

Interim report 2023

2 February 2023

Interim report 2023 - for the six months ended 31 December 2022

Highlights

Good revenue growth from strategic priorities offsets weaker demand, as expected, from the semiconductor and electronics sectors. Continued investment for longer-term growth.

	6 months to 31 December 2022	6 months to 31 December 2021	Change %
Revenue (£m)	347.7	325.2	+7
Adjusted ¹ profit before tax (£m)	73.5	84.2	-13
Adjusted ¹ earnings per share (pence)	83.4	97.2	-14
Dividend per share (pence)	16.8	16.0	+5
Statutory profit before tax (£m)	77.8	81.5	-5
Statutory earnings per share (pence)	88.1	94.2	-6

- Revenue of £347.7m (H1 FY2022 £325.2m):
 - Record revenue for a half year, 7% above last year (1% growth at constant exchange rates)
 - Strong growth in sales of multi-laser additive manufacturing (AM) systems, 5-axis co-ordinate measuring machine (CMM) inspection systems and laser encoders
 - Weaker demand, as expected, for optical encoders from semiconductor and consumer electronics sectors, including customers reducing stock levels due to improved supply chain lead times
- Adjusted¹ profit before tax of £73.5m (H1 FY2022 £84.2m):
 - Representing 21% of revenue (26% last year)
 - Stable gross margin before engineering costs
 - Targeted investments in headcount and pay for long-term growth
- Statutory profit before tax of £77.8m (H1 FY2022: £81.5m).
- Strong balance sheet with net cash and bank deposit balances of £211.5m, compared with £253.2m at 30 June 2022, with the £41.2m final dividend for FY2022 paid in H1.
- Interim dividend of 16.8p per share.

William Lee, Chief Executive, commented:

"I am pleased to report record revenue in a period of expected lower demand from the semiconductor and electronics sectors. We have made good progress in our strategy; gaining market share, introducing new products into close-adjacent markets and taking advantage of long-term growth opportunities in additive manufacturing, shop-floor measurement, materials research and semiconductor manufacturing. We continue to invest in our people, product development and infrastructure to deliver sustainable, long-term growth."

¹ Note 12, 'Alternative performance measures', defines how adjusted profit before tax and adjusted earnings per share are calculated.

Overview for the six months ended 31 December 2022

Revenue

Revenue for the six months ended 31 December 2022 was £347.7m, an increase of 7% (1% increase at constant exchange rates) compared with £325.2m for the corresponding period last year. We achieved revenue growth of 21% (8% at constant exchange rates) in the Americas, 7% (4% at constant exchange rates) in EMEA and 1% (-4% at constant exchange rates) in APAC. There was growth for both our Manufacturing technologies, and Analytical instruments and medical devices segments, with strong growth in sales of multi-laser additive manufacturing (AM) systems, machine calibration systems, laser encoder systems and REVO® 5-axis co-ordinate measuring machine (CMM) inspection systems. Demand from the semiconductor and electronics sectors was weaker, resulting in a reduction in sales of our optical encoder products.

	6 months to 31 December 2022	6 months to 31 December 2021	Change %	Constant fx ¹ change %
Group revenue	£347.7m	£325.2m	+7	+1
Comprising:				
APAC	£161.7m	£160.6m	+1	-4
Americas	£83.6m	£69.1m	+21	+8
EMEA	£102.4m	£95.5m	+7	+4

Operating costs

Our gross margin (excluding engineering costs) for the period was 64% of revenue, which is similar to the previous year. An increase in manufacturing costs, primarily arising from pay rises for our employees, has been offset by a favourable currency effect on revenue and increases in our sales prices.

Group headcount has increased by 53 since the end of June and was 5,150 at the end of December 2022. This increase includes continued investment in our early careers programmes (mostly for research and development) and in our global sales and support teams. Labour costs (excluding bonuses) were £133.4m in this period compared to £115.1m last year, with the average headcount in the first half-year being 5,166 (H1 FY2022: 4,824). The increase also reflects the pay reviews we have carried out across our business over the last 14 months, helping to improve employee retention. Our pay benchmarking will now be undertaken around December each year, with the December 2022 review resulting in around £4m of additional annual cost.

With pandemic related restrictions now largely lifted, we have increased our investment in customer facing activities, resulting in higher travel and exhibitions costs compared to last year.

We remain committed to our long-term strategy of developing innovative and patented products to create strong market positions. During the first six months of this year, our investment in engineering, including research and development, increased by 22% to £46.1m. Since June, we have launched new products including the CENTRUM™ metal rotary scale disc system for our ATOM DX™ encoder series, the ACS-1 system that brings improved accuracy and speed to the calibration of machine tool probes and the new inLux™ SEM Raman interface for our spectroscopy line.

Profit and tax

Adjusted profit before tax¹ for the period was £73.5m (21% of revenue) compared with £84.2m (26% of revenue) last year. Statutory profit before tax for the period was £77.8m, compared with £81.5m last year, which includes a £4.4m fair value gain (H1 FY2022: £2.9m loss) on financial instruments not effective for hedge accounting and not included in adjusted profit before tax. No forward contracts have been designated as ineffective since FY2020.

Financial income for the period was £5.0m compared with £0.4m last year, and includes a £2.3m increase in interest on bank deposits.

The income tax expense in the Consolidated income statement has been estimated at a rate of 17.7% (H1 FY2022: 15.9%) and is based on management's best estimate of the full year effective tax rates by geographical unit applied to half-year profits. This is comparable with the 17.3% achieved in FY2022 and includes an increase in the UK corporation tax rate for the year to 20.5% from 19.0%, which is largely offset by a forecast increase in the UK patent box benefit.

Adjusted earnings per share were 83.4p, compared with 97.2p last year. Statutory earnings per share were 88.1p, compared with 94.2p last year.

Manufacturing technologies

Revenue for this segment, which comprises our Industrial Metrology, Position Measurement and Additive Manufacturing businesses, was £330.9m for the first six months, compared with £308.7m last year. We achieved strong growth in the Americas and good growth in EMEA, with reduced revenue in our APAC region (at constant exchange rates) mainly due to lower sales of optical encoders to the semiconductor and electronics market. Adjusted operating profit was £66.8m, compared with £81.3m for the comparable period last year. As already noted there was strong growth for our RenAM 500Q multi-laser AM system where its productivity and ability to produce high quality parts is leading to repeat business from customers in sectors as diverse as consumer electronics, healthcare, aerospace, defence and tooling. There was also strong growth for our CMM inspection systems, based on the REVO® 5-axis system, which is meeting customer demands for multi-sensor metrology to provide comprehensive inspection and process feedback from a single measurement platform. Our calibration business also had strong growth compared to the same period last year as machine builders focus on the accuracy and reliability of ever more complex machinery. Weaker demand from our semiconductor customers due to reducing their stock levels and market uncertainty, led to reduced sales of our optical encoder products. However, demand for our high

accuracy laser encoders for front-end semiconductor manufacturing processes was very strong. Global forecasts for the construction of semiconductor fabrication plants, driven by new technology, geopolitical considerations and supply chain security, remain positive and we are optimistic about a mid-term recovery in sales to this important sector.

Analytical instruments and medical devices

Revenue from this segment for the first six months was £16.8m, compared with £16.5m last year. There was strong growth in both APAC and Americas regions, offset by significantly weaker demand from EMEA. The adjusted operating profit was £0.1m in the first half of this year compared with £1.6m for the comparable period last year. Revenue for our spectroscopy products was flat but we are seeing growth in the order book and strong demand in H1 for our newer products – the Virsa™ analyser, a portable system that allows sample analysis outside of a laboratory, and the recently launched inLux™ SEM Raman interface which allows simultaneous Raman and scanning electron microscope imaging. Our neurological business is continuing to progress opportunities with pharmaceutical companies to use our drug delivery technology for clinical trials.

Balance sheet

Net cash and bank deposit balances at 31 December 2022 were £211.5m, compared with £253.2m at 30 June 2022, primarily reflecting the cash generated from operating profit of £81.2m, offset by the working capital movement of £40.6m, capital expenditure of £20.2m, tax payments of £16.9m and the final dividend payment of £41.2m in respect of FY2022.

Inventory balances have increased by £17.3m since 30 June 2022, mainly reflecting targeted increases in components and sub-assemblies for our optical encoder products. Trade receivables have decreased by £4.4m in the same period, with receivables days remaining consistent with June levels and no significant movement in expected credit losses. Trade and other payables have reduced by £19.6m since June, reflecting lower purchasing activity in the second quarter and payment of bonuses accrued at June.

We invested £20.2m (H1 FY2022: £12.2m) in capital expenditure during the first six months of this financial year, which includes production plant and equipment and £7.8m for the ongoing development of our production facility in Miskin, Wales.

Dividend

The Board has approved an interim dividend of 16.8 pence net per share (FY2022: 16.0p), reflecting the Board's confidence in the medium term growth prospects of the business, which will be paid on 11 April 2023 to shareholders on the register on 10 March 2023.

Principal risks and uncertainties

The Board has considered the risks and uncertainties which could have a material effect on the Group's performance and position. While there is heightened uncertainty arising from geopolitical matters and trade tensions, the overall impact and likelihood of our principal risks is not considered to have changed significantly. This conclusion also reflects the mitigation undertaken by the Group in response to these risks. The principal risks and uncertainties set out on pages 39 to 49 of the 2022 Annual Report therefore remain relevant.

COVID-19 update

We continue to monitor the impact of COVID-19 on our people and business. The recent easing of restrictions in China led to a surge in COVID cases and whilst this is causing some short-term disruption to our customers' operations this is expected to dissipate in the next few months. The removal of travel restrictions in China is enabling us to better serve our customer base from across our extensive local office network. We continue to make better use of digital technology to work with each other, our customers and our suppliers, meaning we can work in a more sustainable way by travelling less.

Sustainability

The drive to Net Zero represents many opportunities for our business as our products positively contribute to our customers' own sustainability ambitions by reducing energy consumption, minimising waste and improving the inherent performance of the products that they supply to their customers.

During the period we have continued to make strong progress towards our target of Net Zero for Scopes 1 and 2 emissions by 2028, including switching to renewable energy contracts for all UK sites and our main sites in India and the US. We are also moving to ultra-low emission vehicles (ULEV) fleet vehicles in the UK and, as part of our commitment to reduce Scope 3 emissions, we have also introduced a ULEV salary sacrifice scheme, initially in the UK, which will enable our employees to reduce their commuting emissions. As part of this project, we have installed over 70 charging points at our New Mills HQ site which will be replicated at our other key sites in the UK.

As part of our commitment to achieve a science-based Net Zero emissions target of no later than 2050 for our entire business, we will include in our next Annual Report our progress on three of the UN's Sustainable Development Goals (SDGs); SDG 8 (sustained, inclusive and sustainable economic growth), SDG 12 (sustainable consumption) and SDG 13 (urgent action to combat climate change).

Directors and employees

The Directors would like to thank our employees for their continuing efforts to drive our business forward. During the period we ran a global competition encouraging teams to share how they demonstrate our values: innovation, inspiration, integrity and involvement. We received entries from across the Group, from Mexico to China, and we announced the winning teams in December. Each team chose a charity which will shortly receive a £5,000 donation, including a school for blind children in India and a cancer treatment centre in Wales.

Outlook

The Board remains confident in our strategy to deliver sustainable, profitable growth over the medium term. Our approach of building long-term relationships with customers helps us to identify opportunities in our markets, and our agility and resources ensure we can respond to these opportunities.

Our results so far this year have benefited from products released in recent years and the relationships we have been building with new customers. These relationships, new products and the expected improvement in semiconductor and electronics markets, supports our confidence for medium term growth. To support this, we are continuing to make targeted investments in our people, our production facilities, and our new product pipeline. We have a strong order book, and at this stage we expect full year revenue to be in the range of £690m to £730m. Adjusted profit before tax is expected to be in the range of £140m to £165m.

Sir David McMurtry
Executive Chairman

Will Lee
Chief Executive

Allen Roberts
Group Finance Director

2 February 2023

¹ Note 12, 'Alternative performance measures', defines how revenue at constant exchange rates, adjusted profit before tax, adjusted operating profit and adjusted earnings per share are calculated.

Consolidated income statement

		Unaudited 6 months to 31 December 2022 £'000	Unaudited 6 months to 31 December 2021 £'000	Audited Year ended 30 June 2022 £'000
	Notes			
Revenue	2	347,679	325,176	671,076
Cost of sales	3	(172,442)	(153,293)	(313,527)
Gross profit		175,237	171,883	357,549
Distribution costs		(66,836)	(55,830)	(122,455)
Administrative expenses		(35,311)	(33,560)	(69,736)
UK defined benefit pension scheme past service cost		-	-	(11,695)
Losses from the fair value of financial instruments	10	(1,792)	(2,313)	(10,413)
Operating profit		71,298	80,180	143,250
Financial income	4	5,003	445	932
Financial expenses	4	(290)	(658)	(2,938)
Share of profits from associates and joint ventures		1,803	1,515	4,342
Profit before tax		77,814	81,482	145,586
Income tax expense	5	(13,746)	(12,949)	(25,235)
Profit for the period		64,068	68,533	120,351
Profit attributable to:				
Equity shareholders of the parent company		64,068	68,533	120,351
Non-controlling interest		-	-	-
Profit for the period		64,068	68,533	120,351
Dividend per share arising in respect of the period	7	Pence 16.8	Pence 16.0	Pence 72.6
Earnings per share (basic and diluted)	6	88.1	94.2	165.4

Consolidated statement of comprehensive income and expense

	Unaudited 6 months to 31 December 2022 £'000	Unaudited 6 months to 31 December 2021 £'000	Audited Year ended 30 June 2022 £'000
Profit for the period	64,068	68,533	120,351
Other items recognised directly in equity:			
Items that will not be reclassified to the Consolidated income statement:			
Current tax on contributions to defined benefit pension schemes	-	827	1,653
Deferred tax on contributions to defined benefit pension schemes	-	(827)	(1,653)
Remeasurement of defined benefit pension scheme liabilities	16,127	(806)	69,078
Deferred tax on remeasurement of defined benefit pension scheme liabilities	(3,739)	73	(15,997)
Total for items that will not be reclassified	12,388	(733)	53,081
Items that may be reclassified to the Consolidated income statement:			
Exchange differences in translation of overseas operations	2,960	434	12,151
Exchange differences in translation of overseas joint venture	456	(229)	118
Current tax on translation of net investments in foreign operations	(310)	(245)	(1,529)
Effective portion of changes in fair value of cash flow hedges, net of recycling	1,870	(3,256)	(28,423)
Deferred tax on effective portion of changes in fair value of cash flow hedges	(318)	607	6,155
Total for items that may be reclassified	4,658	(2,689)	(11,528)
Total other comprehensive income and expense, net of tax	17,046	(3,422)	41,553
Total comprehensive income and expense for the period	81,114	65,111	161,904
Attributable to:			
Equity shareholders of the parent company	81,114	65,111	161,904
Non-controlling interest	-	-	-
Total comprehensive income and expense for the period	81,114	65,111	161,904

Consolidated balance sheet

		Unaudited At 31 December 2022 £'000	Unaudited At 31 December 2021 £'000	Audited At 30 June 2022 £'000
	Notes			
Assets				
Property, plant and equipment	8	254,640	248,098	243,853
Right-of-use assets		9,321	11,973	9,950
Investment properties		10,374	-	10,568
Intangible assets	9	46,117	44,917	44,218
Investments in associates and joint ventures		21,905	17,920	20,570
Finance lease receivables		6,223	6,814	6,961
Employee benefits		61,788	-	43,241
Deferred tax assets		22,786	21,150	22,893
Derivatives	10	3,542	6,836	-
Total non-current assets		436,696	357,708	402,254
Current assets				
Inventories		179,754	135,895	162,482
Trade receivables	10	123,141	111,864	127,551
Finance lease receivables		3,125	1,524	3,348
Contract assets		1,455	757	578
Short-term loans to associates and joint ventures		155	616	302
Current tax		7,382	3,279	8,901
Other receivables		31,929	27,174	27,068
Derivatives	10	3,948	9,839	7,121
Pension scheme cash escrow account		-	10,580	-
Bank deposits		155,541	160,000	100,000
Cash and cash equivalents		55,957	62,038	153,162
Total current assets		562,387	523,566	590,513
Current liabilities				
Trade payables		21,434	27,954	30,947
Contract liabilities		8,298	5,707	12,956
Current tax		5,989	6,700	10,078
Provisions		3,513	6,342	4,244
Derivatives	10	16,149	3,877	17,890
Lease liabilities		3,535	3,644	3,714
Borrowings		959	972	919
Other payables		41,873	47,732	51,949
Total current liabilities		101,750	102,928	132,697
Net current assets		460,637	420,638	457,816
Non-current liabilities				
Lease liabilities		6,068	8,672	6,466
Borrowings		4,933	5,919	5,160
Employee benefits		328	20,229	996
Deferred tax liabilities		26,952	12,029	22,815
Derivatives	10	5,933	1,598	9,463
Total non-current liabilities		44,214	48,447	44,900
Total assets less total liabilities		853,119	729,899	815,170
Equity				
Share capital		14,558	14,558	14,558
Share premium		42	42	42
Own shares held		(2,963)	(750)	(750)
Currency translation reserve		17,565	3,679	14,459
Cash flow hedging reserve		(9,371)	8,696	(10,923)
Retained earnings		833,807	704,553	798,541
Other reserve		58	(302)	(180)
Equity attributable to the shareholders of the parent company		853,696	730,476	815,747
Non-controlling interest		(577)	(577)	(577)
Total equity		853,119	729,899	815,170

Consolidated statement of changes in equity

Unaudited	Share capital £'000	Share premium £'000	Own shares held £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1 July 2021	14,558	42	(404)	3,719	11,345	674,603	44	(577)	703,330
Profit for the period	-	-	-	-	-	68,533	-	-	68,533
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	(733)	-	-	(733)
Foreign exchange translation differences	-	-	-	189	-	-	-	-	189
Relating to associates and joint ventures	-	-	-	(229)	-	-	-	-	(229)
Changes in fair value of cash flow hedges	-	-	-	-	(2,649)	-	-	-	(2,649)
Total other comprehensive income and expense	-	-	-	(40)	(2,649)	(733)	-	-	(3,422)
Total comprehensive income and expense	-	-	-	(40)	(2,649)	67,800	-	-	65,111
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	58	-	58
Own shares transferred on vesting	-	-	404	-	-	-	(404)	-	-
Own shares purchased	-	-	(750)	-	-	-	-	-	(750)
Dividends paid	-	-	-	-	-	(37,850)	-	-	(37,850)
Balance at 31 December 2021	14,558	42	(750)	3,679	8,696	704,553	(302)	(577)	729,899
Profit for the period	-	-	-	-	-	51,818	-	-	51,818
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	53,814	-	-	53,814
Foreign exchange translation differences	-	-	-	10,433	-	-	-	-	10,433
Relating to associates and joint ventures	-	-	-	347	-	-	-	-	347
Changes in fair value of cash flow hedges	-	-	-	-	(19,619)	-	-	-	(19,619)
Total other comprehensive income and expense	-	-	-	10,780	(19,619)	53,814	-	-	44,975
Total comprehensive income and expense	-	-	-	10,780	(19,619)	105,632	-	-	96,793
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	122	-	122
Dividends paid	-	-	-	-	-	(11,644)	-	-	(11,644)
Balance at 30 June 2022	14,558	42	(750)	14,459	(10,923)	798,541	(180)	(577)	815,170
Profit for the period	-	-	-	-	-	64,068	-	-	64,068
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	12,388	-	-	12,388
Foreign exchange translation differences	-	-	-	2,650	-	-	-	-	2,650
Relating to associates and joint ventures	-	-	-	456	-	-	-	-	456
Changes in fair value of cash flow hedges	-	-	-	-	1,552	-	-	-	1,552
Total other comprehensive income and expense	-	-	-	3,106	1,552	12,388	-	-	17,046
Total comprehensive income and expense	-	-	-	3,106	1,552	76,456	-	-	81,114
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	238	-	238
Own shares purchased	-	-	(2,213)	-	-	-	-	-	(2,213)
Dividends paid	-	-	-	-	-	(41,190)	-	-	(41,190)
Balance at 31 December 2022	14,558	42	(2,963)	17,565	(9,371)	833,807	58	(577)	853,119

Consolidated statement of cash flow

	Unaudited 6 months to 31 December 2022 £'000	Unaudited 6 months to 31 December 2021 £'000	Audited Year ended 30 June 2022 £'000
Cash flows from operating activities			
Profit for the period	64,068	68,533	120,351
Adjustments for:			
Depreciation of property, plant and equipment, and investment properties	8,741	9,748	25,898
Loss on sale of property, plant and equipment	302	17	157
Impairment of property, plant and equipment	-	-	1,259
Depreciation of right-of-use assets	1,974	1,981	4,205
Impairment of right-of-use-assets	-	-	1,837
Amortisation of development costs	2,527	4,035	4,698
Amortisation of other intangibles	581	396	1,225
Impairment of development costs	-	185	-
Write-off of intangible assets	-	-	3,510
Share of profits from associates and joint ventures	(1,803)	(1,515)	(4,342)
Profit on disposal of investment in associate	-	-	(582)
Derecognition of lease liabilities	-	-	(1,985)
UK defined benefit pension scheme past service cost	-	-	11,695
Financial income	(5,003)	(445)	(932)
Financial expenses	290	658	2,938
(Gains)/losses from the fair value of financial instruments	(4,350)	2,936	8,349
Share based payment expense	239	59	180
Tax expense	13,746	12,949	25,235
	17,244	31,004	83,345
Increase in inventories	(17,272)	(22,332)	(48,919)
Decrease/(increase) in trade and other receivables	1,777	5,375	(11,301)
(Decrease)/increase in trade and other payables	(24,411)	(1,075)	12,288
(Decrease)/increase in provisions	(732)	83	(2,015)
	(40,638)	(17,949)	(49,947)
Defined benefit pension scheme contributions	(2,260)	(4,431)	(8,866)
Income taxes paid	(16,858)	(10,366)	(23,410)
Cash flows from operating activities	21,556	66,791	121,473
Investing activities			
Purchase of property, plant and equipment, and investment properties	(20,229)	(12,199)	(30,960)
Sale of property, plant and equipment	2,636	363	687
Development costs capitalised	(4,201)	(4,820)	(7,966)
Purchase of other intangibles	(609)	(784)	(929)
(Increase)/decrease in bank deposits	(55,541)	(40,000)	20,000
Interest received	2,575	261	834
Dividend received from associates and joint ventures	924	-	525
Proceeds from sale of shares in associate	-	-	582
Payments from pension scheme cash escrow account	-	-	10,578
Cash flows from investing activities	(74,445)	(57,179)	(6,649)
Financing activities			
Repayment of borrowings	(494)	(471)	(974)
Interest paid	(274)	(324)	(591)
Repayment of principal of lease liabilities	(2,100)	(1,741)	(4,081)
Own shares purchased	(2,212)	(750)	(750)
Dividends paid	(41,190)	(37,845)	(49,494)
Cash flows from financing activities	(46,270)	(41,131)	(55,890)
Net (decrease)/increase in cash and cash equivalents	(99,159)	(31,519)	58,934
Cash and cash equivalents at the beginning of the period	153,162	95,008	95,008
Effect of exchange rate fluctuations on cash held	1,954	(1,451)	(780)
Cash and cash equivalents at the end of the period	55,957	62,038	153,162

Notes

1. Basis of preparation

The Interim report, which includes the condensed consolidated financial statements for the six months ended 31 December 2022, was approved by the Directors on 2 February 2023.

The condensed consolidated financial statements for the six months ended 31 December 2022 were prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as issued by the International Accounting Standards Board and as adopted by the UK. These apply the same accounting policies, presentation and methods of calculation as were applied in the preparation of the Group's consolidated financial statements for the year ended 30 June 2022, except for income taxes which are accrued using the forecast tax rate for the financial year, and except for the adoption of new accounting standards.

The condensed consolidated financial statements included in this Report have not been audited and do not constitute the Group's statutory accounts as defined in section 434 of the Companies Act 2006. The information relating to the year ended 30 June 2022 is an extract from the Group's published Annual Report for that year, which has been delivered to the Registrar of Companies, and on which the auditor's report was unqualified and did not contain any emphasis of matter or statements under section 498(2) or 498(3) of the Companies Act 2006.

Going concern

The Directors have prepared the unaudited interim financial information on a going concern basis. In considering the going concern basis, the Directors have considered the previously mentioned principal risks and uncertainties, as well as the Group's current trading performance and updated cashflow forecasts. The Directors have also considered the financial resources available to the Group, with net current assets of £460.6m at 31 December 2022 (compared to £457.8m at 30 June 2022), including £211.5m net cash and bank deposits at 31 December 2022.

We have updated our reverse stress testing to identify what would need to happen in the period to 31 January 2024 to result in the Group having negative bank deposit and cash balances. We found that this would occur if revenue fell to £24m, for each of the 12 months to January 2024. The £24m per month is before consideration of longer-term mitigating actions such as reducing labour costs and reducing capital expenditure, and is considerably lower than forecast. This assessment reflects the conclusion that the overall impact and likelihood of our principal risks is not considered to have changed significantly during the period.

Having made appropriate enquiries, the Directors are satisfied that, at the time of approving the unaudited condensed consolidated financial statements, it is appropriate to continue to adopt a going concern basis of accounting.

2. Segmental information

The Group manages its business in two segments, comprising Manufacturing technologies and Analytical instruments and medical devices. Within the operating segments, there are multiple product offerings with similar economic characteristics, similar production processes and similar customer bases. The results of these segments are regularly reviewed by the Board to allocate resources and to assess their performance. More details of the Group's products and services are given in the Strategic Report of the 2022 Annual Report.

In normal trading conditions, whilst future revenue is difficult to predict given that the Group's outstanding order book is typically less than three months' worth of revenue value, larger consumer electronics orders in the APAC region within the manufacturing technologies segment typically fall in the first or last quarter of the financial year. In addition, the Group typically experiences lower demand in August and December, and so revenue and operating profits are typically lower in the first half of the year. This information is provided to allow for a better understanding of the results, and management do not believe that the business is 'highly seasonal' in accordance with IAS 34.

6 months to 31 December 2022	Manufacturing technologies	Analytical instruments and medical devices	Total
	£'000	£'000	£'000
Revenue	330,916	16,763	347,679
Depreciation, amortisation and impairment	12,841	982	13,823
Operating profit before gains from fair value of financial instruments	72,957	133	73,090
Share of profits from associates and joint ventures	-	-	1,803
Net financial income	-	-	4,713
Losses from the fair value of financial instruments	-	-	(1,792)
Profit before tax	-	-	77,814

6 months to 31 December 2021			
Revenue	308,707	16,469	325,176
Depreciation, amortisation and impairment	15,508	837	16,345
Operating profit before gains from fair value of financial instruments	80,938	1,555	82,493
Share of profits from associates and joint ventures	1,515	-	1,515
Net financial expense	-	-	(213)
Losses from the fair value of financial instruments	-	-	(2,313)
Profit before tax	-	-	81,482
Year ended 30 June 2022			
Revenue	634,588	36,488	671,076
Depreciation, amortisation and impairment	36,552	2,570	39,122
Operating profit before losses from fair value of financial instruments	162,549	2,809	165,358
Share of profits from associates and joint ventures	4,342	-	4,342
Net financial expense	-	-	(2,006)
UK defined benefit pension scheme past service cost	-	-	(11,695)
Losses from the fair value of financial instruments	-	-	(10,413)
Profit before tax	-	-	145,586

There is no allocation of assets and liabilities to operating segments. Depreciation is included within certain other overhead expenditure which is allocated to segments on the basis of the level of activity.

The following table shows the disaggregation of Group revenue by category:

	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Goods, capital equipment and installation	318,959	299,077	615,641
Aftermarket services	28,720	26,099	55,435
Total Group revenue	347,679	325,176	671,076

Aftermarket services include repairs, maintenance and servicing, programming, training, extended warranties, and software licences and maintenance.

The following table shows the analysis of revenue by geographical market:

	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
APAC	161,726	160,562	317,023
UK (country of domicile)	18,942	15,485	31,536
EMEA, excluding UK	83,497	80,007	174,290
EMEA	102,439	95,492	205,826
Americas	83,514	69,122	148,227
Total Group revenue	347,679	325,176	671,076

Revenue in the above table has been allocated to regions based on the geographical location of the customer. Countries with individually material revenue figures in the context of the Group were:

	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
China	81,112	80,700	152,772
USA	73,157	60,324	128,531
Japan	34,678	32,066	69,829
Germany	30,089	27,600	58,636

There was no revenue from transactions with a single external customer amounting to 10% or more of the Group's total revenue.

3. Cost of sales

	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Production costs	126,333	115,477	234,919
Research and development expenditure	36,202	27,944	59,415
Other engineering expenditure	14,114	12,644	26,356
Gross engineering expenditure	50,316	40,588	85,771
Development expenditure capitalised (net of amortisation)	(1,674)	(785)	(3,268)
Development expenditure impaired	-	185	-
Research and development tax credit	(2,533)	(2,172)	(3,895)
Total engineering costs	46,109	37,816	78,608
Total cost of sales	172,442	153,293	313,527

4. Financial income and expenses

	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Financial income			
Fair value gains from one-month forward currency contracts	59	-	98
Interest on pension schemes' assets	844	-	-
Currency gains	1,525	184	-
Bank interest receivable	2,575	261	834
Total financial income	5,003	445	932
Financial expenses			
Interest on pension schemes' liabilities	16	156	306
Currency losses	-	-	1,414
Fair value losses from one-month forward currency contracts	-	178	-
Realised currency reserve losses from discontinuation of foreign operation	-	-	575
Lease interest	171	236	481
Interest payable on borrowings	52	30	52
Other interest payable	51	58	110
Total financial expenses	290	658	2,938

Currency gains and losses relate to revaluations of foreign currency-denominated balances using latest reporting currency exchange rates. Certain intragroup balances are classified as 'net investments in foreign operations', such that revaluations from currency movements on designated balances accumulate in the Currency translation reserve in Equity. Rolling one-month forward currency contracts are used to offset currency movements on remaining intragroup balances, with fair value gains and losses being recognised in financial income or expenses.

5. Taxation

The income tax expense in the Consolidated income statement has been estimated at a rate of 17.7% (H1 FY2022: 15.9%), based on management's best estimate of the full year effective tax rates by geographical unit applied to half-year profits. This is comparable with the 17.3% achieved in FY2022, and includes an increase in the UK effective tax rate for the year to 20.5% from 19%, which is largely offset by a forecast increase in the patent box benefit.

6. Earnings per share

The earnings per share for the six months ended 31 December 2022 is calculated on earnings of £64,068,000 (December 2021: £68,533,000) and on 72,719,565 shares (December 2021: 72,774,147 shares), being the number of shares in issue during the period. This excludes 68,978 shares (December 2021: 14,396 shares) held by the Renishaw Employee Benefit Trust.

7. Dividends

	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Dividends paid during the period were:			
FY2022 final dividend paid of 56.6p per share (2021: 52.0p)	41,190	37,850	37,850
Interim dividend paid of 16.0p per share (2022: 14.0p)	-	-	11,644
Total dividends paid during the period	41,190	37,850	49,494

All shareholders on the register on 10 March 2023 will be paid an interim dividend of 16.8p net per share on 11 April 2023, resulting in a dividend payable of £12,228,475.

8. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 July 2022	217,820	263,557	7,520	7,481	496,378
Additions	1,080	1,078	710	17,363	20,231
Transfers	44	886	-	(930)	-
Disposals	(73)	(4,508)	(863)	-	(5,444)
Currency adjustment	2,066	868	37	-	2,971
At 31 December 2022	220,937	261,881	7,404	23,914	514,136
Depreciation					
At 1 July 2022	43,816	202,214	6,495	-	252,525
Charge for the period	1,955	6,539	140	-	8,634
Released on disposals	-	(1,848)	(658)	-	(2,506)
Currency adjustment	278	527	38	-	843
At 31 December 2022	46,049	207,432	6,015	-	259,496
Net book value					
At 31 December 2022	174,888	54,449	1,389	23,914	254,640
At 30 June 2022	174,004	61,343	1,025	7,481	243,853

Additions to assets in the course of construction of £17,363,000 (December 2021: £5,927,000) comprise £8,474,000 (December 2021: £1,095,000) for freehold land and buildings and £8,889,000 (December 2021: £4,832,000) for plant and equipment. At the end of the period, assets in the course of construction, not yet transferred, of £23,914,000 (December 2021: £11,602,000) comprise £9,707,000 (December 2021: £4,308,000) for freehold land and buildings and £14,207,000 (December 2021: £7,294,000) for plant and equipment.

9. Intangible assets

	Goodwill £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost					
At 1 July 2022	20,475	4,629	168,212	22,379	215,695
Additions	-	255	4,201	354	4,810
Disposals	-	-	-	(76)	(76)
Currency adjustment	201	10	-	43	254
At 31 December 2022	20,676	4,894	172,413	22,700	220,683
Amortisation					
At 1 July 2022	9,028	2,240	139,460	20,749	171,477
Charge for the period	-	92	2,527	489	3,108
Released on disposals	-	-	-	(44)	(44)
Currency adjustment	-	(10)	-	35	25
At 31 December 2022	9,028	2,322	141,987	21,229	174,566
Net book value					
At 31 December 2022	11,648	2,572	30,426	1,471	46,117
At 30 June 2022	11,447	2,389	28,752	1,630	44,218

As detailed in the 2022 Annual Report, the key assumption in determining the value-in-use of intangible assets are sales forecasts. Latest sales forecasts, and other factors which may impact the business plans, for relevant cash generating units have been reviewed for indicators of impairment at 31 December 2022. This includes a revision to our discount rate from 9.0% to 10.4% based on prevailing market assumptions at 31 December 2022. As a result, no impairments have been recognised in the six months to 31 December 2022 (December 2021: £185,000).

10. Financial instruments

There is no significant difference between the fair value of financial assets and financial liabilities and their book value in the Consolidated balance sheet. All financial assets and liabilities are held at amortised cost, apart from the forward exchange contracts which are held at fair value, with changes going through the Consolidated income statement unless subject to hedge accounting. The fair values of the forward exchange contracts have been calculated by a third-party expert, discounting estimated future cash flows on the basis of market expectations of future exchange rates, representing level 2 in the IFRS 13 fair value hierarchy. There were no transfers between levels during any period disclosed.

Credit risk

The Group carries a credit risk relating to non-payment of trade receivables by its customers and establishes an allowance for impairment in respect of trade receivables where recoverability is considered doubtful. In the six months to 31 December 2022, the Group has not experienced a deterioration in debtor repayments nor in the assumptions used in calculating allowances for expected credit losses. At 31 December 2022, total expected credit losses amounted to £2,441,000, being 1.9% of gross trade receivables, compared with £2,540,000 at 30 June 2022, being 2.0% of gross trade receivables.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, and the Group continues to use monthly cash flow forecasts on a rolling 12-month basis to monitor cash requirements. Net cash and bank deposits at 31 December 2022 totalled £211,498,000, compared with £253,162,000 at 30 June 2022. This reduction included a dividend payment of £41,193,000 and cash generation from operating activities of £21,556,000 during the period. In consideration of this, the Group remains in a strong liquidity position.

Market risk

At 31 December 2022 the total nominal value of USD, EUR and JPY forward contracts held for cash flow hedging purposes was £525,603,000 (December 2021: £516,547,000). At 31 December 2022 the remaining nominal value of USD, EUR and JPY forward contracts ineffective for cash flow hedging and yet to mature amounted to £21,950,000 (December 2021: £109,199,000), with no additional forward contracts becoming ineffective for hedge accounting purposes in the six months to 31 December 2022. A decrease of 10% in the highly probable revenue forecasts of Renishaw plc and Renishaw UK Sales Limited, being the hedged item, would result in an additional £5.8m of forward contracts becoming ineffective at 31 December 2022. On an ongoing basis, a 10% depreciation of GBP against USD, EUR and JPY would result in a £2,439,000 gain being recognised in the Consolidated Income Statement, while a 10% appreciation would result in a £1,995,000 loss. Fair value gains and losses relating to this have been excluded from adjusted profit measures, see note 12 for further detail.

11. Employee benefits

The net surplus of the Group's defined benefit pension schemes, on an IAS 19 basis, has increased from a £42,245,000 net asset at 30 June 2022 to a £61,460,000 net asset at 31 December 2022. This mostly relates to a reduction in liabilities resulting from a 1.05% increase in the UK scheme discount rate. Changes to other key assumptions from 30 June 2022 to 31 December 2022 have not had a material effect on these financial statements. During the first half of this financial year, there has also been a change in the UK scheme asset portfolio, to increase the proportion of assets held as gilts and therefore increase the correlation with future liability exposure.

12. Alternative performance measures

In accordance with Renishaw's Alternative Performance Measures (APMs) policy and ESMA Guidelines on Alternative Performance Measures (2015), APMs are defined as - Revenue at constant exchange rates, Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit.

Revenue at constant exchange rates is defined as revenue recalculated using the same rates as were applicable to the previous year and excluding forward contract gains and losses.

Revenue at constant exchange rates	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000
Statutory revenue as reported	347,679	325,176
Adjustment for forward contract losses	7,045	391
Adjustment to restate at previous year exchange rates	(26,239)	-
Revenue at constant exchange rates	328,485	325,567
Year-on-year revenue growth at constant exchange rates	1%	-

Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit are defined as the profit before tax, earnings per share and operating profit after excluding costs relating to business restructuring, third-party costs relating to the formal sales process ('FSP'), and gains and losses in fair value from forward currency contracts which did not qualify for hedge accounting and which have yet to mature.

From FY2017, the gains and losses from the fair value of financial instruments not effective for cash flow hedging have been excluded from statutory profit before tax, statutory earnings per share and statutory operating profit in arriving at Adjusted profit before tax,

Adjusted earnings per share and Adjusted operating profit, to reflect the Board's intent that the instruments would provide effective hedges. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)' in the following reconciliations. The amounts shown as reported in revenue represent the amount by which revenue would change had all the derivatives qualified as eligible for hedge accounting. Gains and losses which recycle through the Consolidated income statement as a result of contracts deemed ineffective during FY2020 are also excluded from adjusted profit measures, on the basis that all forward contracts are still expected to be effective hedges for Group revenue, while the potentially high volatility in fair value gains and losses relating to these contracts will otherwise cause confusion for users of the financial statements wishing to understand the underlying trading performance of the Group. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)' in the following reconciliations.

The Board considers these alternative performance measures to be more relevant and reliable in evaluating the Group's performance.

Adjusted profit before tax	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Statutory profit before tax	77,814	81,482	145,586
Revised estimate of FY2020 restructuring provisions	-	-	(1,688)
Third-party FSP costs	-	(200)	(200)
UK defined benefit pension scheme past service cost	-	-	11,695
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	-	2,621	2,621
- reported in (gains)/losses from the fair value of financial instruments - derivatives	-	(1,138)	(1,138)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in revenue	(6,142)	(1,998)	(4,685)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	1,792	3,451	11,551
Adjusted profit before tax	73,464	84,218	163,742
Adjusted earnings per share	6 months to 31 December 2022 pence	6 months to 31 December 2021 pence	Year ended 30 June 2022 pence
Statutory earnings per share	88.1	94.2	165.4
Revised estimate of FY2020 restructuring provisions	-	-	(0.3)
Third-party FSP costs	-	(0.2)	(1.9)
UK defined benefit pension scheme past service cost	-	-	13.0
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	-	2.9	2.9
- reported in (gains)/losses from the fair value of financial instruments - derivatives	-	(1.3)	(1.3)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in revenue	(6.7)	(2.2)	(5.2)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	2.0	3.8	12.9
Adjusted earnings per share	83.4	97.2	185.5
Adjusted operating profit	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Statutory operating profit	71,298	80,180	143,250
Revised estimate of FY2020 restructuring provisions	-	-	(1,688)
Third-party FSP costs	-	(200)	(200)
UK defined benefit pension scheme past service cost	-	-	11,695
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	-	2,621	2,621
- reported in (gains)/losses from the fair value of financial instruments - derivatives	-	(1,138)	(1,138)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in revenue	(6,142)	(1,998)	(4,685)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	1,792	3,451	11,551
Adjusted operating profit	66,948	82,916	161,406

Adjustments to segmental operating profit:

Manufacturing technologies	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Operating profit before gain/loss from fair value of financial instruments and UK defined benefit pension scheme past service cost	72,957	80,938	162,549
Revised estimate of 2020 restructuring provisions	-	-	(1,688)
Third-party FSP costs	-	(196)	(197)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i) - reported in revenue	-	2,572	2,576
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii) - reported in revenue	(6,131)	(1,960)	(4,605)
Adjusted manufacturing technologies operating profit	66,826	81,354	158,635

Analytical instruments and medical devices	6 months to 31 December 2022 £'000	6 months to 31 December 2021 £'000	Year ended 30 June 2022 £'000
Operating profit before loss from fair value of financial instruments and UK defined benefit pension scheme past service cost	133	1,555	2,809
Third-party FSP costs	-	(4)	(3)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i) - reported in revenue	-	49	45
Fair value gains on financial instruments not eligible for hedge accounting (ii) - reported in revenue	(11)	(38)	(80)
Adjusted analytical instruments and medical devices operating profit	122	1,562	2,771

13. Related party transactions and events subsequent to the end of the reporting period

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Full details of the Group's other related party relationships, transactions and balances are given in the Group's Annual Report for the year ended 30 June 2022.

No related party transactions have taken place in the first six months of the financial year, or events subsequent to the end of the reporting period, that have materially affected the financial position or the performance of the Group during that period.

14. Responsibility statement

The condensed set of financial statements is the responsibility of, and has been approved by, the Directors. We confirm that to the best of our knowledge:

- As required by DTR 4.2 of the Disclosure Rules and Transparency Rules, the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole. The Interim report has been prepared in accordance with IAS 34, 'Interim Financial Reporting', as issued by the International Accounting Standards Board and as adopted by the UK.
- The Interim report includes a fair review of the information required by:

(a) DTR 4.2.7 of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year 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 year; and

(b) DTR 4.2.8 of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board

Allen Roberts FCA
Group Finance Director
2 February 2023

Financial calendar

2023 interim dividend record date	10 March 2023
2023 interim dividend payment date	11 April 2023
Investor day	8 June 2023

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