Interim Report 1999

spirax sarco

Spirax-Sarco Engineering plc

Spirax Sarco provides knowledge, service and products worldwide for the control and efficient use of steam and other industrial fluids.

1999 INTERIM RESULTS

	1999	1998	Change
Turnover	£126.5m	£122.8m	+3%
Operating profit	£19.1m	£20.2m	-5%
Operating profit margin	15.1%	16.4%	
Profit before taxation	£18.6m	£20.1m	-7%
Earnings per share	15.3p	16.2p	-6%
Dividends per share	5.2p	5.0p	+4%

1998 comparatives are stated before an exceptional item

- Growth in underlying sales and profits
- Start of recovery in Asia but Europe slow in first half
- Operating profit down 5% due to the previously announced production delays in the USA
- Good progress made in restoring customer service in the USA
- Dividend up 4%

CHAIRMAN'S STATEMENT

The results for the first half of 1999 represent a sound performance by our worldwide businesses generally. We achieved growth in our underlying sales and profits, which was offset by the effects of delays in the build-up of output from our new plant in the USA, as indicated in my statement in March. The long term investment in our steam and peristaltic pumping business, together with our fundamental strengths, has allowed us to take advantage of those markets where opportunities for growth have arisen in a generally difficult world economy.

Turnover in the first half was £127 million compared with £123 million in the first half of 1998, an increase of 3%. The net effect of exchange rates on both turnover and profits as compared with the first half of 1998 has been negligible, although sterling remains essentially strong.

On a like-for-like basis, excluding the effects of exchange rate movements and acquisitions, turnover was up 1%.

Operating profit was £19.1 million in the first half of 1999, as against operating profit before exceptional items of £20.2 million in 1998, a reduction of 5%, and representing an operating profit margin of 15.1%. If the effect of the reduced performance in the USA were excluded, the underlying operating profit increased by 2%, and the operating profit margin was broadly unchanged from the 16.4% pre-exceptional operating profit margin in the first half of 1998.

Net interest payable was £0.5 million, compared with £0.1 million in the first half of 1998, principally due to the increase in net debt arising from the share buy-back, to which I refer later. The charge in the first half of 1999 for amortisation of goodwill on acquisitions was £0.1 million. Profit before tax was £18.6 million, compared with profit before tax and exceptional items of £20.1 million in the first half of last year. The tax charge was 33.0% (1998 pre-exceptional: 33.6%). Earnings per share were 15.3p (1998 pre-exceptional: 16.2p).

TRADING

Our niche businesses address their markets in similar ways, by providing support and expertise to end users directly, and through distributors, OEMs and contractors. This is achieved by offering levels of knowledge, service and product which our product based competitors cannot match. The steam specialty market, supplied by Spirax Sarco, and the peristaltic pumping market supplied by Watson-Marlow Bredel, are present worldwide in a diverse range of industries and customers. We cover these markets by employing over 800 skilled sales engineers, who are able to analyse customers' requirements and offer complete solutions, which are aimed at helping customers to improve the quality of their product, to improve the consistency of their processes, and to reduce costs, which often take the form of energy savings with the attendant environmental benefits.

Our sales operations in the UK have encountered difficult market conditions, in which industrial activity continues to be adversely affected by the strength of sterling. Sales and profits were flat.

In Continental Europe, our markets have been slower overall than in 1998, although the performances have been mixed. Our companies in France, Belgium, Poland, Portugal and Sweden pushed ahead well in sales and profits terms. In April we acquired Byvap, a small French steam trap manufacturer, for a total cost of £1.1 million, and integration into our French company is progressing well. In Germany, the market was particularly difficult, as it was in Italy and Denmark. Bredel performed strongly on the back of good demand. There are signs that confidence may be beginning to return in some of the Continental European economies.

In the USA, as we explained in March, it is taking longer than we had anticipated to build up the rate of production in our new Spirax Sarco plant in South Carolina. We continue to invest in new technology and have seconded experienced management support from the UK to assist our US management team in the build-up of the new workforce and infrastructure. The production delays have affected product supply, and we have taken steps to mitigate the effect on the market. Good progress has been made, and customer service levels will be restored by the end of the year. The USA profits have, however, been much lower in the first six months of 1999 than in the same period in 1998. The underlying cost savings are, nevertheless, much in line with expectations, and benefits will be felt in 2000 following the restoration of manufacturing and sales volumes.

Our Watson-Marlow Bredel operation in North America continues to expand its presence and its sales, and has been picking up some good orders for shipment in the second half. Our Brazilian company performed well, increasing profits under difficult circumstances; although depressed, the economy has been surprisingly resilient following the devaluation of the Real. Our Canadian company also had a good half year. Our Argentinian and Mexican companies have encountered tough trading conditions, and the Argentinian domestic market has been affected by the increased competitiveness of the Brazilian economy.

In our International markets (those outside Europe and the Americas), there has been an improved performance, with a recovery in sales and profits as compared with the first half of 1998. There are signs of an up-turn in Asia generally, although it is mixed and still fragile. Our Korean company pushed ahead with sales and profits, as did Taiwan. Our developing Chinese operation continued its profitable expansion. The Japanese, Malaysian and South African economies remain weak, which was reflected in the results of our local companies. Nevertheless, there was good progress overall in the region, and, unless there is another shock to the system, the gradual recovery seems likely to continue.

Our Supply organisations in the UK and France performed well in the first half of 1999, and demand is returning following the de-stocking in 1998 by our Asian companies associated with the Far Eastern crisis. We continue to develop and release additions and modifications to our product ranges. We have also made progress with improving productivity and with reducing material costs, either through re-design or resourcing.

BALANCE SHEET AND CASH FLOW

Capital employed (net assets plus net debt) increased during the period, reflecting the growth in sales, acquisitions and a small rise in stocks. Capital expenditure was £5.7 million as against £8.3 million in the first half of last year. In line with FRS10, goodwill on acquisitions since 1st January 1998 is being amortised over twenty years, giving a non-cash charge of £0.1 million in the first half. There was an increase in net debt in the period of £10.1 million, which included £1.1 million in respect of the Byvap acquisition and £8.4 million in respect of a further 1.6 million shares purchased and cancelled under the share buy-back programme. Since announcing our intentions last October, we have bought back 2.7 million shares for £14.4 million. Net debt at 30th June was £26.2 million, which compares with £16.1 million at 31st December 1998.

MILLENNIUM COMPLIANCE

The task of ensuring millennium compliance of all critical elements of Group systems is nearing completion. The Group has applied a planned programme to cover material risks in both IT systems and general business operations. The work includes minimisation of risks of third party (mainly supplier) non-compliance, and creation of contingency plans.

DIVIDEND

The Board has declared an interim dividend of 5.2p (1998: 5.0p) per ordinary share, an increase of 4%, which will be paid on 12th November 1999 to shareholders on the register at the close of business on 24th September 1999. No scrip alternative to the cash dividend is being offered in respect of the 1999 interim dividend.

PROSPECTS

We continue to work to restore customer service levels in the USA by the end of the year, and to develop sales growth in our steam specialty and peristaltic pumping businesses worldwide. Bearing in mind the fundamental strengths of our business, and assuming that both the recovery in Asia and returning confidence in Europe continue, we expect to make progress in the full year.

Tim Fortune

Tim Fortune, Chairman
9th September 1999

GROUP PROFIT AND LOSS ACCOUNT

	Six months to 30th June 1999 £'000	Six months to 30th June 1998 (Restated) £'000 Before exceptional item	£'000 Exceptional item (note 4)	£'000 After exceptional item	Year ended 31st Dec 1998 £'000 After exceptional item
Turnover	126,511	122,787	-	122,787	249,030
Operating profit	19,083	20,189	(5,800)	14,389	32,283
Provision for loss on disposal of fixed assets	-	-	(1,600)	(1,600)	(1,479)
Profit before interest	19,083	20,189	(7,400)	12,789	30,804
Interest payable less receivable	(469)	(121)	-	(121)	(163)
Profit before taxation	18,614	20,068	(7,400)	12,668	30,641
Taxation (note 5)	(6,142)	(6,741)	1,900	(4,841)	(10,501)
Profit after taxation	12,472	13,327	(5,500)	7,827	20,140
Minority interests - equity	(439)	(411)	-	(411)	(917)
Attributable profit	12,033	12,916	(5,500)	7,416	19,223
Dividends	(4,031)	(4,011)	-	(4,011)	(13,116)
Retained profit	8,002	8,905	(5,500)	3,405	6,107
Earnings per share (note 6)					
before exceptional item	15.3p	16.2p	-	-	34.5p
after exceptional item	15.3p	-	-	9.3p	24.1p
Dividends per share	5.2p	5.0p	-	5.0p	16.5p

See notes on page 7

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months to 30th June 1999 £'000	Six months to 30th June 1998 (Restated) £'000	Year ended 31st Dec 1998 £'000
Profit for the period	12,033	7,416	19,223
Currency translation difference on foreign currency net investments	(400)	(648)	2,116
Total recognised gains and losses relating to the period	11,633	6,768	21,339

GROUP BALANCE SHEET

	30th June 1999 £'000	30th June 1998 (Restated) £'000	31st December 1998 £'000
Fixed assets			
Intangible assets	4,706	2,461	4,404
Tangible assets	81,613	75,669	81,067
	86,319	78,130	85,471
Current assets			
Stocks	56,048	55,708	53,561
Debtors	80,209	70,612	76,186
Cash deposits and short term investments	30,580	38,930	36,441
Cash at bank and in hand	5,750	5,707	5,102
	172,587	170,957	171,290
Creditors			
Amounts falling due within one year	74,014	53,843	69,743
Net current assets	98,573	117,114	101,547
Total assets less current liabilities	184,892	195,244	187,018
Creditors			
Amounts falling due after more than one year	37,713	43,009	40,995
Provisions for liabilities and charges	10,095	15,718	9,827
Net assets	137,084	136,517	136,196
Capital and reserves			
Called up share capital	19,480	20,058	19,791
Capital redemption reserve	678	-	290
Share premium account	31,156	29,746	29,982
Revaluation reserve	4,535	4,398	4,520
Profit and loss account	78,474	80,059	79,261
Shareholders' funds - equity	134,323	134,261	133,844
Minority interests - equity	2,761	2,256	2,352
	137,084	136,517	136,196

GROUP CASH FLOW STATEMENT

	Six months to 30th June 1999 £'000	Six months to 30th June 1998 (Restated) £'000	Year ended 31st December 1998 £'000
Operating profit	19,083	14,389	32,283
Depreciation charges	5,435	5,374	10,498
Increase in stocks	(2,653)	(3,329)	1,020
Increase in debtors	(4,583)	1,904	580
Increase in creditors and provisions	1,327	(866)	(5,411)
Cash flow from operating activities	18,609	17,472	38,970
Net interest paid	(427)	(69)	(97)
Dividends paid by subsidiary undertakings to minority interests	(196)	(242)	(571)
Taxation	(5,919)	(5,813)	(13,664)
Purchase of tangible fixed assets	(5,708)	(8,307)	(17,296)
Sales of plant and machinery	185	345	904
Acquisitions	(1,111)	(3,577)	(5,432)
Equity dividends paid	(9,083)	(4,784)	(8,797)
Cash outflow before use of liquid resources and financing	(3,650)	(4,975)	(5,983)
Management of liquid resources	5,624	(2,816)	360
	1,974	(7,791)	(5,623)
Financing - Issue of ordinary share capital	1,251	1,063	1,322
Share buy-back	(8,373)	-	(6,142)
Decrease in debt	(2,442)	3,903	3,757
	(9,564)	4,966	(1,063)
Decrease in cash in the period	(7,590)	(2,825)	(6,686)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Decrease in cash in the period	(7,590)	(2,825)	(6,686)
Cash outflow from decrease in debt and lease financing	2,442	(3,903)	(3,757)
Cash inflow from decrease in liquid resources	(5,624)	2,816	(360)
Change in net debt resulting from cash flows	(10,772)	(3,912)	(10,803)
Realised gain on gilt	-	21	18
Amortisation of loan expenses	(12)	-	(23)
Translation difference	726	222	(1,652)
Movement in net debt in the period	(10,058)	(3,669)	(12,460)
Opening net debt	(16,098)	(3,638)	(3,638)
Closing net debt	(26,156)	(7,307)	(16,098)

NOTES

1. Overseas results and cash flows have been translated into sterling at average rates of exchange for each period. Foreign currency assets and liabilities have been translated at period end rates.

2. In accordance with Financial Reporting Standard 10, purchased goodwill arising on consolidation in respect of acquisitions since 1 January 1998 has been capitalised and is being amortised over 20 years.

3. Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' has been adopted for the interim statement. This has had no effect on the results of the current period or the 1998 full year comparative period. However, to comply with the new standard the 1998 first half comparative figures have been restated to show exceptional costs after tax of £5,500,000 (previously £7,700,000).

4. The exceptional item charged in 1998 was in respect of the closure of the Group's facility in Pennsylvania, USA and the relocation and start-up of a new facility in South Carolina. The 1998 full year comparative operating profit of £32,283,000 is stated after charging exceptional costs of £10,150,000.

5. Taxation has been estimated at the rate expected to be incurred in the full year.

	Six months to 30th June 1999 £'000	Six months to 30th June 1998 (Restated) £'000	Year ended 31st December 1998 £'000
United Kingdom corporation tax	1,604	2,195	3,988
Overseas taxation	4,290	2,603	6,809
Deferred taxation	290	6	(274)
Adjustment in respect of previous years	(42)	37	(22)
	6,142	4,841	10,501

6. The calculation of earnings per share before the exceptional item is based on earnings of £12,033,000 (1998: £12,916,000) and the calculation of earnings per share after the exceptional item is based on earnings of £12,033,000 (1998: £7,416,000) together with the weighted average number of shares in issue during the half year of 78,687,786 (1998: 79,615,874).

7. Capital employed is represented by net assets excluding net debt.

8. The financial information on pages 4 to 7, which is unaudited, does not amount to full accounts within the meaning of Section 240 of the Companies Act 1985 (as amended). Full accounts for 1998 with an unqualified audit report have been filed with the Registrar of Companies.

Spirax Sarco provides knowledge, service and products worldwide for the control and efficient use of steam and other industrial fluids.

Spirax Sarco's position as the world leader is founded on its long held strategy of investing for growth.

The Group's prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends.

SPIRAX SARCO WORLDWIDE

UNITED KINGDOM

Spirax-Sarco Ltd.
Spirax-Sarco Investments Ltd.
Spirax-Sarco Overseas Ltd.
Watson-Marlow Ltd.

CONTINENTAL EUROPE

Austria
Spirax Sarco Ges. mbH

Belgium
Spirax-Sarco N.V.
Watson-Marlow N.V.

Czech Republic
Spirax Sarco spol. s r.o.

Denmark
Spirax-Sarco Ltd. (Branch)

Finland
Spirax Oy

France
Spirax-Sarco S.A.
Byvap Technology S.A.S.
Watson-Marlow S.A.

Germany
Spirax-Sarco GmbH
Hygromatik Lt. A. GmbH
Watson-Marlow GmbH

Italy
Spirax-Sarco S.r.l.
Watson-Marlow S.r.l.

Netherlands
Bredel Hose Pumps B.V.
Spirax-Sarco Engineering B.V.
Spirax-Sarco Investments B.V.
Watson-Marlow B.V.

Norway
Spirax-Sarco Ltd. (Branch)

Poland
Spirax Sarco Sp. z o.o.

Portugal
Spirax Sarco Equip. Ind. Lda.

Spain
Spirax Sarco S.A. (95.1%)
Especialidades Hydra S.L.

Sweden
Spirax-Sarco A.B.

Switzerland
Spirax-Sarco A.G.

AMERICAS

Argentina
Spirax Sarco S.A.

Brazil
Spirax Sarco Ind. e Com. Ltda.

Canada
Spirax Sarco Canada Ltd.

Mexico
Spirax-Sarco Mexicana S.A. (49%)

USA
Spirax Sarco, Inc.
Sarco International, Corp.
Watson-Marlow, Inc.

INTERNATIONAL

Australia
Spirax-Sarco Pty. Ltd.

China
Spirax Sarco Engineering (China) Ltd.

India
Spirax-Marshall Ltd. (40%)

Japan
Spirax-Sarco Ltd. (Branch)

Malaysia
Spirax-Sarco Sdn. Bhd.

New Zealand
Spirax Sarco Ltd. (80%)

Singapore
Spirax-Sarco (Private) Ltd.

South Africa
Spirax-Sarco (Pty.) Ltd.

South Korea
Spirax-Sarco (Korea) Ltd. (97.5%)

Taiwan
Spirax Sarco Co. Ltd.

Thailand
Spirax Sarco (Thailand) Ltd.

100% owned except where indicated.

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