Thursday 16th November

Trading Update

Subdued trading environment; return to growth expected in 2024

Spirax-Sarco Engineering plc issues the following trading update in respect of the four months ended 31st October 2023.

Economic environment

Global industrial production growth (IP) in Q3 slowed to 0.9% from 1.4% in Q2 and was significantly lower than Oxford Economics' July forecast for Q3 of 1.5%. This reflects a weaker macro-economic environment with IP in the key markets of Europe and Asia (excluding China) now forecast to contract in 2023, while North American IP is forecast to be broadly flat on the prior year. Oxford Economics' latest forecast for 2023 global IP has softened to 1.2% and there remains significant uncertainty driven by China IP, which Oxford Economics forecasts at 4.7%, while the equivalent CHR Economics forecast is 1.0%.

Weak demand from customers in the Semiconductor Wafer Fabrication Equipment (Semicon WFE) and Pharmaceutical & Biotechnology (Biopharm) sectors that impacted the Group's first half results, has persisted in the past four months. We do not anticipate any recovery in demand from these sectors (which represented approximately 4% and 16% respectively of 2022 pro-forma[1] sales) in the remainder of 2023, with demand now likely to improve during 2024.

Trading

In the four months ended 31st October, Steam Specialties continued to grow despite the weakening macro-economic environment, although as expected, organic sales growth was well below the very strong 15% delivered in the first half.

Demand growth in the industrial process focused Divisions of Electric Thermal Solutions (ETS) remained strong, driven by decarbonisation products and solutions, leading to a further increase in the order book. Growth in sales was below demand as operational improvements to increase manufacturing output are ongoing. Demand from industrial equipment customers in the Semicon WFE sector has remained weak.

In Watson-Marlow, monthly demand from Biopharm customers has remained broadly in-line with H1 with destocking activity continuing. Demand from customers in the Process Industries sectors has also been impacted by weakening macro-economic conditions.

As a result, sales growth for the four months ended 31st October across all three Businesses was below our expectations, with Group revenues for the ten months ended 31st October marginally below the corresponding prior year period, excluding the impact of acquisitions, disposals and currency effects.

Currency effects had an adverse impact on both sales and adjusted operating profit in the ten months ended 31st October, compared to the same period of 2022. If current exchange rates were to prevail for the remainder of the year, we anticipate an approximately 1.5% adverse impact on full year 2023 sales and profit, compared with the full year 2022.

Financial position

Net borrowings (excluding leases) at 31st October were £702 million (30th June: £748 million), with the Group net debt to EBITDA ratio at 1.8x (30th June: 1.8x).

Outlook

Excluding the currency effects set out above, compared to 2022 pro-forma sales of £1,734 million we anticipate Group full year 2023 sales to be lower by between 1% and 2%, with an adjusted operating profit margin slightly improved on the 20.2% delivered in the first half of the year, which is consistent with the lower end of current market estimates[2].

During the year, we have taken actions in all three Businesses to appropriately right-size capacity and overhead support costs, while also protecting our ability to respond to future growth in demand.

Latest IP forecasts for 2024 by both Oxford Economics and CHR Economics point to 2.5% growth. We continue to anticipate a recovery in demand in our Biopharm and Semicon WFE sectors during 2024. While it is always challenging to predict the precise timing and scale of demand changes, we remain confident in our continued ability to drive growth above IP. Therefore, while it is too early to provide guidance for 2024, we do anticipate a return to revenue growth and improvement in adjusted operating margin in the coming year.

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[1] Pro-forma for the full twelve-month contribution of Vulcanic and Durex Industries

[2] Consensus estimates as at 18th October: Sales £1,717m; Adjusted Operating Profit £360m (range £345m - £389m) *[https://www.spiraxsarcoengineering.com/investors/consensus-forecasts]*