13 May 2024

Victrex plc – Interim Results 2024

'H1 in line with guidance; sequential improvement in Q2'

Victrex plc is an innovative world leader in high performance polymers, delivering sustainable products which enable environmental and societal benefit. This announcement covers interim results (unaudited) for the 6 months ended 31 March 2024.

	H1 2024	H1 2023	% change (reported)	% change (constant currency[1])
Group sales volume	**1,737 tonnes**	1,941 tonnes	-11%	N/A
Group revenue	**£139.3m**	£162.2m	-14%	-10%
Average selling price (ASP)	**£80.2/kg**	£83.6/kg	-4%	flat
Gross profit Gross margin	**£66.8m** **48.0%**	£86.7m 53.5%	-23% -550bps	-23% N/A
Underlying profit before tax (PBT)[1]	**£28.0m**	£42.5m	-34%	-40%
Reported PBT	**£3.3m**	£39.1m	-92%	-98%
Underlying EPS[1]	**27.0p**	41.9p	-36%	N/A
EPS	**3.1p**	38.8p	-92%	N/A
Dividend per share	**13.42p**	13.42p	flat	N/A

Highlights:

- **H1 in line with guidance; sequential improvement in Q2**
  - *H1 24 Group volumes down 11% vs solid H1 23*
  - *Sequential improvement in Q2 (Group volumes up 31% vs Q1 24 & broadly flat vs Q2 23)*
  - *H1 24 Group revenue down 14%:*
    - *Strong Aerospace & Automotive growth (H1 volumes up 18% and 14% respectively)*
    - *Q2 improvement in Electronics, Energy & Industrial, VARs (VARs up 44% Q2 vs Q1)*
    - *Medical revenue down 19% on industry destocking*
    - *ASP in line with guidance at £80/kg, despite softer Medical*
- **PBT offset by Medical, higher cost inventory & lower asset utilisation, despite reduced opex**
  - *Gross margin of 48.0% reflects higher under-absorbed fixed costs as inventory unwinds*
  - *Strong cost discipline; operating overheads[1] down 13% & further opportunities*
  - *Underlying PBT down 34% at £28.0m, driven by trading and lower asset utilisation*
  - *Reported PBT £3.3m after £24.7m exceptional items:*
    - *Bond 3D non-cash impairment £20.1m & ERP costs*
- **Focused on improved cashflow in H2, driven by demand recovery, lower capex & inventory unwind**
  - *H1 2024 net debt £49.8m, including cash of £28.5m (H1 2023: net debt of £5.3m including cash & other financial assets of £38.4m) reflecting draw down of RCF for FY23 final dividend*
  - *New China facilities operational in H2, concluding major capital investment phase*
  - *Expecting further inventory reduction in H2 (H1 2024 inventory £126.7m)*
  - *Improved operating cash conversion[1] of 64% (H1 2023: -4%)*
  - *Interim dividend 13.42p/share*
- **Mega-programme ramp-up progressing, supporting mid-term growth targets**
    - *Aerospace Composites: on track for good growth*
    - *E-mobility: new customer collaborations*
    - *Knee: regulatory submission in 2024; new customer discussions*
    - *Magma: technical & commercial collaboration with TechnipFMC & Petrobras*
    - *Trauma plates: good progress & broader customer base*
    - *Mid-term growth targets of 5-7% revenue CAGR[#]; upside to 8-10% CAGR as mega-programme contribution increases*

[1] **Alternative performance measures are defined in note 14**
#revenue CAGR in 5 year period, targets communicated in December 2023

Commenting on the Group's interim results, Jakob Sigurdsson, Chief Executive of Victrex, said:
"Although the first half remained soft for Victrex – in line with our guidance – and the wider Chemical sector, we saw tangible signs of improvement in some end markets during Q2. Q2 Group volumes were broadly flat compared to the prior year and up 31% vs Q1. Profitability and margins were impacted by the high inventory levels and recent industry destocking amongst Medical device customers. Although Medical impacted sales mix, average selling prices were solid and in line with our guidance at £80/kg, despite currency. We also saw a headwind from much lower utilisation in our own assets, as inventory unwinds.

Expecting cashflow improvement
"With capex set to reduce – as our UK and China asset investments conclude – and further inventory unwind, we expect to see good mid-term cashflow improvement, supported by improving trading conditions.

Progress in mega-programme portfolio; reiterate mid-term growth targets
"Our mega-programmes continue to deliver key technical or commercial milestones. Aerospace Composites, beyond the mid-term opportunity from new plane models and larger PEEK parts, is seeing opportunities from retrofit projects, or running changes on existing models.

"Within Medical, our PEEK composite Trauma plates are on track to grow plate deliveries, and our potentially game-changing PEEK Knee programme is now targeting a regulatory submission during 2024. This reflects strong progress in the clinical trial and opportunities with other top 5 Knee companies. The strength of our innovation pipeline, and a macro-recovery, validates our mid-term growth targets of 5-7% revenue CAGR and an upside to 8-10% once mega-programmes increase their contribution.

Outlook – focused on H2 improvement; not expecting FY PBT progress
"Recent improvement in some end-markets underpins our focus on volume, revenue and profit growth during the second half, compared to H1 and also versus H2 2023. A continuation of current monthly run-rates – based on the H1 exit rate and Medical improvement – would support a slightly better PBT performance in H2 2024, compared to H2 2023. Further improvement, beyond these levels, relies on a faster rebound from recent Medical headwinds.

"On a full year basis, current run-rates support low-to-mid single digit volume growth. However, as previously communicated, we are not expecting PBT progress for the year as a whole. This reflects a lower first half, Medical destocking and the effect of reduced asset utilisation in our income statement. With our two-year inventory unwind, lower asset utilisation will continue into FY 2025, although the impact is likely to be slightly less than FY 2024. Pleasingly, cost discipline has remained strong and controllable expenses are sharply lower.

"If recent end-market improvement continues, growth prospects moving into FY 2025 look encouraging. We have confidence in our mid-to-long-term opportunities, with a diversified core business, increasing commercialisation in our mega-programmes, well invested assets, enhanced capability in our global team and the opportunity for cashflow improvement."

About Victrex:

Victrex is an innovative world leader in high performance polymer solutions, focused on the strategic markets of automotive, aerospace, energy & industrial, electronics and medical. Every day, millions of people use products and applications which contain our sustainable materials – from smartphones, aeroplanes and cars to energy production and medical devices. With over 40 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, semi-finished and finished parts which shape future performance for our customers and our markets, enable environmental and societal benefits, and drive value for our shareholders. Find out more at www.victrexplc.com

A presentation for investors and analysts will be held at 9.00am (UK time) this morning via a dial-in facility, which can be accessed by registering on the following link:

Victrex Interim Results Meeting May 2024 Registration Page! (registrations.events)

The presentation will be available to download from 8.30am (GMT) today on Victrex's website at www.victrexplc.com under the Investors/Reports & Presentations section.

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Interim results statement for the 6 months ended 31 March 2024

'H1 in line with guidance; sequential improvement in Q2'

Operating review

H1 volume and revenue down as expected; strong sequential improvement in Q2
First half Group sales volume of 1,737 tonnes was 11% down on the solid performance in the prior year (H1 2023: 1,941 tonnes). Reflecting the demand environment seen across the Chemical sector, the Group delivered first half year revenue of £139.3m, which was down 14% (H1 2023: £162.2m), with a less favourable sales mix (due to a softer performance in Medical) and a currency headwind at the revenue level. In constant currency[1] Group revenue was 10% down on the prior year.

Q2 volumes of 986 tonnes were 31% ahead of Q1, whilst being broadly flat on the solid Q2 of last year (Q2 2023: 992 tonnes). Q2 revenue was down 6% at £78.2m (Q2 2023: £83.3m), driven by lower Medical sales.

Divisional performance
Although we saw softness across several end-markets in our Sustainable Solutions (formerly Industrial) area, improvement was seen during Q2 in some end markets. H1 softness reflected Electronics, Energy & Industrial and our Value Added Resellers (VAR) area, with our Transport segment performing well. This was led by Aerospace, with volumes up 18% as build rates further increase and we see application growth. Automotive returned to growth, driven by core applications and some restocking leading the performance improvement. Automotive volumes were up 14% in the first half, though we note industry indicators pointing to car build being at similar levels in FY 2024 vs FY 2023. Overall revenue in Sustainable Solutions was down 13% at £112.9m (H1 2023: £129.7m).

After a record year in FY 2023, Medical revenues were impacted by industry destocking during the first half. Most of the major medical device customers have reported high inventory levels since the start of FY 2024, despite growth in clinical procedures. Medical revenues of £26.4m were 19% down on the strong performance in the prior year (H1 2023: £32.5m), though Q2 revenues saw an improvement of 16% compared to Q1. Across our core business of Spine, Arthroscopy and Cranio Maxillo-Facial (CMF), we continue to see good growth opportunities once destocking headwinds clear, with support from increasing penetration in Cardio, Orthopaedics and Drug Delivery. Non-Spine remains the most significant growth area, as PEEK's inert nature and strong biocompatibility drives increased application usage. Despite destocking in other application areas, we saw 5% revenue growth in CMF, which reflects the patient-specific nature of this application. First half year revenues in Medical were 45% Spine and 55% Non-Spine (H1 2023: 48% Spine and 52% Non-Spine).

ASP in line with guidance; sales mix reflects Medical softness
Average selling prices (ASPs) were in line with our guidance at £80.2/kg, down 4% on the prior year due to the impact of currency. Like for like pricing was robust across our end markets, despite a less favourable sales mix as Medical was softer in the first half. ASP in constant currency was flat.

For FY 2024, we continue to guide for average selling prices around £80/kg, with the sales mix between Sustainable Solutions and Medical being the key factor.

Core business application pipeline
One of Victrex's key strengths is in application development, working with customers and partners to broaden the use of PEEK. This is typically driven by its lightweighting, durability, chemical and heat resistance, or other properties.

Our core business pipeline saw Mature Annualised Revenues (MAR) at £363m (FY 2023: £300m), with the increase driven by application opportunities in Aerospace and Medical. This number assumes all targets are converted.

New top-line growth opportunities
New or developing opportunities include PEEK being used for PFAS replacement applications – including cookware – and for applications underpinned by our new China manufacturing facility, which is dedicated to expanding our portfolio of grades within China.

Mega-programme revenues tracking slightly ahead

Going forward, our priority is to measure our newly introduced goal of mega-programme portfolio revenues. In FY 2023, mega-programme revenues totalled £11m, with a goal of increasing this in FY 2024, supporting a step change towards our target of £25m-£35m revenues by the end of FY 2025.

Further progress in mega-programmes milestones

As previously communicated, the Group has chosen to prioritise investment in five key programmes to enhance strategic progress. This also ensures that we measure appropriate investment, resource and capability in order to improve our returns.

Each mega-programmes offers revenue potential of at least (and in some cases significantly more than) £50m per year.

Key milestones in our mega-programme portfolio include:

> Our **E-mobility** mega-programme platform is based on specific electric vehicle applications and drove the most growth of all mega-programmes last year, with business wins specifically focused on wire coating and other applications. This programme delivered revenue of £6m in FY 2023. Despite a return to growth in Automotive during the first half, we are mindful of some headwinds in the EV area, particularly in China.
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> Revenues are tracking similar to the prior year. Victrex XPI™ grade, which enables coatings of tightly wound electric wires for existing and primarily next generation high-voltage vehicles (800volt batteries and applications), is the focus for this mega-programme, where higher performance is required. Compared to previous enamel coatings, VICTREX XPI™ is extruded onto the copper and requires less energy in the process, supporting sustainability goals. With penetration in battery applications and elsewhere in electric vehicles, we assess the future potential PEEK content per electric vehicle as over 200g (average content in existing internal combustion engine car approximately 10g today). Milestones in the first half include a broader range of customer collaborations, supplying into European, Asian and US car manufacturers, including existing Chinese models.
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> In our **Magma** composite pipe programme for the energy industry, close collaboration with TechnipFMC and Petrobras continues, with milestones including final testing and technical and commercial preparation at our UK facilities. TechnipFMC is seeking to accelerate the significant opportunities for thermoplastic composite pipe in deepwater oil & gas fields in Brazil, with light-weighting, durability, a reduced carbon footprint for installation and ease of manufacturing being key parts of the proposition. Multiple field opportunities are being targeted in Brazil, requiring alternative solutions to existing performance issues with metal-based pipes. PEEK based Hybrid Flexible Pipe (HFP) is seen by TechnipFMC as the most cost effective riser solution, with TechnipFMC continuing to invest in manufacturing facilities, targeting scale up from 2026 onwards. Annual revenues in the Magma programme remain around the £1m level currently, reflecting the qualification phase.
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> In **Trauma**, demand continues to increase following FDA approval and launch. Beyond CONMED (In2Bones), our main existing customer, we have also added new customers in Asia. Revenues are tracking for growth this year. Victrex's PEEK composite Trauma plates support fracture fixation, including in foot and ankle plates. Over 5,000 Victrex manufactured trauma plates have now been supplied for implants, including 2,000 so far in FY 2024. Studies show an enhanced union rate using PEEK composites rather than titanium based plates. Victrex manufactures the PEEK composite based trauma plates in-house, or via our partner, Paragon Medical, who will toll manufacture in China, supporting a growing customer base in the US, Asia and globally.
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> **Aerospace Composites** combines the programmes for smaller composite parts, larger structural parts and interior applications. Final qualifications with OEMs, including Airbus and Boeing, and tier companies, are advancing fast as thermoplastic composites based on PEEK are validated. An increasing opportunity is in retrofit or 'running changes' as existing models take advantage of selected thermoplastic composite parts, for example in engine housings, interior structures or other applications. Major structural parts include for wings, engine housing and fuselage. The potential PEEK content per plane is at least 10-times current levels, with large scale demonstrator parts being exhibited and advancing through qualification programmes. In both structural and smaller composite

based parts, our AE™250 polymer and composite tape, based on LMPAEK™ is integral to these opportunities. Revenue for this programmes in FY 2023 was nearly £3m, and we are anticipating solid growth in FY 2024.

In our **PEEK Knee** programme, following further strong progress in the clinical trial, the focus is now on submitting for regulatory approval during 2024 (India), a key step prior to commercialisation. Maxx Orthopaedics is our partner in the clinical trial across Belgium, India and Italy. We are also collaborating with Aesculap (part of B Braun), a top 5 global knee company. Interest has been growing in the progress of PEEK Knee from other top 5 players, with potential new collaborations. 54 patients to date have been implanted with a PEEK Knee, with no remedial intervention required. Of these, twelve patients have also passed the two year stage with no intervention, which is very encouraging. Beyond regulatory submission, the next milestone is targeted as commencing a US clinical trial during FY 2024. PEEK Knee would be an alternative to existing surgeries, which primarily use metal (cobalt chrome), with a proportion of customers impacted by metal intolerance or discomfort. PEEK Knee continues to be the largest of our mega-programme opportunities by annual revenue potential, with first commercial revenues potentially from 2025. Our ability to leverage clinical data with a broader range of customers also supports the opportunity.

Innovation investment
Our Medical Acceleration programme is the key focus for current innovation investment. Last year we opened our New Product Development (NPD) Centre in Leeds, UK, to support new roles and capability with customers. We are continuing to invest in this area during FY 2024. Our goal is to increase the proportion of revenue from Medical to around one-third by 2032, driven by core growth and the game changing potential from Trauma and PEEK Knee.

Group R&D investment is tracking at 5-6% of revenues, following FY 2023 being 6% of revenues on a full year basis.

Financial review

Gross profit down 23%
Gross profit was down 23% at £66.8m (H1 2023: £86.7m), primarily driven by lower sales. Following the easing of energy costs in FY 2023, we also saw some benefit from lower raw material costs. However, with much lower production rates in our manufacturing assets, we incurred higher under-absorbed fixed costs, which are expected to be in excess of £12m higher than FY 2023. This is as a result of materially lower production volumes as we unwind inventory closer to target levels, with these effects continuing into FY 2025.

Additionally, on a full year basis, we will also see some incremental start-up costs in China (including costs moving from overheads to COGs). This includes depreciation.

Gross margin below expectations on sales mix and lower asset utilisation
Half year Group gross margin of 48.0% was 550 basis points (bps) lower than last year (H1 2023: 53.5%), slightly lower than our expectations as a softer Medical performance impacted sales mix and with lower asset utilisation.

We remain focused on a mid-to-high fifty percent gross margin level over the medium term, whilst noting that sales mix, asset utilisation and the expected increase in parts contribution to revenue will play a key role over the coming years. For FY 2024, we anticipate Group gross margin will be lower than our guidance, with gross margin in the second half likely to be similar to the first half, reflecting sales mix and lower asset utilisation. Any improvement in gross margin during H2 2024 would require a better performance in Medical.

Gains & losses on foreign currency net hedging
Fair value gains and losses on foreign currency contracts in H1 2024 were a gain of £2.5m (H1 2023: loss of £6.2m), largely from contracts where the deal rate obtained in advance was favourable to the average exchange rate prevailing at the date of the related hedged transactions.

Currency hedging supports a small tailwind in H1 2024

FY 2024 sees a currency headwind at spot rates. Unhedged currencies – predominantly in Asia – are set to increase in importance as we see growth in China and other parts of Asia over the coming years. Recent devaluation in these currencies has contributed to the spot rate headwind in FY 2024. However, after the effect of hedging we expect to see a small tailwind.

Our hedging policy is kept under review, for duration of hedging, level of cover and specific currencies. It requires that at least 80% of our US Dollar and Euro forecast cash flow exposure is hedged for the first six months, then at least 75% for the second six months of any twelve-month period.

Operating overheads[1] down 13%; tight cost control and additional cost out opportunities

Operating overheads, which exclude exceptional items of £24.7m, reduced by 13% to £38.4m (H1 2023: £44.1m) driven primarily by deferral of certain recruitment, a lower level of travel, reductions in discretionary spend and the effect of lower performance based reward. This is despite wage inflation, with our employee salaries increasing by an average of 4.5%.

Going forward, our intention is to ensure investment remains targeted and to deliver an appropriate return. Operating overheads are therefore expected to show only limited increases, excluding the effect of wage inflation and bonus accrual.

Interest on China loan

With the Group drawing on its Revolving Credit Facility (RCF) during the first half – primarily to support payment of the FY 2023 final dividend – a lower cash balance, and interest payments due to be expensed (rather than capitalised) in H2 2024 from our China loan, net interest expense is expected to be £2m-£3m for the year.

Underlying PBT down on Medical & under-recovery of fixed costs

Underlying PBT of £28.0m was down 34%, compared to the solid performance in the prior year (H1 2023: £42.5m). This was driven by a much higher impact from under recovery of fixed costs (approximately £6m higher in H1 2024 vs H1 2023), as our assets saw much lower production levels, driven by softer demand and inventory unwind (inventory built to support our UK Asset Improvement programme, which is now principally complete). With an expectation of production levels in FY 2024 being 800-1000 tonnes lower than the prior year, this has an impact on our fixed cost recovery.

Reported PBT & exceptional items

Reported PBT reduced by 92% to £3.3m (H1 2023: £39.1m). This reflects exceptional items of £24.7m (H1 2023: £3.4m), representing a non-cash impairment on our Bond 3D investments (supporting 3D printing capabilities in Spine (Medical)) and the cost of implementing a new ERP software system (targeted for go live in Q1 FY 2025).

In relation to Bond and despite continued progress to plan and regulatory approval (for Porous PEEK), the new financial investment required to complete the development through to cash breakeven has not been raised. Victrex has provided a bridging facility to Bond of up to €2.5m to provide more time to complete the fundraising. The market for raising new capital remains subdued, with a limited number of interested parties resulting in indicative valuations which are well below the level of Victrex's investment. Although technical progress has been made, with new information on the carrying value of the assets, these have been written down to what the Directors consider the best estimate for fair value at this time.

The impairment on our Bond 3D investments, totalling £20.1m, comprises writing off the Associate Investment and the carrying value of the convertible loan notes in full.

Total exceptional items on a full year basis are expected to be in the region of £30m.

Earnings per share down 92%

Basic earnings per share (EPS) of 3.1p was 92% down on the prior year (H1 2023: 38.8p per share), reflecting the decline in reported PBT driven mostly by exceptional items. Underlying EPS was down 36% at 27.0p (H1 2023: 41.9p).

Taxation
Net taxation paid was £3.4m (H1 2023: tax received of £3.9m). The effective tax rate of 24.5% (H1 2023: 14.9%) was materially higher due to the impairment of the investment in associate (Bond 3D), which is not tax deductible (increased the rate by 5.2%), the increase in UK corporation tax rate and a lower proportion of profits being eligible for the patent box rate. The reduced tax rate on profits taxed under the UK Government's Patent Box scheme remains available to Victrex, however the proportion of profits which benefit from the lower patent box rate reduces at lower profit levels and vice versa. Patent Box incentivises innovation and consequently highly skilled Research & Development jobs within the UK. Our mid-term guidance for an effective tax rate continues to be at approximately 13%-17%, reflecting the increase in the UK Corporation tax rate from 19% to 25% from 1 April 2023 whilst noting that with profits impacted by softer trading, combined with exceptional costs, the effective rate may exceed the top end of the range in the short term. We continue to monitor global taxation developments.

Robust balance sheet
With a range of global customers across our end-markets, customers recognise and value our strong balance sheet, and our ability to invest and support security of supply. Net assets at 31 March 2024 totalled £460.8m (H1 2023: £488.6m).

Inventory unwinding but held back by softer demand
Rebuilding raw material inventories to safety stock levels, to support security of supply for customers, was a priority following the pandemic. Several raw materials had run below safety stock levels, impacting supply chains. Additionally, we also built inventory to reflect planned engineering as part of our UK Asset Improvement programme. This UK Asset Improvement programme, which is principally complete, will take our UK nameplate capacity to approximately 8,000 tonnes, supporting collaboration with customers on long-term programmes, for example Aerospace Composites and Magma.

Whilst inventory has started to unwind, with the weaker trading environment persisting during the first half, total closing inventory was £126.7m (FY 2023: £134.5m), moving towards our target of approximately £100m by the end of FY 2025. This number reflects the increased range of polymer grades and product forms and parts to serve a broader range of customers, versus historic inventory levels.

Ready for commercial ramp-up in China
Following the successful production of first PEEK at our new China facility, we will start to ramp up commercial production in H2 2024. Initial sales in H2 2024 are expected to be modest. The China facility will enable us to broaden our portfolio of PEEK grades, including a new Elementary type 2 PEEK grade, as well as target a number of key end-markets, particularly Automotive, Electronics and VAR. Close collaboration with customers continues, in support of their own growth plans in China.

Capital expenditure reducing
After a period of investment, cash capital expenditure during the first half was £21.8m (H1 2023: £22.2m), of which a significant proportion was to support completion of our China manufacturing investments and our UK Asset Improvement programme. A large proportion of the China investment was funded through utilisation of the Group's China banking facilities, with interest being capitalised in H1 2024, and expensed in H2 2024 as the facility becomes commercially operational. Net interest expense for the year is therefore expected to be £2m-£3m.

Other investments included our UK Asset Improvement programme (we anticipate this will be approximately £15m in total) with spend now principally complete. Consequently, second half capital expenditure is expected to be lower than the first half, meaning overall capital expenditure for FY 2024 will be approximately £30m-£35m.

After conclusion of these investments, we see a limited need for sizeable polymer capacity for many years. Over the coming years, investment will include increased ESG related capital spend in our manufacturing facilities, to support decarbonisation. Current ESG related capital expenditure remains relatively small and is primarily for our Continuous Improvement (CI) activities. Our increased capacity is expected to enhance asset efficiency.

Cashflow
Our cash generated from operations was significantly ahead of the prior year, at £34.1m (H1 2023: £17.1m), reflecting a better working capital position. This resulted in operating cash conversion[1] of 64% (H1 2023: -4%). We also expect to see an improvement on operating cash conversion in H2 2024. Our business model remains highly cash generative.

Net debt at 31 March 2024 was £49.8m (H1 2023: £5.3m), including cash of £28.5m (H1 2023: £38.4m, including other financial assets). With utilisation of the Group's RCF and China bank facilities – put in place for the investment in new China manufacturing assets – borrowings (current and non-current) at 31 March 2024 were £68.7m (H1 2023: £32.9m). The increase in net debt reflects weaker trading and ongoing capital expenditure, whilst maintaining the level of the regular dividend.

In February 2024 we paid the 2023 full year final dividend of 46.14p/share at a cash cost of £40.1m. With our renewal of the Group's UK banking facilities last year, we have increased the level of facilities to £60m (£40m committed and £20m accordion). The facility expires in October 2026.

Dividends
The Group has maintained the interim dividend at 13.42p/share (H1 2023: 13.42p), which reflects some recent signs of end-market improvement. We intend to grow the regular dividend in line with earnings growth once dividend cover returns closer to 2.0x (FY 2023 dividend cover 1.3x).

Capital allocation policy
Growth investment remains the focus for the Group. Share buybacks remain an option for future shareholder returns, alongside special dividends, within our capital allocation policy.

However, with the trading environment during the first half and slower inventory unwind impacting cashflow, cash resources are not at a level to support a share buyback programme. The prospects are positive for improving cashflows, and returning to a net cash position, as capital expenditure reduces and inventory levels come down.

Investment in capability: recognition of Victrex in Sunday Times Best Places to Work 2024
Thanks to a period of investment, the Group's capabilities to support our growth programmes have been further enhanced. This includes a broader range of skills as we drive our Polymer & Parts strategy, with recruitment from medical device companies, the aerospace supply chain and other areas. As a reflection of our motivated and engaged workforce, Victrex is pleased to have been recognised in The Sunday Times Best Places to Work 2024 list, following on from our recent Employee Experience survey.

Jakob Sigurdsson
Chief Executive, 13 May 2024

[1] **Alternative performance measures are defined in note 14**

DIVISIONAL REVIEW

Sustainable Solutions (formerly Industrial)

	6 Months Ended 31 Mar 2024 £m	6 Months Ended 31 Mar 2023 £m	% Change (reported)	% Change (constant currency)
Revenue	**112.9**	129.7	-13%	-9%
Gross profit	**44.7**	61.4	-27%	-26%

Victrex's divisional performance is reported through Victrex Sustainable Solutions (formerly Industrial) and Medical. The Group provides an end-market based summary of our performance and growth opportunities. Within Sustainable Solutions end-markets, we have Electronics, Energy & Industrial, Transport (Automotive & Aerospace) and Value Added Resellers (VAR).

A summary of all the mega-programmes and the strong progress made during the year, is covered earlier in this report.

Soft end-markets driving revenue down 13%
Revenue in Sustainable Solutions was £112.9m, down 13% compared to the solid performance in the prior year, before several end-markets deteriorated (H1 2023: £129.7m). Revenue in constant currency was down 9%. Although pricing was robust, the impact of reduced asset utilisation dragged gross margin down by 770bps to 39.6% (H1 2023: 47.3%).

Electronics
Following a challenging year in 2023 for the Global Semiconductor market and Consumer Electronics (which together make up approximately two-thirds of our exposure in this end-market), volumes remained soft during the first half, with some sequential improvement during Q2 (vs Q1). Total Electronics volumes were down 35% at 190 tonnes (H1 2023: 291 tonnes). More encouraging data points continue to emerge however. The latest industry forecasts continue to suggest an improvement in 2024 for Semiconductor, with IDC also forecasting Semiconductor demand to increase by 8.4% CAGR over the next five years (IDC February 2024).

Victrex's long standing core applications include CMP rings (for Semiconductor), as well as newer applications utilising PEEK, including for Semiconductor, 5G, cloud computing and other extended application areas. Our Aptiv™ film business and small space acoustic applications continue to have good differentiation, with significant know-how in manufacturing this important product form.

For the medium term, Victrex™ PEEK's lighter materials and enhanced durability have strong credentials to continue supporting improved energy efficiency in a range of Electronics applications.

Energy & Industrial (E&I)
Victrex™ PEEK has a long-standing track record of durability and performance benefit in many demanding Oil & Gas applications, where lightweighting, durability and performance are key. Metal replacement is a key trend. Sales volume of 280 tonnes, was down 15% on the prior year (H1 2023: 328 tonnes), reflecting the weaker performance across this area. Industrial (which makes up more than half of this segment) is driven by global activity levels and capital goods equipment. Recent market indicators (PMIs) offer some encouragement for the second half, with PMIs in the US returning above 50 at the end of the first half.

Within the new energy space, PEEK has the opportunity for supporting applications in Hydrogen and Renewables (Wind energy), where PEEK's inert nature and durability could have a strong play. Wind energy applications are already commercialised.

Transport (Automotive & Aerospace)
Victrex continues to have a strong alignment to the CO2 reduction megatrend, with our materials offering lightweighting, durability, comfort, dielectric properties and heat resistance. As well as long standing core business within Automotive & Aerospace across a range of application areas, we have also made good progress in our Transport related mega-programmes of E-mobility and Aerospace Composites.

Overall Transport sales volume was up 15% to 532 tonnes (H1 2023: 463 tonnes), with Aerospace up 18% and Automotive up 14%. This performance reflects continuing increases in plane build as the Aerospace industry recovers post-pandemic, and some restocking and new application growth in Automotive.

Automotive

In Automotive, following a period of destocking in FY 2023, supply chains have improved, supporting growth, although we note market indicators forecast only a flat production performance vs 2023 (S&P February 2024). Core applications include braking systems, bushings & bearings and transmission equipment.

Our E-mobility mega-programme is performing at a similar run-rate to FY 2023, though we remain confident in the mid-term growth prospects here. Opportunities are growing in both Europe and Asia, with China a particular focus area.

Translation across internal combustion engine (ICE) to electric vehicles (EVs) remains a net benefit opportunity, with current PEEK content averaging around 10g-11g per car. Our assessment of the EV opportunity is for a long term potential of over 200g per electric vehicle, with several application areas.

In PEEK Gears, we are on track to grow this application area again, following a positive performance in FY 2023. This reflects growing business in both cars and e-bikes.

Aerospace

Aerospace volumes were up 18%, reflecting the benefit of plane build continuing to increase. Industry estimates now put Aerospace traffic at approximately 97% pre-pandemic levels (Airbus January 2024). We continue to enjoy good application growth in Aptiv™ film and also our LMPAEK™ grade (and use as composite tape).

A broader range of applications supporting the potential from PEEK's inert characteristics include sustainable fuel applications.

In our mega-programmes, Aerospace Composites supports both smaller and larger structural parts for Airbus, Boeing and tier companies, with qualifications well advanced, existing parts on planes and larger demonstrator parts being exhibited by major customers, ahead of commercial adoption. Retrofit and "running change" opportunities for existing aircraft are supporting increased activity in this area, beyond the potential from future aircraft programmes.

During FY 2024, we will see increased volumes with COMAC in China and note the planned ramp up of production for the C919 model over the coming years. Whilst Victrex™ PEEK supports a broad range of aircraft platforms, one of the highest production models remains the Boeing 737-Max. Victrex™ PEEK content here is over 100kg per plane and we note the recent industry focus, following the FAA's ruling on a production cap. Given the timing for supply chain deliveries, we do not anticipate any impact in FY 2024, with the potential of a small headwind in FY 2025, if the FAA's ruling remains in place.

The mid-term outlook for Aerospace is good. We continue to consider future plane build forecasts and the PEEK content opportunity could be 10x current levels, based on Victrex™ PEEK and composite applications continuing to be used on larger structural parts.

Value Added Resellers (VAR)

Our business through VAR has a high level of specification by end users. End market alignment, whilst difficult to fully track, supports a similar alignment to our Sustainable Solutions end-markets, with the exception of Aerospace, where sales volumes are largely direct to OEMs or tier suppliers. VAR is often a good barometer of the general health of the supply chain and economic recovery, with VAR customers processing high volumes of PEEK into stock shapes or compounds.

Following the destocking and drop off in demand during FY 2023, VAR demand remained soft, leading to a 14% decline in VAR volumes, to 662 tonnes (H1 2023: 768 tonnes). However, destocking appears to be over and Q2 did see a strong sequential improvement, and some year on year progress (VAR volumes +44% Q2 vs

Q1 and +2% Q2 2024 vs Q2 2023. Whilst visibility remains low, we are well placed to see a bounce back once demand improves more sustainably.

Regional trends

The Group's regional performance in North America was most adversely affected vs the prior year, driven by some destocking in VAR, with Asia-Pacific being the least impacted, reinforcing our short and medium term opportunities there.

Europe was down 5%, at 977 tonnes (H1 2023: 1,023 tonnes), driven by declines in VAR primarily. North America was down 29% at 254 tonnes (H1 2023: 360 tonnes), reflecting Energy & Industrial and VAR, with Asia-Pacific down 9% at 506 tonnes (H1 2023: 558 tonnes), as we saw declines in Electronics and VAR.

Medical

	6 Months Ended 31 Mar 2024 £m	6 Months Ended 31 Mar 2023 £m	% Change (reported)	% Change (constant currency)
Revenue	**26.4**	32.5	-19%	-15%
Gross profit	**22.1**	25.3	-13%	-16%

Within Medical, we have a core business focused on material sales and a broader range of solutions, supported by our Polymer & Parts strategy of potentially 'game-changing' parts, through manufacturing Medical components in the application areas of Trauma and Knee. Our goal is to increase the proportion of Medical revenues for the Group, above one-third of revenues by 2032 (FY 2023 had Medical share of Group revenue at 21%). As a high value segment, this end market is seeing a broader range of opportunities to meet patient and surgeon requirements, as PEEK's performance supports improved patient outcomes. To date, over 15 million patients have PEEK implanted devices.

Clinical procedures across our application areas remain strong and will support our growth over the coming years. Following a record performance in FY 2023, our Medical business saw major customers starting to reduce their inventories from historically high levels. This resulted in a softer performance during the first half. Destocking may continue to be a headwind for our Medical business, at least for the initial months of H2 2024.

First half revenue in Medical was down 19% at £26.4m (H1 2023: £32.5m), against a strong comparative. In constant currency, Medical revenue was down 15%.

Gross profit was £22.1m (H1 2023: £25.3m) and gross margin was slightly higher at 83.7% (H1 2023: 77.7%) primarily reflecting sales mix, with destocking impacting non-Spine over Spine markets. Geographically, Asia-Pacific revenues were down 24% year on year, with Medical revenues in the US down 19% and Europe down 13%.

Progress on the Medical mega-programmes is covered in the operating review.

Medical strategy; opportunity to double revenues in 5 years

As communicated in FY 2023, our Medical aspirations are to double revenues by the end of FY 2028, and increase the proportion of Medical revenues for the Group, supporting sales mix, margin and with less cyclical end markets.

To support these goals, recent targeted investment in Medical has helped support new customers in Trauma, with launches in Asia for our Trauma plate customers, as well as Knee. Our Leeds facility is supporting customer scale up in Trauma and Knee, aligned to major medical device companies, as well as working closely with academia. This facility is dedicated to 'parts' programmes – the know-how, intellectual property and associated clinical data which underpins our expansion in Medical.

Spine and non-Spine
Non-Spine has seen good growth over recent years, and now forms 55% of our revenues in this division. Application areas include Arthroscopy and Cranio Maxillo-Facial (CMF). CMF also offers us an opportunity through 3D printed parts. Recent and growing application areas include Cardio – with more than 250,000 patients benefiting from PEEK being used in heart pumps, containing implantable grade PEEK – Active Implantable devices and Drug Delivery systems. PEEK's strong track record and inert nature supports the broader range of application uses.

Within Spine, next generation Spine products will be key in maintaining PEEK's position in this segment, including the opportunity for Porous PEEK, where a spinal cage can support bone-in growth as well as bone-on growth. Whilst we continue to innovate and develop new products for Spine, usage of 3D printed titanium cages continues, largely in the US. PEEK within Spinal fusion remains strong in Asia and Europe.

Other internal metrics:
In addition to the Alternative performance measures defined in note 14 there are a number of other internal metrics, which are used by the Board in evaluating performance, and are referenced in this report, but do not meet the definition for an APM. The measures are as follows:

- Sustainable revenues as a % of total revenues is calculated as the % of revenue earned from sustainable products, which are defined as those which offer a quantifiable environmental or societal benefit. These are primarily in automotive and aerospace (supporting CO2 reduction) but also in energy and industrial and electronics (e.g. wind energy applications, or those which support energy efficiency) and medical, supporting better patient outcomes.

Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Revenue	4	**139.3**	162.2	307.0
Gains/(Losses) on foreign currency net hedging		**2.5**	(6.2)	(7.6)
Cost of sales		**(75.0)**	(69.3)	(136.8)
Gross profit	4	**66.8**	86.7	162.6
Sales, marketing and administrative expenses		**(54.4)**	(38.5)	(70.8)
Research and development expenses		**(8.7)**	(9.0)	(18.6)
Operating profit before exceptional items		**28.4**	42.6	80.7
Exceptional items	5	**(24.7)**	(3.4)	(7.5)
Operating profit		**3.7**	39.2	73.2
Financial income		**0.3**	0.7	1.3
Finance costs		**(0.7)**	(0.2)	(0.7)
Share of loss of associate		**-**	(0.6)	(1.3)
Profit before tax and exceptional items		**28.0**	42.5	80.0
Exceptional items	5	**(24.7)**	(3.4)	(7.5)
Profit before tax		**3.3**	39.1	72.5
Income tax expense	6	**(0.8)**	(5.8)	(11.5)
Profit for the period		**2.5**	33.3	61.0
Profit/(loss) for the period attributable to:				
Owners of the Company		**2.7**	33.7	61.7
Non-controlling interests		**(0.2)**	(0.4)	(0.7)
Earnings per share				
Basic	7	**3.1p**	38.8p	70.9p
Diluted	7	**3.0p**	38.5p	70.5p

Dividends (pence per share)			
Interim	**13.42**	13.42	13.42
Final	**-**	-	46.14
	13.42	13.42	59.56

An interim dividend of 13.42p per share will be paid on 28 June 2024 to shareholders on the register at the close of business on 31 May 2024. This dividend will be recognised in the period in which it is approved.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Profit for the period	**2.5**	33.3	61.0
Items that will not be reclassified to profit or loss			
Defined benefit pension schemes' actuarial losses	**(1.1)**	(4.7)	(6.9)
Income tax on items that will not be reclassified to profit or loss	**0.2**	1.1	1.4
	(0.9)	(3.6)	(5.5)
Items that may be subsequently reclassified to profit or loss			
Currency translation differences for foreign operations	**(3.5)**	(7.8)	(10.0)
Effective portion of changes in fair value of cash flow hedges	**4.3**	9.4	10.0
Net change in fair value of cash flow hedges transferred to profit or loss	**(2.5)**	6.2	7.6
Income tax on items that may be reclassified to profit or loss	**(0.4)**	(2.9)	(3.4)
	(2.1)	4.9	4.2
Total other comprehensive (expense)/income for the period	**(3.0)**	1.3	(1.3)
Total comprehensive (expense)/income for the period	**(0.5)**	34.6	59.7
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company	**(0.3)**	35.0	60.4
Non-controlling interests	**(0.2)**	(0.4)	(0.7)

Condensed Consolidated Balance Sheet

	Note	**Unaudited Six months ended 31 March 2024 £m**	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Assets				
Non-current assets				
Property, plant and equipment		**358.1**	348.5	351.2
Intangible assets		**17.9**	19.4	18.7
Investment in associated undertakings	8	**-**	9.8	9.1
Financial assets held at fair value through profit and loss		**3.5**	11.3	13.2
Financial assets held at amortised cost		**0.8**	-	0.6
Deferred tax assets		**5.8**	10.3	5.6
Retirement benefit asset		**8.8**	10.6	9.7
		394.9	409.9	408.1
Current assets				
Inventories		**126.7**	117.3	134.5
Current income tax assets		**4.6**	0.3	1.3
Trade and other receivables		**48.7**	65.8	47.2
Derivative financial instruments	10	**3.6**	1.4	2.0
Other financial assets	9	**-**	0.1	0.1
Cash and cash equivalents		**28.5**	38.3	33.4
		212.1	223.2	218.5
Total assets		**607.0**	633.1	626.6
Liabilities				
Non-current liabilities				
Deferred tax liabilities		**(34.9)**	(36.0)	(34.0)
Borrowings	9	**(60.7)**	(30.1)	(34.5)
Long term lease liabilities		**(8.2)**	(9.5)	(8.9)
Retirement benefit obligations		**(2.4)**	(2.6)	(2.5)
		(106.2)	(78.2)	(79.9)
Current liabilities				
Derivative financial instruments	10	**(0.1)**	(4.0)	(1.8)
Borrowings	9	**(8.0)**	(2.8)	(5.2)
Current income tax liabilities		**(2.2)**	(6.8)	(3.0)
Trade and other payables		**(28.3)**	(51.1)	(34.1)
Current lease liabilities		**(1.4)**	(1.6)	(1.6)
		(40.0)	(66.3)	(45.7)
Total liabilities		**(146.2)**	(144.5)	(125.6)
Net assets		**460.8**	488.6	501.0
Equity				
Share capital		**0.9**	0.9	0.9
Share premium		**62.0**	61.8	61.9
Translation reserve		**(0.7)**	5.0	2.8
Hedging reserve		**2.0**	(0.9)	0.6
Retained earnings		**394.8**	419.5	432.8
Equity attributable to owners of the Company		**459.0**	486.3	499.0
Non-controlling interest	11	**1.8**	2.3	2.0
Total equity		**460.8**	488.6	501.0

Condensed Consolidated Cash Flow Statement

	Note	**Unaudited Six months ended 31 March 2024 £m**	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Cash flows from operating activities				
Cash generated from operations	13	**34.1**	17.1	42.9
Interest received		**0.3**	0.6	1.0
Interest paid		**(0.4)**	-	(0.2)
Net income tax (paid)/received		**(3.4)**	3.9	(2.0)
Net cash flow generated from operating activities		**30.6**	21.6	41.7
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets		**(21.8)**	(22.2)	(38.5)
Withdrawal of cash invested for greater than three months		**0.1**	10.0	10.0
Other loans granted		**(0.4)**	-	(0.9)
Loan to associated undertakings		**(1.3)**	(1.1)	(2.9)
Net cash flow used in investing activities		**(23.4)**	(13.3)	(32.3)
Cash flows from financing activities				
Proceeds from issue of ordinary shares exercised under option		**0.2**	0.3	0.4
Repayment of lease liabilities		**(1.0)**	(1.0)	(2.1)
Transactions with non-controlling interests*		**-**	2.6	2.6
Bank borrowings received		**30.6**	11.5	19.0
Bank borrowings repaid		**(0.8)**	(0.7)	(0.9)
Interest paid on capital-related bank borrowings		**(0.6)**	(0.4)	(0.9)
Dividends paid		**(40.1)**	(40.1)	(51.8)
Net cash flow used in financing activities		**(11.7)**	(27.8)	(33.7)
Net decrease in cash and cash equivalents		**(4.5)**	(19.5)	(24.3)
Effect of exchange rate fluctuations on cash held		**(0.4)**	(0.9)	(1.0)
Cash and cash equivalents at beginning of period		**33.4**	58.7	58.7
Cash and cash equivalents at end of period		**28.5**	38.3	33.4

* The shareholder loan received from non-controlling interest of £1.7m was presented within Cash flows from investing activities in the six months ended 31 March 2023. This was subsequently reclassified to Cash flows from financing activities for the year ended 30 September 2023, and therefore the prior year comparative for the six months ended 31 March 2023 has been re-presented on a consistent basis.

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 1 October 2023 (audited)	**0.9**	**61.9**	**2.8**	**0.6**	**432.8**	**499.0**	**2.0**	**501.0**
Total comprehensive income for the period								
Profit for the period attributable to the parent	-	-	-	-	2.7	2.7	-	2.7
Loss for the period attributable to non-controlling interest	-	-	-	-	-	-	(0.2)	(0.2)
Other comprehensive (expense)/income								
Currency translation differences for foreign operations	-	-	(3.5)	-	-	(3.5)	-	(3.5)
Effective portion of changes in fair value of cash flow hedges	-	-	-	4.3	-	4.3	-	4.3
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	(2.5)	-	(2.5)	-	(2.5)
Defined benefit pension schemes' actuarial losses	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Tax on other comprehensive (expense)/income	-	-	-	(0.4)	0.2	(0.2)	-	(0.2)
Total other comprehensive (expense)/income for the period	-	-	(3.5)	1.4	(0.9)	(3.0)	-	(3.0)
Total comprehensive (expense)/income for the period	-	-	(3.5)	1.4	1.8	(0.3)	(0.2)	(0.5)
Contributions by and distributions to owners of the Company								
Share options exercised	-	0.1	-	-	-	0.1	-	0.1
Equity-settled share-based payment transactions	-	-	-	-	0.7	0.7	-	0.7
Tax on equity-settled share-based payment transactions	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Dividends to shareholders	-	-	-	-	(40.1)	(40.1)	-	(40.1)
Equity at 31 March 2024 (unaudited)	**0.9**	**62.0**	**(0.7)**	**2.0**	**394.8**	**459.0**	**1.8**	**460.8**

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 1 October 2022 (audited)	**0.9**	**61.5**	**12.8**	**(13.6)**	**427.2**	**488.8**	**1.8**	**490.6**
Total comprehensive income for the period								
Profit for the period attributable to the parent	-	-	-	-	33.7	33.7	-	33.7
Loss for the period attributable to non-controlling interest	-	-	-	-	-	-	(0.4)	(0.4)
Other comprehensive (expense)/income								
Currency translation differences for foreign operations	-	-	(7.8)	-	-	(7.8)	-	(7.8)
Effective portion of changes in fair value of cash flow hedges	-	-	-	9.4	-	9.4	-	9.4
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	6.2	-	6.2	-	6.2
Defined benefit pension schemes' actuarial losses	-	-	-	-	(4.7)	(4.7)	-	(4.7)
Tax on other comprehensive (expense)/income	-	-	-	(2.9)	1.2	(1.7)	-	(1.7)
Total other comprehensive (expense)/income for the period	-	-	(7.8)	12.7	(3.5)	1.4	-	1.4
Total comprehensive (expense)/income for the period	-	-	(7.8)	12.7	30.2	35.1	(0.4)	34.7
Contributions by and distributions to owners of the Company								
Contributions of equity from non-controlling interest	-	-	-	-	-	-	0.9	0.9
Share options exercised	-	0.3	-	-	-	0.3	-	0.3
Equity-settled share-based payment transactions	-	-	-	-	2.2	2.2	-	2.2
Dividends to shareholders	-	-	-	-	(40.1)	(40.1)	-	(40.1)
Equity at 31 March 2023 (unaudited)	0.9	61.8	5.0	(0.9)	419.5	486.3	2.3	488.6

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 1 October 2022 (audited)	**0.9**	**61.5**	**12.8**	**(13.6)**	**427.2**	**488.8**	**1.8**	**490.6**
Total comprehensive income for the period								
Profit for the period attributable to the parent	-	-	-	-	61.7	61.7	-	61.7
Loss for the period attributable to non-controlling interest	-	-	-	-	-	-	(0.7)	(0.7)
Other comprehensive (expense)/income								
Currency translation differences for foreign operations	-	-	(10.0)	-	-	(10.0)	-	(10.0)
Effective portion of changes in fair value of cash flow hedges	-	-	-	10.0	-	10.0	-	10.0
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	7.6	-	7.6	-	7.6
Defined benefit pension schemes' actuarial losses	-	-	-	-	(6.9)	(6.9)	-	(6.9)
Tax on other comprehensive (expense)/income	-	-	-	(3.4)	1.4	(2.0)	-	(2.0)
Total other comprehensive (expense)/income for the period	-	-	(10.0)	14.2	(5.5)	(1.3)	-	(1.3)
Total comprehensive (expense)/income for the period	-	-	(10.0)	14.2	56.2	60.4	(0.7)	59.7
Contributions by and distributions to owners of the Company								
Contributions of equity from non-controlling interest	-	-	-	-	-	-	0.9	0.9
Share options exercised	-	0.4	-	-	-	0.4	-	0.4
Equity-settled share-based payment transactions	-	-	-	-	1.1	1.1	-	1.1
Tax on equity-settled share-based payment transactions					0.1	0.1	-	0.1
Dividends to shareholders	-	-	-	-	(51.8)	(51.8)	-	(51.8)
Equity at 30 September 2023 (audited)	0.9	61.9	2.8	0.6	432.8	499.0	2.0	501.0

Notes to the Financial Report

1. Reporting entity

Victrex plc (the 'Company') is a public company which is limited by shares and is listed on the London Stock Exchange. This Company is incorporated and domiciled in the United Kingdom. The address of its registered office is Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire FY5 4QD, United Kingdom.

These condensed consolidated interim financial statements (the "Financial Report") as at and for the six months ended 31 March 2024 comprise those of the Company and its subsidiaries (together referred to as the 'Group').

This Financial Report is an interim management report as required by DTR 4.2.3 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

The comparative figures for the financial year ended 30 September 2023 are extracted from the Group's statutory financial statements for that year (referred to as the '2023 Annual Report'). The 2023 Annual Report has been reported on by the Group's auditor, filed with the Registrar of Companies and is available on request from the Group's Registered Office or to download from www.victrexplc.com. The auditor's report on 2023 Annual Report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under sections 498 (2) or (3) of the Companies Act 2006.

The Financial Report is unaudited and was approved for issue by the Board of Directors on 13 May 2024.

2. Basis of preparation

The Financial Report for the half-year reporting period ended 31 March 2024 has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

This Financial Report does not constitute statutory accounts within the meaning of Section 43 of the Companies Act 2006 and do not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the 2023 Annual Report, which has been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006.

Climate change

The Group's assessment of the impact of climate change was detailed on page 142 of the 2023 Annual Report. This review was made in line with the requirements of the Task Force on Climate Related Financial Disclosures (TCFD) and with specific consideration of the disclosures made in the Sustainability report in the 2023 Annual Report. This specifically incorporated the impact of the physical risks of climate change, transitional risks including the potential impact of government and regulatory actions as well as the Group's stated Net Zero targets. From the work undertaken at that time, the Directors concluded that there had been no material impact on the financial statements for the year ending 30 September 2023 from the potential impact of climate change. Whilst the Group's analysis on the impact of climate change continues to evolve, the Directors are not aware of any changes in circumstance or situation, particularly in the areas reviewed, that would change the outcome of this assessment at this time, and therefore the same conclusion continues to be appropriate for the period ending 31 March 2024.

Use of Judgements and estimation uncertainty

The Group uses estimates and assumptions in applying the critical accounting policies to value balances and transactions recorded in the financial statements. The estimates and assumptions that, if revised, would have a significant risk of a material impact on the valuation of assets and liabilities within the next financial year were the same as that applied to the consolidated financial statements for the 2023 Annual Report, being retirement benefits, the valuation of inventory, the carrying value of the investment in associate and fair value of convertible loan notes held in Bond 3D High Performance Technology BV ("Bond").

Going Concern

The Directors have performed a robust going concern assessment including a detailed review of the business' 24-month rolling forecast and consideration of the principal risks faced by the Group and the Company, as detailed on pages 32 to 38 of the 2023 Annual Report. This assessment has paid particular attention to current trading results and the impact of the ongoing global economic challenges on the aforementioned forecasts.

The company maintains a strong balance sheet providing assurance to key stakeholders, including customers, suppliers and employees. The Group had net debt of £49.8m at 31 March 2024, an increase of £33.1m from 30 September 2023. The increase in net debt in the period largely relates to the payment of the final regular dividend in February 2024 of £40.1m, with ongoing capital expenditure and soft trading reducing the cash generation in the short term. Operating cash conversion during the 6 months to 31 March was 64% supported by the commencement of the inventory unwind programme. The Group drew on its UK revolving credit facility during the period, with £26m drawn at 31 March 2024, of which £6m has subsequently been repaid. Of the gross debt position of £78.3m, £9.4m is due within one year. The Group maintains a cash balance sufficient to manage short term liquidity and provide headroom against ongoing trading volatility. The cash balance at 31 March 2024 was £28.5m. Approximately 65% is held in the UK, on instant access, where the company incurs the majority of its expenditure. At the date of this report, the Group has drawn debt of c£35.0m in its Chinese subsidiaries (with a total facility of c.£44.4m available until December 2026) and has unutilised UK banking facilities of £40m (with the total facility being £60m) through to October 2026, of which £20m is committed and immediately available and £20m is available subject to lender approval.

The 24-month forecast is derived from the company's Integrated Business Planning ("IBP") process which runs monthly. Each area of the business provides forecasts which consider a number of external data sources, triangulating with customer conversations, trends in market and country indices as well forward-looking industry forecasts. For example, forecast aircraft build rates from the two major manufacturers for Aerospace, rig count and purchasing manager indices for E&I, World Semiconductor Trade Statistics semiconductor market forecasts for Electronics and Needham and IQVIA forecasts for Medical procedures.

The assessment of going concern included conducting scenario analysis on the aforementioned forecast which, whilst Q2 2024 has seen a recovery in sales volumes compared to the preceding three quarters, given ongoing variability in current economic forecasts and the timing and sustainability of the recovery, combined with careful inventory management across the industry, particularly in Medical where destocking remains a challenge, focuses on the Group's ability to sustain a further period of suppressed demand. In assessing the severity of the scenario analysis the scale and longevity of the impact experienced during previous economic downturns has been considered, including the differing impacts on Sustainable Solutions versus Medical segments.

Using the IBP data and reference points from previous economic cycles management has created two scenarios to model the impact of a stalling in the recovery seen in Sustainable Solutions and the continuing effect of destocking within Medical at a regional/market level and aggregated levels on the Group's profits and cash generation through to May 2025 with consideration also given to the six months beyond this. The impact of climate change and the Group's goal of Net Zero across all scopes by 2050 are considered as part of the aforementioned IBP process, from both a revenue and cost perspective, with the anticipated impact (assessed as insignificant over the shorter-term going concern period) incorporated in the forecasts. As a result the scenario testing noted below does not incorporate any additional sensitivity specific to climate change.

During the second half of FY 2023 the drop in sales to a quarterly run rate of c.830 tonnes reflected the continuation of the contraction in demand in the global economy, which started in the first quarter of FY 2023. Q1 2024, seasonally the weakest sales quarter of the year, saw further contraction to c.750 tonnes reflecting a continuation of customer inventory management. Q2 2024 has seen a recovery in volumes to c.990 tonnes, c.30% ahead of Q1 2024, with volumes in April showing further progress. The Medical segment saw record results in FY 2023, but whilst end customer sales continue to be strong, the large medical device companies had over stocked and have subsequently taken action to address this, resulting in Medical sales in H1 2024 being 19% down on both H1 and H2 2023 taking sales back to the depressed level last experienced during COVID-19 in FY 2020 and early FY 2021. With the progress made during the early months of 2024 and Sustainable Solutions customers indicating they have largely destocked the Board believe the low point of the economic cycle has been passed, and whilst the path to full recovery may take time with economic indicators remaining mixed, there is positive momentum. Medical remains more uncertain in the short term with the destocking starting later than in Sustainable Solutions and demand remaining at softer levels. As a result, the key downside risk is that the recovery in Sustainable Solutions stalls with demand dropping back to levels seen between April and December 2023 and Medical destocking continues for an extended period. Whilst operating cash conversion has improved, cash remains at below historical levels and the revolving credit facility has been partially drawn. In part this lower cash balance is due to an inventory build during 2023 ahead of a plant shutdown, which combined with lower than forecast demand resulted in a larger than planned increase and a slower than planned unwind. Current forecasts assume the gradual reduction in inventory, which commenced in H1 2024, continues across H2 2024 and FY 2025. The scenarios modelled assume that a more aggressive inventory unwind approach is taken to mitigate the ongoing lower cash generation from subdued volumes. As a result the Directors have modelled the following scenarios:

Scenario 1 – the Sustainable Solutions recovery which commenced in Q2 FY 2024 stalls and demand reduces back to the level seen during half 1 FY 2023 from June 2024 for 6 months, before recovering to the levels seen in Q2 FY 2024 for the remainder of the going concern period. Medical revenue remains in line with the softer level experienced in half 1 FY 2024 for the second half of FY 2024 before recovery commences at a rate of 10% per annum through the remainder of the going concern period. Inventory is reduced in line with sales.

Scenario 2 – in line with scenario 1 through the next 6 months but with the lower demand continuing through to June 2025, i.e. throughout the going concern period, taking the total period of lower demand to in excess of 30 months, well above the duration of any previous downturn experienced by the company. This would give an annualised volume below c.3,300 tonnes, a level not seen since 2013. In this scenario Medical revenue would not recover either, remaining at an annualised revenue of c.£53m, a level last seen during COVID-19 when hospitals were effectively closed to elective procedures. With the period of prolonged lower demand, a more aggressive unwind of the inventory balance has been assumed. Inventory is reduced in line with sales. The group considers scenario 2 to be a severe but plausible scenario.

Commercial sales from the new PEEK manufacturing facility in China are expected during H2 FY 2024, a consequence of which is that the entity will require additional funding to see it through to net cash generation. In concluding on the going concern position, it has been assumed that Victrex will provide the additional funds in full, which the board consider to be the worst case scenario.

Before any mitigating actions the sensitised cash flows show the company has significantly reduced cash headroom, which would require continued use of the committed facility during the going concern period. The level of facility drawn down is higher in Scenario 2 but in neither scenario is the committed facility fully drawn, nor drawn for the whole year. With cash levels lower than has historically been the case for Victrex, the company has identified a number of mitigating actions which are readily available to increase the headroom. These include:

- Use of committed facility – the undrawn element (currently £20m) could be drawn at short notice. Conversations with our banking partners indicate that the £20m uncommitted accordion could also be readily accessed. The covenants of the facility have been successfully tested under each of the scenarios;
- Deferral of capital expenditure – the base case capital investment over the next 12 months is lower than recent years at approximately £25-£35m with major projects now completed in China and the UK. This could be reduced significantly by limiting expenditure to essential projects and deferring all other projects later into 2025 or beyond;
- Reduction in discretionary overheads - costs would be limited to prioritise and support customer related activity;

- Reduction in inventory levels – inventory has been increased to provide additional security during plant shutdowns and to provide sufficient inventory to respond to a rapid economic recovery. The scenarios noted above include an acceleration of the inventory unwind but a more aggressive approach could be taken to provide additional cash resources; and
- Deferral/cancellation of dividends – the Board considers the cash position and interests of all stakeholders before recommending payment of a dividend. A dividend has been proposed for payment in July 2024 of c.£12m and in the past the final dividend of c.£40m has been paid in February, giving a combined annual outflow of c.£52m.

Reverse stress testing was performed to identify the level that sales would need to drop by in order for the Group to run out of cash by the end of the going concern assessment period. Sales volumes would need to consistently drop materially below the low point in scenario 2 which is not considered plausible.

As a result of this detailed assessment and with reference to the company's strong balance sheet, existing committed facilities and the cash preserving levers at the company's disposal, but also acknowledging the current economic uncertainty with a number of global economies remaining in or close to recession, the war in Ukraine continuing and tensions in the Middle East, the Board has concluded that the company has sufficient liquidity to meet its obligations when they fall due for a period of at least 12 months after the date of this report. For this reason, they continue to adopt the going concern basis for preparing the interim financial statements.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied in the 2023 Annual Report except for the application of relevant new standards. None of the new standards have had a material impact on the Group's consolidated result or financial position.

4. Segment reporting

The Group's business is strategically organised as two business units (operating segments): Sustainable Solutions, which focuses on our Energy & Industrial, VAR, Transport and Electronics markets, and Medical, which focuses on providing specialist solutions for medical device manufacturers.

	Unaudited Six months ended 31 March 2024			Unaudited Six months ended 31 March 2023			Audited Year ended 30 September 2023		
	Sustainable Solutions	**Medical**	**Group**	Sustainable Solutions	Medical	Group	Sustainable Solutions	Medical	Group
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Segment revenue	**114.5**	**26.4**	**140.9**	135.0	32.5	167.5	250.3	65.2	315.5
Internal revenue	**(1.6)**	**-**	**(1.6)**	(5.3)	-	(5.3)	(8.5)	-	(8.5)
Revenue from external sales	**112.9**	**26.4**	**139.3**	129.7	32.5	162.2	241.8	65.2	307.0
Segment gross profit	**44.7**	**22.1**	**66.8**	61.4	25.3	86.7	110.5	52.1	162.6

5. Exceptional items

Items that are, in aggregate, material in size and/or unusual or infrequent in nature, are included within operating profit and disclosed separately as exceptional items in the Condensed Consolidated Income Statement.

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the Condensed Consolidated Income Statement, helps provide an indication of the underlying performance of the Group.

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Included within sales, marketing and administrative expenses			
Implementation of SaaS ERP system	**4.6**	3.4	7.5
Impairment of investment in associated undertakings and convertible loan notes	**20.1**	-	-
Exceptional items before tax	**24.7**	3.4	7.5
Tax on exceptional items	**(3.9)**	(0.7)	(1.7)
Exceptional items after tax	**20.8**	2.7	5.8

Implementation of SaaS ERP system
During FY 2022 the Group commenced a multi-year implementation of a new cloud-based ERP system. The implementation costs treated as exceptional include process redesign, customisation and configuration of the system, change management and training, which will deliver benefits to both customer interactions and internal business processes.

The new ERP system does not meet the criteria for capitalisation, in line with the IFRS Interpretations Committee's decision clarifying how arrangements in respect of cloud based software as a service (SaaS) systems should be accounted for. Accordingly, the cost is expensed rather than capitalised and amortised. Given the size of the project and its impact on the reported profit-based metrics, the fact the system is evergreen and thus this level and nature of cost will not happen again, it meets the Group's criteria to be presented as exceptional. The ERP system is expected to be substantially complete in 2024.

Impairment of investment in associate and convertible loans
Details of the non-cash impairment of investment in associate and convertible loan notes are detailed in Note 8 below. At £20.1m this meets the criteria to be disclosed as exceptional, being material in size, and would therefore impact the reported profit-based metrics unduly effecting the comparability of the performance between reporting periods.

The cash flow in the year associated with exceptional items was a £4.1m outflow (H1 2023: £2.7m outflow, FY 2023: £7.6m outflow).

6. Income tax expense

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
UK corporation tax	**0.1**	4.8	5.5
Overseas tax	**0.1**	1.4	2.5
Deferred tax	**0.5**	(0.4)	3.2
Tax adjustments relating to prior years	**0.1**	-	0.3
Total tax expense in income statement	**0.8**	5.8	11.5
Effective tax rate	**24.5%**	14.9%	15.9%

Deferred tax assets/liabilities have been recognised at the rate they are expected to reverse. For UK assets/liabilities this is 25% for the majority of assets and liabilities (31 March 2023 and 30 September 2023: 25%), being the UK tax rate effective from 1 April 2023. For overseas assets/liabilities the corresponding overseas tax rate has been applied.

7. Earnings per share

			Unaudited Six months ended 31 March 2024	Unaudited Six months ended 31 March 2023	Audited Year ended 30 September 2023
Earnings per share	– basic		**3.1p**	38.8p	70.9p
	– diluted		**3.0p**	38.5p	70.5p
Profit for the financial period attributable to the owners of the Company (£m)			**2.7**	33.7	61.7
Weighted average number of shares		– basic	**86,950,951**	86,929,783	86,937,187
		– diluted	**87,992,025**	87,619,038	87,496,409

8. Investment in associated undertakings

Bond 3D High Performance Technology BV ("Bond")

Bond is a company incorporated in the Netherlands, developing unique, protectable 3D printing (Additive Manufacturing) processes which are capable of producing high strength parts from existing grades of PEEK and PAEK polymers. The investment offers the potential of utilising this technology to help accelerate the market adoption of 3D printed PEEK parts, with particular emphasis on the Medical market.

The total carrying value of assets held with Bond as at March 2024 is £nil (30 September 2023: £18.8m, 31 March 2023: £17.6m), comprising investment in associate of £nil (September 2023: £9.1m, 31 March 2023: £9.8m) and convertible loan notes of £nil (September 2023: £9.7m, 31 March 2023: £7.8m).

Investment in associate

The Group's investment in the ordinary share capital of Bond at 31 March 2024 is €14.7m/£12.8m (24.5%) at cost (30 September 2023 and 31 March 2023: same), with a carrying value of £nil (30 September 2023: £9.1m, 31 March 2023: £9.8m) which includes the impact of the Group's share of losses since investment and an impairment of £9.1m. For the six months ended 31 March 2024 the Group's share of Bond's losses was £0.6m (H1 2023 loss of £0.6m; FY 2023 loss of £1.3m). The Group's share of Bond's losses was not recognised in the income statement during the six months ended 31 March 2024 following the full impairment of the balance to nil with the Group not having incurred any legal or constructive obligation or made payments on behalf of Bond. As the Group is considered to have significant influence in Bond, the investment continues to be accounted for as an associate using the equity method with the investment being held at cost less post-acquisition losses and subject to impairment.

Convertible loan notes (CLN's) due from Bond

The Group has also been providing regular cash injections to Bond in the form of CLNs. The CLNs are convertible into ordinary shares of the Bond, at the Group's option, or are to be repaid by Bond on or before the end of the five-year agreed term, unless Bond exercises its right, available in certain circumstances, to extend the term by up to five years. The majority of the CLNs accrue interest which is accumulated into the value of the CLN and attracts the same conversion rights as the principal. The CLNs have preferential treatment to the below ordinary equity in an exit scenario but are subordinated to certain other tranches of debt.

The convertible loan notes due from Bond as at 31 March 2024 are as follows:

Convertible Loan Notes	Interest Rate (%)	Principal (€m)	At 30 September 2023 (€m)	Interest Accrued (€m)	Drawdown (€m)	Impairment (€m)	Currency Movement (€m)	**At 31 Mar 2024 (€m)**
CLN 1	3.0	0.3	0.3	-	-	(0.3)	-	-
2020 CLN	N/A	2.0	2.0	-	-	(2.0)	-	-
2021 CLN	6.0	6.7	7.4	-	-	(7.4)	-	-
2023 CLN	6.0	3.1	1.5	-	1.6	(3.1)	-	-
Total			**11.2**	**-**	**1.6**	**(12.8)**	**-**	**-**
Total (£m)			**9.7**	**-**	**1.3**	**(11.0)**	**-**	**-**

The 2023 CLN has now been fully drawn which has provided Bond with sufficient working capital through to April 2024. In April 2024 Victrex agreed to provide an uncommitted bridging loan facility up to €2.5m, details of which are below. No interest income has been accrued during the period for the reasons outlined (H1 2023 £0.2m; FY 2023 £0.4m).

If the CLN's are converted to equity, including the accumulated interest, Victrex's ownership interest will increase to approximately 43.5%.

The CLN's in Bond do not meet the criteria to be classified as amortised cost nor fair value through other comprehensive income, as the cash flows are not solely payments of principal and interest due to the existence of conversion rights and are therefore classified as fair value through profit and loss. The transaction value is considered materially equal to the fair value of the convertible loan for initial recognition.

In the absence of an arm's length transaction in the equity of Bond there remains a lack of observable market inputs for subsequent fair value assessments which results in the instrument continuing to be classified as Level 3. As detailed below the fair value of the CLN's has been reduced resulting in a loss of £11.0m being recognised in the period (H1 2023 – no gain or loss, FY 2023 no gain or loss). The use of unobservable inputs in measuring the change in fair value is disclosed below.

Critical judgement and key sources of estimation uncertainty in relation to the carrying value of investment in associate in Bond and fair value of convertible loan notes due from Bond.

The carrying value of investment in associate in Bond and the fair value of convertible loan notes due from Bond (together the "assets in Bond") both require the use of judgement and estimates. While the basis of measurement for each is different, as noted above, given the relative immaturity of Bond, both assessments are dependent on the delivery of the company's strategy and the inherent uncertainties therein.

Since the 2023 Annual Report progress has continued against the technology optimisation and regulatory milestones, including submission to the regulatory body in the US which is progressing. The 2023 CLN provided by current investors, including Victrex, has been fully drawn and provided funding through to April 2024. Additional funding is required to allow Bond to continue to operate and complete development and commercialisation through to net cash generation. Bond has been activity seeking this investment since October 2023, but at the date of this report, has been unsuccessful with the funding market for early stage technology companies remaining difficult and valuations of 3D printing companies continuing to soften. As a result, a request has been made to existing shareholders for a bridging loan to provide 6 months of headroom to find new investment. Victrex is the only investor to have agreed to provide this funding, with a commitment of up to €2.5m, drawable only as required and assuming progress is being made to further reduce costs and secure the required funding, and holding preference over all existing Bond debt.

At previous reporting dates, in the absence of an arm's length transaction in the equity of Bond, which would provide clear evidence on valuation, and a lack of other observable market inputs, the assessment of carrying value has been based on the future forecasts for the business with the application of a number of scenarios to provide a range of potential outcomes which were used to both assess for indicators of impairment of the associate and to determine the range of fair values for the convertible loan notes. In making this assessment the status of each of the key milestones identified as driving the business valuation was also considered.

At 30 September 2023 a range of potential outcomes, whilst noting the need for additional funding required by mid – FY 2024 across all scenarios was presented. The four scenarios ranged from Scenario 1, which saw full delivery of the strategy and resulted in an increased to the fair value of the convertible loan notes, to Scenario 4, which saw a full write down of the carrying value of the convertible loan notes and investment in associate caused either by the technology being superseded and not making it to market or failure to raise sufficient external funding to sustain Bond.

Since the 2023 Annual Report the Bond strategic plan and forecasts have been updated reflecting the latest technical developments and commercial discussions as well as the impact of cost saving initiatives undertaken to reduce the spend rate in the shorter term while additional funding is raised. The revised forecasts have been used by the board of Bond to update the business valuation based on discounting future cash flows. The valuation takes into account the risks in the delivery of the plan and includes a number of unobservable input assumptions that market participants would use when valuing the business, including, for example, the total addressable market, level of market penetration achievable and industry growth rates.

Whilst the future forecasts of the business remain a key input into the Board's assessment of Bond's valuation, the number and level of discussions with potential investors, the limited number of potential investors and the lack of wider market appetite for investment in early stage technology companies, the Directors have concluded that an assessment of the business valuation based predominately on the future forecasts no longer accurately reflects the price an third party would pay for the business and thus its fair value.

Initial discussions with potential investors (market participants), where dialogue is ongoing, point to a valuation which is between scenario 3 and scenario 4 as outlined and defined in the 2023 Annual Report. Bond's debt is all repayable before equity receives consideration which is a value in excess of the indicative valuations being discussed with potential investors and therefore the carrying value of the investment in associate is considered to be fully impaired. The impairment review was undertaken following the Directors' assessment that there is objective evidence that a loss event (or events) as detailed in IAS 28 Investments in Associates and Joint Ventures exists at 31 March 2024. The Directors had previously concluded that the challenges facing Bond (for example delays, further funding requirements etc) are typical of experiences in early stage technology companies and therefore the requirement had not been triggered. However, the position is considered to have changed with the urgency of the required funding and the request for a bridging loan from shareholders both indications of financial difficulties beyond the level considered typical, therefore triggering the need for the impairment review to be performed.

The convertible loan notes have preference over ordinary equity, sitting second behind preferred debt in the distribution of funds on change of control or an exit, if unconverted at the point of the transaction. In assessing the carrying value of the CLN's the Directors have considered them both as an ongoing debt instrument and if converted to equity across the range of potential valuations of Bond, this includes consideration of the credit risk.

The factors considered by the Directors in assessing the carrying value, in addition to their preference noted above, include the internal forecasts produced by Bond, updated in April 2024, and the associated discounted cash flow model, ongoing discussions with potential investors, which whilst at an early stage have included discussion on indicative pre money valuations and the wider market valuations for companies in the 3D printing space. The forecasts and DCF continue to show scenarios where the convertible loan notes are recovered in full, however, these are now considered much lower probability compared to when the 2023 Annual Report was approved. Therefore, whilst technical progress has continued to be made, the cash flow requirements make Bond a less attractive short term proposition for new investors. Accordingly, whilst a range of outcomes from nil to full recovery remain, the board consider, based on likelihood, that the IFRS 9 criteria required to hold the convertible loan notes at cost, being the best proxy for fair value within the range of potential outcomes, are no longer met with current market dynamics and investor risk appetite reducing the fair value to a likely range of between nil and €3.4m. Given the high level of uncertainty within this range and the fact that all points in the range are not material, the Board has determined that a fair value of nil is the most appropriate outcome and has therefore reduced the fair value of the loan notes by £11.0m.

The total write down in the investment in associate and convertible loan notes of £20.1m has been classified as an exceptional cost, further details are included in note 5.

Post 31 March 2024 €1m of the bridging loan has been drawn. There is an inherent risk in the recovery of this and further amounts advanced under the uncommitted bridging loan facility with the recovery contingent on the successful raising of new investment.

9. Cash and borrowings

Net debt

Net debt comprises cash and cash equivalents and other financial assets, offset by borrowings and IFRS 16 lease liabilities.

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Cash and cash equivalents	**28.5**	38.3	33.4
Other financial assets	**-**	0.1	0.1
Total	**28.5**	38.4	33.5
Bank loans due within one year	**(8.0)**	(2.8)	(5.2)
Borrowings due within one year	**(8.0)**	(2.8)	(5.2)
Bank loans due over one year	**(52.7)**	(21.9)	(26.4)
Loan payable to non-controlling interest	**(8.0)**	(8.2)	(8.1)
Borrowings due over one year	**(60.7)**	(30.1)	(34.5)
Current lease liabilities	**(1.4)**	(1.6)	(1.6)
Non-current lease liabilities	**(8.2)**	(9.2)	(8.9)
Net debt	**(49.8)**	(5.3)	(16.7)

Other financial assets

At 31 March 2023 and 30 September 2023 the Group had other financial assets of £0.1m comprising cash which was held in deposit accounts greater than three months in duration.

Bank loans

Bank loans comprise the UK revolving credit facility and PVYX banking facility in China, split between capital expenditure facility and working capital facility.

<u>Revolving credit facility</u>

In October 2023, the Group renewed its UK banking facility, increasing the facility from £40.0m to £60.0m, of which £40.0m is committed and £20.0m accordion, which expires in October 2026. Interest is charged at a rate of SONIA +0.75% to SONIA +1.05% depending on the level of utilisation. The facility contains covenant measures which are tested biannually, consisting of leverage and interest cover.

As at 31 March 2024, £26.0m of the £40.0m committed facility was drawn (31 March 2023: £nil drawn; 30 September 2023: £nil drawn) and is included in 'Bank loans due over one year'. £6m of the drawn down amount at 31 March 2024 has been repaid at the date of this report.

<u>PVYX banking facility</u>

£7.6m (RMB 68 million) of the amount due within one year relates to the working capital facility in China (31 March 23 £1.4m, 30 September 23 £5.1m). The total working capital facility is RMB 150 million, which has increased during the period from RMB 50 million. Each drawdown under the working capital facility is required to be repaid at least annually, after which the balance can be redrawn. Interest is charged at the one-year Loan Prime Rate of People's Bank of China +50bps, and is charged to the income statement, included within Finance costs.

The remaining £27.1m (RMB 244 million, with total capital facility of RMB 250 million) relates to the capital expenditure facility (31 March 23 £23.3m; 30 September 23 £26.5m), which is repayable in line with an agreed schedule up to December 2026, of which £0.4m (31 March 23 £1.4m; 30 September 2023: £0.1m) is repayable within one year. Interest is charged at the five-year Loan Prime Rate of People's Bank of China. The purpose of the loan is funding the construction of a manufacturing facility in China, with the interest payable capitalised as part of qualifying capital expenditure within property, plant and equipment during the construction phase of the project. Cumulative interest capitalised is £1.9m with interest of £0.6m (H1 2023: £0.4m; FY 2023: £0.9m) being capitalised during the first half of the year. Once the project is complete the interest will cease to be capitalised and will be charged to the income statement.

Loan payable to non-controlling interest
The Group's loan payable to the non-controlling interest is interest bearing at 4% per annum. Interest payable on the shareholder loan is rolled up into the value of the loan, until repayment occurs. The purpose of the shareholder loan is funding the construction of a manufacturing facility in China, with the interest payable capitalised as part of qualifying capital expenditure within property, plant and equipment during the construction phase of the project. Once the project is complete the interest will cease to be capitalised and will be charged to the income statement.

The loan is repayable in two instalments, the first of RMB 50 million is repayable on 30 September 2026, with the second instalment of RMB 15 million repayable on 30 September 2027, or such date as may be mutually agreed by the shareholders, Liaoning Xingfu New Material Co., Ltd ('LX') and Victrex Hong Kong Limited. Both instalments are unsecured and denominated in Chinese Renminbi ('RMB'), and had a combined Sterling value (including rolled up interest and the impact of foreign currency movements between the date the loan was received and the balance sheet date) of £8.0m at 31 March 2024 (31 March 2023: £8.2m; 30 September 2023: £8.1m). During the period, the total interest cost of £0.1m was capitalised (H1 2023: £0.1m, FY 2023: £0.2m).

10. Derivative financial instruments

The notional contract amount, carrying amount and fair value of the Group's forward exchange contracts are as follows:

	Unaudited As at 31 March 2024		Unaudited As at 31 March 2023		Audited As at 30 September 2023	
	Notional contract amount	**Carrying amount and fair value**	Notional contract amount	Carrying amount and fair value	Notional contract amount	Carrying amount and fair value
	£m	**£m**	£m	£m	£m	£m
Current assets	**155.1**	**3.6**	66.8	1.4	105.5	2.0
Current liabilities	**11.0**	**(0.1)**	119.3	(4.0)	86.7	(1.8)
	166.1	**3.5**	186.1	(2.6)	192.2	0.2

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired on the balance sheet date. These are categorised as Level 2 within the fair value hierarchy. Fair value gains on foreign currency contracts of £2.5m have been recognised in the period (H1 2023 – losses of £6.2m; FY 2023 – losses of £7.6m).

11. Non-controlling interest

The non-controlling interest recognised relates to the Group's subsidiary company, PVYX, where the Group continues to hold a 75% equity interest with the remaining 25% held by LX. PVYX is a limited liability company set up for the purpose of the manufacture of PAEK polymer powder and granules, based in mainland China. The income statement and balance sheet of PVYX are fully consolidated with the share owned by LX represented by a non-controlling interest.

In the period to 31 March 2024 the subsidiary incurred a loss of £0.9m (H1 2023: loss of £1.6m; FY 2023: loss of £2.6m), of which £0.2m (H1 2023 £0.4m; FY 2023: £0.7m) is attributable to the non-controlling interest. Total non-controlling interest as at 31 March 2024 is £1.8m (31 March 2023: £2.3m; 30 September 2023: £2.0m).

12. Exchange rates

The most significant Sterling exchange rates used in the financial statements under the Group's accounting policies are:

	Unaudited Six months ended 31 March 2024		Unaudited Six months ended 31 March 2023		Audited Year ended 30 September 2023	
	Average	**Closing**	Average	Closing	Average	Closing
US Dollar	**1.24**	**1.27**	1.16	1.24	1.16	1.22
Euro	**1.16**	**1.16**	1.14	1.13	1.14	1.16

The "average" exchange rates in the above table are the weighted average spot rates applied to foreign currency transactions, excluding the impact of foreign currency contracts. Gains and losses on foreign currency contracts, to the point where transferred to profit or loss, where net hedging has been applied for cash flow hedges, are separately disclosed in the income statement.

13. Reconciliation of profit to cash generated from operations

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Profit after tax for the period/year	**2.5**	33.3	61.0
Income tax expense	**0.8**	5.8	11.5
Share of loss of associate	**-**	0.6	1.3
Net finance costs/(income)	**0.4**	(0.6)	(0.6)
Interest on lease liabilities	**-**	0.1	-
Operating profit	**3.7**	39.2	73.2
Adjustments for:			
Depreciation	**9.2**	9.7	19.8
Amortisation	**1.8**	0.8	1.7
Loss on disposal of non-current assets	**0.8**	-	0.3
Gain on early termination of long-term lease liabilities	**-**	-	(0.2)
Impairment of investment in associate undertakings and convertible loan notes	**20.1**	-	-
Equity-settled share-based payment transactions	**0.7**	2.2	1.1
Gains on derivatives recognised in income statement that have not yet settled	**(1.6)**	(1.7)	(2.5)
Loss on financial asset held at fair value	**-**	-	0.2
Decrease/(increase) in inventories	**6.5**	(32.6)	(50.7)
(Increase)/decrease in trade and other receivables	**(3.0)**	0.5	16.4
Decrease in trade and other payables	**(3.8)**	(0.6)	(14.6)
Retirement benefit obligations charge less contributions	**(0.3)**	(0.4)	(1.8)
Cash generated from operations	**34.1**	17.1	42.9

14. Alternative performance measures

We use alternative performance measures (APMs) to assist in presenting information in an easily comparable, analysable and comprehensible form. The measures presented in this report are used by the Board in evaluating performance. However, this additional information presented is not required by IFRS or uniformly defined by all companies. Certain measures are derived from amounts calculated in accordance with IFRS but are not in isolation an expressly permitted GAAP measure. The measures are presented below.

Given the change in the financing structure of the Group with the utilisation of the revolving credit facility and continued use of bank loans to fund new manufacturing operations in China, the Directors now consider the broader net funds/debt metric (see note 9) to better represent the financial position when determining the use of cash under the capital allocation policy and therefore are no longer presenting the Available Cash metric previously used.

APM 1 Operating profit before exceptional items (referred to as underlying operating profit) is based on operating before the impact of exceptional items. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and / or unusual or infrequent in nature. Exceptional items for HY 2024 are £24.7m, details are disclosed in note 5;

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Operating profit	**3.7**	39.2	73.2
Exceptional items	**24.7**	3.4	7.5
Underlying operating profit	**28.4**	42.6	80.7

APM 2 Profit before tax and exceptional items (referred to as underlying profit before tax) is based on Profit before tax before the impact of exceptional items. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and / or unusual or infrequent in nature;

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Profit before tax	**3.3**	39.1	72.5
Exceptional items	**24.7**	3.4	7.5
Underlying profit before tax	**28.0**	42.5	80.0

APM 3 Constant currency metrics are used by the Board to assess the year on year underlying performance of the business excluding the impact of foreign currency rates, which can by nature be volatile. Constant currency metrics are reached by applying current half year (HY 2024) weighted average spot rates to prior half year (HY 2023) transactions;

Group	**Unaudited Six months ended 31 March 2024 £m**	Unaudited Six months ended 31 March 2023 £m	% change
At reported currency	**139.3**	162.2	-14%
Impact of FX translation	**-**	(7.1)	
Revenue at constant currency	**139.3**	155.1	-10%
Volume	**1,737**	1,941	
ASP at constant currency	**80.2**	79.9	0%
Sustainable Solutions	**Unaudited Six months ended 31 March 2024 £m**	Unaudited Six months ended 31 March 2023 £m	% change
At reported currency	**112.9**	129.7	-13%
Impact of FX translation	**-**	(5.5)	
Revenue at constant currency	**112.9**	124.2	-9%
Medical	**Unaudited Six months ended 31 March 2024 £m**	Unaudited Six months ended 31 March 2023 £m	% change
At reported currency	**26.4**	32.5	-19%
Impact of FX translation	**-**	(1.6)	
Revenue at constant currency	**26.4**	30.9	-15%

APM 4 Operating cash conversion is used by the Board to assess the business's ability to convert underlying operating profit to cash effectively, excluding the impact of financing activities and non-capital expenditure related investing activities. Operating cash conversion is underlying operating profit, depreciation and amortisation, working capital movements and capital expenditure/ underlying operating profit.

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Underlying operating profit (APM 1)	**28.4**	42.6	80.7
Depreciation, amortisation and loss on disposal*	**11.8**	10.5	21.6
Change in working capital	**(0.3)**	(32.7)	(48.9)
Capital expenditure	**(21.8)**	(22.2)	(38.5)
Operating cash flow	**18.1**	(1.8)	14.9
Operating cash conversion	**64%**	-4%	18%

*Excludes the impact of loss on disposal of right of use assets.

APM 5 Underlying EPS is earnings per share based on profit after tax but before exceptional items divided by the weighted average number of shares in issue. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and/or unusual or infrequent in nature;

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Profit after tax attributable to owners of the Company	**2.7**	33.7	61.7
Exceptional items	**24.7**	3.4	7.5
Tax on exceptional items	**(3.9)**	(0.7)	(1.7)
Profit after tax before exceptional items net of tax	**23.5**	36.4	67.5
Weighted average number of shares	**86,950,951**	86,929,783	86,937,187
Underlying EPS (pence)	**27.0**	41.9	77.7

APM 6 Operating overheads is made up of sales, marketing and administrative expenses, and research and development expenses, before exceptional items. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and/or unusual or infrequent in nature.

	Unaudited Six months ended 31 March 2024 £m	Unaudited Six months ended 31 March 2023 £m	Audited Year ended 30 September 2023 £m
Sales, marketing and administrative expenses	**54.4**	38.5	70.8
Exceptional items	**(24.7)**	(3.4)	(7.5)
Research and development expenses	**8.7**	9.0	18.6
Operating overheads	**38.4**	44.1	81.9

Responsibility Statement of the Directors

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the UK and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

(i) an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(ii) material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

During the period since the approval of the Victrex plc Annual Report for the year ended 30 September 2023, there have been the following changes in the directorate.

1/ Urmi Prasad Richardson was appointed as a non-executive director of the Board, effective from 1 May 2024.

The Directors of Victrex plc are detailed on our Group website www.victrexplc.com.

By order of the Board

Jakob Sigurdsson	**Ian Melling**
Chief Executive	Chief Financial Officer
13 May 2024	13 May 2024

Forward-looking statements

Sections of this half-yearly Financial Report may contain forward-looking statements, including statements relating to: certain of the Group's plans and expectations relating to its future performance, results, strategic initiatives and objectives, future demand and markets for the Group's products and services; research and development relating to new products and services; and financial position, including its liquidity and capital resources.

These forward-looking statements are not guarantees of future performance. By their nature, all forward looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future, and are or may be beyond the Group's control, including: changes in interest and exchange rates; changes in global, political, economic, business, competitive and market forces; changes in raw material pricing and availability; changes to legislation and tax rates; future business combinations or disposals; relations with customers and customer credit risk; events affecting international security, including global health issues and terrorism; the impact of, and changes in, legislation or the regulatory environment (including tax); and the outcome of litigation.

Accordingly, the Group's actual results and financial condition may differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements in this half-yearly Financial Report are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this Financial Report shall be construed as a profit forecast.

Shareholder information:

Victrex's Annual Reports and half-yearly Financial Reports are available on request from the Company's Registered Office or to download from our corporate website, www.victrexplc.com

Financial calendar:

Record date~	31 May 2024
Payment of interim dividend	28 June 2024

~ The date by which shareholders must be recorded on the share register to receive the dividend

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