

# 2020 Interim Results

**Roy Twite – Chief Executive**  
**Daniel Shook – Finance Director**

# Key messages

- Resilient operational performance in demanding circumstances, reflects a strong and flexible business model.
- Profit improvement initiatives sustain margins.
- Strategic reorganisation projects progressing largely as planned with £19m of benefits in H1; full year benefits expected to be £30m.
- Sustainable growth culture gaining traction.
- 2019 final dividend re-instated.
- 2020 interim dividend targets baseline EPS cover of 3.0x.
- Return to qualified guidance: assuming no worsening of the current Coronavirus impact, we expect 2020 adjusted EPS of 65p to 70p.

# Coronavirus

- Top priority remains the health and safety of IMI employees.
- Significant commitment to support Life Sciences customers – including rapid increase in production of ventilator components.
- Group-wide factory availability now over 97%.
- Rigorous protection and social distancing protocols remain in force.



# **Business review**

Daniel Shook – Finance Director

# Organic revenue and operating profit

£m

	6 months to 30 June 2020				6 months to 30 June 2019		
	Adjusted	Adjusted excluding PBM	Adjusted Growth (%)	Organic Growth (%)*	Adjusted	Foreign Exchange	Organic
<b>Revenue</b>							
IMI Precision Engineering	430	430	-7%	-7%	463	1	464
IMI Critical Engineering	293	281	0%	-4%	294	(1)	293
IMI Hydronic Engineering	144	144	-6%	-5%	153	(1)	152
<b>Total</b>	<b>867</b>	<b>855</b>	<b>-5%</b>	<b>-6%</b>	<b>910</b>	<b>(1)</b>	<b>909</b>
<b>Operating Profit</b>							
IMI Precision Engineering	72.9	72.9	-3%	-3%	74.8	0.2	75.0
IMI Critical Engineering	35.1	32.9	+6%	-1%	33.2	(0.1)	33.1
IMI Hydronic Engineering	24.6	24.6	-4%	-6%	25.5	0.8	26.3
Corporate costs	(11.6)	(11.6)			(15.5)	-	(15.5)
<b>Total</b>	<b>121.0</b>	<b>118.8</b>	<b>+3%</b>	<b>0%</b>	<b>118.0</b>	<b>0.9</b>	<b>118.9</b>
<b>Operating Profit Margin (%)</b>	<b>14.0%</b>	<b>13.9%</b>			13.0%		13.1%

- Resilient top-line through diverse end-market exposure.
- Margins improved to 14.0% despite the revenue decline.
- £20m of temporary cost-containment actions in H1, expect £30m in full year.

\*Organic growth after adjusting for exchange rates and excluding the impact of the PBM acquisition

# Income statement

£m

	2020 H1	2019 H1
Adjusted operating profit	121.0	118.0
Net interest expense	(5.5)	(7.8)
Net pension finance income/(expense)	0.1	(0.3)
<b>Adjusted profit before tax</b>	<b>115.6</b>	109.9
IFRS 9 adjustment	(2.9)	2.5
Restructuring costs	(9.7)	(12.5)
Gain on special pension events	-	2.5
Acquired intangible amortisation	(9.4)	(9.7)
Discontinued operations	-	2.8
<b>Profit before tax</b>	<b>93.6</b>	95.5
Taxation	(19.6)	(18.7)
<b>Total profit for the period</b>	<b>74.0</b>	76.8

- Net interest expense lower due to loan repayment in second half of 2019.
- Group pension position now in overall surplus of £2m.
- Restructuring charge of £10m to deliver footprint and permanent cost efficiencies.
- Acquired intangible amortisation includes charges for Bimba and PBM.

# Operating cash flow

£m

	2020 H1	2019 H1
Adjusted operating profit	121	118
Depreciation, impairment & amortisation	31	31
Lease depreciation	15	15
<b>EBITDA (from continuing operations)</b>	<b>167</b>	<b>164</b>
Inventory	(46)	(44)
Debtors	3	22
Creditors	10	(3)
<b>Working capital</b>	<b>(33)</b>	<b>(25)</b>
Capital expenditure	(21)	(28)
Provisions and employee benefits	3	-
Principal elements of lease payments	(15)	(16)
Asset sales/other	6	6
<b>Adjusting operating cash flow</b>	<b>107</b>	<b>101</b>

- Good cash delivery in the first half.
- Selective inventory build to protect customer service during heightened supply chain uncertainty.
- Debtor and creditor movements both favourable.
- Lower capital expenditure reflects prior year facility investment.

# Net cash flow

£m

	2020 H1	2019 H1
<b>Adjusting Operating cash flow</b>	<b>107</b>	101
Adjusting items	(24)	(6)
<b>Statutory Operating cash flow</b>	<b>83</b>	95
Interest	(5)	(8)
Derivatives	(25)	(1)
Tax paid	(17)	(22)
<b>Cash generation</b>	<b>36</b>	64
Dividend	-	(70)
Special pension contributions/other	(3)	(9)
<b>Net cash flow</b>	<b>33</b>	(15)
Opening net debt	(438)	(405)
Movement in lease liabilities	-	(91)
Foreign exchange/other	(15)	(5)
<b>Closing net debt</b>	<b>(420)</b>	(516)

- Adjusting items reflect £24m of restructuring spend, primarily in IMI Critical & IMI Precision.
- Adverse currency impact on net debt due to GBP weakness.
- Final 2019 dividend payment now to be paid in H2.
- Available liquidity of £445m.

£m

	2020 H1	2019 H1
Adjusted EBITDA	<b>167</b>	164
Net debt / Adjusted EBITDA	<b>1.2x</b>	1.5x



# Rationalisation summary

£m	2020 H1	2020	Future years	Overall programme
<b>Restructuring charge</b> (including impairment losses)				
IMI Precision Engineering	(5)	(10)	(45)	(75)
IMI Critical Engineering	(2)	(35)	-	(54)
IMI Hydronic Engineering	(3)	(5)	(1)	(6)
<b>Total charge</b>	<b>(10)</b>	<b>(50)</b>	<b>(46)</b>	<b>(135)</b>
Cash impact	(24)	(60)	(57)	(130)

£m	2020 H1	2020	Future years	Annualised
<b>Benefits</b>				
IMI Precision Engineering	13	20	14	35
IMI Critical Engineering	6	10	15	37
IMI Hydronic Engineering	-	-	3	3
<b>Total benefits</b>	<b>19</b>	<b>30</b>	<b>32</b>	<b>75</b>

# IMI Precision Engineering operational review

£m	2020 H1 Adjusted	FX	Organic	2019 H1 Adjusted
Adjusted revenue	430	1	(34)	463
Organic growth	-7%			-1%
Operating profit	72.9	0.2	(2.1)	74.8
Operating margin	17.0%			16.2%

Ventilators £m	Orders	Sales
2019 FY	21	23
2020 H1	107	49

## Sales by business unit\*

<b>Motion Control</b>	<b>£203m</b>
	Down 11%
Factory Automation	£184m
	Down 11%
Rail	£19m
	Down 13%
<b>Fluid Technologies</b>	<b>£164m</b>
	Up 20%
Life Sciences	£79m
	Up 82%
Process Control	£45m
	Down 11%
Energy	£40m
	Down 5%
<b>Commercial Vehicle</b>	<b>£63m</b>
	Down 37%

## Outlook

- In light of expected continued market weakness, and importantly no material changes in the second half of 2020 as a result of Coronavirus, expectations are for organic sales and profits in the full year to be approximately 10% lower than in 2019.

\* The sales segmentation has been reclassified compared to 2019, a bridge of 2019 sales is included in the appendices.

# IMI Critical Engineering operational review

£m	2020 H1 Adjusted	Acq'n	2020 H1 Adjusted excluding PBM	FX	Organic	2019 H1 Adjusted
Adjusted revenue	293	12	281	(1)	(12)	294
Organic growth			-4%			-9%
Operating profit	35.1	2.2	32.9	(0.1)	(0.2)	33.2
Operating margin	12.0%		11.7%			11.3%

## Outlook

- Based on order book phasing, and importantly no material changes in the second half of 2020 as a result of Coronavirus, the division expects organic revenue in the second half to be 5%-10% lower versus the prior year period.
- Margins for the full year are expected to be broadly flat when compared with 2019.

\* Order input figures include results of PBM, growth percentages are on an organic basis. The order segmentation has been reclassified compared to 2019, a bridge of 2019 orders is included in the appendices.

## Order input by sector\*

<b>Oil &amp; Gas</b>	<b>£86m</b> Up 56%
New Construction	£63m Up 103%
Aftermarket	£23m Down 5%
<b>Refining &amp; Petrochemical</b>	<b>£85m</b> Down 20%
New Construction	£41m Down 20%
Aftermarket	£44m Down 19%
<b>Power</b>	<b>£92m</b> Down 2%
New Construction	£28m Up 27%
Aftermarket	£64m Down 11%
<b>Marine</b>	<b>£15m</b> Down 63%
<b>Nuclear</b>	<b>£27m</b> Down 3%
<b>Other</b>	<b>£25m</b> Down 62%
<b>Total</b>	<b>£330m</b> Down 11%

# IMI Hydronic Engineering operational review

£m	2020 H1 Adjusted	FX	Organic	2019 H1 Adjusted
Adjusted revenue	144	(1)	(8)	153
Organic growth	-5%			4%
Operating profit	24.6	0.8	(1.7)	25.5
Operating margin	17.1%			16.7%

## Sales by sector

IMI TA	£71m Down 4%
IMI Heimeier	£43m Down 9%
IMI Pneumatex	£23m Down 1%
Other	£7m Down 13%

## Outlook

- Based on current market conditions, and importantly no material changes in the second half of 2020 as a result of Coronavirus, we expect second half organic revenue to be 5%-10% lower versus the second half of 2019.
- Margins in the second half are expected to be broadly flat when compared with the first half of 2020.



# Group outlook

- Our markets continue to be volatile which makes future forecasts challenging. However, based on current market conditions, and importantly no material changes in the second half of 2020 as a result of Coronavirus, we now expect full year 2020 adjusted earnings per share to be between 65p and 70p.

# Strategy Update

Roy Twite – Chief Executive

# Strategy update

- No change to our divisional margin targets.
- Restructuring programmes on track to deliver £30m in 2020 benefits.
- ‘Breakthrough Engineering for a Better World’ purpose gaining traction.
- Building upon our already strong ESG credentials.
- Cash flow and balance sheet strength to prioritise investment for growth.

# Towards divisional margin targets



## Target: 20% top of cycle

- £35m annualised benefits from footprint optimisation (£13m delivered in 2020 first half).
- Beat inflation through productivity, material cost reduction and value pricing.
- Growth through higher margin new products.



## Target: 17%-20%

- £37m annualised benefits from footprint optimisation (£6m delivered in 2020 first half).
- Margin improvement from addressing 20%-30%.
- Beat inflation through Value Engineering, material cost reduction, productivity and pricing in the Aftermarket.
- Growth through Aftermarket focus and expansion into more attractive segments.



## Target: 20%

- £3m annualised benefits from supply chain optimisation.
- Beat inflation through value pricing, productivity and Value Engineering.
- Growth through investment in pull-model, cross-selling and new products.



# Breakthrough Engineering...for growth



**Customer problem**

Surge in ventilator demand to address Covid-19 pandemic.

**IMI solution**

New capacity delivered for early delivery of micron-toleranced valves to support global customers & save lives.

**Customer value**

Precise respiratory control for ICU patients. Ability to meet surge demand, close technical support.

**Growth trend**

Consolidated reputation with world's leading ventilator OEMs and wider exposure to wider Life Sciences market.



Excessive noise & premature failure in boiler feed-pump recirculation valves.

DRAG® technology installed in existing valve bodies within scheduled outages using Valve Doctor expertise & 3-D printing technology.

Upgrade to industry-best performance at lower cost and with minimal disruption.

Extension of Aftermarket upgrade opportunities.



Need to expand refrigeration capabilities for safe meat storage.

More compact system leveraging IMI Hydronic and IMI Precision expertise to achieve a much lower cooling temperature than competition.

Greater absolute capacity and longer, safer storage capability.

Expansion of safe food storage and supply.



# Capital allocation for sustainable growth

- Improve free cash flow through profit growth and margin expansion.
- Capital investment c.£50m in 2020.
- Continue to pursue strategically and financially attractive acquisitions.
- 2020 interim dividend targets baseline EPS cover of 3.0x.

# Key messages

- Resilient operational performance in demanding circumstances.
- Profit improvement initiatives sustain margins.
- Strategic reorganisation projects progressing largely as planned.
- Sustainable growth culture gaining traction.
- 2019 final dividend re-instated.
- 2020 interim dividend targets baseline EPS cover of 3.0x.
- Return to qualified guidance: assuming no worsening of the current Coronavirus impact, we expect 2020 adjusted EPS of 65p to 70p.

# Q&A



# Appendices

# Rationalisation plans (at full year announcement)

£m	2019	2020	Overall programme
<b>Restructuring charge</b> (including impairment losses)			
IMI Precision Engineering	(31)*	(30)	(75)
IMI Critical Engineering	(19)	(10)	(29)
IMI Hydronic Engineering	-	(5)	(6)
<b>Total charge</b>	<b>(50)</b>	<b>(45)</b>	<b>(110)</b>
Cash impact	(24)	(60)	(105)

£m	2019	2020	Annualised
<b>Benefits</b>			
IMI Precision Engineering	11*	20	35
IMI Critical Engineering	12	5	17
IMI Hydronic Engineering	3*	-	3
<b>Total benefits</b>	<b>26</b>	<b>25</b>	<b>55</b>

Table above excludes corporate restructuring costs of £2.6m in 2019.

\* Includes £20m of charge and £1m of benefits from IMI Precision's £75m restructuring programme. £3m of IMI Hydronic benefits relate to prior year programmes.

# 2019 sales & orders reclassifications

## IMI Precision sales reclassification

£m	New Segmentation:	2019 H1 Total	Motion Control	Factory Automation	Rail	Fluid Technologies	Life Sciences	Process Control	Energy	Commercial Vehicle
Old segmentation:										
Industrial Automation		259	202	202		57	4	51	2	
Commercial Vehicle		104	4	4						100
Energy		40				40			40	
Life Sciences		39				39	39			
Rail		21	21		21					
2019 H1 Total		463	227	206	21	136	43	51	42	100

## IMI Critical orders reclassification

£m	New Segmentation:	2019 H1 Total	Oil & Gas	Refining & Petrochemical	Power	Marine	Nuclear	Other
Old segmentation:								
Aftermarket		179	24	45	72	7	28	3
Oil & Gas		58	31	27				
Power		22			22			
Petrochemical		34		34				
Marine		35				35		
Water		16						16
Other		14						14
2019 H1 Total		358	55	106	94	42	28	33

# Pensions

£m	June 2020	Dec 2019
<b>Total Position:</b>		
Liabilities	(706)	(655)
Assets	708	624
<b>Surplus/(deficit)</b>	<b>2</b>	<b>(31)</b>
<b>UK Schemes:</b>		
Liabilities	(538)	(500)
Assets	629	548
<b>Surplus</b>	<b>91</b>	<b>48</b>
<b>Overseas Schemes:</b>		
Liabilities	(168)	(155)
Assets	79	76
<b>Deficit</b>	<b>(89)</b>	<b>(79)</b>

# Foreign exchange

	HY 2020	HY 2019	Change
--	---------	---------	--------

## Average Rates

Euro	1.15	1.14	1%
US Dollar	1.26	1.29	-2%

	June 2020	Dec-19	Change
--	-----------	--------	--------

## Closing Rates

Euro	1.10	1.18	-7%
US Dollar	1.24	1.32	-6%

## Half Over Half P&L impact

Revenue	0%
Operating Profit	0%

## Projection for FY 2020\*

Revenue	1%
Operating Profit	1%

## Ready Reckoner for translation impact of movement in FX rates on 2020 FY Performance

Sensitivity to +/- 1 cent move in:	Revenue	Operating Profit
Euro	+/-£5.9m	+/-£0.7m
US Dollar	+/-£3.7m	+/-£0.7m

\*Compares the impact of projecting rates from 17 July 2020 (USD:1.26; EUR:1.10) for the full year and applying to our 2019 full year results.



*This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the statement. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.*