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Spirax-Sarco Engineering plc

www.spiraxsarcoengineering.com

Acquisition announcement



Spirax-Sarco Engineering plc to acquire Chromalox, Inc.
26th May 2017

Strategic rationale



“Chromalox represents an excellent opportunity to expand our addressable markets through the acquisition of a clearly related business that shares our strong direct sales business model. Chromalox will enhance our growth and sustainable value creation for customers and shareholders.”

Nicholas Anderson, Chief Executive

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Strong strategic fit with long-term potential

Group acquisition strategy:

1. Create significant shareholder value
2. **Increase our addressable market into related sectors**
3. Expand the capabilities of our niche businesses through new technologies, skills or geographic coverage

Related acquisition: expands addressable market and accelerates opportunities for growth

Direct sales business model



Provide products or services where there is a high cost of non-performance to the customer



Increase sales in our core markets



Potential for geographical or technology expansion



Capable of achieving Group margins



Strong MRO content and recurring revenues



Source: Acquisition criteria as set out in the Group's 2014 Annual Report

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Chromalox, Inc., USA

Background and timings

- Market leading provider of electrical solutions for industrial process heating and temperature management
- Delivers Thermal Energy Management solutions through direct sales model
- Expands Spirax-Sarco's addressable market
- Reinforces the Group's long-term strategy for growth
- Followed Chromalox since 2008; priority raised since 2014 corporate strategy review
- Requires USA anti-trust clearance (Hart-Scott-Rodino)
- Expected to complete H1 2017

Acquisition details

Financial information

- Transaction Enterprise Value US\$415 million (£319 million)
- 2016 performance: revenue US\$201 million; EBITDA US\$43 million; EBIT US\$37 million
- Multiple of 9.7x EBITDA 2016
- Funded in cash with facilities from Barclays and HSBC
- Expected net debt to EBITDA ratio of 1.5 by 31st Dec 2017; 1.0 by 31st Dec 2018
- Earnings accretive in 2017
- No significant acquisitions anticipated during next 12 to 18 months

Established market leader in the USA

100 years of innovative solutions

- Three core technologies:
 - **Industrial Heaters and Systems:** engineered industrial heating solutions
 - **Heat Tracing:** flexible cables and controls to heat or maintain temperature in pipes, valves and tanks
 - **Component Technologies:** component heating solutions for industrial equipment manufacturers
- Founded in 1917; headquartered in Pittsburgh, Pennsylvania
- Owned by Emerson 1968-2001, private equity since then
- Approx. 1,150 employees globally
- Five manufacturing plants across the USA, Mexico, France and China
- Chromalox's "Red Book" is product catalogue of reference for industrial electric heating
- Exciting pipeline of innovative product developments

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Chromalox products and services

Deep knowledge of material science, thermal engineering and fluid dynamics

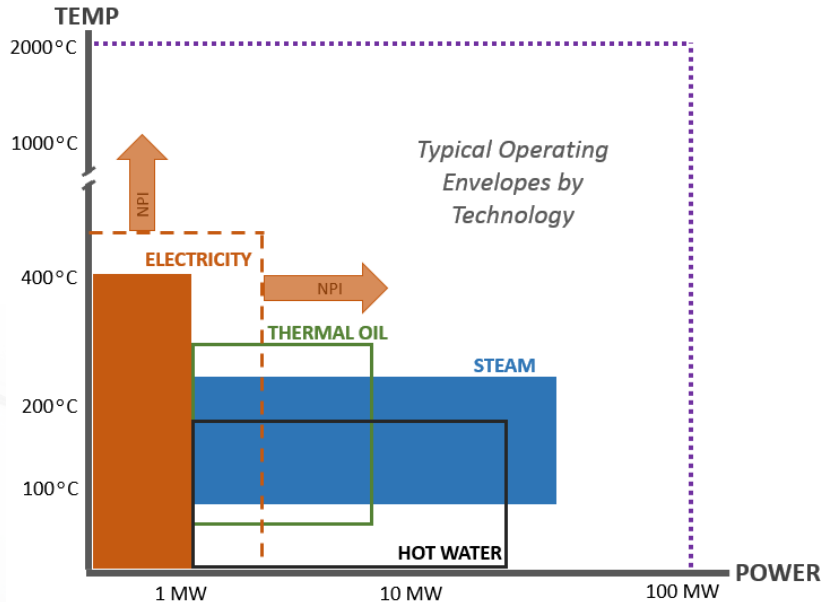
	Industrial Heaters and Systems (IH&S)	Heat Trace (HT)	Component Technologies (CT)
% of sales	54%	23%	23%
Description	<ul style="list-style-type: none"> • Process heating solutions for mission-critical industrial processes • Engineering and site services 	<ul style="list-style-type: none"> • Temperature management solutions for piping, valves and tanks • Project management, engineering and site services 	<ul style="list-style-type: none"> • Component heating solutions for industrial equipment manufacturers • Foundation for complex industrial heaters and systems
Representative products	<ul style="list-style-type: none"> • Heat transfer systems • Circulation heaters • Immersion heaters • Tank heaters • Air heaters • Control systems 	<ul style="list-style-type: none"> • Self-regulating heat trace cables • Mineral insulated heat trace cables • Constant wattage heat trace cables • Hazardous area heat trace cables • Skin effect heat trace cables • Control/sensor systems 	<ul style="list-style-type: none"> • Flexible heaters • Band and nozzle heaters • Strip and ring heaters • Temperature coolers and sensors • Power controls • Tubular heaters
Key customer segments	General industrial; Power generation; Petrochemical; Chemical; Oil & gas; Building & construction	General industrial; Power generation; Petrochemical; Chemical; Oil & gas; Building & construction	Commercial food service; Transportation; Industrial equipment; Plastics/packaging; Naval and commercial marine

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Expands addressable market

Thermal Energy Management – electricity and steam have complementary uses

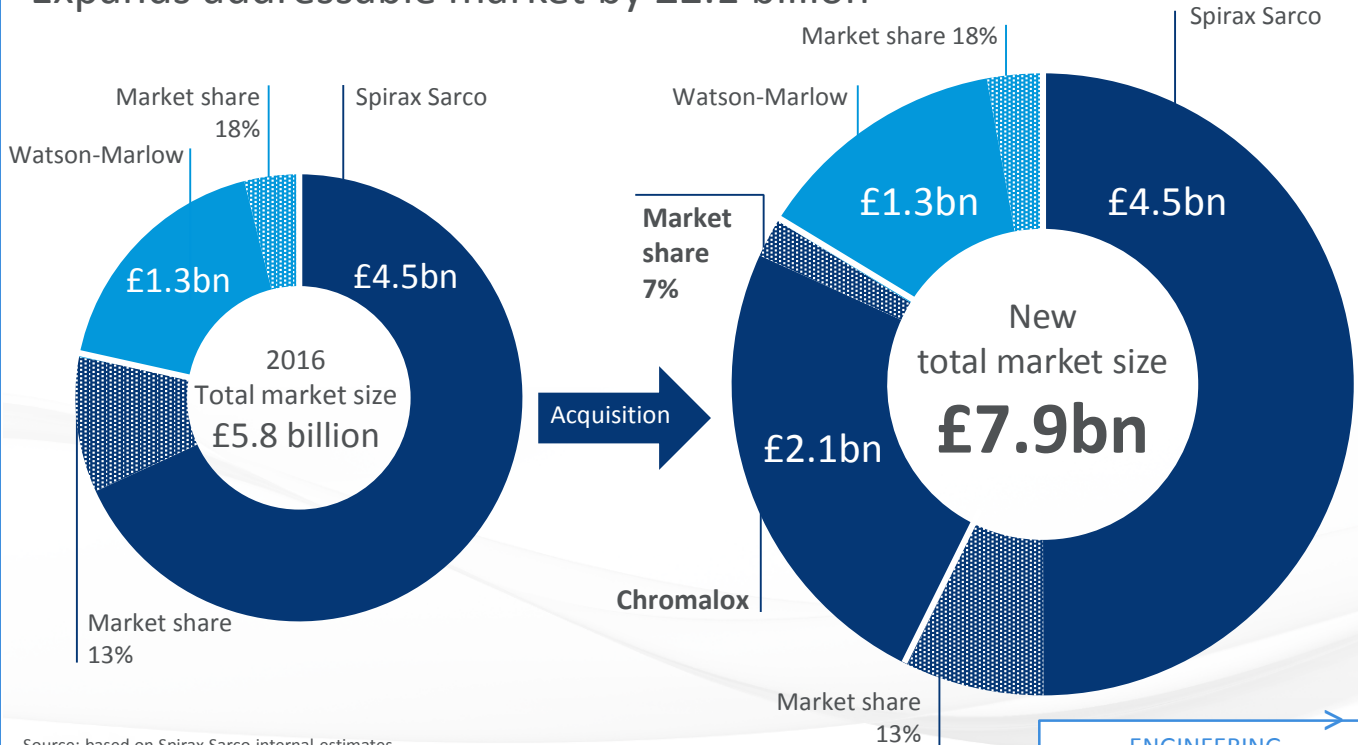
Choice between heating mediums driven by application needs or customer circumstances



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Market size and share

Expands addressable market by £2.1 billion

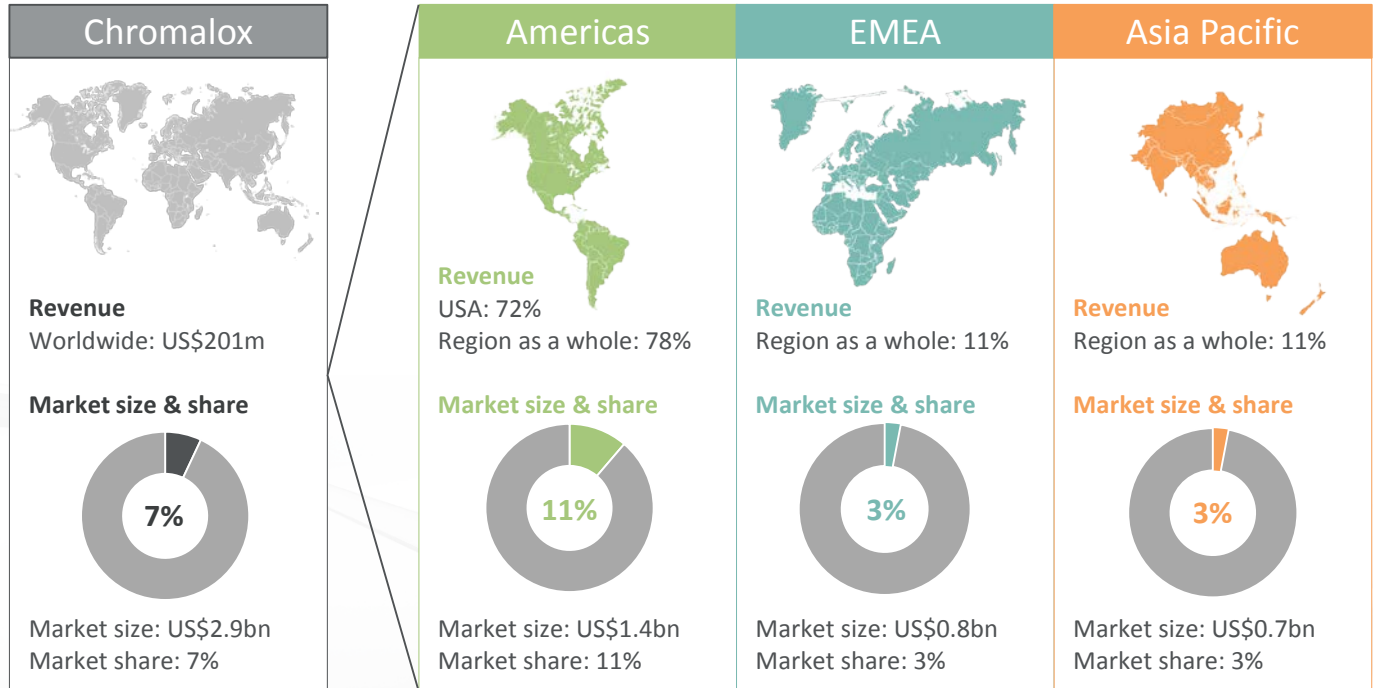


Source: based on Spirax Sarco internal estimates

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Chromalox market size and share, 2016

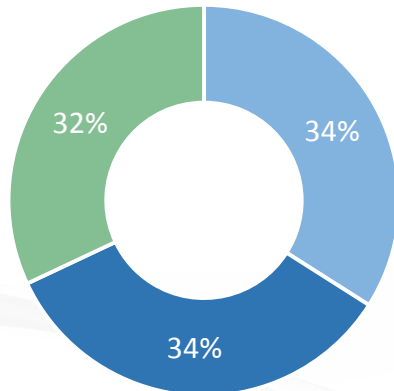
US\$2.9bn (£2.1bn) addressable market: headroom for growth



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Direct sales business model

Chromalox’s routes to market, 2016



- Direct: end users, contractors, consultants
- Direct: OEMs
- Distributors

Direct sales business model:

- Chromalox: 68% direct, 32% distributor
- Group post-acq'n: 73% direct, 27% distributor
- Over 20,000 customers

Primarily driven by customers' Opex budgets:

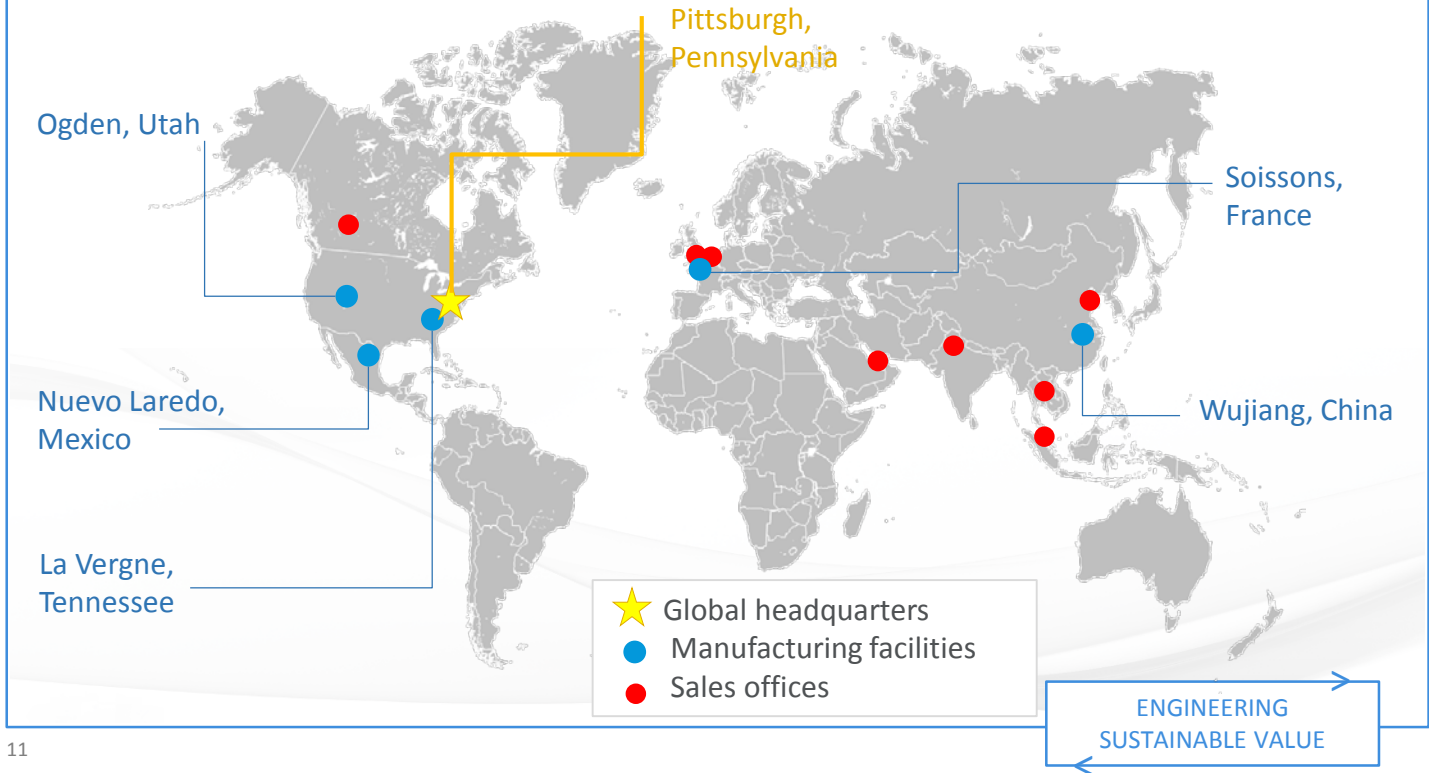
- Chromalox: 67% Opex, 33% Capex
- Group post-acq'n: 82% Opex, 18% Capex

Average Invoice Value	US\$
Industrial Heaters & Systems	3.3k
Heat Trace	1.4k
Component Technologies	1.0k



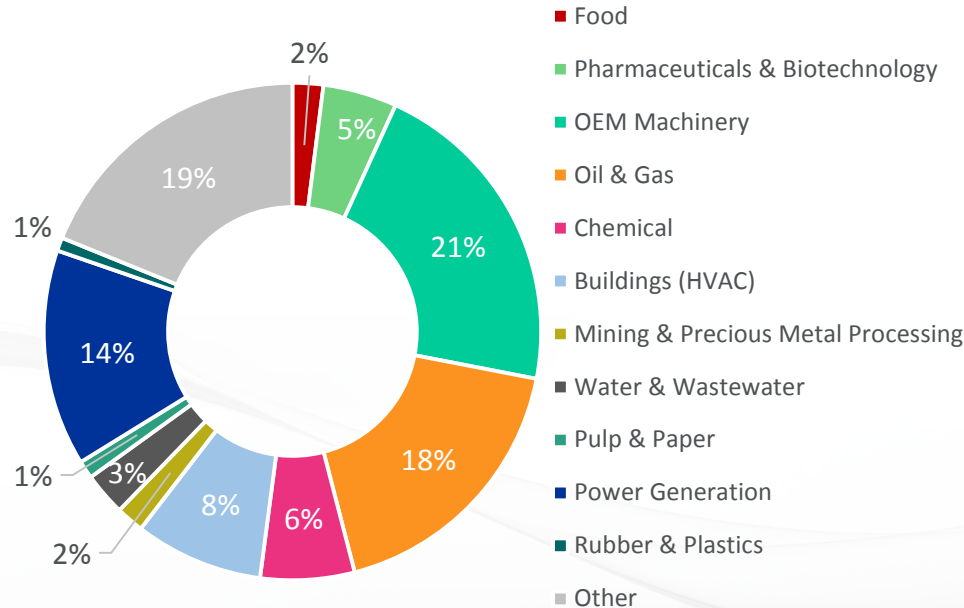
Chromalox's global operations

Growth opportunities from leveraging Spirax Sarco's global footprint



Operating in our core markets

Chromalox revenue by industry, 2016



- Broad market diversity
- Similar industries and customer needs
- Low technology overlap
- Heating medium driven by customer processes and circumstances
- Defensive industries c.48% of Group revenue post acquisition

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Financial performance

Medium to long-term growth prospects

US\$ millions	2016	2017 (est.)
Revenue	201	190
Operating profit (EBIT)	37	32
Profit (EBIT) margin	18.4%	17.1%



Outlook

- Recent order intake and market activity levels indicate improving growth prospects
- Growth opportunities by leveraging Spirax Sarco's global footprint
- Margin improvement opportunities in medium to long term

- Oil & Gas market c.18% of sales
- Revenue decline consistent with peers
- Good operating margins
- Low capital intensity; high cash generation

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Corporate structure and reporting



- Closely related to Steam Specialties business
- Strong management team continues post acquisition
- Stand-alone business unit; minimal integration required

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Case study – industrial heaters & systems

Electrically heated oil in moulds produces uniform imitation stone

The challenge:

- Uniform heating of moulds for consistent production of imitation landscaping stones

The solution:

- Hot oil circulation (375°F) determined the best method for heating moulds
- Chromalox Electric Circulation Heater, NWHO-3901, installed at each press

The result:

- Compact, easy to install heating package
- Oil temperature consistently maintained at 375°F
- Improved product quality and production efficiency
- Economic, energy efficient heating solution



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Case study – heat tracing

Heat trace cable keeps oil flowing in Indonesia

The challenge:

- Crude oil with waxy consistency solidifies and blocks pipeline when temperatures drop at oil production facility in Indonesia

The solution:

- Chromalox SRM/E self-regulating heat trace cable; 2,400m installed
- SRM/E cable can be overlapped without burnout; ideal for in-line process equipment

The result:

- Easy installation
- Energy efficient solution
- Crude oil temperature regulated, kept liquid and flowing
- Heat loss prevention from pipes



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Summary

- Leading provider of electrical solutions for industrial process heating and temperature management; operates through a direct sales business model
- Highly complementary to Spirax Sarco Steam Specialties business
- Expands addressable market by £2.1 billion; broadens technology offering
- Opportunity to leverage Spirax Sarco's global presence to accelerate Chromalox's growth
- Exciting pipeline of innovative new products
- Compelling financial returns; accretive to earnings in 2017; closing in H1 2017
- Group maintains strong Balance Sheet and cash generation



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Cautionary statement

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