Steam Thermal Solutions

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Maurizio Preziosa
Managing Director, Steam Thermal Solutions

Financial progress

Demand

Demand for STS products and solutions is intrinsically linked to IP, which was weaker in 2024 than expected at the beginning of the year. In key STS markets such as the USA, Germany, France, Italy and the UK, IP contracted in 2024. Against this challenging backdrop, we continued to focus on our target, higher growth sectors and increasing MRO and solution-sales from our large installed base.

In China, STS has historically benefitted from strong demand arising from the large-scale expansion of manufacturing capacity over the last two decades, financed from customers' capital expenditure budgets. Larger projects accounted for approximately 60% of China sales in 2023, a much higher proportion than for STS outside China. In 2023, larger project demand was also driven by the easing of COVID-related lockdowns and capacity expansions in the Pharmaceutical and Electric Vehicle Battery sectors, weighted heavily to the first half of the year. In 2024, demand was lower as a consequence of increasing barriers to global trade, a weaker macroeconomic environment and a reduction in our customers' investments in the expansion of manufacturing capacity. This was partially mitigated by our focus on driving MRO sales from our large installed base in China, delivering double-digit demand growth funded from customers' operational budgets.

Sales

Full year 2024 sales of £867.9 million with organic sales growth of 1%. Growth improved during the second half (3%) despite weaker than expected IP, following a 1% decline in the first half that was driven by a challenging comparator in China.

In the full year, sales in China (17% of STS in 2023) were 13% lower. Outside China, STS organic sales growth was 4%, well above global IP excluding China of 0.8%.

Margin

Full year adjusted operating profit of £204.1 million was 1% higher organically and 9% lower after an adverse exchange rate impact. Full year margin of 23.5% was in line with our medium-term expectation for STS, although, as expected, lower than 2023 (24.6%).

Organically, this was driven by lower sales from our higher margin business in China; higher variable compensation following a low payout in 2023; the partial reversal of temporary cost containment actions taken in 2023 and increased investment in future Growth Drivers such as Digital and Services, Decarbonising Thermal Energy and in systems. We continued to maintain our pricing discipline, offsetting cost inflation to protect margin, with organic drop-through supported by savings in manufacturing overheads.

Statutory results

Sales of £867.9 million were down 5% including an adverse exchange rate impact of 6%. Statutory operating profit of £198.9 million was down 3% from 2023, driven by a decrease in adjusted operating profit year-on-year, off-set by the impairment of ERP systems of £13.9 million in 2023. Statutory operating profit margin of 22.9% increased by 40bps.

Operational progress

Commercial Excellence

Against the backdrop of challenging market conditions, we focused on our sector expertise and the deep process knowledge of our global direct sales force to drive growth from self-generated solutions. Sales to customers in our target sectors of Food & Beverage, Pharmaceuticals, Oil & Gas and Chemicals, which account for over 40% of STS sales, grew organically and ahead of IP in 2024. We also continued to develop new opportunities by leveraging our sector expertise globally, through STS teams supporting their colleagues with process expertise: from China for the Electric Vehicle Battery sector as our customers explore new manufacturing locations; and from Italy for the Marine sector to access opportunities in the USA and China.

Operational Excellence

In February, following an initial review of the STS manufacturing footprint we announced the closure of our manufacturing facility in Mexico, with production moving to the USA. We have also put on hold the construction of a new manufacturing facility for our Gestra business in Germany as we review opportunities to maximise the utilisation of our capacity and focus on productivity and efficiency improvements.

Organisational Fitness

In January 2025, we commenced the simplification of our STS EMEA organisational structure by consolidating the number of operating companies to reduce management layers and also by consolidating technical sales and service capability that can be better leveraged across our operating companies without impacting on our local direct sales capability. We also undertook targeted overhead cost reductions in other STS Divisions, including in Asia Pacific and our China OpCo where we reduced our sales force in light of the current and anticipated weaker demand environment.

The savings from our Operational Excellence and Organisational Fitness initiatives will be reinvested in delivering on our future growth potential (see Group Chief Executive Officer's Review, Strategic Update on pages 12 and 13).

Digital and Services

Following our investments in digital and the development of connected products to gather customer data, we now have approximately 10,000 connected assets across 1,000 customer sites. These paid-for connections are returning data from steam traps and heat exchangers, supporting predictive maintenance and process optimisation, and delivering pull-through product sales.

Decarbonising Thermal Energy

During 2024, we continued to refine our proprietary Electrofit solution (retro-fit steam boiler with ETS Low Voltage technology) proof-of-concept pilots at two Food & Beverage customer sites in Turkey and have launched a pilot of our SteamVolt solution (first-fit boiler with ETS Medium Voltage technology) with an OEM customer in Argentina. In the first half of the year, we also invested in emerging high temperature heat pump (HTHP) technology, which will add to our range of electrification products. HTHPs are a highly engineered, bespoke technology enabling our customers to recycle waste process heat to generate steam for use in their critical processes, while reducing their operating costs and carbon emissions.

Outlook

We expect STS organic sales growth outside China to continue to outperform global IP. Trading conditions in China continue to remain challenging as a consequence of increasing barriers to global trade, a weaker macroeconomic environment and a reduction in our customers' investments in the expansion of manufacturing capacity, partially offset by our continued focus on driving MRO growth from our large installed base. We are also seeing the impact of political instability in Korea. As a result, we anticipate weaker trading in China and Korea, particularly during the first half, with these markets accounting for 22% of STS sales in 2024.

We will continue to maintain pricing discipline to protect margins, while recognising that with normalising inflation rates pricing will contribute less to organic sales growth than in previous years.

Therefore, for 2025 we anticipate low-single digit organic sales growth and margins to remain broadly level with 2024.

Over the medium term we expect low-to-mid single digit organic sales growth in STS, supporting a margin of around 23.5%.

Growth focus: China MRO

Pivoting...

STS China is one of the Group's largest operating companies (OpCos). It was established 30 years ago and today represents approximately 15% of Steam Thermal Solutions (STS) sales.

Over three decades STS has successfully grown in China, primarily through supporting Capex-related investments in country from foreign and domestic customers as they expanded their manufacturing capacity, leading to a significant installed base of our products.

Over this long period, the nature of these expand and refurbish (E&R) projects has changed in line with demand, with the focus, during and immediately after the COVID-19 pandemic, shifting to support customers in the fast growing Pharmaceutical and EV battery sectors.

More recently, growth in China has been affected by a number of factors: the slowdown in foreign direct investment; increasing barriers to trade in the form of tariffs; as well as a deteriorating macroeconomic environment post COVID-19, due to the slowdown in the Pharmaceutical sector and a drop off in the EV battery sector due to over-capacity.

This impacted demand for E&R projects funded from customers' capital budgets, which accounted for over 60% of STS sales in 2023.

In early 2024, recognising that these unfavourable market conditions were set to continue over the medium term, our team in China began pivoting to increase their focus on, and growing orders related to, process optimisation and MRO activities, from this large installed base of maturing plants, typically funded by customers' operating budgets.

...to drive growth in a challenging market

This activity started with workshops to develop the appropriate Customer Value Propositions (CVPs) that address our customers' most common pain points and included:

- Reviewing the installed base, built up over many years, to identify material customer opportunities and target the efforts of the direct sales engineers
- Developing CVPs to help deepen knowledge of customer-specific processes, including questions to help identify customer problems and tools to quantify the benefit for customers, whether through reducing cost or increasing volumes
- Hiring specialist MRO direct sales engineers to support regions and sectors where we have critical mass
- Training existing E&R sales engineers to better understand and deliver MRO sales
- Realigning incentive plans

As a result of their sector focus, targeting high growth sectors such as Food & Beverage the China OpCo has successfully been driving sales, achieving double-digit growth from MRO in 2024.

We have also leveraged the China OpCo team's in-depth knowledge and large project expertise to drive growth in our target sectors outside of China. This has been achieved through tracking international projects being undertaken by Chinese companies abroad, such as for the Electric Vehicle Battery sector. The China team is sharing their intelligence and collaborating more closely with other Spirax Group teams operating in the relevant countries where the projects are active.

Although it will take time for MRO and new products growth to compensate for the decline in E&R projects, these actions demonstrate the China team's ambition to adapt and drive growth in very challenging market conditions, while continuing to meet our customers' evolving needs.