

Spectris Half year results 2020



*Value
beyond
measure*

Andrew Heath
Chief Executive

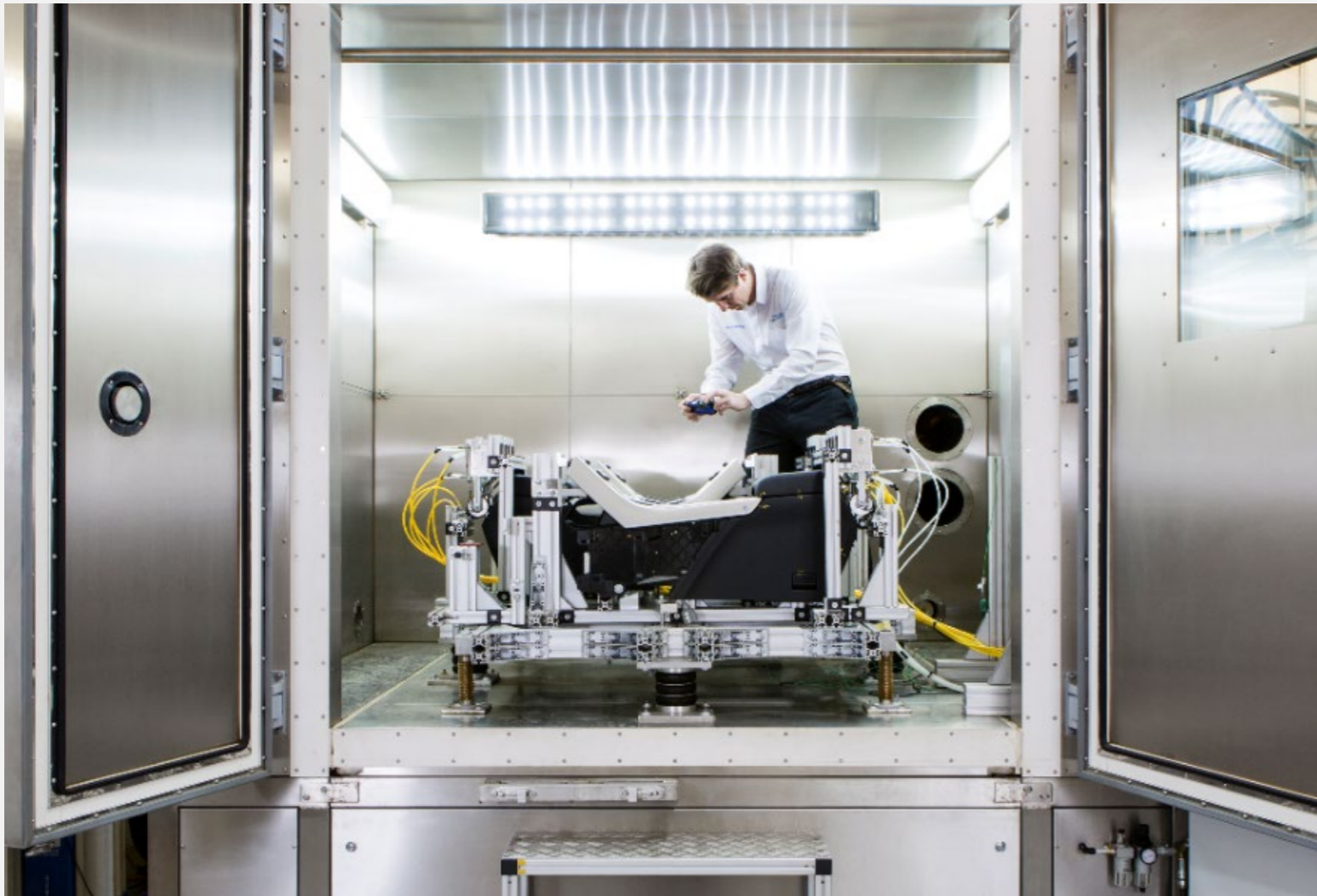
Agenda

- H1 2020 headlines
- Financial performance
- Operational performance
- Summary and outlook

H1 2020 headlines

- Continuing to prioritise the well-being of our people and taking a balanced approach to managing our business through this challenging period
- Better than expected Q2 performance: H1 sales of £599.0 million, a 14% LFL sales decrease
- Keen focus on cost control: continued execution of profit improvement programme and implementation of short-term, temporary cost measures delivered 11% reduction in LFL overheads
- Profit drop through of 32%: adjusted operating profit decreased 41%, on a LFL basis, to £44.1 million
- Strong cash generation: net cash of £94.3 million at 30 June and adjusted cash flow conversion of 201%
- Dividend reinstated: additional interim dividend of 43.2 pence per share to be paid in October in lieu of 2019 final dividend; interim dividend of 21.9 pence per share declared for payment in November
- Addressing new economic reality: profit improvement programme on track to deliver £20 million of benefits in 2020; restructuring programme announced and expected to deliver further benefits of £20 million in 2021
- Continued focus on strategy execution: deliver growth, drive operating margin expansion and optimise the portfolio

A balanced approach to managing our business



Deliver as strong a financial performance in 2020 whilst addressing the needs of all our stakeholders

React

- Support employees, customers and suppliers

Respond

- Reduce costs & preserve cast to protect the business

Reset

- Prepare for the recovery

Reinstate payments to stakeholders

Balanced scorecard to assess performance

Reset – prepare for the recovery

Prepare for the recovery

- Extended recovery period expected
- Need to switch temporary cost measures to more sustainable cost reductions
- Maintaining and protecting our strengths & capabilities
- Targeted initiatives at the most impacted businesses
- Sustain new working practices to be a lower cost organisation
- Profit improvement on track to deliver £20 million in 2020; new restructuring programme expected to deliver a further £20 million in 2021
- Benefits from:
 - Footprint rationalisation
 - Permanent reduction in discretionary spend
 - Resizing our capacity and headcount reductions
 - Portfolio optimisation - disposal programme and cessation/sale of low profitability business activities



Reinstate payments to stakeholders

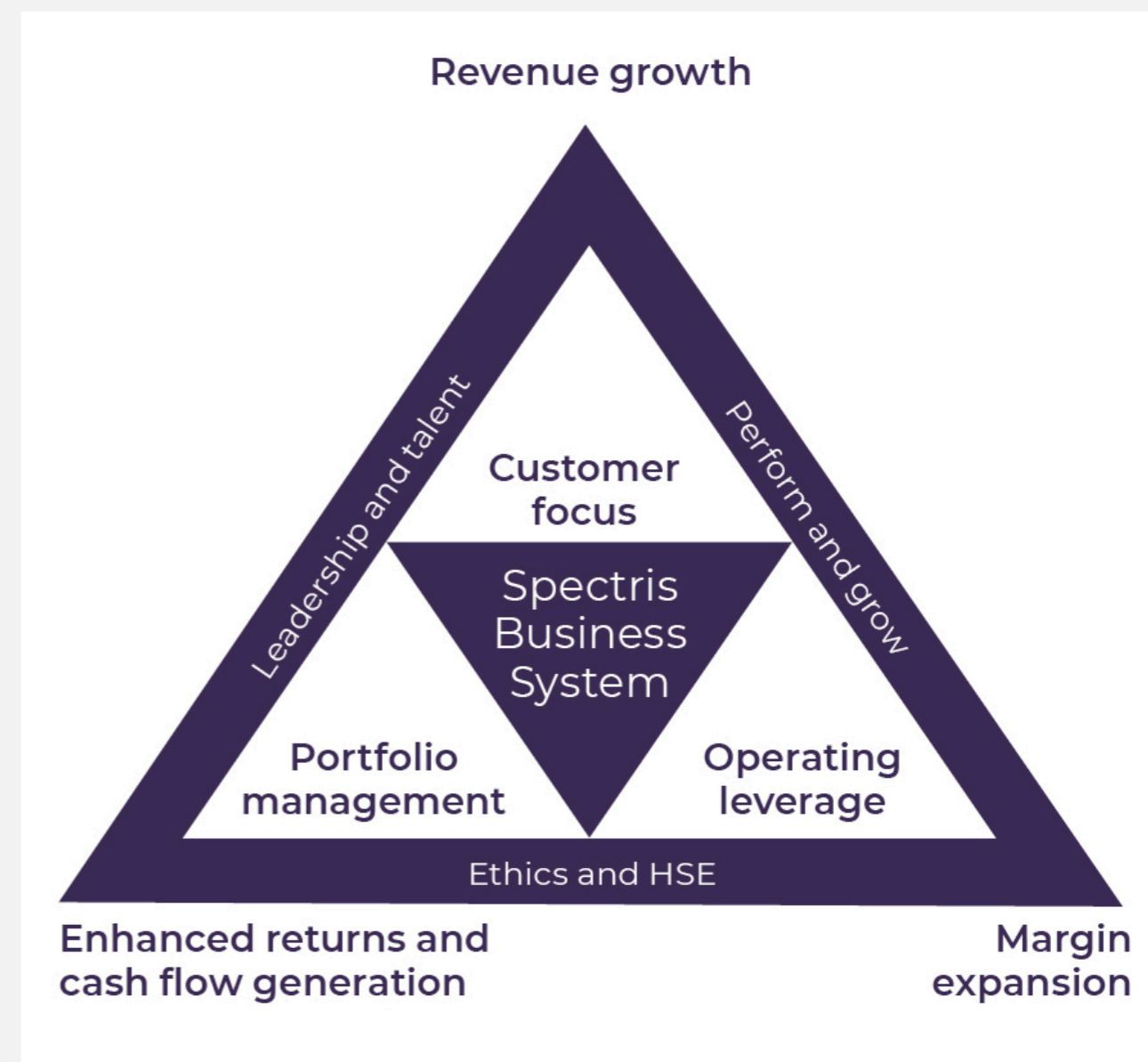
Reinstate payments to stakeholders

- Return to a sense of normality
- Incentivising all stakeholders
- Supported by strong H1 cashflow generation
- Employees
 - Salaries & full-time working reinstated August/September
 - Executive Director salaries & Board fees reinstated October
- Shareholders
 - Additional interim dividend of 43.2 pence to be paid in October, in lieu of 2019 final dividend
 - Interim dividend for H1 2020 of 21.9 pence to be paid in November



Strategic direction remains unchanged

- Drive growth
 - Strategic growth initiatives further enhance the product proposition, including:
 - Automation solutions at Malvern Panalytical
 - Simulation/eDrive offering at HBK
 - New product launches at Omega
- Margin expansion
 - Self-help initiatives to drive cost-efficiency
- Portfolio optimisation
 - Activity returning after initial COVID-19 halt
 - No change to divestment candidates
 - Acquisition pipeline continues to be worked
 - Maintain capital discipline
- Spectris Business System



Delivering *value beyond measure*

Our new Values and Code of Business Ethics

Be true

We believe in absolute integrity. It's how we win for stakeholders, the environment and each other

Own it

We believe in teamwork and keeping our promises. It's how we build our brands and businesses

Aim high

We believe in being bold and positive. It's how we perform at our best and achieve greater success



Derek Harding Chief Financial Officer

Challenging market conditions

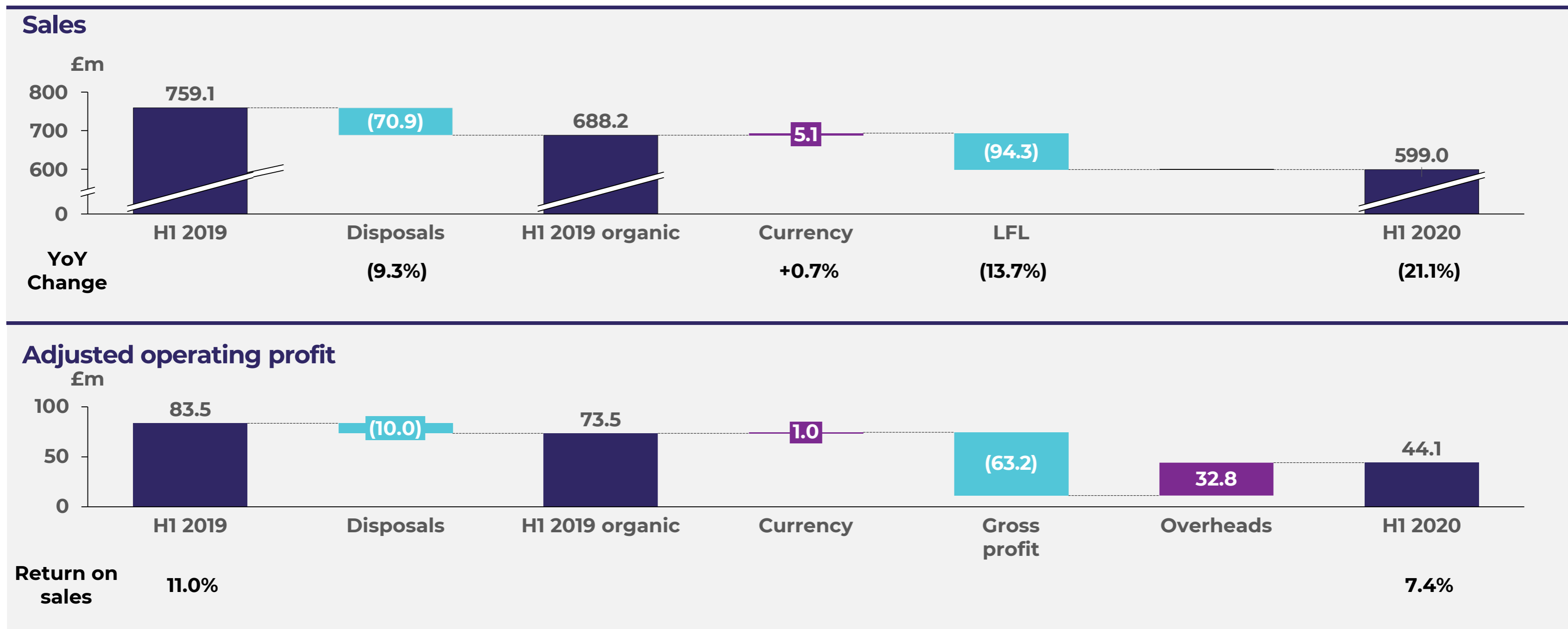
	H1 2020	H1 2019	Change	Like-for-like change ⁽²⁾
Sales (£m)	599.0	759.1	(21.1%)	(13.7%)
Adjusted operating profit (£m) ⁽¹⁾	44.1	83.5	(47.2%)	(41.0%)
Adjusted operating margin (%) ⁽¹⁾	7.4%	11.0%	(360 bps)	(340 bps)
Adjusted profit before tax (£m) ⁽¹⁾	40.4	77.2	(47.7%)	
Adjusted effective tax rate (%) ⁽¹⁾	22.0%	21.5%	(50 bps)	
Adjusted EPS (pence) ⁽¹⁾	27.2p	52.4p	(48.1%)	
DPS (pence)	21.9p	21.9p	-	
Adjusted cash conversion (%) ⁽¹⁾	201%	89%	112pp	
Net cash / (debt) (£m)	94.3	(312.6)	n.m.	
Return on gross capital employed (%) ⁽¹⁾	11.3%	13.4%	(210 bps)	

Notes

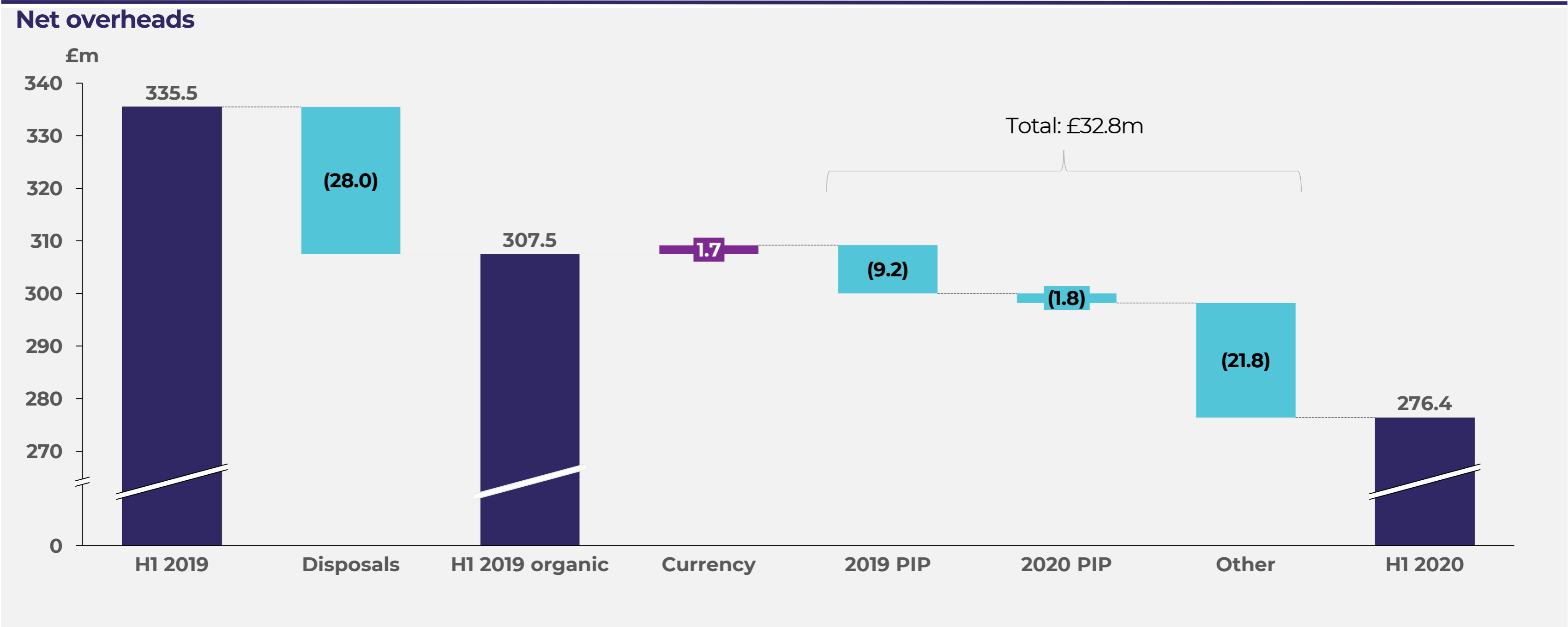
(1) These adjusted performance measures represent the statutory results excluding certain items.

(2) At constant exchange rates and including acquisitions and disposals on a comparable basis ('LFL').

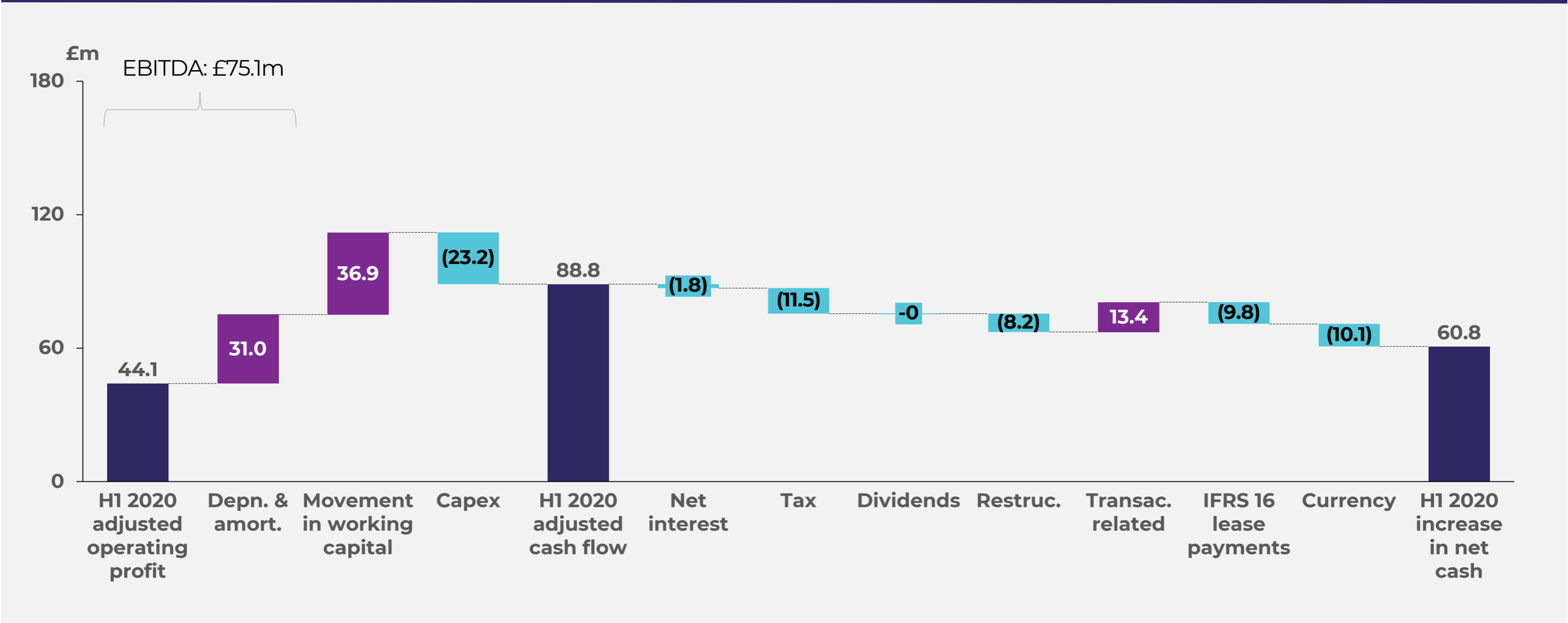
LFL sales and profit decline



Cost reduction measures



Strong cash flow conversion



Adjusted and statutory operating profit/(loss)

	H1 2020	H1 2019
Adjusted operating profit ⁽¹⁾	44.1	83.5
Restructuring costs	(3.0)	(29.1)
Net transaction-related costs and fair value adjustments	(2.0)	(6.3)
Depreciation of acquisition-related fair value adjustments to property, plant and equipment	(0.4)	(0.4)
Profit on disposal of property	-	5.2
Impairment of goodwill	(58.4)	(35.1)
Amortisation and impairment of acquisition-related intangible assets and impairment of other property plant and equipment	(36.5)	(63.9)
Statutory operating loss	(56.2)	(46.1)

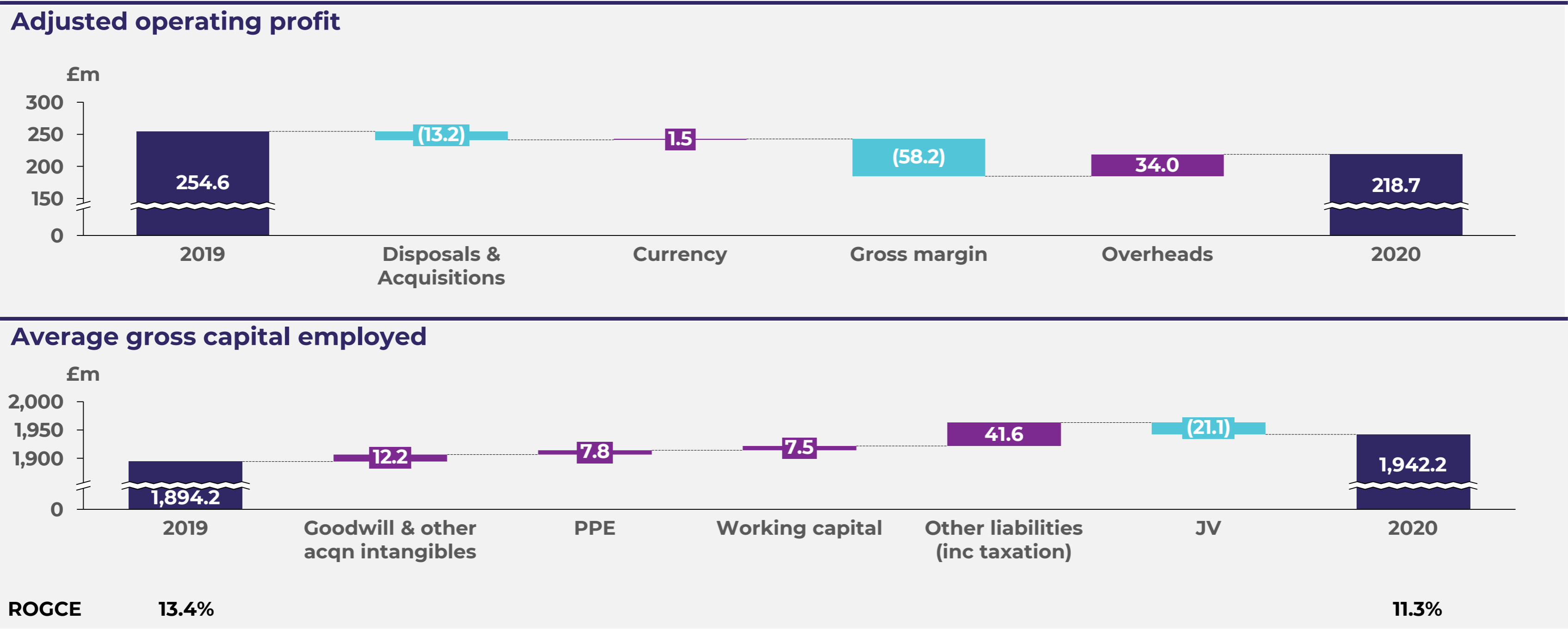
Notes

(1) These adjusted performance measures represent the statutory results excluding certain items.

Statutory loss before tax

	H1 2020	H1 2019
Statutory operating loss	(56.2)	(46.1)
Share of post-tax results of joint venture	-	(2.8)
Profit on disposal of businesses	5.1	-
Financial income	0.6	4.4
Finance costs	(15.0)	(5.6)
Statutory loss before tax	(65.5)	(50.1)

Return on gross capital employed

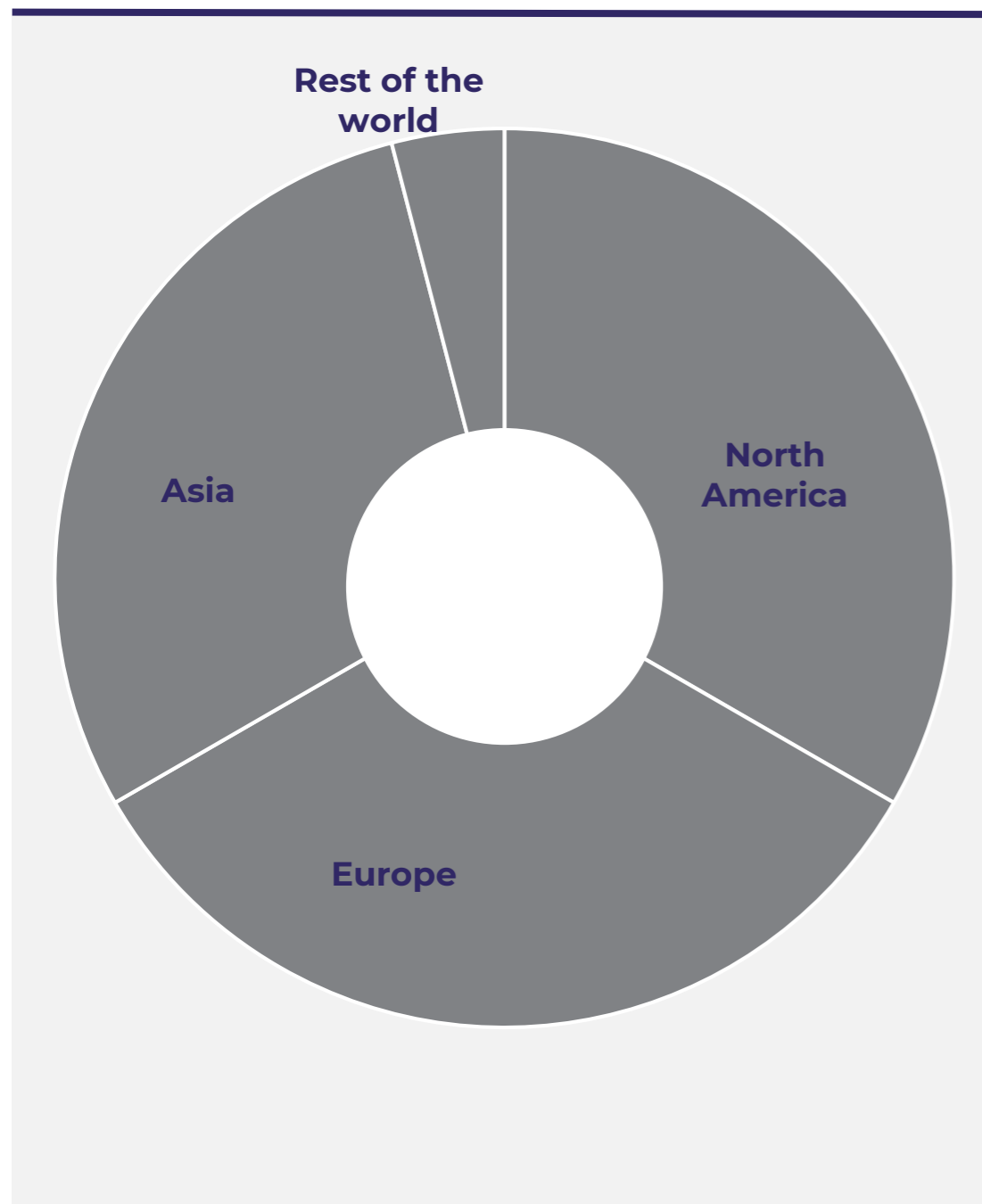


H2 2020 considerations

Headwinds	Tailwinds
<ul style="list-style-type: none">• Potential further lockdowns• US-China trade challenges• Unwind of H1 temporary costs measures (salary sacrifice/furloughs/government subsidies)	<ul style="list-style-type: none">• Economic recovery? – shape & timing uncertain• Profit improvement programme benefits – further £9 million to be delivered• Continued product launches• Self help – Spectris Business System

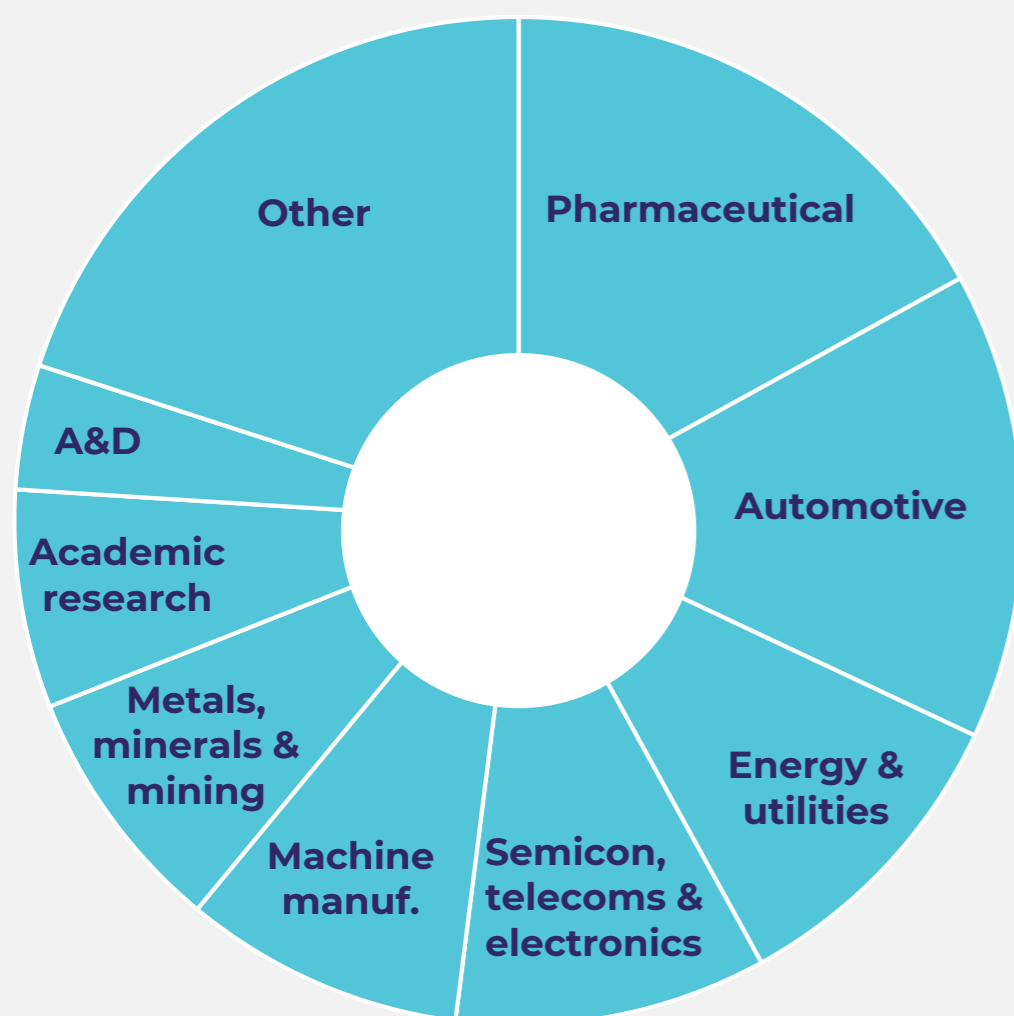
Andrew Heath Business update

Sales by destination



End market	% of Group sales	LFL change H1 2020	LFL change H1 2019
North America	33%	(11%)	(3%)
Europe	33%	(15%)	(2%)
Germany	9%	(13%)	(4%)
UK	8%	(15%)	(7%)
Asia	29%	(16%)	7%
China	13%	(9%)	(2%)
Japan	6%	(11%)	5%
Rest of the world	5%	(11%)	14%

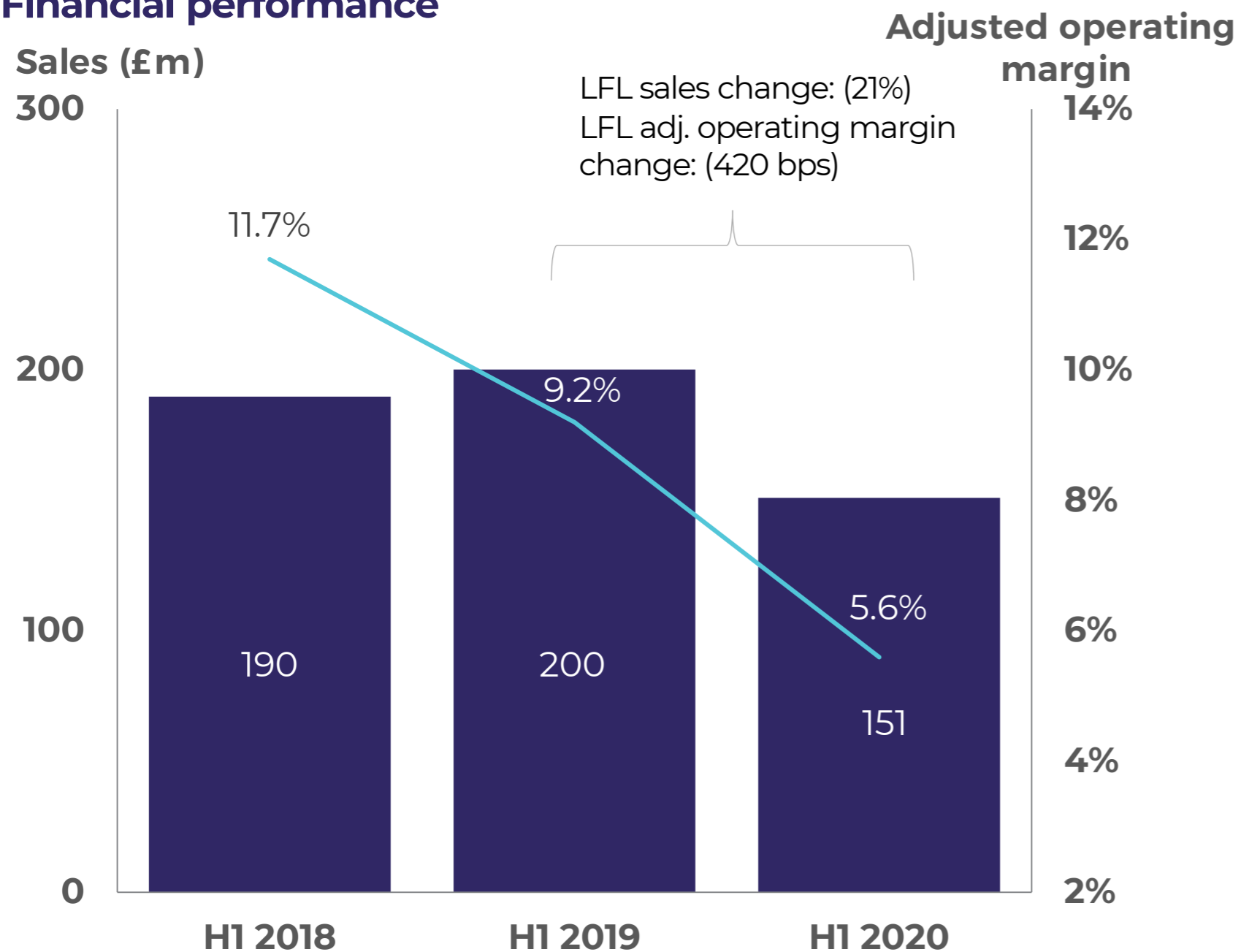
Sales by end market



End market	% of Group sales	LFL change H1 2020	LFL change H1 2019
Pharmaceutical	17%	(3%)	1%
Automotive	15%	(11%)	(7%)
Energy & utilities	10%	(14%)	8%
Semiconductor, telecoms & electronics	10%	(20%)	5%
Machine manufacturing	9%	(4%)	(7%)
Metals, minerals & mining	8%	(24%)	(1%)
Academic research	7%	(21%)	26%
Aerospace & defence	4%	(17%)	(0.1%)

Malvern Panalytical – financial and end market performance

Financial performance



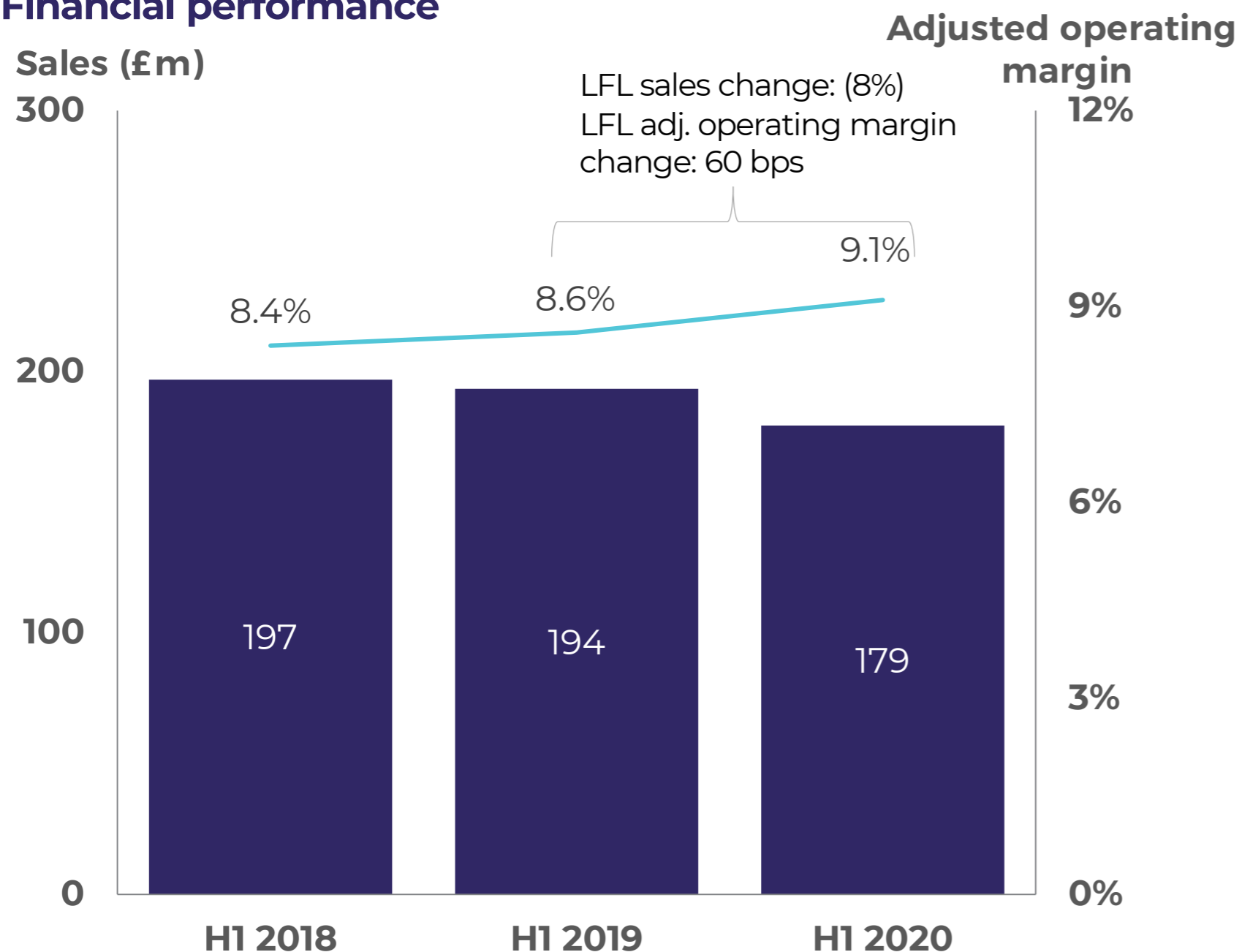
H1 2020 LFL performance

Pharmaceuticals and food	
↓ ↓	<ul style="list-style-type: none"> Laboratories and research institutes closed Shift in focus to production from R&D with COVID-19-related research prioritised and other projects paused Food manufacturing/quality control more resilient
Primary materials:	
↓ ↓	<ul style="list-style-type: none"> Mine closures to meet social distancing requirements Metal suppliers dependent on customers impacted by COVID-19 (e.g. auto, aerospace) Building materials demand less impacted
Advanced materials:	
↓ ↓	<ul style="list-style-type: none"> Laboratories and research institutes closed Supply chain for batteries disrupted

Single arrow: 0-9% movement, double arrow: >10% movement

HBK – financial and end market performance

Financial performance



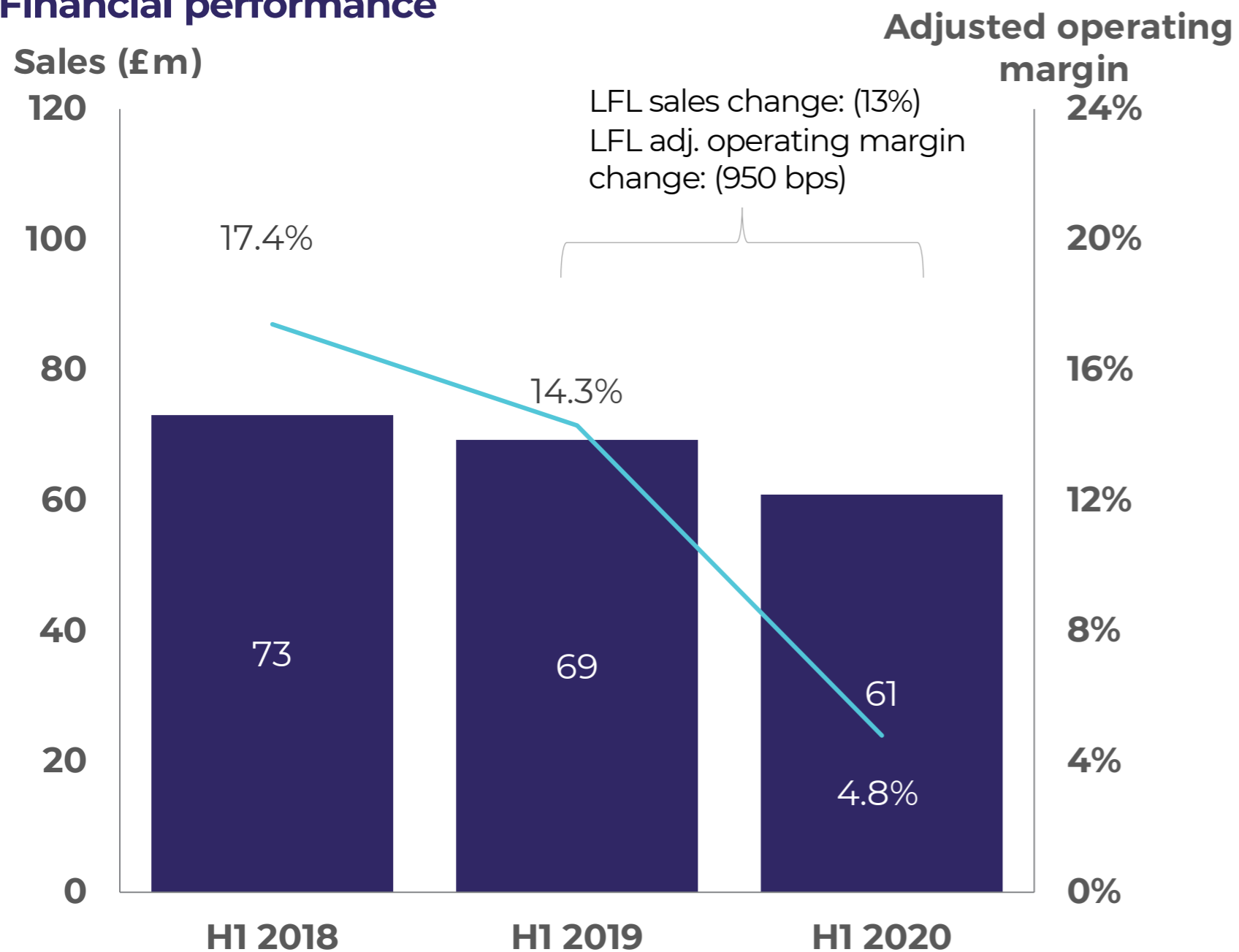
H1 2020 LFL performance

Automotive	
↓ ↓	<ul style="list-style-type: none"> • Slowdown in global automotive • Resilient demand for electric vehicle testing, R&D and simulation
Machine manufacturing	
↓	<ul style="list-style-type: none"> • Strong growth in North America from automotive supply chain • Good onward demand for weighing technologies from the process and medical markets
Aerospace and defence	
↓ ↓	<ul style="list-style-type: none"> • Large investment programmes still running in the short to medium term • Defence and satellite spending impacted to a lesser degree
Consumer electronics and telecoms	
↓ ↓	<ul style="list-style-type: none"> • Weaker consumer demand & delayed product launches

Single arrow: 0-9% movement, double arrow: >10% movement

Omega – financial and end market performance

Financial performance



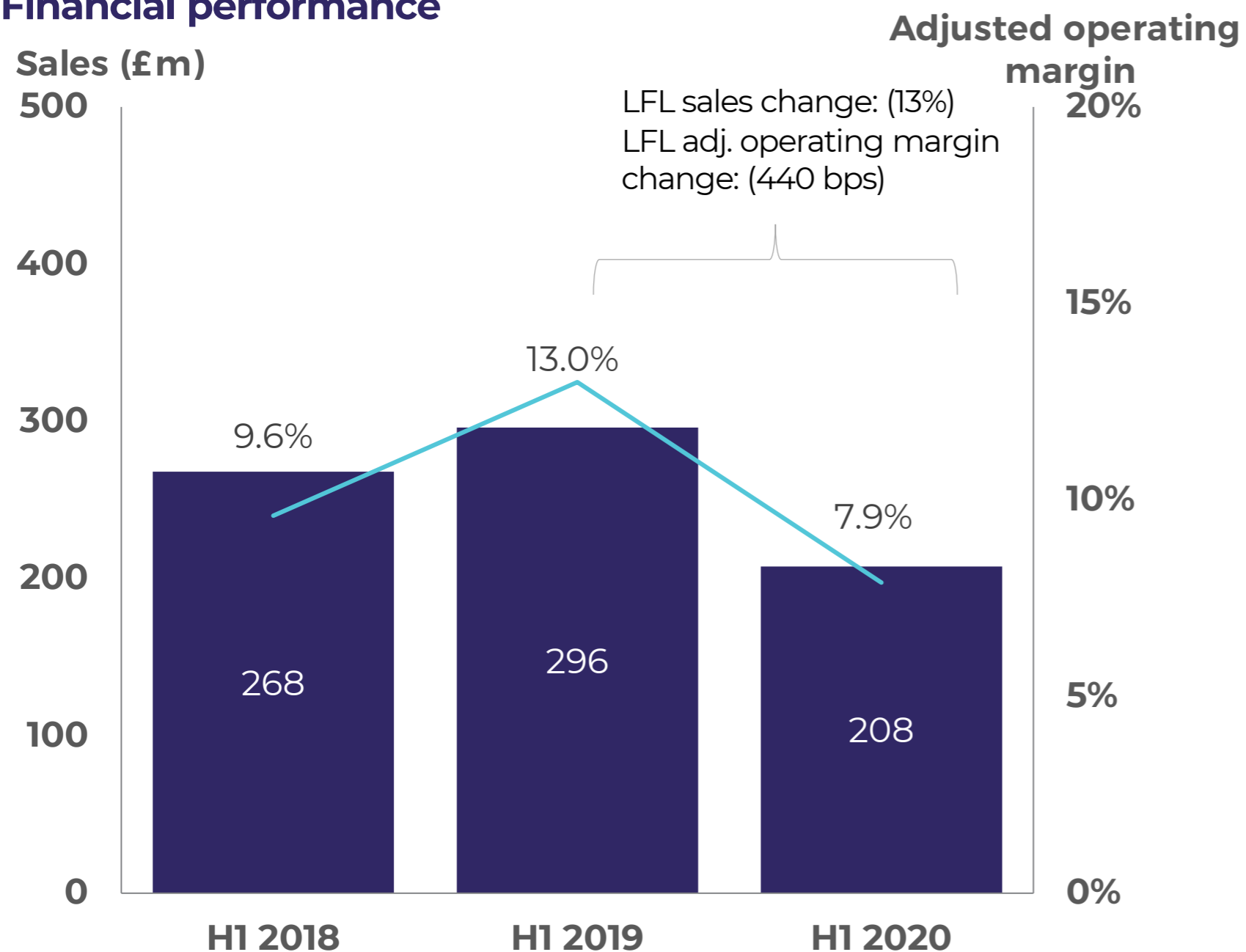
H1 2020 LFL performance

North America	
↓ ↓	<ul style="list-style-type: none"> • Business disruption stemming from COVID-19 • US industrial production falling to record lows
Europe	
↓ ↓	<ul style="list-style-type: none"> • Significant slowdown in electronics and telecoms demand in UK and Germany
China	
↓ ↓	<ul style="list-style-type: none"> • Business disruption stemming from COVID-19
Other	
S. Korea ↑ ↑	<ul style="list-style-type: none"> • Strong performance in South Korea and Japan, with semiconductor demand continuing to improve • Demand for wireless sensors growing rapidly
Japan ↑	

Single arrow: 0-9% movement, double arrow: >10% movement

Industrial Solutions – financial and end market performance

Financial performance



H1 2020 LFL performance

Energy and utilities	
↓↓	<ul style="list-style-type: none"> • Collapse in oil price and reduction in demand impacting capex budgets • Demand in wind strong
Pharmaceutical	
↑	<ul style="list-style-type: none"> • Rapid increase in demand for oxygen sensors in response to COVID-19 • Good demand in North America for environmental monitoring projects
Semiconductor and electronics	
↓↓	<ul style="list-style-type: none"> • Slowdown in semiconductor and electronics • Good demand for high-purity products
Automotive	
↓	<ul style="list-style-type: none"> • Increase in testing capacity at Millbrook • Underlying sales impacted by customer cost pressure

Single arrow: 0-9% movement, double arrow: >10% movement

Summary and outlook

- Balanced, socially responsible approach to managing our business; support from all stakeholders
- Ensured focus on cost control which delivered 11% reduction in LFL overheads
- Profit drop-through of 32%, strong cashflow generation, strengthened balance sheet & liquidity position
- Enabling us to restore salaries, bring people back to work and reinstate dividend
- However, extended recovery now necessitates sustainable cost actions – restructuring programme expected to deliver £20 million of benefits in 2021
- Our long-term target end markets are still attractive
- Strategic direction remains unchanged and forms the basis for delivering enhanced shareholder value

Appendix

Balance sheet

Summary (£m)	H1 2020	H1 2019
Goodwill and intangible assets	783.9	942.6
Property, plant and equipment	368.9	398.0
Investment in equity instruments	0.8	-
Net investment in JV	-	43.2
Working capital:		
- Inventories	221.8	240.0
- Receivables	298.1	347.1
- Payables	(324.6)	(357.0)
- Provisions	(29.4)	(35.9)
Derivatives & taxation (net)	(11.2)	(19.7)
Lease liabilities	(59.8)	(70.2)
Retirement benefits (net)	(29.5)	(41.7)
Net capital employed	1,219.0	1,446.4
Net cash / (debt)	94.3	(312.6)
Net assets	1,313.3	1,133.8

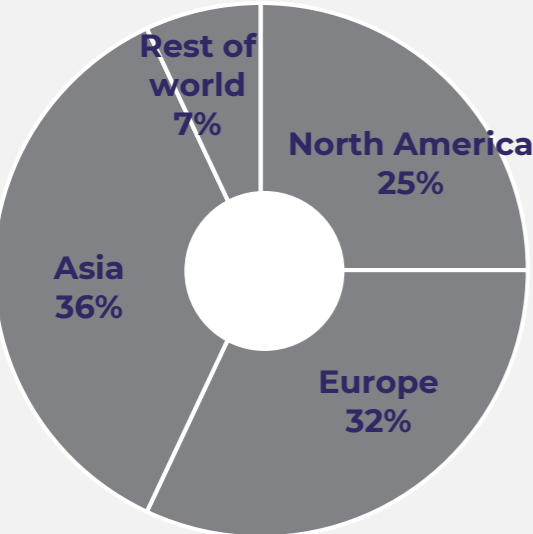
Technical guidance for 2020

- Underlying effective tax rate – 22%
- Planned capex of c. £55 million, including £15 million relating to Millbrook
- Foreign exchange sensitivities

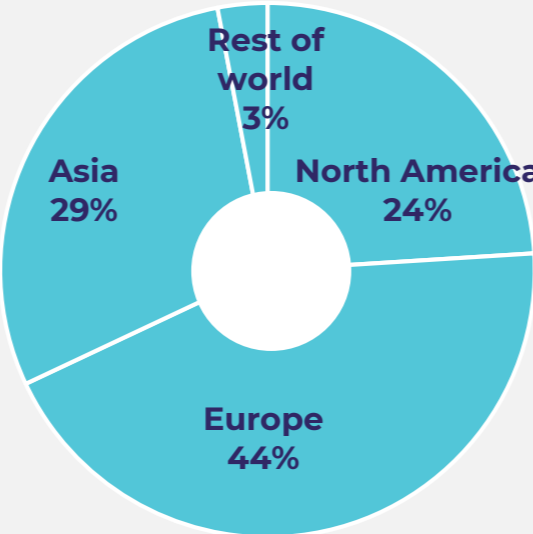
Impact of 1 cent change versus GBP	2020 FY sales £m	2020 FY adjusted operating profit £m
EUR	2.7	0.4
USD	3.2	0.4

H1 2020 segmental sales

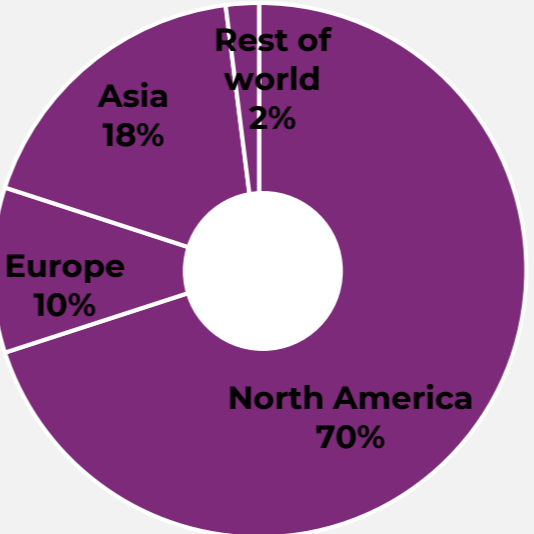
Malvern Panalytical



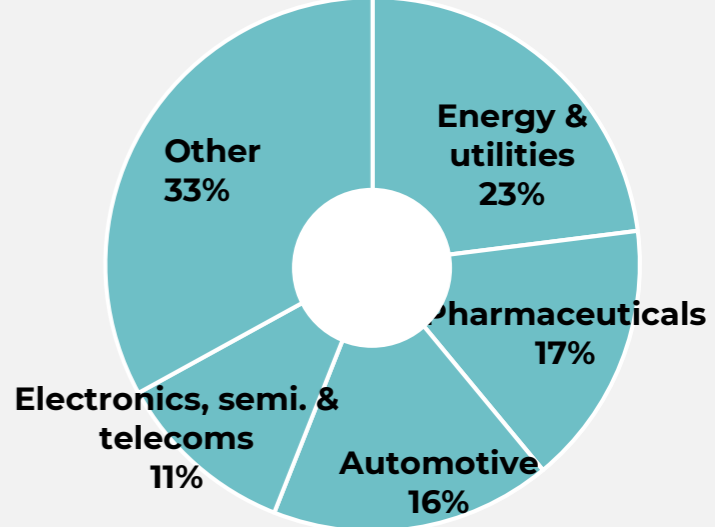
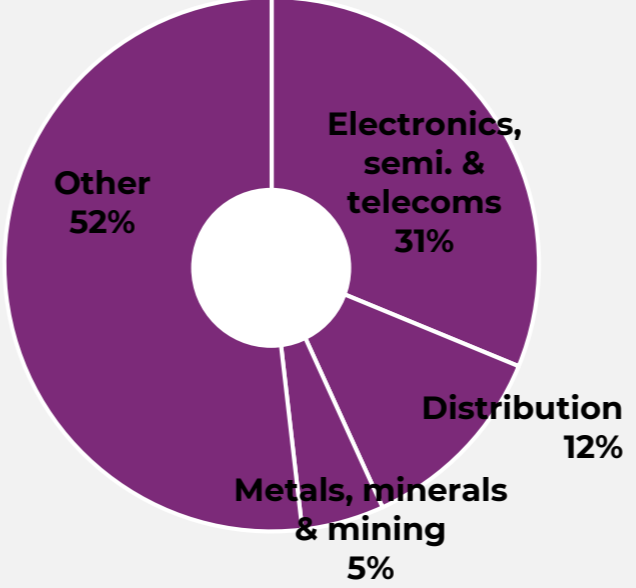
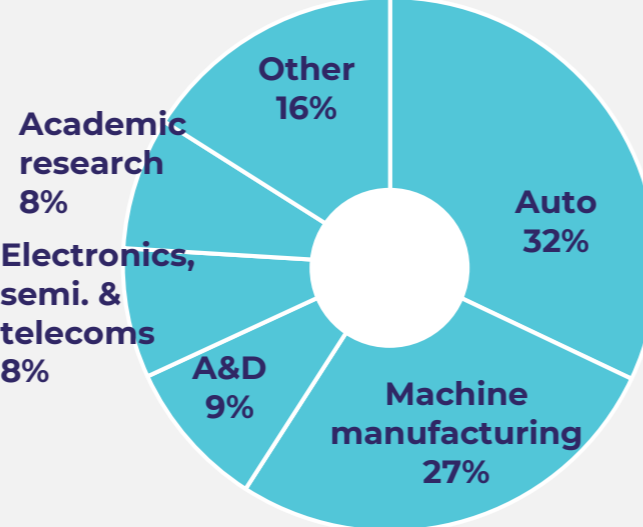
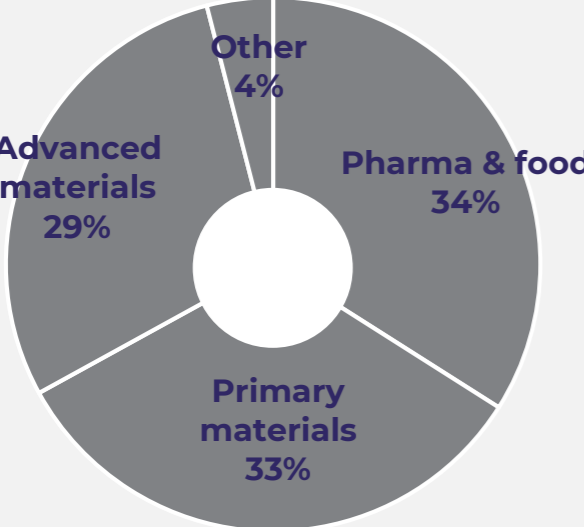
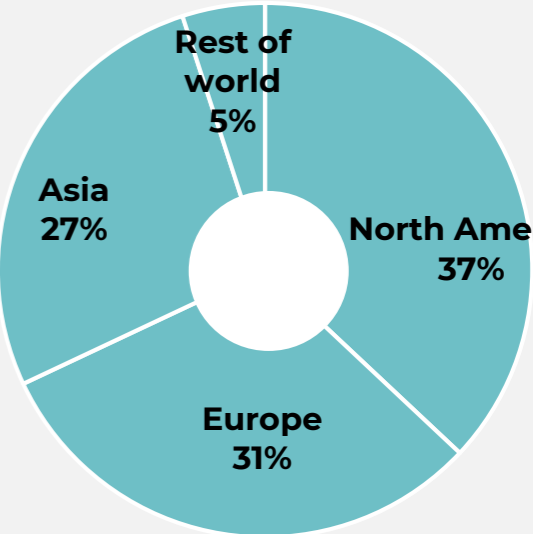
HBK



Omega



Industrial Solutions



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