

# News Release

Thursday 17<sup>th</sup> November 2022

## TRADING UPDATE

### **Robust trading despite economic headwinds; profit guidance unchanged**

Thermal energy and niche pumping specialist, Spirax-Sarco Engineering plc, issues the following trading update in respect of the four months ended 31<sup>st</sup> October 2022.

#### **Economic Environment**

As expected, the macroeconomic outlook has continued to weaken. Global industrial production growth<sup>1</sup> (IP) is now forecasted to be 2.9% in 2022, lower than 3.5% forecasted in July, although still above pre-pandemic levels. For 2023, the IP forecast has also been revised downwards to 1.0%, from 3.2% in July.

#### **Trading**

Underlying demand growth remained strong in the four months to the end of October despite the weakening IP forecast, with orders in Steam Specialties, Electric Thermal Solutions (“ETS”) and Watson-Marlow’s Process Industries remaining above our expectations at the Half Year Results in August.

Demand from Watson-Marlow’s customers in the Pharmaceutical & Biotechnology sector started normalising in the second quarter of 2022, reflecting lower COVID-19 vaccine demand. This trend continued in the four months to the end of October, with some customers rescheduling deliveries into 2023.

Following the successful management of global supply chain challenges, as well as increases to our manufacturing capacity, Group organic sales grew strongly in the four months to the end of October.

We remain focused on successfully addressing inflationary pressures through active price management. Steam Specialties’ adjusted operating profit margins in the period were ahead of our half-year expectations and offset lower adjusted operating profit margins in ETS, where highly engineered solutions with longer delivery lead-times were impacted by higher material inflation. Watson-Marlow’s adjusted operating profit margin in the period was lower than anticipated due to the rephasing into 2023 of higher margin sales to Pharmaceutical & Biotechnology customers, which resulted in a Group adjusted operating profit margin below that of the first half of 2022.

On 29<sup>th</sup> September, the Group completed the acquisition of Vulcanic. For the 12 months to 31<sup>st</sup> August and on a comparable basis, Vulcanic revenues were €99.9 million, EBITDA was €19.9 million and EBIT was €17.8 million. On 28<sup>th</sup> September the Group also announced the

<sup>1</sup> Source for Industrial Production data: Oxford Economics, 10th November 2022

acquisition of Durex, which is expected to close on 30<sup>th</sup> November. For the 12 months to 31<sup>st</sup> August, Durex revenues were US\$74.5 million, EBITDA was US\$25.3 million and EBIT was US\$23.5 million.

On 15<sup>th</sup> September, ETS closed its loss-making Chromalox plant in Soissons (France), three months earlier than anticipated. The ongoing order book is being deployed for fulfilment by neighbouring Vulcanic manufacturing operations.

Currency effects had approximately a 3.5% positive impact on both sales and operating profit in the four months to October compared to the same period of 2021, as sterling weakened against our basket of trade currencies. If current exchange rates were to prevail for the remainder of the year, we anticipate close to a 4% positive impact on full year 2022 sales and profit, compared with the full year 2021.

### **Financial Position**

Following the completion of the Vulcanic acquisition, our net borrowings (excluding leases) on 31<sup>st</sup> October were £391 million, up from £203 million on 30<sup>th</sup> June. Following completion of the Durex acquisition, net debt will increase further resulting in a Group net debt to EBITDA ratio close to 1.5x, on a pro-forma basis.

### **Outlook**

Our guidance for the Group's full year 2022 adjusted operating profit, excluding contributions from the recent acquisitions, remains unchanged.

For the full year 2022, we anticipate close to 15% organic growth for Watson-Marlow's sales to the Pharmaceutical & Biotechnology sector, as well as growth very significantly above IP for the remainder of the Group's organic revenues. Overall, including currency effects and excluding contributions from acquisitions, revenues in the second half of the year are trending slightly above the typical 52% of full year revenues. Consistent with the four months to the end of October, we anticipate the Group's full year adjusted operating profit margin to be below that of the first half of the year.

The Vulcanic and Durex acquisitions will add to Group revenue and operating profit in 2022 as of their respective completion dates.

Looking ahead to 2023, the global IP forecast has been revised downwards to 1.0%, from 3.2% in July, while global inflation rates are forecasted to remain high. We remain confident in the Group's proven resilience in a weakening macro-economic climate, underpinned by our strong order book carried forward and our well-established price management practices to offset inflationary cost pressure. On the basis of current economic forecasts, we anticipate at least mid-single-digit Group organic sales growth, together with a small operating margin progression.

Spirax-Sarco Engineering plc expects to publish its 2022 Full Year results on 9<sup>th</sup> March 2023.

<sup>1</sup> Source for Industrial Production data: Oxford Economics, 10th November 2022

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## About Spirax-Sarco Engineering plc

Spirax-Sarco Engineering plc is a thermal energy management and niche pumping specialist. It comprises three world-leading Businesses: Steam Specialties, for the control and management of steam; Electric Thermal Solutions, for advanced electrical process heating and temperature management solutions; and Watson-Marlow, for peristaltic pumping and associated fluid path technologies. The Steam Specialties and Electric Thermal Solutions Businesses provide a broad range of fluid control and electrical process heating products, engineered packages, site services and systems expertise for a diverse range of industrial and institutional customers. Both Businesses help their end users to improve production efficiency, meet their environmental sustainability targets, improve product quality and enhance the safety of their operations. Watson-Marlow provides solutions for a wide variety of demanding fluid path applications with highly accurate, controllable and virtually maintenance-free pumps and associated technologies.

The Group is headquartered in Cheltenham, UK, has strategically located manufacturing plants around the world and employs more than 9,900 people, including more than 2,000 direct sales and service engineers. The Company's shares have been listed on the London Stock Exchange since 1959 (symbol: SPX) and it is a constituent of the FTSE 100 and the FTSE4Good indices.

Further information can be found at [www.spiraxsarcoengineering.com](http://www.spiraxsarcoengineering.com)