- **Solution:** MasoSine Certa 100 pump from Watson-Marlow
- **Result:** Optimised product quality, easy cleaning, minimum downtime, improved energy efficiency



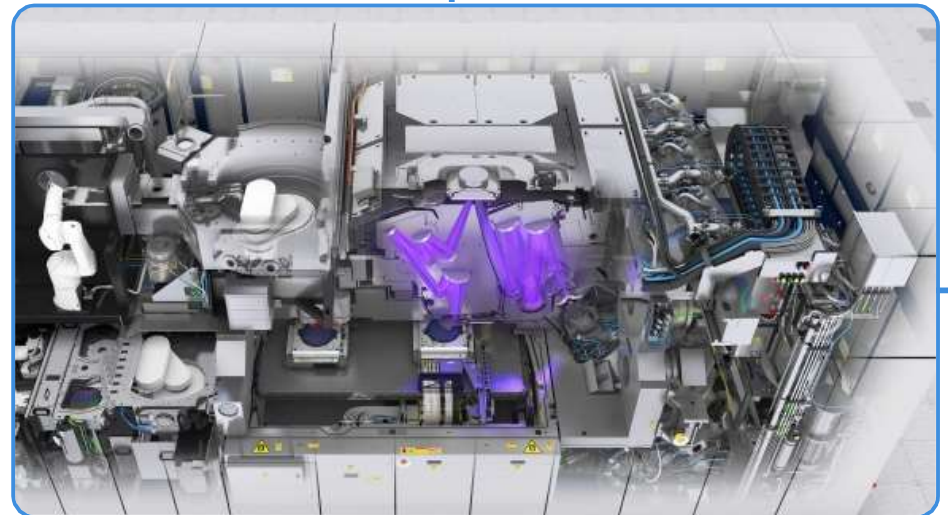
**WATSON  
MARLOW**  
Fluid Technology Group



# Case study: Thermocoax France

## Maintaining critical temperatures during microchip manufacture

- **Application:** Extreme Ultraviolet (EUV) lithography machine for nano-patterning of silicon wafers
- **Requirement:** Precision heating of tin in a highly-corrosive, vacuum environment
- **Solution:** Bespoke Thermocoax temperature management solution utilising heating cables and thermocouples
- **Result:** Critical temperatures accurately maintained, optimising production and minimising downtime



# Summary and outlook

- Strong first half performance
  - Revenue up 8% on a reported and organic basis
  - Organic operating profit up 4%
  - Operating margin 21.9%
- Thermocoax acquisition completed in May
- Industrial production growth forecast to halve in 2019
- Anticipate second half trading conditions below earlier estimates
- Full year performance expectations remain unchanged
- The Board expects to make further progress in 2019



# Spirax-Sarco Engineering plc

Half year results for six months ended 30<sup>th</sup> June 2019

Engineering sustainable growth; creating shareholder value





# Appendices

# Appendix I

## Cash conversion

	Pounds (£) million	30 <sup>th</sup> June 2019	30 <sup>th</sup> June 2018
Adjusted cash generated from operations		92.2	93.7
Adjusted operating profit*		129.2	125.7
<b>Cash conversion</b>		<b>71%</b>	<b>75%</b>

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



# Appendix II

## Currencies

Average exchange rates	30 <sup>th</sup> June 2018	30 <sup>th</sup> June 2019	%	2019*	%
US dollar	1.37	1.29	+6%	1.28	+4%
Euro	1.14	1.14	0%	1.13	0%
RMB	8.76	8.78	0%	8.76	+1%
Won	1,476	1,479	0%	1,475	-1%
Brazilian real	4.71	4.96	-5%	4.92	-1%
Argentine peso	29.84	53.28	-79%	53.59	-43%

\* 2019 rates assume that June rates prevail until the end of 2019 and compare with 2018 full year average exchange rates.

## Appendix III

### 2019 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 exclude certain items, which are analysed below.

	Pounds (£) million	30 <sup>th</sup> June 2019	30 <sup>th</sup> June 2018
<b>Operating profit as reported under IFRS</b>		<b>112.7</b>	<b>111.9</b>
Amortisation of acquisition-related intangible assets		13.0	13.5
Acquisition-related items		2.5	0.3
Reversal of acquisition-related fair value adjustments to inventory		1.0	-
<b>Total adjustment to operating profit</b>		<b>16.5</b>	<b>13.8</b>
<b>Total adjustment to pre-tax profit</b>		<b>16.5</b>	<b>13.8</b>