

Spirax-Sarco Engineering plc

2020 Results

Year ended 31st December 2020

Nicholas Anderson
(Group Chief Executive)

Nimesh Patel
(Chief Financial Officer)



**Efficient
Safer
Sustainable**

Agenda



2020 Highlights

Nicholas Anderson



2020 Financial Review

Nimesh Patel



Operations and Outlook

Nicholas Anderson

2020 operational highlights

- Outstanding contributions from our employees during unprecedented times
- Continued progress in Health & Safety; stepped up wellbeing initiatives
- Increased focus on sustainability, inclusion & diversity, talent development
- Direct sales model adapted to new customer access requirements
- Manufacturing and warehousing facilities remained operational
- Stepped up revenue investments in digital and new product development
- Continued investments to increase operational capacity
- Approved US\$88m investment for new Watson-Marlow USA manufacturing facility

2020 performance highlights

- Resilient sales and margin performance despite challenging market conditions
- Sales related to customer OPEX less impacted than CAPEX-related sales
- Sales to more defensive, less cyclical sectors now over 55%
- Steam Specialties delivered resilient sales and margin progress
- Electric Thermal Solutions improved margin despite sales decline
- Watson-Marlow organic sales up 9% driven by Biopharm sector
- Strong margin performance supported by cost containment initiatives
- Strong cash generation supported by improved working capital management

Advancing our ESG agenda

ENVIRONMENT

Net zero emissions before 2040;
50% electricity from renewable
sources by 2030.

- Appointed Group Head Sustainability
- Sustainability Head for each business
- Sustainability strategy refresh
- Stakeholder engagement, materiality and biodiversity impact assessments
- Climate change and biodiversity targets
- Developing net zero roadmap

SOCIAL

Committed to inclusivity and creating
a culture where diversity thrives.

- Appointed Group Head of Inclusion, Diversity and Wellbeing
- Inclusive Leadership training, Female talent development programmes
- 31% female share of senior executives
- Continued Supplier engagement
- Stepped up Community Engagements

GOVERNANCE

Improved diversity as well as
employee engagement.

- Climate-related financial disclosures in line with TCFD*
- 45% female representation on Board
- 27% of Board are ethnically diverse
- Stepped up Board Employee Engagement committee activities

*Task Force on Climate-related financial disclosures

Agenda



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Operations and Outlook

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Financial performance

Strong organic sales performance despite industrial production decline

- Revenue down 3%, organically
- Operating profit down 1%, organically
- EPS down 3% driven by organic decline in operating profit and currency headwind
- ROCE (excl. IFRS 16): 49%
- ROIC (excl. IFRS 16): 18%

	2020	2019	Reported	Organic ⁺
Revenue	£1,193.4m	£1,242.4m	-4%	-3%
Operating profit*	£270.4m	£282.7m	-4%	-1%
Operating profit margin*	22.7%	22.8%	-10 bps	+40 bps
Net finance expense	(£8.7m)	(£8.4m)		
Pre-tax profit*	£261.5m	£274.5m	-5%	
Tax rate*	27.5%	28.5%	-100 bps	
EPS*	256.6p	265.7p	-3%	
DPS	118.0p	110.0p	+7%	
Net debt	£228.8m	£295.2m		

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

* See Appendix V for definition of adjusted profit measures.

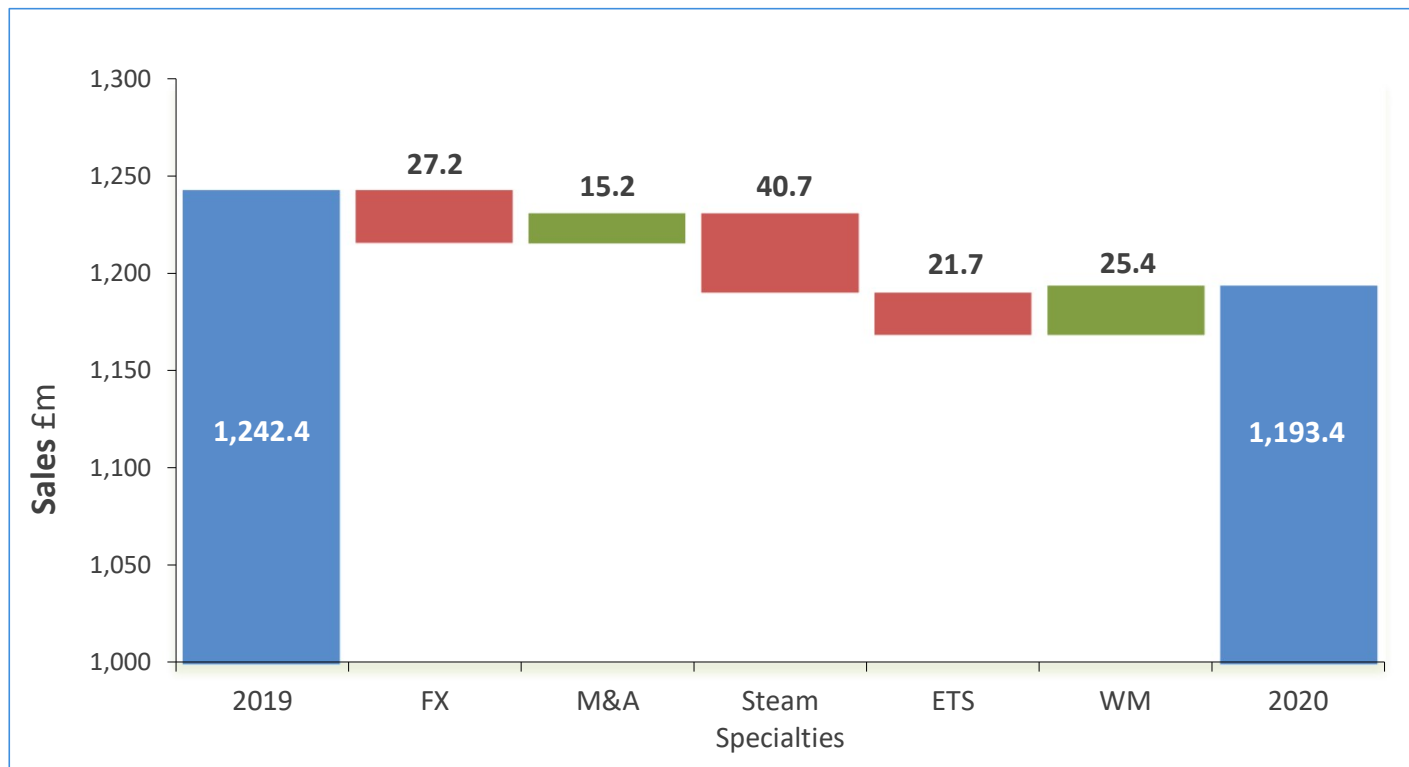
Sales bridge

Growth in Watson-Marlow, resilient performance in Steam Specialties and ETS

- Currency headwind of 2%
- Thermocoax adds £15.2m to sales (1% impact)
- Total organic⁺ decline of 3%:

Steam Specialties	-6%
ETS	-12%
Watson-Marlow	+9%

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



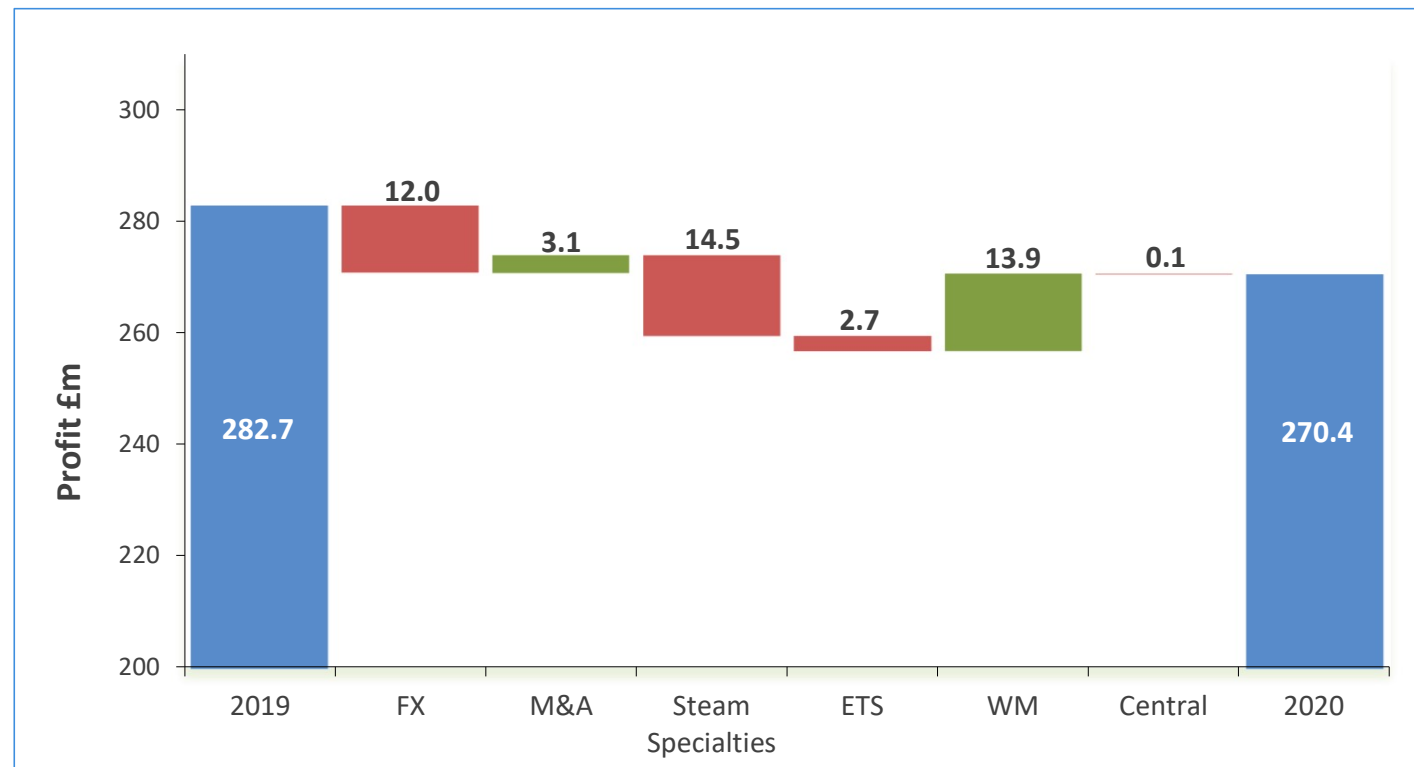
Profit bridge

Growth in Watson-Marlow, resilient performance in Steam Specialties and ETS

- Currency headwind of 4%
- Thermocoax adds £3.1m to profit (1% impact)
- Total organic decline of 1%:

Steam Specialties	-9%
ETS	-11%
Watson-Marlow	+15%
- Adjusted operating profit* down 1% down organically

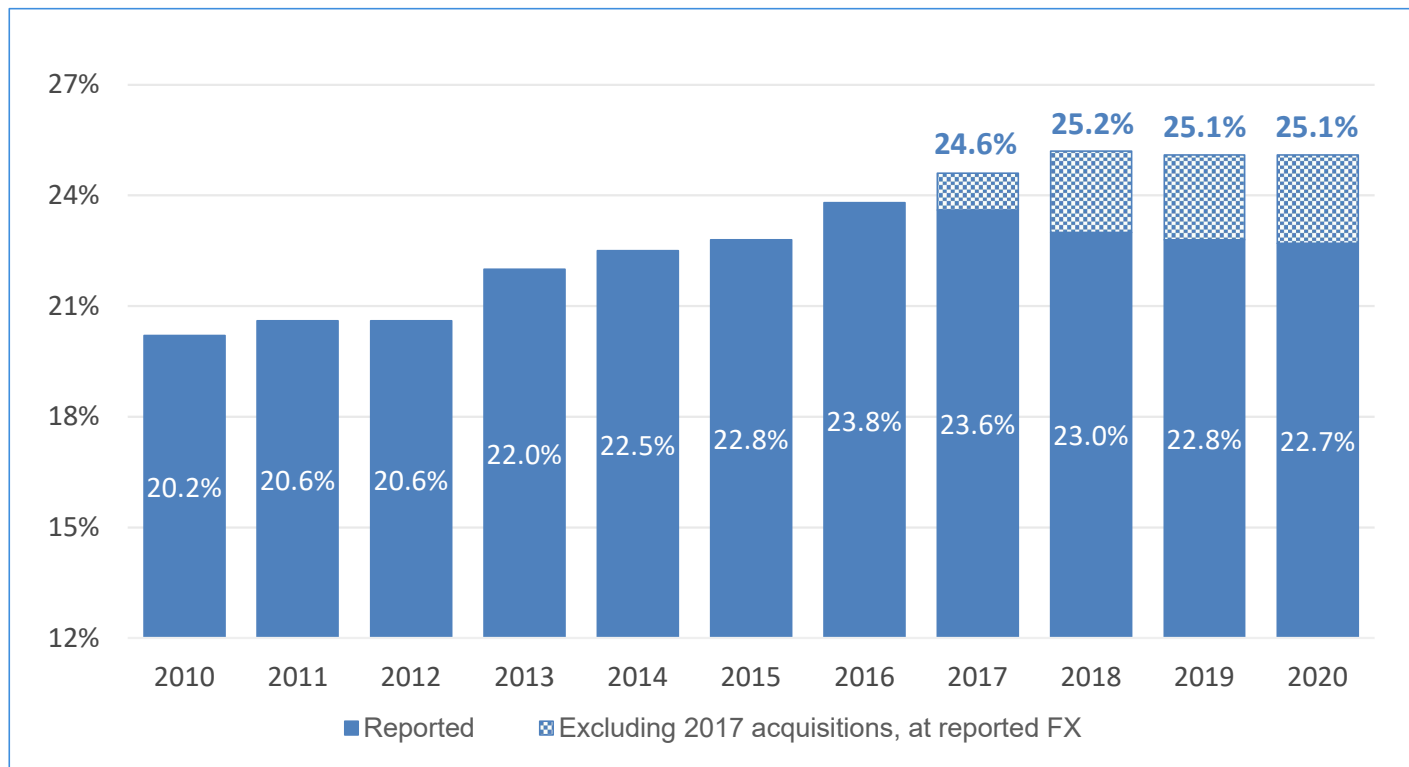
* See Appendix V for definition of adjusted profit measures



Operating margin of 22.7%

- Excluding 2017 acquisitions, margin maintained at above 25%
- Operating margin 22.7%, up 40 bps organically
- Organic margin movement:

Steam Specialties	-80 bps
ETS	+10 bps
Watson-Marlow	+180 bps



Strong cash flow

- Excellent cash generation[^] with cash conversion of 102%
- Improved working capital management
- Maintained capital expenditure, consistent with historical levels; stepping-up in 2021
- 2020 closing net debt of £229m, 0.7x EBITDA

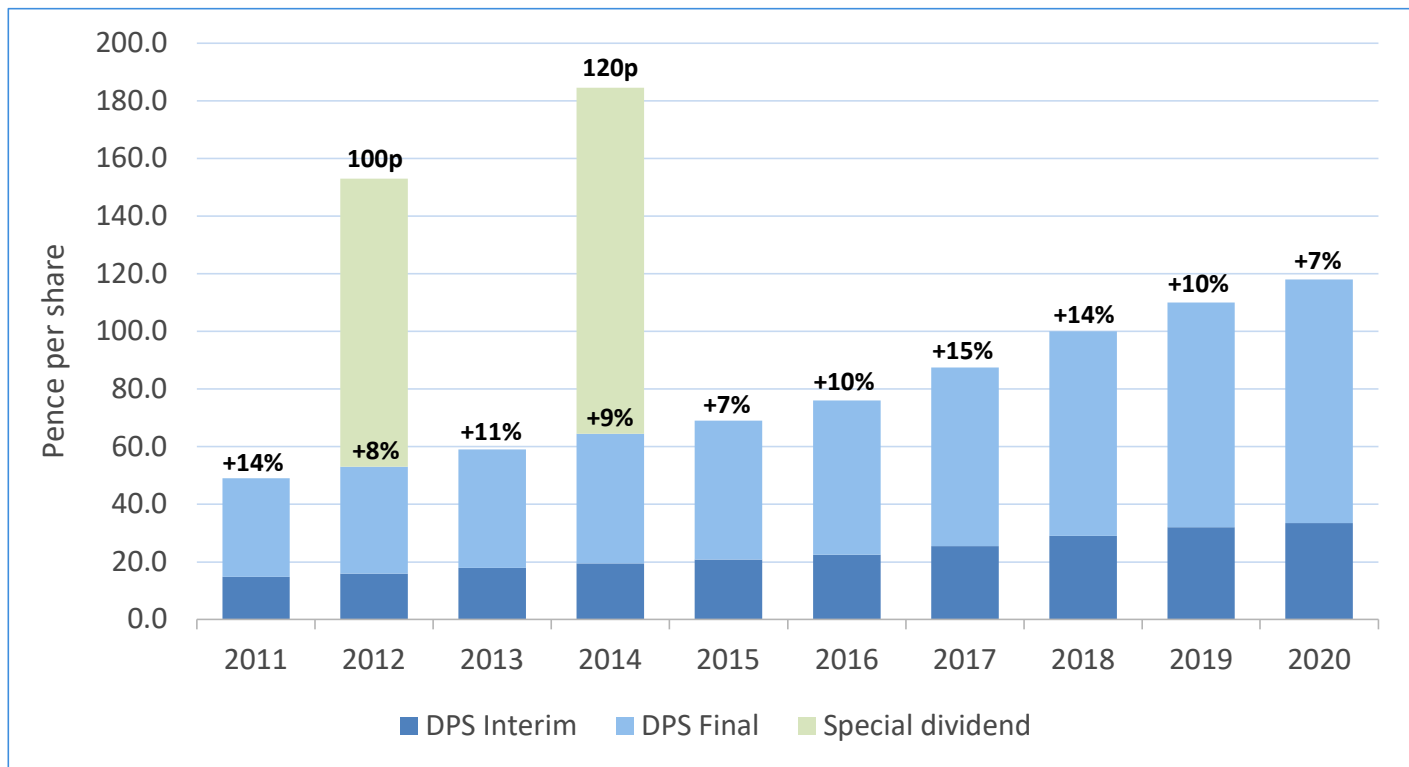
[^] See Appendix III for definition of cash generation

* See Appendix V for definition of adjusted profit measures

Cash flow (£ million)	31 st December 2020	31 st December 2019
Adjusted operating profit*	270.4	282.7
Depreciation and amortisation (excluding IFRS 16)	36.7	34.3
Depreciation of leased assets	12.1	11.3
Pensions/Share plans	3.1	1.0
Working capital changes	13.4	(21.4)
Repayments of principal under lease liabilities	(12.2)	(11.2)
Capital expenditure (including software and development)	(49.6)	(62.4)
Capital disposals	1.9	3.8
Adjusted cash from operations	275.8	238.1
Net interest	(7.2)	(5.4)
Income taxes paid	(71.9)	(78.4)
Free cash flow	196.7	154.3
Net dividends paid	(82.5)	(76.3)
Proceeds from issue of shares/purchase of employee benefit trust shares	(12.5)	(12.5)
(Acquisitions)/disposals of subsidiaries & restructuring costs	(9.4)	(138.5)
Cash flow for the year	92.3	(73.0)
Exchange movements	(25.9)	13.6
Net debt at 31st December (excluding IFRS 16)	(228.8)	(295.2)
Net debt to EBITDA	0.7x	0.9x

Dividend growth

- 53 years of dividend progress with a CAGR of 11%
- Final dividend up 8% to 84.5p
- Total dividend up 7% to 118.0p
- Dividend cover of 2.2 times



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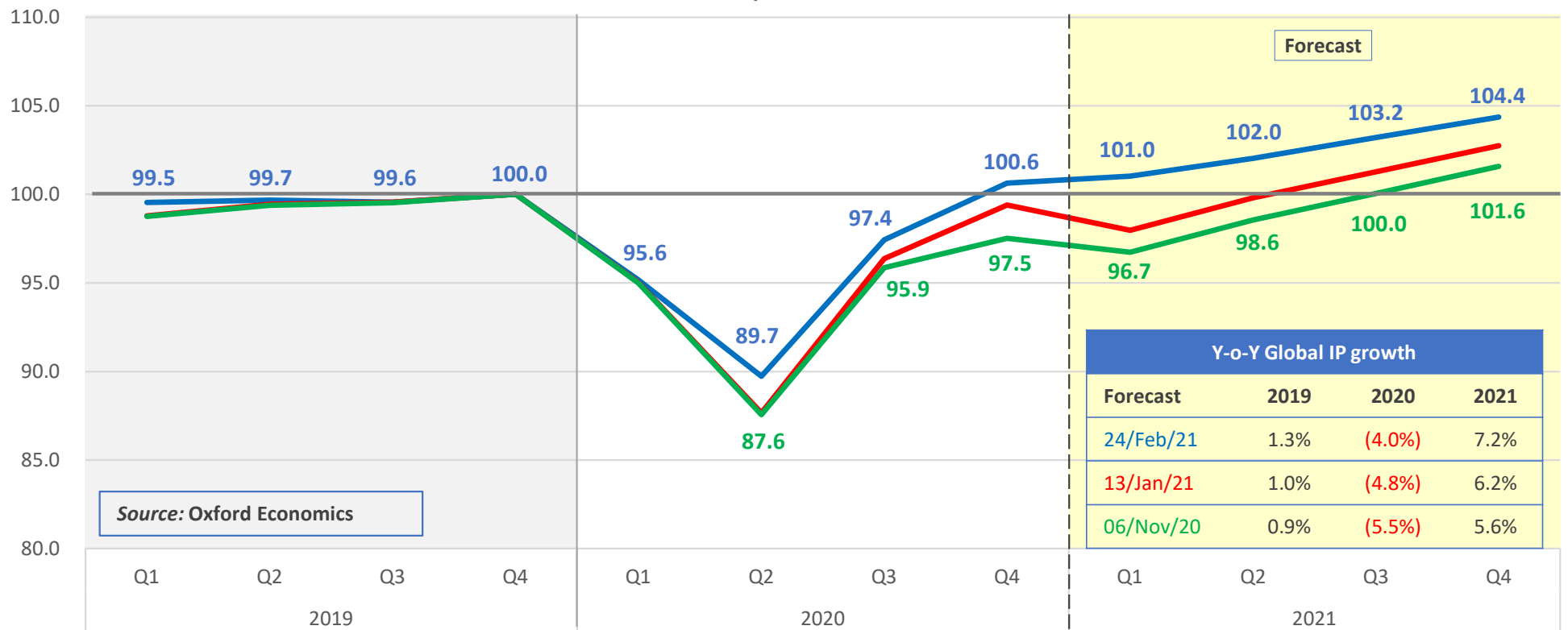


Operations and Outlook

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Annual IP growth rates by quarter 2019-2021

IP Index Q4 2019 = 100



Source: Oxford Economics

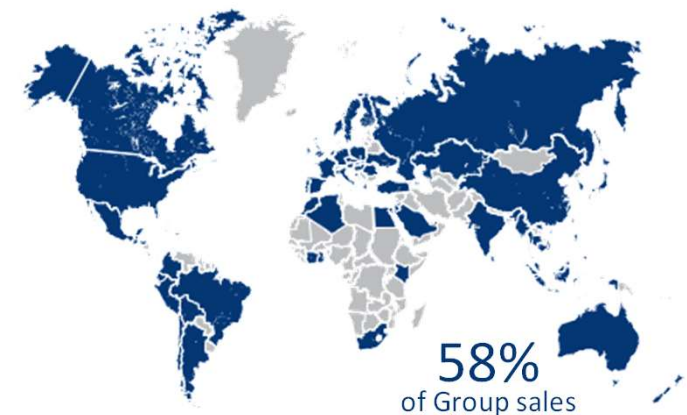
Steam Specialties

	31 st Dec 2019	Exchange	Organic	Acquisitions and disposals	31 st Dec 2020	Organic ⁺	Reported
Sales	£755.4m	(£20.6m)	(£40.7m)	-	£694.1m	-6%	-8%
Operating profit*	£177.9m	(£9.1m)	(£14.5m)	-	£154.3m	-9%	-13%
Margin*	23.6%				22.2%	-80 bps	-140 bps

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

* See Appendix V for definition of adjusted profit measures.

- Organic sales down 5.5%; organic operating profit down 8.6%
- OPEX sales down 4%; CAPEX sales down 12%
- Strong expense management; over £15m of temporary cost reduction
- Operating profit margin 22.2%; down 80 bps organically
- Improved working capital management
- Well placed for strong sales growth in 2021
- Margin expansion contained by cost headwinds, investments for growth



Steam Specialties

Europe, Middle East and Africa

	31 st Dec 2019	Exchange	Organic	Acquisitions and disposals	31 st Dec 2020	Organic ⁺	Reported
Sales	£335.7m	(£1.0m)	(£24.7m)	-	£310.0m	-7%	-8%
Operating profit*	£67.0m	(£0.9m)	(£12.0m)	-	£54.1m	-18%	-19%
Margin*	20.0%				17.5%	-220 bps	-250 bps

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

* See Appendix V for definition of adjusted profit measures.

- Organic sales down 7%; broadly in line with IP
- Challenging market environment across the region
- Sales across European markets down 6%; Middle East & Africa down 20%
- Organic operating profit down 18%
- Margin down 220 bps organically



Steam Specialties

Asia Pacific

	31 st Dec 2019	Exchange	Organic	Acquisitions and disposals	31 st Dec 2020	Organic ⁺	Reported
Sales	£249.8m	(£3.7m)	(£11.5m)	-	£234.6m	-5%	-6%
Operating profit*	£72.5m	(£1.4m)	£1.3m	-	£72.4m	+2%	0%
Margin*	29.0%				30.9%	+200 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.

- Organic sales down 5%; large project sales down double-digits
- China sales down less than 3%; H1 down 15%, H2 up 9%
- Korea, Australasia sales down less than 3%; Japan, India, Southeast Asia down double-digits
- Organic operating profit up 2%; favourable sales mix and strong cost controls
- Margin up 200 bps organically to 30.9%



Steam Specialties

Americas

	31 st Dec 2019	Exchange	Organic	Acquisitions and disposals	31 st Dec 2020	Organic ⁺	Reported
Sales	£169.9m	(£15.9m)	(£4.5m)	-	£149.5m	-3%	-12%
Operating profit*	£38.4m	(£6.8m)	(£3.8m)	-	£27.8m	-12%	-28%
Margin*	22.6%				18.6%	-190 bps	-400 bps

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

* See Appendix V for definition of adjusted profit measures.

- Organic sales down 3%
- North America organic sales down 9% as distributors de-stocked
- Latin America organic sales up 8%; up 3% excluding Argentina
- Organic operating profit down 12%
- Margin down 190 bps organically; 210 bps exchange headwind



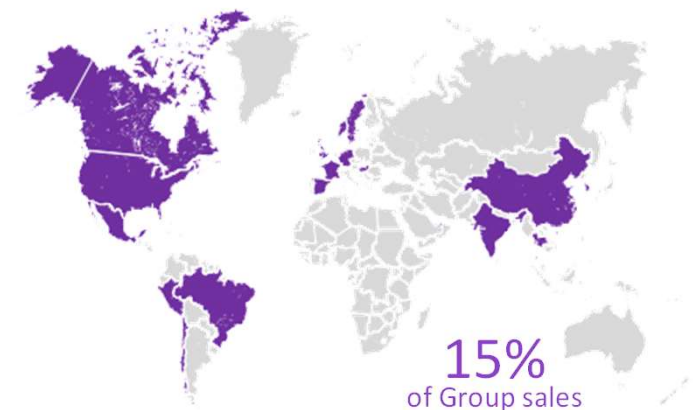
Electric Thermal Solutions

	31 st Dec 2019	Exchange	Organic	Acquisitions and disposals	31 st Dec 2020	Organic ⁺	Reported
Sales	£186.1m	(£1.6m)	(£21.7m)	£15.2m	£178.0m	-12%	-4%
Operating profit*	£24.7m	(£0.5m)	(£2.7m)	£3.1m	£24.6m	-11%	0%
Margin*	13.3%				13.8%	+10 bps	+50 bps

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

* See Appendix V for definition of adjusted profit measures.

- Organic sales down 12%; M&A added 8% growth
- Sales impacted by geographic and sector exposure
- Thermocoax performed strongly driven by Semicon demand
- Chromalox France restructuring completed; full benefits in 2021
- Organic operating profit down 11%; fully offset by M&A contribution
- Margin increased 50bps to 13.8%; up 10bps organically
- Anticipate strong sales and margin progress in 2021



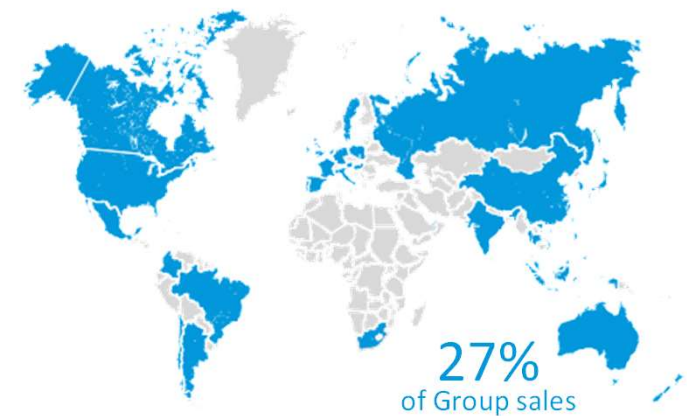
Watson-Marlow

	31 st Dec 2019	Exchange	Organic	Acquisitions and disposals	31 st Dec 2020	Organic ⁺	Reported
Sales	£300.9m	(£5.0m)	£25.4m	-	£321.3m	+9%	+7%
Operating profit*	£95.8m	(£2.4m)	£13.9m	-	£107.3m	+15%	+12%
Margin*	31.8%				33.4%	+180 bps	+160 bps

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

* See Appendix V for definition of adjusted profit measures.

- Organic sales up 9%; strong growth in all regions
- Vaccine production boosts Biopharm sales; now over 55% of revenue
- Organic operating profit up 15%
- Operating margin up 180 bps organically
- Investing in new manufacturing facilities across the UK and USA
- Strong Biopharm demand accelerates sales growth in 2021
- Margin expansion moderated by cost headwinds, investments for growth



Living our purpose in 2020

Engineering a more efficient, safer and sustainable world

Spirax-Sarco Engineering plc
www.spiraxsarcoengineering.com

Appendix I - Case study: Spirax Sarco South Africa

Improved process and productivity, saving water, energy and CO2



Application: issues pumping sun control, resulting in high oil visco

Requirement: sunflower oil need and reduce sudden temperature spoilage and production losses.

Solution: Spirax Sarco assessed t recommendations to increase th Condenser (EVC) was installed to steam and used to preheat the o

Result: process and productivity annual of R 440,611, including re MWh of electricity and 287 tonn

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24 2020 Results Year ended 31st December 2020

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Appendix I - Case study: Watson-Marlow China

Supported the production of devices for diagnosing COVID-19



Application: rapid production c

Requirement: CLIA diagnostic i pumps for transferring waste li cell to avoid cross-contaminati

Solution: Watson-Marlow peris they provide a stable flow rate six months

Result: 100% sterile design wit to respond to the demand for u

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Appendix I - Case study: Chromalox USA

Delivered zero carbon heating solution that met strict requirements



Application: heat high temperature heat transfer fluid to be circulated through critical production tools, in keeping with the electric vehicle and clean energy company's "green" ethos

Requirement: heating solution that fit within existing building, met state and local equipment code requirements and completed in a timely manner

Solution: Chromalox's MOS system provided a "green" heat transfer solution certified to ASME and UL standards, requiring no environmental permitting, that met all state and local codes and strict deadlines

Result: The facility is on a journey towards deriving 100% of its electricity from solar panels. 1,063 tonnes of CO₂ savings are projected per annum once construction is complete

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26 2020 Results Year ended 31st December 2020

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

Summary and outlook

- Revenue down 4%; organic revenue down 3%
- Operating profit down 4%; organically down 1%
- Operating margin 22.7%; up 40bps organically
- Watson Marlow sales growth driven by Biopharm
- Resilient performance in Steam Specialties and Electric Thermal Solutions
- Global IP recovery, Biopharm, larger order books drive strong organic sales growth in 2021
- Profit expansion tempered by FX, revenue investments, reversal of 2020 cost savings
- Anticipate close to 30% drop-through from organic increase in sales to operating profits

Full Year Results

For the year ended 31st December 2020



Engineering opportunities for growth; creating shareholder value



Appendices

Appendix I - Case study: Spirax Sarco South Africa

Improved process and productivity, saving water, energy and CO₂



Application: issues pumping sunflower oil for noodle frying due to poor temperature control, resulting in high oil viscosity, exacerbated on cold days

Requirement: sunflower oil needed to be pre-heated to improve pumping efficiency and reduce sudden temperature drops in the oil fryer, which may result in product spoilage and production losses.

Solution: Spirax Sarco assessed the situation with a steam system audit and provided recommendations to increase the temperature of the oil. An Exhaust Vapour Condenser (EVC) was installed to capture energy and water from the vented flash steam and used to preheat the oil in jacketed piping

Result: process and productivity gains, saving energy and money. Projected savings annual of R 440,611, including reductions of 118 tonnes of coal, 258m³ of water, 161 MWh of electricity and 287 tonnes of CO₂

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Appendix I - Case study: Watson-Marlow China

Supported the production of devices for diagnosing COVID-19



Application: rapid production of Chemiluminescent immunoassay (CLIA) devices

Requirement: CLIA diagnostic instruments contain multichannel pumps for transferring waste liquid produced after the test and cleaning the reaction cell to avoid cross-contamination

Solution: Watson-Marlow peristaltic pumps were recommended for this purpose as they provide a stable flow rate across all pump channels and a tube life of more than six months

Result: 100% sterile design with incomparable accuracy that met the customers' need to respond to the demand for urgent diagnosis of COVID-19

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Appendix I - Case study: Chromalox USA

Delivered zero carbon heating solution that met strict requirements



Application: heat high temperature heat transfer fluid to be circulated through critical production tools, in keeping with the electric vehicle and clean energy company's "green" ethos

Requirement: heating solution that fit within existing building, met state and local equipment code requirements and completed in a timely manner

Solution: Chromalox's MOS system provided a "green" heat transfer solution certified to ASME and UL standards, requiring no environmental permitting, that met all state and local codes and strict deadlines

Result: The facility is on a journey towards deriving 100% of its electricity from solar panels. 1,063 tonnes of CO₂ savings are projected per annum once construction is complete

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Appendix II - Underlying margin factors

Effects on margin; arrows are qualitative and indicate direction only

	2020	2021
Currency movements	↓	↓
Operating leverage	↓	↑
Sales pricing (vs. inflation)	→	→
Manufacturing strategies	↑	↑
Business and product mix	↑	↑
Business development investment	→	↓
Impact of acquisitions and disposals	↑	→

Appendix III

Cash conversion

	Pounds (£) million	2020	2019
Adjusted cash generated from operations		275.8	238.1
Adjusted Operating Profit*		270.4	282.7
Cash conversion		102%	84%

* See Appendix V for definition of profit measures.

Appendix IV

Currencies

Average exchange rates

	2020	2019	Change
Bank of England index	78.3	78.1	0%
US\$	1.29	1.28	-1%
Euro	1.13	1.14	1%
RMB	8.93	8.83	-1%
Won	1,524	1,486	-3%
Brazilian Real	6.67	5.04	-32%
Argentine Peso	91.65	61.83	-48%

Appendix V

2020 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	2020	2019
Amortisation of acquisition-related intangible assets		(26.6)	(26.8)
Impairment of goodwill		-	(4.2)
Acquisition-related items		-	(2.6)
Reversal of acquisition related fair value adjustments to inventory		(1.0)	(4.1)
Restructuring Costs		(4.3)	-
Post-retirement benefit plan in the UK & Canada being closed to future accrual		10.5	-
Total adjustment to operating profit		(21.4)	(37.7)
Total adjustment to pre-tax profit		(21.4)	(37.7)

Appendix VI

Current guidance

	2020 Actual	2021 Estimate
Capex (as a percentage of sales)	4%	c. 6%
Effective Tax Rate	27.5%	c. 27%
Net Finance Cost	£8.7m	c. £9m
Net impact of acquisitions and disposals on revenue	+1%	-
Net impact of acquisitions and disposals on adjusted operating profit	+1%	-
Foreign exchange impact on revenue	-2%	adverse <4%
Foreign exchange impact on adjusted operating profit	-4%	adverse >4%
Number of shares in issue (million)	73.7	73.7