

Spirax-Sarco Engineering plc



2014 Half Year Results

30th June 2014

Bill Whiteley - Chairman

Nick Anderson - Chief Executive

2014 First half year highlights



	30th June 2014	30th June 2013
Reported sales	£319.2m	£331.6m
Organic sales	+4%	+4%
Operating profit margin*	21.0%	20.6%
EPS*	61.7p	62.0p
DPS	19.5p	18.0p

** See Appendix IV for definition of profit measures*

- Continued organic sales growth of 4% with gains in all segments
- Operating profit growth of 12% at constant currency
- Currency headwind reduced reported sales by 7.6% and profit by 12% vs H1 2013
- Operating margin ahead 40 bps to 21.0%
- Good profit growth in the Americas and Watson-Marlow
- Interim dividend +8%

Europe, Middle East & Africa (EMEA)

	30 th June 2013	Organic	Exchange	Acquisitions	30 th June 2014	Change	Constant currency
Sales	£120.6m	£4.2m	(£5.2m)	(£0.3m)	£119.3m	-1%	+3%
Op profit*	£22.7m	£2.3m	(£0.9m)	£0.1m	£24.2m	+7%	+11%
Margin*	18.8%				20.3%	+150 bps	+ 150 bps

* See Appendix IV for definition of profit measures

- Organic sales up 3% and profit up 11% at constant currency
- Improved Industrial Production growth, but renewed uncertainty
- Moderate demand growth in a number of markets
- Continued focus on price management and cost containment
- Material costs broadly flat, small increase in Q2
- Higher profit in manufacturing operations, volume broadly flat
- Lower exchange impact than other business segments



Asia Pacific

	30 th June 2013	Organic	Exchange	Acquisitions	30 th June 2014	Change	Constant currency
Sales	£80.8m	£0.6m	(£5.9m)	-	£75.5m	-6%	+1%
Op profit*	£19.8m	(£0.6m)	(£2.4m)	-	£16.8m	-16%	-4%
Margin*	24.6%				22.2%	-240 bps	-110 bps

* See Appendix IV for definition of profit measures

- Sales up 1% and profit down 4% at constant currency
- Demand remains positive, at lower levels as anticipated
- Order book up 13% as project timing delays sales into H2
- Profit affected by broadly flat volumes and market expansion investments
- Industrial Production growth rate in China slowed to c.6.5%, expect mild recovery in H2
- China demand with longer shipping profile, order book up 20% into H2
- Sales lower in Korea due to timings of projects, but healthy order book so expect stronger H2
- Improved demand in Japan and Australia



Americas

	30 th June 2013	Organic	Exchange	Acquisitions	30 th June 2014	Change	Constant currency
Sales	£66.6m	£3.1m	(£9.9m)	-	£59.8m	-10%	+5%
Op profit*	£12.0m	£3.1m	(£3.2m)	-	£11.9m	-1%	+35%
Margin*	18.0%				19.8%	+180 bps	+430 bps

* See Appendix IV for definition of profit measures

- Sales up 5% at constant currency, strong unfavourable currency impact
- Operating profit margin up 180 bps to 19.8% at reported exchange rates
- Improved price management and cost controls across region, especially USA
- Argentina results benefit from devaluation
- Sales modestly higher in North America at constant currency
- North America – large project activity subdued, but slight signs of improvement
- Latin America – sales and profits well ahead in Chile and Argentina at constant currency, elsewhere sales slightly down



Watson-Marlow

	30 th June 2013	Organic	Exchange	Acquisitions	30 th June 2014	Change	Constant currency
Sales	£63.6m	£2.8m	(£4.4m)	£2.5m	£64.5m	+2%	+9%
Op profit*	£18.1m	£2.1m	(£1.8m)	£0.9m	£19.3m	+6%	+18%
Margin*	28.5%				29.9%	+140 bps	+240 bps

* See Appendix IV for definition of profit measures

- Sales up 9% at constant currency
- Bio Pure acquisition delivers good contribution
- Operating profit up 6% despite impact of exchange transaction from European manufacturing base
- Sales increased across all industries, except mining
- Sales and profit ahead in all regions at constant currency
- Qdos pump continues to gain traction, range extended



Financial aspects

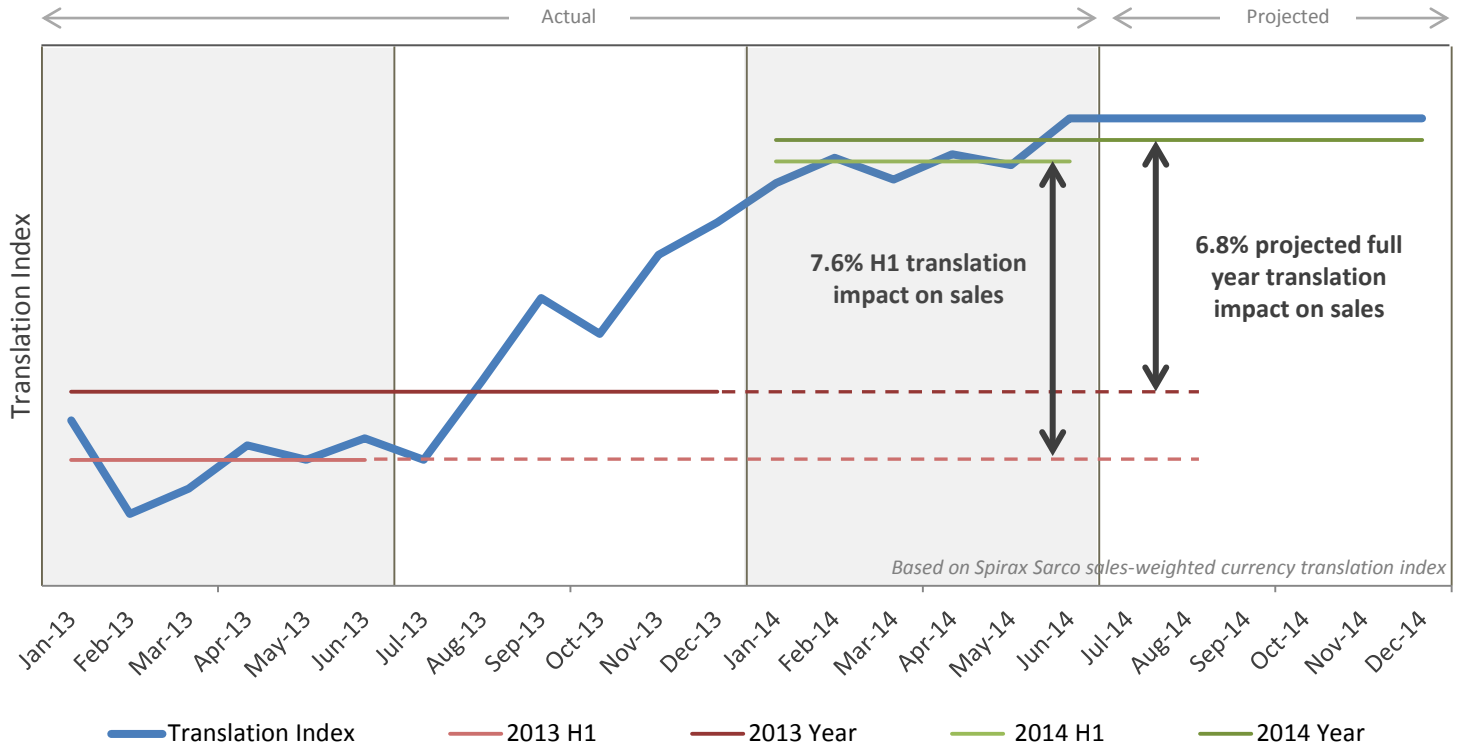
- Operating profit margin improved 40 bps despite stiff currency headwind
- Interest expense increased due to lower cash balances (special dividend paid)
- Small increase in tax rate
- Reduced shares in issue following share consolidation

	30th June 2014	30th June 2013	Change	Constant currency
Revenue	£319.2m	£331.6m	-4%	+4%
Operating profit*	£67.1m	£68.1m	-1%	+12%
<i>Margin*</i>	<i>21.0%</i>	<i>20.6%</i>	<i>+40 bps</i>	<i>+150 bps</i>
Net finance expense	(£1.5m)	(£1.1m)		
Associates	£0.7m	£0.9m		
Pre-tax profit*	£66.3m	£68.0m	-2%	+12%
<i>Tax rate (exc Associate)</i>	<i>30.1%</i>	<i>29.5%</i>		
EPS*	61.7p	62.0p	0%	+14%
DPS	19.5p	18.0p	+8%	+8%

* See Appendix IV for definition of profit measures

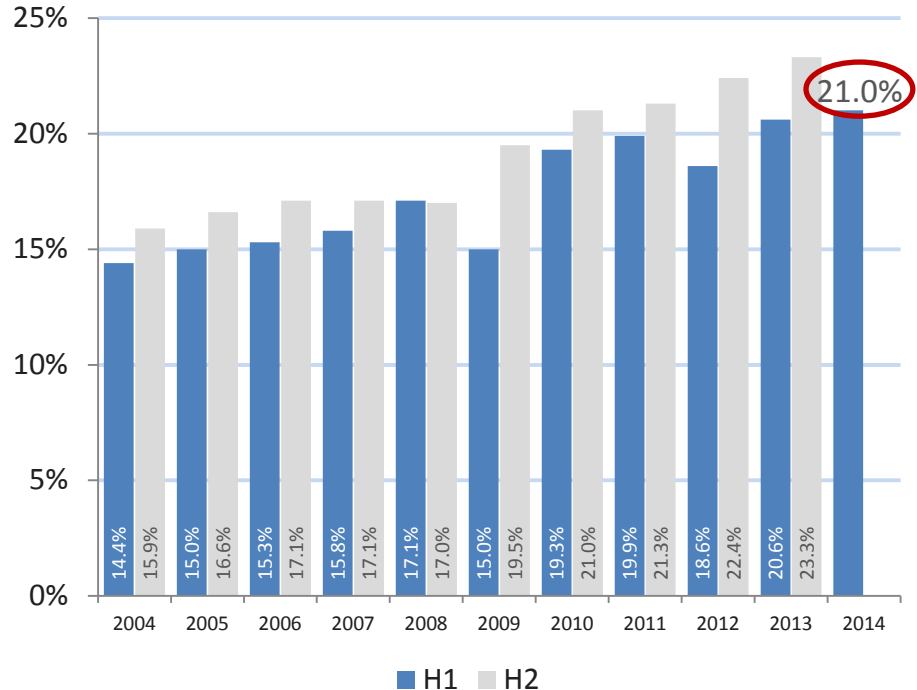
Currency movements

FX translation impact on sales 2013 and 2014







H1 Operating profit margin of 21.0%

- Record first half operating profit margin
- Good increase in the Americas, up 180 bps at reported exchange rates
- EMEA's margin up 150 bps to 20.3%
- Watson-Marlow margin at 29.9%
- Expect slightly stronger H2 profit bias due to Asia Pacific



Cash flow

- Continued good cash flow with usual H1 unfavourable seasonal profile
- Increased capital investment
- Increased investment in acquisitions
- Reduced net cash balance following £78m special dividend in July 2013

	Pounds (£) millions	30 th June 2014	30 th June 2013
Adjusted operating profit*		67.1	68.1
Depreciation and share schemes		12.5	13.2
Working capital		(7.1)	(8.8)
Adjusted cash from operations		72.5	72.5
Capital expenditure (net including R&D)		(18.7)	(13.5)
Interest paid		(0.1)	0.3
Tax paid		(24.4)	(22.1)
Free cash flow		29.3	37.2
Dividends paid (net)		(31.1)	(29.1)
Special pension payments/provisions/restructuring		(2.6)	(5.1)
Shares issues/purchased (net)		2.4	2.2
Acquisitions		(9.1)	(4.0)
Cash flow for the period		(11.1)	1.2
Net (debt)/cash balance		(1.5)	57.4

* See Appendix IV for definition of profit measures

Key performance indicators

- Continued organic sales growth of 4%
- Margin improved to 21.0%
- Continued improvement in ROCE
- Higher capital expenditure investment















	30th June 2014	30th June 2013
Organic sales growth	+4%	+4%
Operating profit margin*	21.0%	20.6%
Adjusted cash from operations	£72.5m	£72.5m
Free cash flow	£29.3m	£37.2m
Return on capital employed (average)*	42.1%	41.1%
Capital expenditure to depreciation	1.67	1.16
Sales per employee	+2%	+6%
Cash conversion*	80%	87%
Working capital to sales	26.2%	26.2%

** See Appendix I for ROCE, Appendix II for Cash, Appendix III for FX, and Appendix IV Adj. profit*

Underlying operating margin factors

Effects on underlying margins*

- Stiff currency headwinds
- Good price management
- Broadly flat material prices in Q1 but benefit fading
- Expected neutral H2 margin effect from business & product mix and investment

	H1 2014	H2 2014
Currency movements		
Operating leverage		
Sales pricing (vs. inflation)		
Material prices		
Manufacturing strategies		
Business & product mix		
Business development investment		

* The arrows as shown are qualitative and indicate direction only

Strategy review 2014



- **Objective:** self-generated growth that outperforms markets
- **Background:** successful business model and effective strategy
- Developed more customer-centric strategy to:
 - increase effectiveness of direct sales organisation
 - leverage our strengths in key sectors
 - capitalise on most attractive opportunities
 - expand addressable markets
 - align and direct resources more effectively
 - improve business performance
- Focus on doing better what we already do well

Six primary strategic objectives



Increase direct sales effectiveness through sector focus

- Expand the sector focus of direct sales force
- Enhance customer value propositions by sector
- Increase focus on thermal energy management within priority sectors



Develop the knowledge and skills of our expert sales and service teams

- Continually improve technical competency, skills and process knowledge
- Expand and globalise wide-range of training tools and materials
- Develop unrivalled level of expertise



Broaden our global presence

- Maximise first-to-market advantage from early entry to emerging markets
- Leverage existing infrastructure to pioneer the introduction of Watson-Marlow

Six primary strategic objectives



Leverage R&D investments

- Leverage R&D to accelerate growth
- Shorter time-to-market for new products
- Priority product areas in support of sector focus
- Complementary acquisitions to expand addressable markets



Optimise supply chain effectiveness

- Invest in regionalised manufacturing strategy
- Increase focus on extended supply chain
- Enhance product availability, increase flexibility, improve service levels and reduce costs



Operate sustainably and help improve our customers' sustainability

- Increase our sustainability
- Focus on corporate governance, employee wellbeing, community engagement and environmental stewardship
- Provide solutions to help customers meet their sustainability targets

Energy management driving sales growth

Spirax Sarco solution offers substantial energy savings at new bakery plant in Santiago, Chile

- **The problem:** new bakery plant needs a steam and hot water system to heating process equipment, bake and clean in-situ
- **The requirement:** steam quality to comply with 3-A sanitary standards and energy savings over alternative solutions
- **The solution:** bespoke solution, including a series of heat exchangers, multiple products and an innovative system to recover energy from exhaust gases
- **The result:** projected energy savings of over £70,000/year



Significant order from a new operating company resulting from focus on innovative thermal energy solutions

Taking market share from other positive displacement pump types

MasoSine pumps deliver significant reduction in tanker offload times at beverage company

- **The problem:** old pumps slow and struggling to pump high viscosity juices from tankers, risk of aerating wine
- **The requirement:** fast and reliable, low shear pumps that would not introduce oxygen into the liquids
- **The solution:** MasoSine SPS 400 sinusoidal pumps
- **The result:** increased efficiency: 50% reduction in tanker offload time for fruit juices and 25% reduction for wines, oxygen free.



Innovative technology, quality and reliable pumps expand addressable markets

Summary



- Organic sales up 4% at constant currency
- Operating profit up 12% at constant currency
- H1 exchange headwind of 7.6% on sales and 12% on profit
- Strong balance sheet – cash from operations £72.5m
- Dividend increased 8%
- Progress expected in 2014

Spirax-Sarco Engineering plc

Interim results to 30th June 2014

Focused on consistent growth and
creating shareholder value



Appendix I -

Return on capital employed



	Pounds (£) millions	30 th June 2014	30 th June 2013
Working Capital			
Inventories		111.3	109.9
Trade receivables		132.6	143.6
Prepayments, other current assets		25.4	26.2
Trade, other payables & current tax		(91.6)	(101.4)
Total working capital		177.7	178.3
Property, plant & equipment		177.1	182.9
Total Capital Employed		354.8	361.2
Average Capital Employed		358.0	356.1
Adjusted Operating Profit (last 12 months)*		150.6	146.2
ROCE*		42.1%	41.1%
Working Capital/Sales		26.2%	26.2%

* See Appendix IV for definition of profit measures

Appendix II - Cash conversion



Pounds (£) millions	30th June 2014	30th June 2013
Adjusted cash generated from operations	72.5	72.5
Net capital expenditure**	(18.7)	(13.5)
Net cash flow (before interest, tax, dividends etc)	53.8	59.0
Adjusted Operating Profit*	67.1	68.1
Cash conversion	80%	87%

* See Appendix IV for definition of profit measures

** Property, plant, equipment, software and development

Appendix III - Currencies

- Sterling strengthened against all currencies we operate with
- USD and RMB weakened 7%
- Euro 3% weaker
- Larger double-digit weakness in most emerging economies

	30 th June 2014	30 th June 2013	Change %
Average exchange rates			
Bank of England sterling index	86.4	80.8	-6%
US\$	1.67	1.55	-7%
Euro	1.22	1.18	-3%
RMB	10.33	9.58	-7%
Won	1,751	1,708	-2%
Real	3.84	3.18	-17%
Argentine Peso	13.07	7.94	-39%
Australian \$	1.83	1.54	-16%
Rouble	58.28	48.19	-17%
Rand	17.85	14.26	-20%
Turkish Lira	3.61	2.82	-22%

Appendix III *(continued)* - Currencies – transaction exposure in first half

- 80 bps adverse impact on H1 trading margin from exchange transaction
- Transaction impact mitigated by:
 - local sales costs
 - regional manufacturing
 - FX hedging
 - local raw material sourcing

The table below captures the main exchange transaction impact on 2014 first half year operating profit, comparing 2014 half year average exchange rates with 2013 half year average exchange rates

Pounds (£) millions	UK	EMEA	Asia Pac	Americas	Total
Extent of currency exposure					
Purchases from UK		18.7	10.6	9.7	39.0
Purchases from EMEA	6.4		4.8	6.1	17.3
Purchases from Asia Pac	4.1	0.0		0.1	4.2
Purchases from Americas	1.1	0.7	1.6		3.4
Total transaction effect*	1.0	(1.1)	(0.9)	(1.4)	(2.4)
H1 2014 revenue	29.3	123.9	81.0	85.0	319.2
Transaction impact on H1 trading margin	3.4%	-0.9%	-1.1%	-1.6%	-0.8%

* The total exchange transaction effect includes intra-segment effects. Purchase values exclude intra-segment purchases

Appendix IV -

2014 Note on first half profit measures



The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. The Group's management believes these measures provide valuable additional information for users of the financial statements in understanding the Group's performance. Adjusted operating profit excludes certain non-operational items which are analysed below.

Pounds (£) millions	30 th June 2014	30 th June 2013
Amortisation and impairment of acquisition-related intangible assets	2.0	2.1
Acquisition and disposal costs	0.5	0.2
Total	2.5	2.3

Appendix V - Condensate management case study

Condensate recovery saves energy and water at an Indonesian tea and coffee factory

- **The problem:** condensate not being recovered
- **The requirement:** design and installation of condensate recovery system
- **The solution:** full steam system audit, installation of bespoke solution including an automatic pump, pressure relief valve station and replacement steam traps
- **The result:** gas consumption reduced 15% (from 81m³/hr to 69 m³/hr), boiler feed water reduced 50% (saving over 8,000m³/year). One year payback period.



Our traditional products and services enhance customer efficiency and provide us with good replacement revenue