

Chairman's statement

Bill Whiteley



Given the challenging global economic environment, I am pleased to report a good result for 2009, with record sales and profits that demonstrate the quality and resilience of our business, and reflect the investments and improvements we have continued to make. We generated a significant underlying cash inflow and the dividend has again been increased.

Sales at £518.7 million were up 3% from £502.3 million in 2008, with improving year-on-year comparisons in the last few months of the year in all segments. Sales included a small contribution from acquisitions and a benefit of over 10% from favourable average exchange rates.

Adjusted operating profit at £89.9 million increased by 5% from £85.7 million in 2008 due to reduced headcount and costs, especially in the second half-year, good pricing dynamics and the benefit of favourable exchange rates. This was reflected in the trading margin that improved to 17.3% (2008: 17.1%). Operating profit was ahead in all segments except Europe, Middle East and Africa (EMEA).

Net finance charges were £2.5 million compared with net income of £1.7 million in 2008, with the deterioration due largely to the impact of a turnaround in the net finance income related to defined benefit pension funds. The Group's share of the after-tax profits of our Associate companies was unchanged at £2.8 million.

Adjusted pre-tax profit increased to £90.2 million (2008: £90.1 million) and earnings per share were 82.2p (2008: 83.4p). Cost reduction actions included reducing the total employee headcount by 7% during the year and, in December, we also announced a reduction in our French factory.

As a result the total headcount reduction costs charged in 2009 were £11.4 million with further efficiency gains expected in 2010. The pre-tax profit after charging these costs and including the amortisation of acquisition-related intangible assets was £76.4 million (2008: £85.2 million).

As previously reported, in October 2009 the Group completed the acquisition of the Maso and Sine business from Maso Process-Pumpen GmbH (MasoSine) for £21.9 million and the integration into Watson-Marlow Pumps is progressing well. In October we also completed the acquisition of our Turkish distributor, Inter Valf, for an initial consideration of £2.8 million. We are pleased with the performance of these businesses since acquisition and with their small positive contributions to our earnings per share for the year.

The Board is recommending a 10% increase in the final dividend of 25.6p per share payable on 21st May 2010 to shareholders on the register at the close of business on 16th April 2010. This, together with the interim dividend of 10.5p per share paid in November 2009, makes a total dividend for the year of 36.1p per share. This compares with a total dividend of 33.3p per share last year, an increase of 8%. The cost of the interim and final dividends is £27.6 million which is covered 2.3 times by earnings. No scrip alternative to the cash dividend is being offered.

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Mike Townsend retired as Chairman following the AGM in May 2009 and we thank him for his contribution over his 12 years on the Board as a non-executive director. I have succeeded Mike as Chairman on 1st July 2009 following seven years as a non-executive director. Upon the retirement of Einar Lindh at the end of 2008, Dr Krishnamurthy Rajagopal was appointed as an independent non-executive director on 10th February 2009. Executive director Alan Black retired from the Board on 30th April 2009. Mike Gibbin joined the Board as an executive director on 1st May 2009, with responsibility for our Supply operations and our North American steam business companies. Clive Watson joined the Board as an independent non-executive director on 17th July 2009 and is Chairman of the Audit Committee. We thank our retiring Board members and welcome the new members to the Board.

Prospects

There is increasing evidence that the global economy has started to recover. Industrial production rates are now positive across most of Asia and are improving in Europe and the Americas. However, in our view the economic upturn remains fragile and we are not expecting a rapid rebound in our markets.

We have continued to invest in the business through the recession to improve manufacturing efficiency, accelerate new product development and increase penetration of our markets. In 2010, we will capture the full-year benefit of last year's cost reductions, but will reinvest some of these savings to increase investment in the business to enhance future growth and margin prospects.

We have made a positive start to the year. In the first two months of 2010, sales in constant currency have increased by 2% compared with 2009. We remain vigilant and given no renewed weakness in our markets or significant negative currency impact, we expect to make further progress in 2010.



Bill Whiteley Chairman

Unless otherwise stated, all profit measures exclude exceptional headcount reduction costs of £11.4 million (2008: £nil), the amortisation of acquisition-related intangible assets of £2.4 million (2008: £1.9 million), of which £0.4 million (2008: £0.3 million) relates to Associates, and the impairment of goodwill and intangible assets of £nil (2008: £3.1 million).