



*Scientist working on an experimental vaccine for COVID-19 in a Biotechnology facility in Beijing using a Watson-Marlow process pump*

Spirax-Sarco Engineering plc

# 2020 HALF YEAR RESULTS

**SIX MONTHS ENDED 30<sup>th</sup> JUNE 2020**

Nicholas Anderson (Group Chief Executive)  
Kevin Boyd (Chief Financial Officer)

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# Agenda



## Half Year 2020 Highlights

Nicholas Anderson



## Half Year 2020 Financial Review

Kevin Boyd



## Operations and Outlook

Nicholas Anderson

## HY 2020 operational highlights

- Employees' engagement pivotal for customers and results
- Employee health, safety and wellbeing remained top priority
- Operational health & safety performance improved
- Manufacturing and warehousing facilities remained operational
- Strategic capital and revenue investments maintained
- Accelerating Sustainability strategy; environmental commitments

## HY 2020 performance highlights

- Resilient trading performance – robust business model mitigates unprecedented circumstances
- Organic revenue outperformed global industrial production (IP)
- Strong cost containment reduced impact on operating profit
- Watson-Marlow sales and profit up; strong BioPharm growth
- Electric Thermal Solutions and Steam Specialties affected by falling IP
- Thermocoax performed strongly

# Agenda



## Half Year 2020 Highlights

Nicholas Anderson



## Half Year 2020 Financial Review

Kevin Boyd



## Operations and Outlook

Nicholas Anderson

# Financial performance

Trading performance resilient, despite unprecedented circumstances

- Sales down 5% organically against 8% decline in global IP
- Organic sales and profit decline in Steam Specialties and ETS, growth in Watson-Marlow
- Thermocoax adds £15.2m to sales and £3.1m to profit
- Operating profit 7% down organically
- EPS -7%; in line with fall in adjusted operating profit

	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2019	Reported	Organic <sup>+</sup>
Revenue	£569.7m	£591.2m	-4%	-5%
Operating profit*	£119.0m	£129.2m	-8%	-7%
Operating profit margin*	20.9%	21.9%	-100 bps	-50 bps
Net finance expense	(£4.4m)	(£4.6m)	-4%	
Pre-tax profit*	£114.5m	£124.6m	-8%	
Tax rate*	28.0%	29.0%	-100 bps	
EPS*	111.6p	120.0p	-7%	
DPS	33.5p	32.0p	+5%	
Net debt	£326.0m	£391.5m		

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

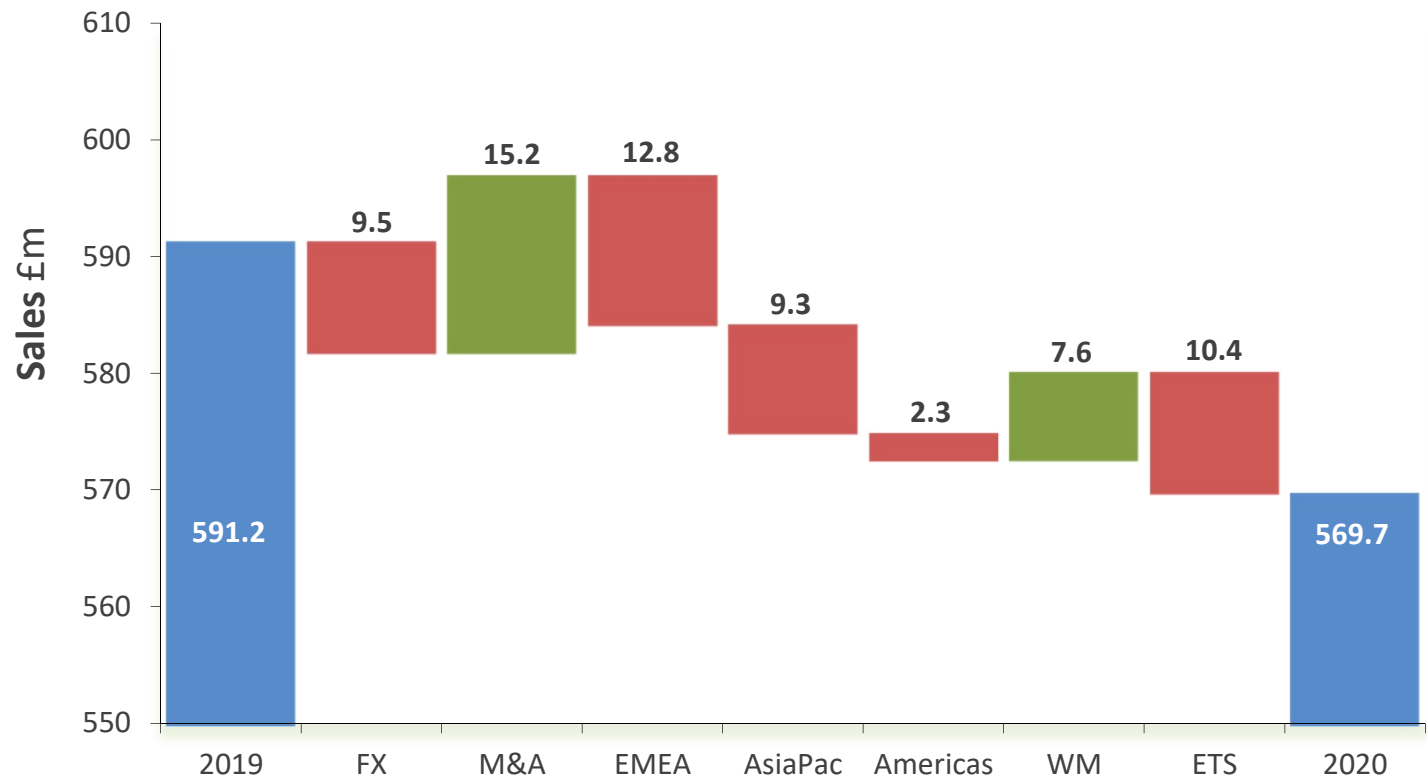
\* See Appendix V for definition of adjusted profit measures.

# Sales bridge

Resilient sales against strong decline in global industrial production

- Total organic<sup>+</sup> decline of less than 5%; Steam Specialties -7%, Electric Thermal Solutions -12%, Watson-Marlow +5%
- Thermocoax acquisition adds £15.2m
- Negative impact from exchange (FX) headwind

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

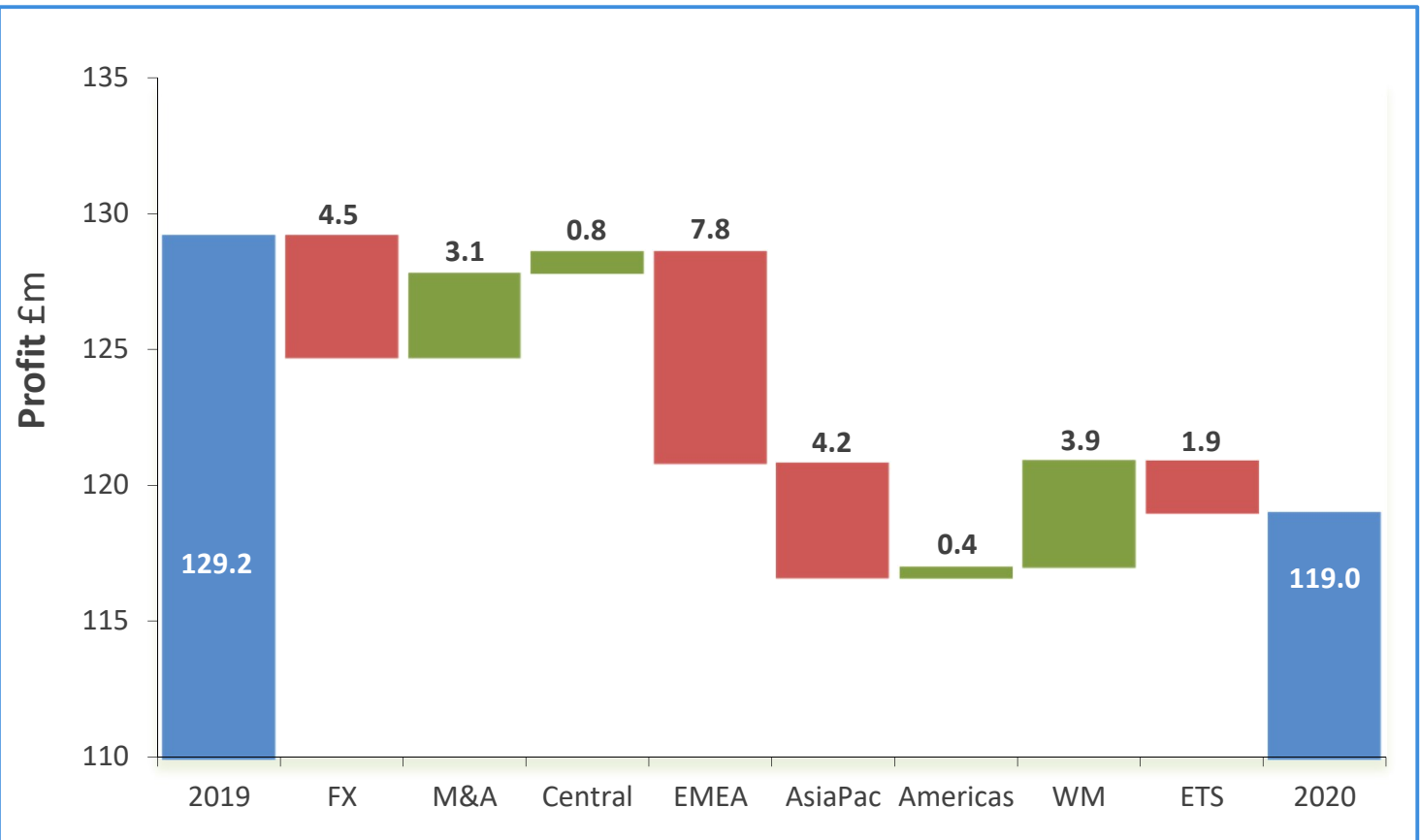


# Profit bridge

Cost containment and efficiencies partially offset lower sales

- Adjusted operating profit\* down 7% organically
- Negative impact from exchange (FX) headwind
- Thermocoax acquisition adds £3.1m
- Reported profit decline 8%

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

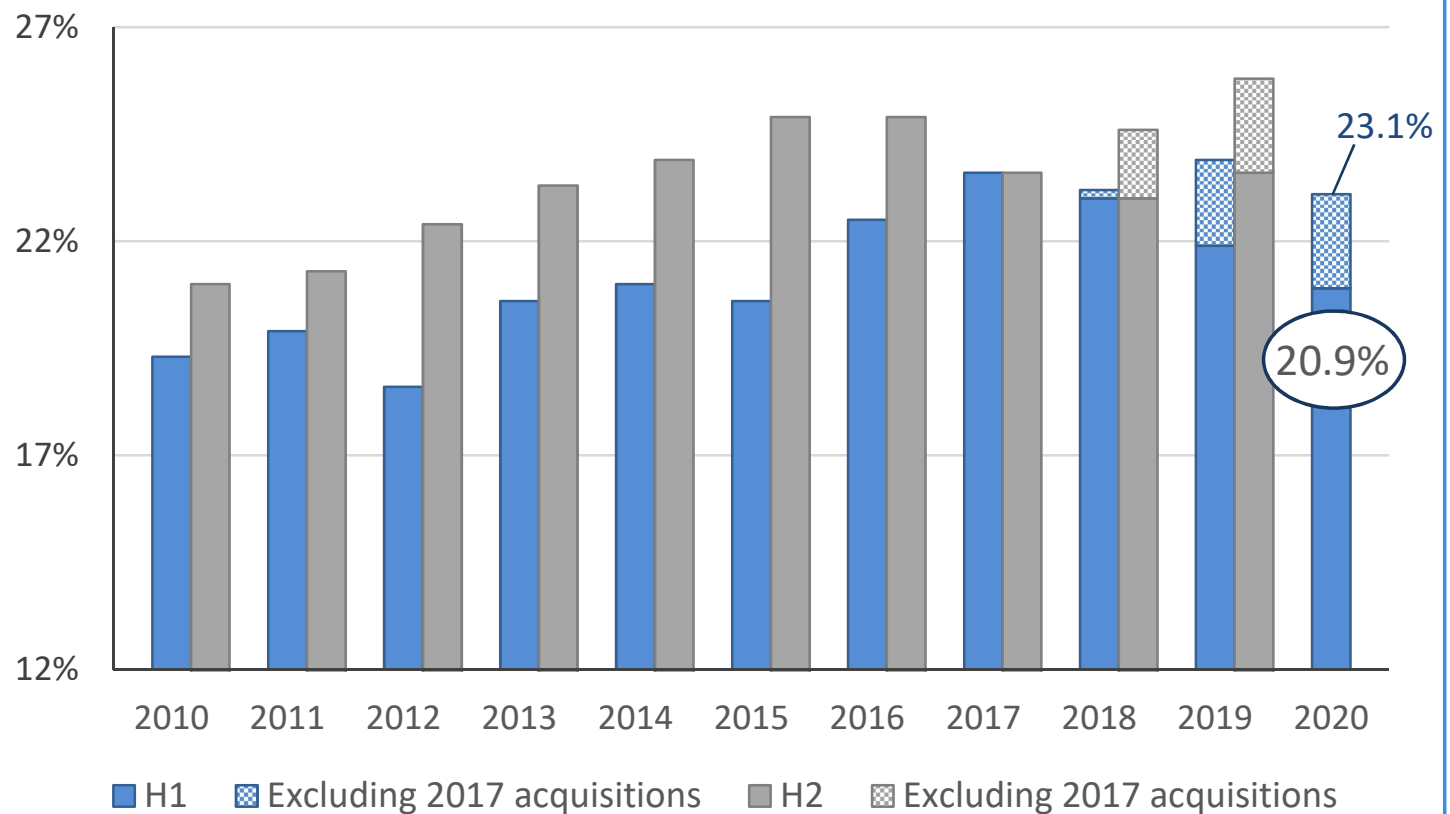




# Operating profit margin of 20.9%

## Good margin resilience

- Operating profit margin 20.9%
- Margin down 50 bps organically; lower sales volumes and FX
- Steam Specialties margin down 190 bps organically
- Electric Thermal Solutions margin down 130 bps organically
- Watson-Marlow margin up 100 bps organically



# Cash flow

- Good cash generation; 86% cash conversion
- Working capital as a % of sales down 170 bps at constant currency to 22.9%
- 2019 final dividend paid
- Net debt of £326.0m; 1.1x trailing 12 month EBITDA

Cash flow	£m	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2019
<b>Adjusted operating profit*</b>		<b>119.0</b>	<b>129.2</b>
Depreciation and amortisation (excluding IFRS 16)		18.0	17.0
Depreciation of leased assets		6.0	5.4
Pensions/Share plans		1.5	0.8
Working capital changes		(12.6)	(40.9)
Repayments of principal under lease liability		(5.9)	(5.3)
Capital additions (including software and development)		(25.3)	(21.1)
Capital disposals		1.5	1.8
<b>Adjusted cash from operations</b>		<b>102.2</b>	<b>86.9</b>
Net interest		(3.7)	(3.2)
Income taxes paid		(30.1)	(36.2)
<b>Adjusted free cash flow</b>		<b>68.4</b>	<b>47.5</b>
Net dividends paid		(57.8)	(52.6)
Proceeds from issue of shares/purchase of employee benefit trust shares		(3.0)	(7.5)
(Acquisitions)/Disposals of subsidiaries (including costs)		(5.1)	(137.7)
<b>Cash flow for the period</b>		<b>2.5</b>	<b>(150.3)</b>
Exchange movements		(33.3)	(5.4)
<b>Net debt at 30<sup>th</sup> June (excluding IFRS 16)</b>		<b>(326.0)</b>	<b>(391.5)</b>
<b>Net debt to EBITDA</b>		<b>1.1</b>	<b>1.3</b>

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

# Agenda



## Half Year 2020 Highlights

Nicholas Anderson



## Half Year 2020 Financial Review

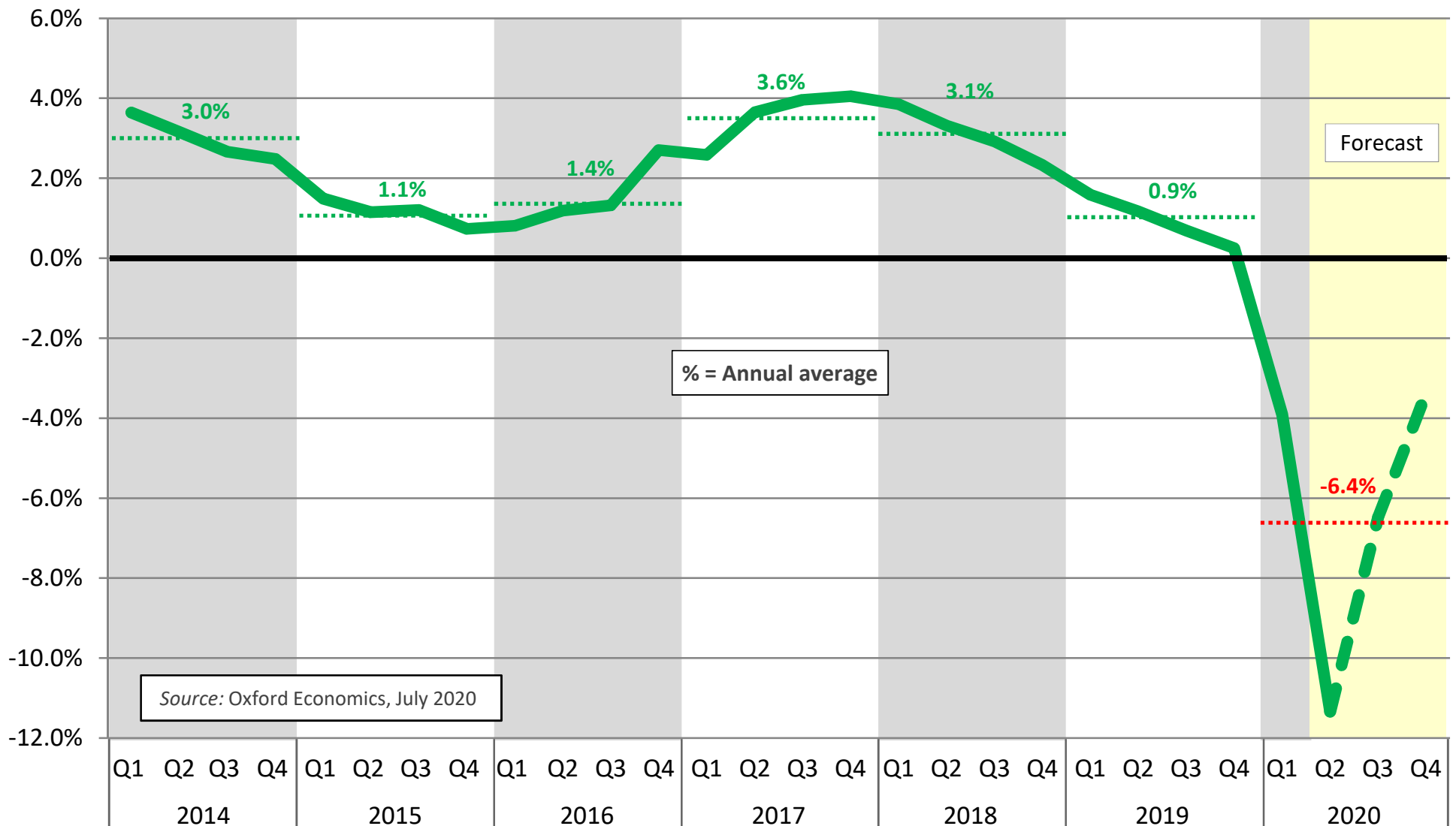
Kevin Boyd



## Operations and Outlook

Nicholas Anderson

# Global industrial production growth rates



# Steam Specialties

	30 <sup>th</sup> June 2019	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2020	Organic <sup>+</sup>	Reported
Sales	£365.7m	(£9.6m)	(£24.4m)	-	£331.7m	-7%	-9%
Op profit*	£83.9m	(£4.3m)	(£11.6m)	-	£68.0m	-15%	-19%
Margin*	22.9%				20.5%	-190 bps	-240 bps

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

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

- Sales down 7% and operating profit down 15% organically
- Revenue contraction in all geographic segments
- Operating profit margin 20.5%; down 190 bps organically
- Cost containment without compromising strategic investments
- Improved customer service performance
- Anticipate continuing to outperform our markets



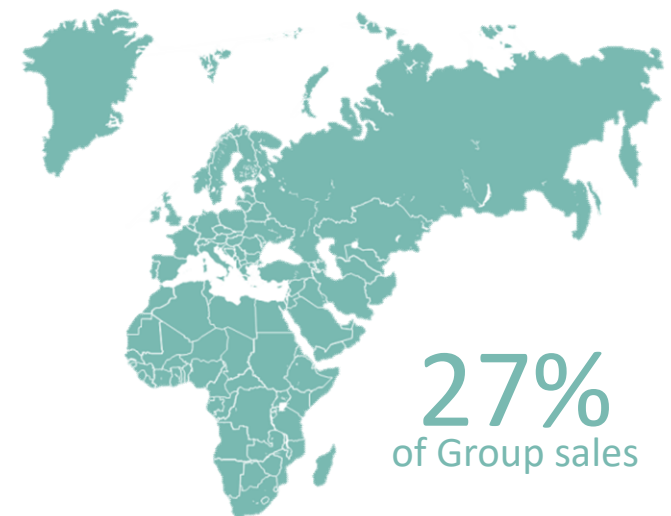
## Europe, Middle East and Africa

	30 <sup>th</sup> June 2019	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2020	Organic <sup>+</sup>	Reported
Sales	£166.6m	(£1.5m)	(£12.8m)	-	£152.3m	-8%	-9%
Op profit*	£34.3m	(£0.6m)	(£7.8m)	-	£25.9m	-23%	-25%
Margin*	20.6%				17.0%	-340 bps	-360 bps

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

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

- Sales down 8% and operating profit down 23% organically
- Northern Europe less affected than Southern Europe
- Middle East and Africa significantly down
- Gestra maintained sales in line with H1 2019
- Reported margin down 360 bps; lower sales and FX headwind
- COVID-19 and Brexit to remain a drag on business sentiment



## Steam Specialties Asia Pacific

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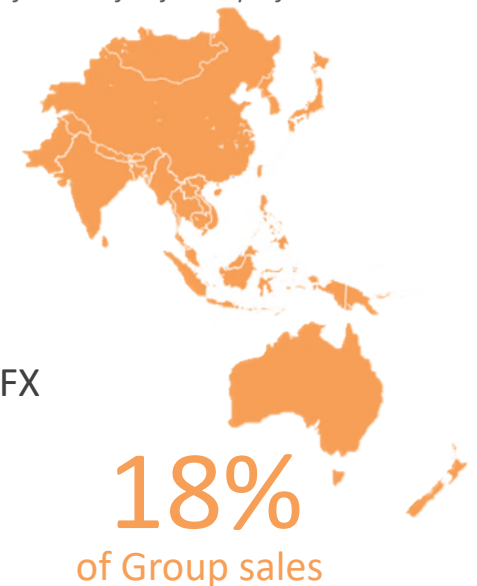
www.spiraxsarcoengineering.com

	30 <sup>th</sup> June 2019	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2020	Organic <sup>+</sup>	Reported
Sales	£116.8m	(£2.1m)	(£9.3m)	-	£105.4m	-8%	-10%
Op profit*	£33.6m	(£1.0m)	(£4.2m)	-	£28.4m	-13%	-16%
Margin*	28.8%				26.9%	-150 bps	-190 bps

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

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

- Sales down 8% and operating profit down 13% organically
- China - Q1 sales down 35%; Q2 sales 7% above prior year
- Korea - sales up 9%, benefit from large project shipments
- Gestra China up strongly; other markets down
- Reported margin down 190 bps; cost-containment mitigated lower sales and FX
- Anticipate improved H2, absent significant second wave



## Steam Specialties Americas

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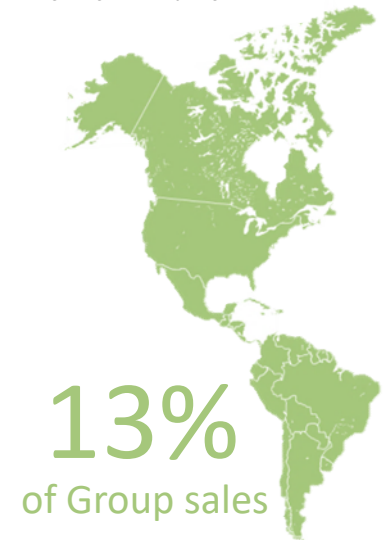
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	30 <sup>th</sup> June 2019	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2020	Organic <sup>+</sup>	Reported
Sales	£82.3m	(£6.0m)	(£2.3m)	-	£74.0m	-3%	-10%
Op profit*	£16.0m	(£2.7m)	£0.4m	-	£13.7m	+3%	-14%
Margin*	19.4%				18.5%	+110 bps	-90 bps

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

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

- Sales down 3% organically; profit up 3% organically
- All countries impacted by COVID-19; good business resilience
- North America sales down 8%; Latin America up 8% organically
- Gestra sales also down organically
- Margin up 110 bps organically; reported, down 90 bps due to FX
- Anticipate weaker H2 as COVID-19 headwinds continue





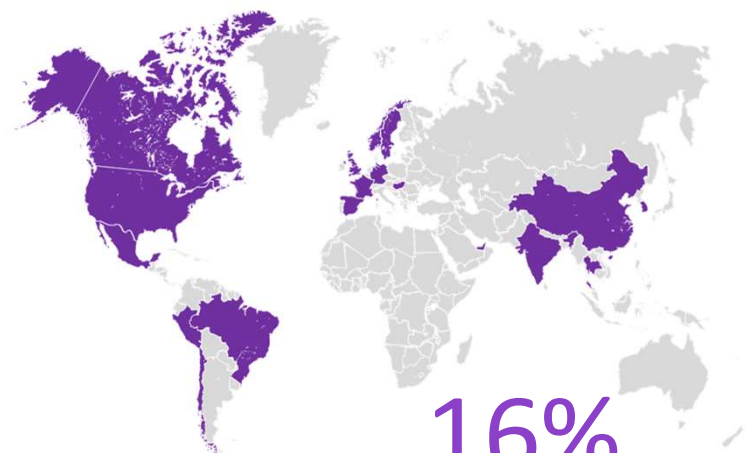
# Electric Thermal Solutions

	30 <sup>th</sup> June 2019	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2020	Organic <sup>+</sup>	Reported
Sales	£83.1m	£1.0m	(£10.4m)	£15.2m	£88.9m	-12%	+7%
Op profit*	£8.1m	£0.1m	(£1.9m)	£3.1m	£9.4m	-23%	+16%
Margin*	9.7%				10.6%	-130 bps	+90 bps

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

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

- Sales down 12% organically; up 7% on a reported basis
- Thermocoax delivers double-digit sales and profit growth
- Chromalox performance improvements mitigate lower sales
- Operating margin increased to 10.6%; up 90 bps on H1 2019
- Restructuring Chromalox France; divested ProTrace (Canada)
- Order book build in H1; anticipate significantly improved H2



**16%**  
of Group sales

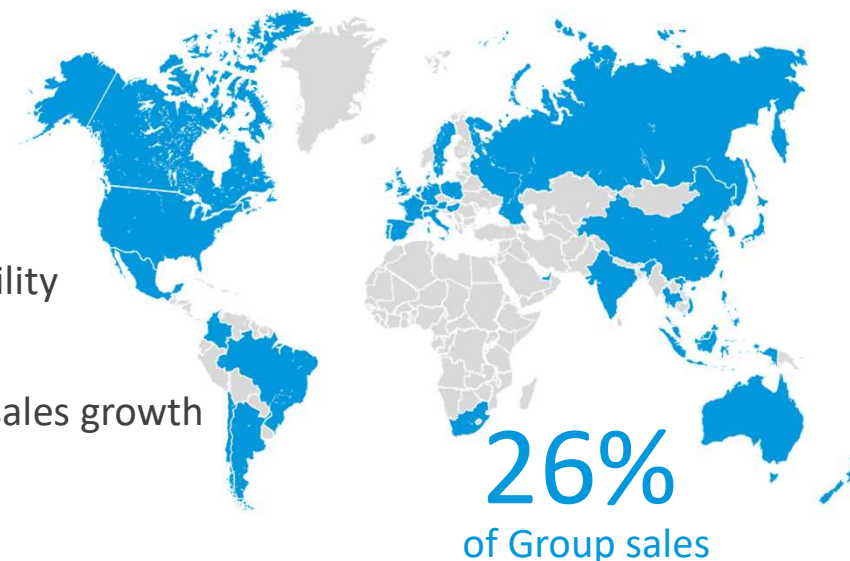
# Watson-Marlow

	30 <sup>th</sup> June 2019	Exchange	Organic	Acquisitions & disposals	30 <sup>th</sup> June 2020	Organic <sup>+</sup>	Reported
Sales	£142.4m	(£0.9m)	£7.6m	-	£149.1m	+5%	+5%
Op profit*	£45.0m	(£0.3m)	£3.9m	-	£48.6m	+9%	+8%
Margin*	31.6%				32.6%	+100 bps	+100 bps

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

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

- Sales up 5% and operating profit up 9% organically
- BioPharm sales up 18%; industrial sectors down 6%
- Margin up 100 bps to 32.6%
- Production commenced at new Aflex manufacturing facility
- New BioPure manufacturing facility approved
- BioPharm orders brought forward; anticipate lower H2 sales growth



# COVID-19: Half-year update

- Health, safety and wellbeing of employees a top priority
- Supporting the vulnerable in our communities
- Over 50% of sales to sectors on front line of pandemic
- Sales engineers maintained virtual connection with customers
- Manufacturing and warehousing sites remained operational
- Cost containment measures mitigated lower sales volumes
- Risk register updated to reflect effects of public health crises

# Customer case studies

Spirax-Sarco Engineering plc  
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## Appendix I - Case study: Spirax Sarco BeNeLux

Energy savings and CO<sub>2</sub> reduction for manufacturer of sealing solutions



**Application:** heat recovery from boiler flue gases

**Requirement:** energy and improved

**Solution:** condenser to recover waste heat from boiler feedwater

**Result:** energy cost savings of 100,000 per year, saving 100 tonnes of CO<sub>2</sub> per year

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23. 2020 Half Year Results. Six months ended 30th June 2020

Spirax-Sarco Engineering plc  
www.spiraxsarcoengineering.com

## Appendix I - Case study: Thermocoax France

Increased service life and data capacity for geo-satellite



**Application:** electrical propulsion to thrust broadcasting satellite into orbit and an engine heating system

**Requirement:** electrical propulsion to thrust broadcasting satellite into orbit and an engine heating system

**Solution:** fully traceable, insulated, magnetically shielded Thermocoax, read

**Result:** 10-15% space capacity (and revenue) heating and a 25% increase in service life

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24. 2020 Half Year Results. Six months ended 30th June 2020

Spirax-Sarco Engineering plc  
www.spiraxsarcoengineering.com

## Appendix I - Case study: Watson-Marlow Brazil

Precision filling of test tubes for COVID-19 testing at bioBoaVista



**Application:** filling of test tubes with a "viral transport medium" for nasal testing and diagnosis of COVID-19

**Requirement:** compact, efficient, sterile, precise filling

**Solution:** 7 Flexicon PF7 bench top filling machines from Watson-Marlow, with a low shear, gentle pumping action

**Result:** highly accurate, gentle transfer of valuable viral transport medium, without costly overfilling. Significant expansion of production capabilities, increasing the number of testing kits produced x4, facilitating widespread testing.

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25. 2020 Half Year Results. Six months ended 30th June 2020

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**Read more:** customer case studies can be found in Appendix I

## Summary and outlook

- Resilient first half performance. Despite an 8% contraction of global IP:
  - Reported revenue down 4%; organic revenue down 5%
  - Operating profit down 8%; organically down 7%
  - Operating margin 20.9%; organically down 50 bps
- FX headwind for 2020: 2% on sales; 4% on operating profit
- Organic sales growth in H2 lower than anticipated in May Trading Update
- Full year expectations for operating profit remain unchanged



# Half Year Results

For the period ended 30<sup>th</sup> June 2020



Engineering opportunities for growth; creating shareholder value



# Appendices

## Appendix I - Case study: Spirax Sarco BeNeLux

Energy savings and CO<sub>2</sub> reduction for manufacturer of sealing solutions



**Application:** heat recovery from boiler flue gases

**Requirement:** engineered solution to recover thermal energy and improve boiler efficiency

**Solution:** condensing economiser from Spirax Sarco to recover waste thermal energy from flue gases and pre-heat boiler feedwater

**Result:** energy consumption reduced by 1.8 gigajoules a year, saving 100 tonnes of CO<sub>2</sub> emissions and increasing boiler efficiency by 13%

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## Appendix I - Case study: Thermocoax France

Increased service life and data capacity for geo-satellite



**Application:** electrical propulsion to thrust broadcasting satellite into orbit and an engine heating system

**Requirement:** electrical components that can withstand temperature extremes, with a long service life

**Solution:** fully traceable, extensively tested mineral insulated, magnetic coil cable and heating plate from Thermocoax, ready for mounting on propulsion system

**Result:** 10-15% space saving on satellite increased data capacity (and revenue) for satellite owner, reliable heating and a 25 year service life

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## Appendix I - Case study: Watson-Marlow Brazil

### Precision filling of test tubes for COVID-19 testing at bioBoaVista



**Application:** filling of test tubes with a “viral transport medium” for nasal testing and diagnosis of COVID-19

**Requirement:** compact, efficient, sterile, precise filling















**Solution:** 7 Flexicon PF7 bench top filling machines from Watson-Marlow, with a low shear, gentle pumping action

**Result:** highly accurate, gentle transfer of valuable viral transport medium, without costly overfilling. Significant expansion of production capabilities, increasing the number of testing kits produced x4, facilitating widespread testing.

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## Appendix II - Underlying margin factors

Effects on margin; arrows are qualitative and indicate direction only

	H1 2020	H2 2020
Currency movements		
Operating leverage		
Sales pricing (vs. inflation)		
Manufacturing strategies		
Business and product mix		
Business development investment		
Impact of acquisitions and disposals		

*H1 2020 and H2 2020 arrows are an indication versus H1 and H2 2019 respectively.*

## Appendix III

### Cash conversion

	£m	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2019
Adjusted cash generated from operations		102.2	86.9
Adjusted operating profit*		119.0	129.2
<b>Cash conversion</b>		<b>86%</b>	<b>67%</b>

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

# Appendix IV

## Currencies

Average exchange rates	30 <sup>th</sup> June 2019	30 <sup>th</sup> June 2020	%	2020*	%
US dollar	1.29	1.27	+2%	1.29	0%
Euro	1.14	1.15	-1%	1.13	+1%
RMB	8.78	8.94	-2%	9.04	-3%
Won	1,479	1,531	-4%	1,546	-5%
Brazilian real	4.96	6.21	-25%	6.50	-31%
Argentine peso	53.28	82.01	-54%	87.93	-65%

\* 2020 rates assume that July rates prevail until the end of 2020 and compare with 2019 full year average exchange rates.

# Appendix V

## 2020 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.

	£m	30 <sup>th</sup> June 2020	30 <sup>th</sup> June 2019
<b>Operating profit as reported under IFRS</b>		<b>110.8</b>	<b>112.7</b>
Amortisation of acquisition-related intangible assets		13.4	13.0
Restructuring costs		4.2	-
Reversal of acquisition-related fair value adjustments to inventory		1.0	1.0
Post-retirement benefit plans in the UK being closed to future accrual		(10.4)	-
Acquisition-related items		-	2.5
<b>Total adjustment to operating profit</b>		<b>8.2</b>	<b>16.5</b>
<b>Total adjustment to pre-tax profit</b>		<b>8.2</b>	<b>16.5</b>

## Appendix VI -

### Current guidance

	2019 Actual	2020 Estimate
Capex (excluding IFRS 16)	£62.4m	£60.0m
Effective Tax Rate	28.5%	28.0%
Net Finance Cost	£8.4m	£9.0m
Net impact of acquisitions and disposals on revenue	+1%	+1%
Net impact of acquisitions and disposals on adjusted operating profit	+1%	+1%
Foreign exchange impact on revenue	0%	-2%
Foreign exchange impact on adjusted operating profit	-1%	-4%
Number of shares in issue (million)	73.7	73.7