investisdigital.

Spectris 2022 Half Year Results Q&A session

Monday, 1st August 2022

Andrew Heath, Chief Executive

Good morning, everyone.

Welcome to Spectris's half year results for 2022.

I'm Andrew Heath, Chief Executive. I'm joined by our CFO, Derek Harding.

I'd like to start this morning by saying thank you to all of my Spectris colleagues…for their hard work again this year. 2022 has presented new challenges but our teams have worked, as hard as ever, to deliver the continued progress we have made so far this year. I am always grateful for their commitment and can-do, aim high approach… delivering on our purpose - harnessing the power of precision measurement to equip our customers to make the world cleaner, healthier and more productive. Thank you!

Slide 3. Our Strategy for profitable growth is delivering

We are delivering on all elements of our Strategy for Profitable Growth which continues to position us strongly…as we navigate the macro backdrop, supply disruptions and further COVID related lockdowns in China.

Our focus on working closely with our customers is underpinning demand and driving growth. We provide premium, differentiated technologies, equipping them to improve the drugs that heal us, the food we eat, the materials we build with, the cars we drive, the semiconductors that power our devices, or the air we breathe.

This is clearly translating into strong growth, in orders and sales.

Over the past three years, we have transformed the Group into a more focused, more profitable and more resilient business, with the ability to compound growth at a higher rate through the cycle. Today, Spectris is in a position of strength:

- with a robust balance sheet,
- well positioned in attractive end markets, with strong fundamentals,
- supported by key sustainability themes to deliver structural growth.

The successful sale of Omega delivered significant shareholder value; demonstrating our continued portfolio discipline, as we further improve the quality of the Group.

And we have fabulous, engaged people all contributing to a purpose-led, high performance growth culture.

While vigilant to the macro environment and alert to signs of changes in demand, we have confidence in our business and have increased our investment for growth in R&D, to innovate and enhance our customer offerings.

With our current order visibility, we expect to deliver high single digit organic sales growth and margin expansion for the full year, supported by pricing already in the order book and SBS…the Spectris Business System.

Slide 4. SBS driving productivity improvements

SBS is central to our strategy for profitable growth, tightening our processes and improving the efficiency and effectiveness of our operations. Launched three years ago, it is now delivering tangible benefits across the Group.

For those who attended our investor day at Malvern Panalytical, they saw in person, the results of improvements made to the manufacturing line, for one of our highest volume products, the Mastersizer…doubling throughput, in a smaller footprint with fewer people. Moreso, the team have almost halved overall order lead times, creating a real competitive advantage, supporting the significant order and sales growth we have achieved this year.

A kaizen event run by the HBK, Suzhou production team analysed how they could reduce work in progress by value stream mapping and use of Heijunka flow levelling tools. The team achieved close to 30% lead time improvement, significant labour cost savings as well as inventory reduction.

Following a kaizen at PMS, the service room for the 20 nm particle counters was re-laid out, to provide a faster response time than competitors. Turn-around time was almost halved and capacity quadrupled, generating £1.6 million of extra revenue.

The HBK torque sensor design team applied Value Analysis & Value Engineering to deliver a 40% reduction in unit cost for one of their key product lines; this also came with a significant reduction in disposed plastic.

And at Red Lion and PMS, we also ran kaizens to reduce packaging and the use of plastics, saving cost and reducing our environmental impact.

These are just a small snap-shot of SBS in action…and the great engagement of our people, driving continuous improvement to deliver business success…enhancing our productivity, increasing our competitiveness and making our operations more sustainable.

Slide 5. A more focused, resilient and profitable business, delivering strong growth

We entered 2022 with good momentum and a record order book across the Group. We have continued to see healthy demand for our products and services, with orders up 20% on a LFL basis, further extending our order book.

As expected, this resulted in LFL sales increasing 11% in the first six months, reflecting the recent introduction of new products and services, and market share gains.

With our current order visibility we expect to deliver high single digit organic sales growth for the full year, as we previously guided.

Adjusted operating profit increased to £72.3m, with operating margin maintained at 12.7%. This reflects higher sales, partly offset by a lower gross margin and higher planned spend in R&D, as we increased investment for growth.

Gross margins are temporarily being impacted by the phasing in recognising increased prices already in the order book, while we deal with elevated input cost inflation and supply chain disruption costs, as we prioritise delivering for our customers.

Pricing in our order book, the application of the Spectris Business System, and our higher quality, more focused portfolio, with continued pricing power, gives us confidence that we will see margin expansion for the full year.

Our near-term target remains to return the Group to its previous adjusted operating margin highs of 18%, and longer term to drive margin expansion beyond this level.

We have further simplified the Group with the sale of Omega which completed in July, with £410 million of proceeds adding to our balance sheet strength.

We are deploying the balance sheet in line with our capital allocation policy – investing organically in the business, to compound growth at a higher rate through the cycle…and to accelerate this growth via M&A.

in the first half, we announced a number of high-quality bolt-on acquisitions, further enhancing our customer offering.

For our shareholders, we continue to look to drive attractive returns …and reflecting this, we have increased the interim dividend 5% and returned £150 million to shareholders via a share buyback in the first half, with another £150 million to go.

Sustainability is at the core of our strategy and I am pleased, and proud, that we have joined the UN Global Compact, as a demonstration of our commitment.

Slide 6. | H1 2022 scorecard – executing our strategy

Turning to our strategy scorecard. The message here is one of continued strong execution.

Our Strategy is working for us and for our stakeholders.

Spectris today is more focused, higher quality, more profitable, and more resilient.

We are also a less cyclical business, concentrating on attractive growth markets, with the ability to compound growth at a higher rate through the cycle.

We have demonstrated our ability to improve the quality of the Group, drive organic growth and margin…and allocate capital with discipline for attractive returns…including several, synergistic acquisitions.

This gives us a much stronger business today.

As I've said, we maintained our adjusted operating margin and have confidence in delivering margin expansion in the second half.

This confidence underpins our planned increase in investment in the business – our R&D spend is up 18% year on year, on a LFL basis…at 8.3% of sales…to fuel future growth. We are investing in new ERP systems to further improve operating effectiveness and a new facility for PMS, expanding capacity to meet demand.

It also supports the 5% increase in the dividend and the share buyback programme. The strength in our balance sheet still leaves plenty of capacity for M&A and we have announced around £100 million of acquisitions in the first half… more on these later.

We are now moving into the next phase of our Strategy for Profitable Growth…which we will be discussing later in the year in more detail.

I'd now like to hand over to Derek who will run through the financials in more detail, before I come back to talk to you about the businesses and future opportunities.

Derek Harding, CFO

Slide 8 - 2022 H1 scorecard – strong performance continues

Good morning everyone, as with previous presentations my first slide today is our scorecard for the first half.

I will cover the specific details shown here on the following slides, but overall,

we are very pleased with our performance in the first half of 2022, with continuing demand for our products and services and strong LFL growth in both orders and sales.

Let me now take you through the specific details.

Slide 9 – Strong financial performance

Before I go into the detailed numbers it is important to note that all the figures presented today exclude Omega which was classified as a discontinued operation at 30 June and subsequently sold on 1st July.

Reported sales increased by 6% to £570.2 million. If you adjust for the impact of disposals, net of acquisitions, which reduced sales by £30.5 million or 6% and foreign exchange movements which increased sales by £10.7 million or 2%, you see a growth of 11% on a like for like basis compared to 2021.

Adjusted operating profit increased by 6% to £72.3 million, on both a reported and like for like basis.

Adjusted operating margins were flat at 12.7%, with LFL adjusted operating margins down 60bps compared to H1 2021. This reflected higher sales, partly offset by a lower gross margin and higher investment in LFL R&D, being 18% higher year-on-year, as we increase the investment for growth.

Adjusted profit before tax was £70.3 million up 8%. Our tax rate came in at 22%, which is in line with guidance.

Adjusted earnings per share were 49.8p.

The interim dividend per share of 24.1p represents a 5.0% increase over the prior year, consistent with the growth in dividend for 2021. We remain committed to paying a progressive dividend.

Adjusted cash conversion was 39%, lower than we would normally expect due to higher working capital, particularly inventory to ensure customer orders are met in the second half and higher capital expenditure as a result of a $20 million investment in a new production facility and headquarters for PMS in Colorado. We expect our cash conversion % to recover to more normal levels in the second half.

Our net debt at the end of June was £98.3 million, following the completion of £150m of share buyback. It is worth noting that £410m of headline proceeds for Omega was received in early July.

Finally, on this slide, our return on gross capital employed continues to improve increasing from 12.4% to 13.8%. I should also note that this measure is an average measure and does include Omega in both the numerator and denominator for the full period in question.

Slide 10 – Increased R&D investment maintains operating margin

This slide provides a graphical view of the main P&L movements that I have just discussed and therefore I will not go over them again. I would, however, like to highlight two points of note.

The gross margin is temporarily impacted by the timing lag in recognising increased prices and supply-chain disruption costs in executing the order book to support our customers, we expect this to recover progressively in the second half, as price increases implemented earlier in the year start to be reflected in sales.

Also it is worth noting that of the £13.9m of increased overhead shown on the slide, almost half relates to LFL R&D investment which we have purposefully increased in the first half.

Slide 11 – Cash outflow driven by share buyback

Moving on the cash, this slide shows how we generated cash in the period and illustrates what we have then done with that cash.

Starting by adding back the £18.8m of depreciation and amortisation charged to the adjusted operating profit brings you to £91.1m of EBITDA.

The Group has utilised its strong balance sheet to ensure continued customer delivers and where necessary has held additional inventory to address supply chain disruptions. This has required a cash outflow of £31.6m relating to working capital during the period and we spent £31.6m on capex, the largest element of which was the new building for PMS mentioned previously.

This gives us our adjusted cash from operating activities of £27.9m which we divide into the adjusted operating profit to get our cash conversion metric of 39%.

Transaction related costs and acquisitions resulted in a £68.8m cash outflow.

In the first half, we spent £150m of the £300m share buy-back announced in April and paid £53.3m in final dividend. We spent £2.6m of cash in relation to previously provided restructuring.

Interest and tax had a combined cash impact of £20.8m with other movements of £2.3m, bringing us to the net decrease in cash for H1 of £266.1m.

As I stated previously the £410m of cash proceeds for Omega were received just after the balance sheet date.

Slide 12 - Statutory and adjusted operating profit and PBT

This schedule reconciles our adjusted operating profit measures and our statutory profit measure, down to statutory profit before tax.

There are no asset impairments to report or restructuring costs in the period.

Transaction related costs were £6.8m and we spent £2.3m on the new ERP project for Malvern Panalytical and HBK.

Amortisation of acquisition related intangibles of £8.8m brings us down to the statutory operating profit of £54.3m

Finance costs, primarily a £10.7m fx loss on intercompany balances, brings you down to a statutory profit before tax of £41.8m for the period.

Slide 13 – Disciplined capital allocation approach

During the period, the Group has continued to follow its approach to capital allocation set out in 2019.

The balance sheet remains strong with net debt to EBITDA of 0.6x at the period end.

Within the year we have used the cash generated from operations and disposals to invest in the business, to position it for stronger through the cycle growth, via a 18% like for like increase in R&D to drive further innovation and through selected acquisitions.

We continue to look to drive attractive shareholder returns through a combination of growth and income and reflecting this have increased the interim dividend by 5% and used the excess capital following the sale of Omega to return £150m to shareholders via a share buy back in the first half.

Slide 14 – Updated Considerations for FY 2022

Looking ahead to the second half, this slide updates our view of things to consider when looking at 2022 on a full year basis.

Starting with the headwinds

We believe that things are starting to improve with respect to global supply chains, however, we still anticipate that we will experience some disruption, but cannot predict exactly which components or the absolute impact this could have.

We will continue to find engineering solutions to these issues and make alternative supply arrangements wherever possible.

We expect continued inflation for the remainder of this year, however, our premium products provide us with good pricing power to continue to offset the higher inflation than expected at the time of setting the budget.

On the positive side, we have several tailwinds. Our order book remains strong and supports our continued organic growth confidence for the remainder of the year

We expect gross margins to recover progressively in the second half, as price increases implemented earlier in the year start to be reflected in sales.

Additionally, we are working hard to offset inflationary pressures through the application of the Spectris Business System ('SBS') to drive cost efficiencies.

In terms of other guidance, I have included our usual table for fx movements, capex will be around £50-60m and we anticipate incurring around £20m of Software as a Service costs as we roll out a new ERP system at Malvern Panalytical.

Primarily as a result of acquisitions, we now believe our additional R&D spend

We expect our tax rate to be 22%. Working capital will stay with our previously guided range of 11% - 15%.

And with that, I will hand you back to Andrew.

Andrew Heath

Thank you Derek

Let's take a quick look at our end markets and then turn to our businesses.

Slide 16. Sales by end market

We have seen good demand in our end markets, with all of them now returned to growth.

In pharma, higher sales have been driven by investment in biologics and onshoring of manufacturing capacity. Growth has been further driven by the success of our new products like Zetasizer and OmniTrust software at Malvern Panalytical and for our complete sterility assurance solutions at PMS.

The onshoring trend is also supporting growth in semicon, as is the rising demand for chips, driving an increase in investment programmes from major manufacturers. Sales were notably strong into Asia, with robust demand for PMS' liquids instruments and Servomex's gas purity range.

Sales growth in machine manufacturing continued, against a tough comparator, supported by strong demand for HBK's weighing technologies and OEM sensors.

Energy and utilities and automotive stand out as the strongest performers, in the first half, in part reflecting their later cycle nature and the easier comp vs last year.

Sales to energy and utilities continued an improving trend following growth in the second half of 2021, as the hydrocarbon sector recovers. Sales to energy customers at Servomex saw strong growth in Asia, especially China,

Automotive is now back into growth territory with robust demand from customers, especially for electric vehicle projects, including simulators and production.

Higher sales at Red Lion reflected recent high demand for its automation products.

Slide 17. Malvern Panalytical

Turning now to our businesses, there are a number of common themes.

All the businesses ended the half with record order books and good LFL sales growth. We have experienced higher than expected input cost inflation and production costs from supply disruption, which has impacted our gross margin in the first half.

But pricing power has been maintained and we will see the full impact of increased prices coming through in the second half, helping to underpin margin expansion for the full year.

At Malvern Panalytical we continued to see buoyant customer demand, particularly in pharma and advanced materials, with market share gains, supported by the positive impact from new products. Order intake was up 12%, leading to a 14% increase in sales.

There was a 24% increase in adjusted operating profit and a 100bps rise in operating margin…even after higher R&D investment. This also included investment to accelerate the growth of the recent Creoptix acquisition.

Slide 18. HBK

Turning to HBK, orders grew 23% LFL with organic sales 7% higher, reflecting longer lead times, and longer-dated orders from a planned increase in OEM business.

Automotive saw strong demand with significant order and sales growth, especially for electric vehicle projects and for our range of simulation offerings.

LFL sales were also up strongly in aerospace and defence.

Demand from machine manufacturers continued to be elevated, driven by demand for our weighing technologies, and for our smart OEM-sensor solutions in medical and healthcare applications.

Adjusted operating profit rose 11%, though was 8% lower on a LFL basis, with operating margins 160bps lower. The higher sales, plus positive mix and pricing effects, were more than offset by higher input and production costs.

Slide 19. Industrial Solutions

Turning now to Industrial Solutions. LFL orders grew 28% and LFL sales increased 11%, driven by strong demand from semiconductor and pharmaceutical customers, as well as the favourable impact of recent product launches, across each of our businesses.

On a LFL basis, adjusted operating profit increased 1% while operating margins decreased 160bps. Again, the sales increase was more than offset by lower gross margins, and higher investment. It also reflected the impact of the disposals which enhanced the underlying margin but was offset by a higher burden of central costs.

We have decided to continue to run ISD's three businesses on a stand-alone basis, to drive efficiency and effectiveness. To take out additional cost, the three businesses will now report directly to me and the ISD management layer has been removed.

Slide 20. Aligning our strategy with key sustainability themes

We are now more aligned than ever to markets with attractive growth trajectories, positioned in technology-driven end markets with strong fundamentals, increasingly supported by sustainability thematics. Back in February, we highlighted a number of sustainability growth trends which we see as providing new growth opportunities, as detailed on this slide.

We have continued to refine our approach and future strategic direction around these trends, given our strong positions in many of these areas today.

We see exciting opportunities to accelerate our growth aligned to these trends over the coming years, both in our organic development and via M&A, compounding growth at a higher rate through the cycle.

Looking at each in more detail:

In health…both Malvern Panalytical and PMS have leading positions across the pharma development and production workflow. Sales into this sector now account for 25% of the Group's revenue and the success of our new product launches, such as Zetasizer, OmniTrust, Lasair Pro and IsoAir Pro+ have helped strengthen our customer proposition.

The transformation of mobility and energy transition is driving significant investment in new battery materials and new, greener technologies and fuels. Both Malvern Panalytical and HBK are benefiting from this trend.

Sales from HBK's electric powertrain offering have more than doubled in the past three years and Malvern Panalytical has seen £11 million of new sales into battery and new energy technologies in the first half.

We are also playing a key role in environmental protection – our gas analysis solutions from Servomex are already helping better monitor and control emissions.

And then more generally, across our business, our products help customers become more productive in their processes – from saving time and cost in bringing new automotive models to market…to ensuring yield maximisation in semicon manufacturing. We have seen rapidly growing demand for our products and services at HBK, Servomex and PMS here.

These themes are very much aligned with our purpose. We continue to invest more in R&D to better position us to take advantage of these trends and opportunities…accelerating growth as we move into the next phase of our strategy

Slide 21. Increasing investment to accelerate growth

We said in February we would be increasing our R&D spend this year.

In the first half of the year, our R&D spend totalled £47.6 million, up 18% on a LFL basis. £3 million of the increase is due to the acquisition of Creoptix and CCRT.

The increase in organic investment includes product extensions across all our businesses…as detailed on the slide…including:

- Malvern Panalytical expanding its range of X-ray spectrometers and particle analysers, including robot driven sample automation for the Mastersizer, as well as next generation calorimeters and analytics software;
- HBK are developing its new data acquisition hardware and software platform, Advantage & Fusion; and
- the release of seven new products at PMS, including several that use novel IP; as well as product refreshes at Red Lion and Servomex.

We have also incurred extra capital expenditure, with £31.6 million spent in the first half, up from £18.3 million last year. The key project is a new facility for PMS in Colorado, more than doubling its capacity, to support its rapidly expanding order book and long-term growth.

We are also investing in new ERP systems at both Malvern Panalytical and HBK over the next three years. This will simplify and automate processes, enabling us to become leaner and more agile, and also more scalable and flexible for growth.

They will drive long-term, structural improvements to our operating model, supporting both our growth and margin expansion ambitions, whilst also driving efficiency and working capital improvements.

Slide 22. Deploying our capital for value-enhancing M&A

M&A remains a key aspect of our strategy.

We have announced around £100 million of acquisitions in the first half.

We acquired Creoptix in January, to further strengthen our position and expand Malvern Panalytical's offering in the affinity area within drug development. Creoptix's provide industry leading instruments and software for measuring real-time biological and molecular interactions.

For HBK, we announced the acquisition of Dytran Instruments in May. Based in California, Dytran is a leading designer and manufacturer of piezo-electric and MEMS-based accelerometers and sensors for measuring dynamic force, pressure, and vibration, with its largest market in North America. The acquisition will enhance HBK's customer offering and solutions to enable accelerated product development in the space, aerospace and automotive industries. We expect the transaction to complete in the second half.

HBK has also established a joint venture with DEWESoft, a leading manufacturer of data acquisition hardware. The JV, to be known as Blueberry, has employees from both companies, working together to create a new open, industry standard for data acquisition products. The JV will also help accelerate the development of HBK's new Fusion data acquisition platform.

And to expand its Industrial IoT portfolio, Red Lion acquired MB connect line. It adds a full complement of products in industrial cyber-security and provides customers with a portal for remote monitoring and configuration, providing customers with secure remote access solutions.

Slide 23. Case study – More productive – Ford

As is usual, I've selected a customer case study to show how we are bringing our purpose to life – in this case, equipping our customer to be more productive…and competitive.

HBK's virtual test division has grown materially over the past three years, with £60 million of incremental revenue over this period.

We have been working closely with Ford, for a while, who, earlier this year, installed a turnkey VI-grade DiM250 simulator solution at its facility in Michigan.

Automotive OEMs are continually looking at ways to speed up and reduce the cost of their development process. Our simulation offering helps Ford reduce the number of physical prototypes needed in its development programme, allowing test scenarios to be run which would be too expensive or too radical to be built.

The presence of a driver in the loop also brings the essential human element to the testing…allowing the development team to quickly try-out different configurations and fix elements in-situ.

Ford will be investigating vehicle dynamics as well as ride and comfort on the same simulator…saving time, cost, risk and environmental impact – all real and quantifiable benefits for Ford.

Slide 24. Driving our ambition to be a leading sustainable business

So in summary, we have made good progress in the first half with continued strong demand for our products and services.

We have confidence in delivering high single digit organic growth and margin expansion for the full year.

By executing our Strategy for Profitable Growth, we have delivered a Spectris that today is purpose led – more focused, more profitable, higher quality and more resilient with sustainability at the heart.

We are in a position of strength, with a robust balance sheet, well positioned in attractive end markets, with strong fundamentals, supported by key sustainability themes…with the ability to compound growth at a higher rate through the cycle.

This gives us confidence in our ability to return the Group to its previous margin highs, and ultimately exceed them over the longer term.

We have a very strong platform to meet our ambition as a leading sustainable business, investing in our businesses to take advantage of new growth opportunities, strongly aligned to our purpose and to our focus on sustainability.

Introduction

Andrew Heath

Chief Executive, Spectris

Welcome

Thank you, everyone, for joining us this morning. You will have seen our release that went out first thing this morning as well as our webcast presentation, which I hope you have had the chance to read. Before we just get into the questions and the Q&A session, maybe I will just make a few opening remarks.

Our strategy for profitable growth is delivering

Maybe firstly, I would like to say I am very pleased with the execution of our strategy for capital growth. It is working strongly for us. Over the past three years, we have transformed the Group into more focused, more profitable and more resilient business with the ability to compound growth at a higher rate through the cycle.

A more focused, profitable & resilient business, delivering strong growth

So today, Spectris is in a position of strength with a robust balance sheet. We are well positioned and attractive in end markets with strong fundamentals, and we are also supported by key sustainability themes to deliver structural growth.

During the first half, we continue to make good progress, achieving strong growth really through our focus on premium position measurements, as well as our focus on growth markets, our priority markets are growing well for us at the moment and we are also delivering on a consistent basis, even in the face of continued supply chain challenges and absolutely, I am very proud of the team for all the work they have done over the last six months in delivering the results we posted this morning.

Spectris Business System driving productivity improvements

I think our results also demonstrate the value of our customer focus and productivity, where we are solving customers' challenges, whether that be in pharma, semiconductors, automotive, advanced materials or in a variety of technology-led industrial markets, particularly in smart manufacturing.

We have increased investment in R&D as we have seen, and the improvements we have made to our internal R&D processes, as well as our focus on driving our strategic initiatives against the key drivers as we see our end markets over the last three years is really coming through in strength and demand end market share gains.

We have increased the investments as I said this year, and that is very much based on our confidence and the outlook we see for our business through the cycle. And you will also see we continue to apply self-help driving operational excellence through the deployment of the Spectris Business System, reducing waste, improving throughput, and improving our competitiveness.

And clearly, we look to accelerate and compound that growth to attractive M&A, and we have made or announced £100 million worth of acquisitions year-to-date.

We are now moving into the next phase of our strategy, delivering on our ambition to be a leading sustainable business and I look forward to updating you later in the year on that in more detail.

So, thank you again for joining. Very happy to take your questions.

Q&A

George Featherstone (Bank of America): A few questions for me. I will go one at a time. Firstly, let us start on the quite big step up in R&D year-on-year. I just want to see if you structurally expect now to be above 8% of revenues in terms of R&D spend going forwards. And if there are any parts of the portfolio where you feel there has been underinvestment, hence the increase? Or conversely, are there any particular areas where you see an opportunity to gain further market share through new product launches innovation?

Andrew Heath: Okay. So, yeah, I mean, we have stepped up investment in R&D. As I said, in my brief opening remarks, I mean, that is really the consequence of the strategic initiatives that we have been running over the last two years focusing on core parts of our end markets where we see we have the biggest opportunity for structural growth, whether that be in drug developments, life science applications, whether that be really helping to support the capacity build-out in semicon, all the way through to smart manufacturing using our sensors, high precision sensors to enable our customers to make smarter devices.

So going forward, to your point, we certainly anticipate increasing our range historically, as we have been at 6% to 7% guidance in terms of R&D. We are clearly going through that. But I think that is consistent with what we have been saying, as we have been looking forward to increasing progressively our R&D spend.

So, as we look forward now with the sale of Omega, which has relatively small amounts of R&D in it, the mix there has helped with this and that has pushed us over the 8% threshold, but we are incrementally investing as well.

Your question about, is there any underinvestment areas? No, we are spending a bit more of our engineering time on supporting all the supply chain challenges at the moment than we would have liked to have done. So, in part, that is also increase the R&D bill a little bit because inevitably our engineers are having to support operations in terms of finding alternative suppliers or redesigning printed circuit boards, etc., to make sure we can deliver for our customers. So, we are having to spend a little bit more there. But I would hope unwind progressively from here on in.

And in terms of market share gains, absolutely, we are confident that we are seeing gains in market share as a consequence of the initiatives that we have launched over the past two to three years. You have seen in our various press releases that we have made in that period progressively increasing commentaries in terms of new product launches, and the impact that they are having in the market and the problems they are solving for the customers. And that gives us the confidence to continue to progressively increase our spend and invest in R&D.

George Featherstone: Okay. Turning to the next question. In the first half revenues, you have mentioned that there has been some extended lead times in delivery of the order book. So, I just wondered what portion of your order book that you delivered in that period had price increases that reflected the new pricing that you would have liked to put through, given the current cost inflation environment?

Andrew Heath: Yeah. So, if you break down orders versus revenue, we certainly are looking at the visibility we have visibility and that visibility has increased progressively over the last 12 months, 18 months. We have now got 5.5 to six months of aggregate order cover baked into the order book. And within that, there is 4% to 5% of price increase. It just depends a little bit on mix by business and products.

So, the phasing that we talked about in the press release, we have put our prices up in the first quarter of last year, and then in the middle of last year again. We put prices up again in Q1 of this year, and we are just in the process of putting prices up again, given inflation has been running at a much more elevated level and for longer than we anticipated.

But effectively, the prices that were in the order book coming into the beginning of the year were set at the middle of last year. So that has really dictated the price going into the revenue through the first half within an incremental uplift on price that is in the order book to say in the tune of 4% to 5%, which will then started progressively come through already late May into June that will build as we go forward now to the second half. So, we certainly anticipating the reported 5% pricing benefit in the second half.

George Featherstone: Maybe one for Derek on cash flow. Clearly cash conversion below your normal typical levels, which is understandable, given what you said on working capital requirements for some of the investments you have made. Should we expect the cash conversion to return to normal levels by the end of the year?

Derek Harding: Yeah, certainly, George. There are couple of specifics in the first half – we did buy a new building which pretty much doubles the capacity of our PMS operation with $20 million spent in the first half on that, and then the remainder is supporting working capital to facilitate deliveries. It is our expectation to get it back to our normal range 80% to 90% of conversion going forward.

Andrew Wilson (JP Morgan): It is two, somewhat clarification, I guess. Just talking about the price-cost dynamics and appreciate the detail you have given, Andrew, in terms of the backlog pricing and how it has obviously set to improve second half. Should we think about price-cost being positive for the full year? I am just trying to understand how much catching up you need to do in the second half. And if we look on a full-year basis here, where that is going to come out?

Andrew Heath: Well, I mean, as we said before, I mean, we are not looking for prices to get ahead of inflation. We are certainly looking for our pricing to maintain our gross margins, and that is certainly our expectation for the full year.

So, if you consider our usual first half, second half weighting in terms of revenue growth plus the 4% to 5% of pricing that is coming through, that is already in your book and you can see it, the operating leverage therefore in the second half will be very strong.

Andrew Wilson: That is helpful. And second that it is slightly, I guess, linked to one of George's questions earlier. Just on the market shares and clearly some of the growth in some of the markets has been super strong, even in supported markets. I guess, just interested if there is any particular markets where you would single out where you think you are definitively taking share?

Andrew Heath: Yes. So, I mean, if you just look at our key target markets and start with pharma. I mean, we were up 12% in the first half in pharma & life sciences. And that has been with a strong performance in both Malvern Panalytical and PMS. And we have seen a reduction clearly in vaccine development work, but that has been replaced by continued investment in both conventional drug development as well as large molecules, protein-based drugs in mRNA treatment, that is driving demand for more pharmaceutical products. And our aseptic monitoring solution, PMS is doing particularly well also. So, we are seeing strong growth there.

In automotive, I mean, we are up 15% in the first half, very strong growth, particularly in North America, but also in Europe. Asia was a little bit softer, China was softer really because of Q2 with the lockdowns, which meant we were not able to recover all of our sales within HBK into China in the second quarter. But I think the fact that we are very much helping to drive the electrification trends in automotive, our electrical powertrain testing, our battery testing solutions are selling particularly well.

And if you look at our simulation virtual test offering, and we have put the numbers in the press release and in the webcast. But if you look over the last three years, sales have grown incrementally there by £60 million. So, we are seeing very strong growth there. It is still a relatively new market, but one that is growing very strongly, and we have a very strong offering.

So, there has never been a better time certainly to help our automotive customers with customers at large to drive their own productivity in the face of all this inflation. So that is certainly helping to accelerate time to market for our auto OEM customers, reducing risk, reducing costs as well.

And then within semi, I mean, we have some very strong offerings in semi that are certainly benefiting from the very large capex cycle that is going on at the moment. And whilst, there is talk that some production volumes may start to come down or given some of the commentary from some of the larger semi producers in terms of inventory levels, but we certainly see that capex cycle continuing as they need to continue to both build out capacity. The onshoring trend continues as well as the investment in the next generation nodes. And again, our offerings across Malvern Panalytical and PMS in particular around Servomex are doing very well there.

Andrew Wilson: And maybe if I can squeeze, just one clarification as well. I meant to ask on the pricing. Apologies if I have missed this. But did you split out the organic growth in the first half in sales between price and volume?

Andrew Heath: Yeah, so the 11% revenue growth in the first half, 4% ramp in price, 7% down to volume.

Andrew Douglas (Jefferies): I have got three quick questions, please. Just going back to R&D. I understand the increase of 8%. Are we happy that we are getting bang for buck on that 8%? I think when you joined, Andrew, one of the issues that you faced was actually you were not getting necessarily full bang for buck from that 6%, 7%, and that was a key bit. So going up to 8%. Are we confident that, that is now still coming through?

Secondly, on going back to the cost and price increases. Are we still confident or how confident are you that the price rises that you are putting to now will stick, particularly if we get into a slightly more challenging macro backdrop, and it seems that most raw material prices are now rolling over a bit. So just understanding the confidence there.

And if you can give us, please, an update on the M&A pipeline, size of deals, things you are looking at? And whether you think that pricing is at an appropriate level?

Andrew Heath: Okay. Thank you. Nice to hear from you, Andy. So firstly, just in terms of R&D, I mean you are absolutely right to characterise it when I came into the business 3.5 years ago, I was concerned that the amount of, I would say, local sustaining and maintenance engineering effort that was going in at the time and then over half of our R&D spend is going into just maintaining sustaining all the products.

As a consequence of both tiding up the portfolio at a Group level and really concentrating on the core businesses, we are going to retain and investing in the engineering capabilities and the processes there. That has certainly helped in terms of giving us better bang for the buck to use your expression. But also, within the retained businesses, we have worked through the portfolio of products and services within each of those businesses as well, and either discontinued or end of life a number of products. We have sold a number of products as well over the last three years, some of these older products that were taking a lot more maintenance burden. So that has all helped to improve the vitality.

And as I said, we have primed our processes, and we have also replaced the engineering leadership within those businesses as well over that period. So, I have a lot more confidence in our capability. Equally, the strategic issues that I have spoken about, market share gains, we are seeing the products we are launching and getting good traction with customers and solving problems. So, then that has been driving greater sales.

And in terms of our vitality index, that is now starting to progressively improve. So, all pleased on that front, and we will talk more about this when we get to the Capital Markets Day later in the year.

In terms of cost versus price, yes, still very confident we have pricing power. All of the pricing increases that I talked about on the previous question was sticking. We are getting good realisation of those price increases. And in some instances, we are also going back retrospectively with customers, and we have had to increase in prices, and that has worked.

I mean I do not think that would not make too much of that, but it just demonstrates that even when we have to go back retrospectively, we have been able to. And we have also within our contracts built in terms of such that we can charge for surcharges around excess freight costs, excess energy costs as well as needed.

So to the nub of your question, how are we confident in pricing power? The answer to that is yes.

And then in terms of the M&A pipeline, clearly, we have done a number of acquisitions over the last 12, 18 months, four acquisitions and one announced. So, we have been executing a number of those bolt-ons.

In terms of the pipeline, it is fair to say we are now in a little bit of a refresh state as well, and we have got a number of opportunities that we are currently considering as we always do. But given the sheer number of transactions that we have completed, we are in a slight refresh phase. And then it was the other part of the question around pricing.

Andrew Douglas: Yeah, pricing and valuation of assets and where that sits now, given the slightly more dark clouds on the horizon?

Andrew Heath: Yeah. I mean we have not seen, I would say, any evidence of pricing valuation shifting at the moment, albeit clearly debt markets are a lot tighter, and that is putting some downward pressure on prices. So, I think it is a bit too early to say. You would expect hopefully that some of that valuation expectation, price expectation is starting to come off.

Andre Kukhnin (Credit Suisse): I will go one at a time. First, I just wanted to look a bit more into the H1, H2 margin cadence. I really think of the reasons behind the implied margin improvement in the second half in the guidance. So firstly, on the acquisition-related expenses and fair value adjustments of £6.8 million. Am I right to think that most of that is of one-off nature and in absence of another large deal in the second half, now assuming that £6.8 million should not reoccur?

Derek Harding: Yeah. So, Andre, this is Derek. So, I mean it is one-off in the sense that it relates to acquisition activity that we have undertaken in the first half. It is also an amount that we excluded from our adjusted operating profit. So, in that sense, it is below our typical APM. So, it does not impact the reported operating profit or adjusted operating profit. It is more of the statutory method.

Clearly, if we have some M&A activity, it can be big or small, there could be other costs going through that, but you are right, it is one-off in nature.

Andre Kukhnin: Got it. And on the China lockdowns impact, given that you have got 16% sales there. Could you help us quantify the impact in the first half?

Andrew Heath: So, I mean our team has actually in the beginning did an excellent job in terms of recovery in China towards the back end of May and through June. But the backlog has not fully unwound. So, in particular, within HBK, as I spoke about, some of they are automotive. So that will give us a little bit of an extra coming into the second half.

Andre Kukhnin: Should we think about a couple of million or so?

Andrew Heath: Yeah. I mean, it would not say it is a hugely material.

Andre Kukhnin: Okay, great. And I have a couple of broader questions. One is on Industrial Solutions. Given the change in the management structure there and noting some differentiation in terms of level of investments across a couple of businesses versus others, should that signal more openness to maybe further portfolio changes there? And is there a time scale on that?

Andrew Heath: So, look, in terms of Industrial Solutions, back in December, we talked about looking at how we could integrate the three businesses, PMS, Servomex, Red Lion into a more integrated division. And to me, that is the work we undertook.

As we went through that work, the thesis did not really prove itself back to the extent that we anticipated. And as we look at the frictional costs from the sale of Omega and just looking at management costs overall, we took the decision to effectively not continue to go down that path with Industrial Solutions, and instead, keep the three businesses, there is three in the independent operating companies.

They are reporting to myself, and that allows us to effectively take out the mezzanine management structure that we have had in place over the last two, three years or so to manage ISD when it was a portfolio of late business is going through a disposal programme. So that is really the logic, and it also gives us a bit more flexibility going forward.

Andre Kukhnin: Great. And if I may, just very last one to take this opportunity. If we go back to the Oxford deal and just think about the fundamental attractions that you saw in that deal at the time and set everything aside and think about hypothetical scenario. Have those attractions fundamentally changed for you in the current world with the events that have happened since or not?

Andrew Heath: I mean, I would just repeat what I said at the time really. I mean it was a very sensible transaction for us to consider, the combination with Malvern Panalytical would have been very powerful and would have created significant value for shareholders in our opinion. That said, it was the right transaction, but at the wrong time. The world changed, just at the point we were looking to try and consummate a deal, with Russia invading Ukraine and all the macro uncertainty. So, it was right for us to put our pens down. But in terms of the logic for the transaction, that logic still remains.

Clearly, there is a number of things that need to come together to make that a financially attractive proposition. So, we remain disciplined in our approach to M&A and our focus on how we create shareholder value. And the avoidance of that, we continue to explore other acquisition opportunities.

Mark Davies Jones (Stifel): I was also going to just follow up on the Industrial Solutions thing, because it looks as though there is quite a big change of mind. It was way back in December we had Mary Beth setting out the strategy there and that seems to have gone to reverse. I am assuming, firstly, that she has left the Group. Is that right?

Andrew Heath: She has. Yes, that is correct. Yes.

Mark Davies Jones: And then thinking about what happens to those three businesses. I mean they are three quite attractive but unrelated businesses. Is there any scope for further Group reorganisation, PMS, for instance, seems to have a fair amount of overlap with parts of Malvern Panalytical. Is that something we can think about? Or do you think these are to be seen as three stand-alone units that may in time get built out to platforms, but we will have to wait and see? What is the outlook now?

Andrew Heath: So, look, Mark, thanks for your question. I mean, as I said, it provides flexibility going forward. You rightly say there are overlaps within Industrial Solutions between and

particularly between Servomex, PMS equally. PMS serves the same end markets as Malvern Panalytical.

So, as we look forward, when it comes to the Capital Markets Day, we will give you more colour and insight into our thinking around all of that. But clearly, as I said, part of the rationale for decision was not just cost but also around providing some flexibility on how we proceed with the Group.

Mark Davies Jones: Okay. Understood. At the risk of flogging a dead horse on the price-cost thing, I just wanted to ask it sounds as though cost input costs rose more than you were anticipating or more than you budgeted for in the first half, hence, the lack of margin leverage that you delivered. Is there any particular area where those costs have come through higher? Is it labour costs beginning to rise on here? Or is it just the same materials and logistics things we have been dealing with for some time?

Andrew Heath: Well, yes, I mean when we put the budget together November last year, I mean, we were certainly anticipating inflation to be peaking around 6% to 7% to the first half and then declining down to the 3% to 4% in line with looking how everyone else saw the situation back in November.

Clearly, as I said earlier, inflation has been running much hotter, higher and more prolonged than was anticipated then. So, when we put our prices up, certainly in the middle of last year, given our stronger order book and increased visibility. The flip side of that clearly is that it takes longer for pricing changes to come into effect as the order book unwinds itself.

So yes, we did see a higher input cost than we anticipated when we put the budget together. Key areas, electronics, semiconductors are the standout areas. I would say it is not getting any worse, and there are some signs that it may be starting to ease, but I think it is going to take some time still to fully unwind.

And then on the labour side, yes, we have had to increase some of our own labour costs as a consequence of both inflation, tight labour markets in some areas of the world and just the cost-of-living squeeze, and we are taking an appropriate and responsible approach and making sure our employees are suitably remunerated.

Jonathan Hurn (Barclays): Just a few questions for me, please. Can I just come back firstly to the supply chain and obviously looking forward into the second half? I wonder if you could just give us a little bit of detail about where the biggest supply chain issues are by division, please?

Andrew Heath: Good morning, Jonathan. So, from a supply chain perspective, as you said, really, it comes down primarily to electronics. Semiconductor availability has been the biggest issue that we have had to face over the last six months. Equally, as I said, I mean we are starting to see maybe some signs that things are easing. Chip availability is getting a bit better. Whereas go back two- or three-months times on to the critical shortages, we were having to scour the market and we will get commitments.

It is easier to get commitments from the manufacturers now than it was. Now whether that is the start of the trend? It is maybe too early to say, but I am hopeful that we are starting to see the signs of things easing up. But I think as I have noted at the beginning, our teams have done a really good job in terms of being able to deal with the situation, being more flexible in terms of how we schedule, how we prioritise, how we resequence the manufacturing lines,

how we build modules, part inventory, waiting for shortages such that when the parts do arrive, we can quickly assemble them and get them shipped to customers.

And so, we are being much more agile in how we manage all of that. But clearly, there is a cost associated with this, and that is in part has also impacted our gross margin in the first half. So, with all this unwinds with the pricing that we have got in the order book, plus the extra volume, the higher level of production efficiency we are getting but also there is some supply pressures start to unwind, that should certainly help. And that gives us confidence in terms of our outlook as we said.

And I think you cannot rule out the fact that there will be some surprises is the known unknowns. We know that there will be some things that our supply chain is not aware of that may hit us and put some stop ship on certain product lines. But as it stands at the moment, we are managing it reasonably well.

Jonathan Hurn: And what I was trying is just in terms of the risk by division, does one division stand out as potentially having more risk in H2 than others? Or would it be quite equal among the three?

Andrew Heath: No. I mean I think the biggest area come back was the electronics and semi supply chains. And the two businesses that are most exposed to that are HBK and Red Lion. They have the biggest content, I would say, in terms of electronics going into their products. And equally, that is where we have also seen us putting up the prices most significantly to address that.

Jonathan Hurn: Great. Second question just on PMS. Obviously, great business. You have spent £15 million on the new facility. Can you just talk us through the timeline here, when that capacity comes online, how ultimately fast it ramps? And, obviously, this extra facility, what do you think is the potential revenue opportunity for PMS, please?

Andrew Heath: Well, I am not going to give a revenue guidance for PMS directly, but I will say that PMS has been growing double digits for the last three, four years. And clearly, half its revenue comes from semiconductor manufacturing, where we provide class-leading particle counters to measure the impurities in air and liquids. And go into the manufacturing process for semi.

We have the highest accuracy sensors on the market, which makes it very attractive for the semi guys who are developing smaller and smaller nodes in terms of the semiconductors. And as such, they need higher and higher levels of quality.

So that is the major driver to PMS' success on that front. But equally, their aseptic monitoring solution, where we provide, again, particle counters for clean rooms to make sure our customers can measure the effectiveness of their clean rooms but we also provide a full software monitoring suite, whereby customers not only can ensure that the quality of the air going into the clean rooms, but equally, when the regulator comes in, they have all of the monitoring in place such that they can meet the certification requirements to say they have been operating at the right levels of cleanliness. And that, again, has been hugely successful.

Jonathan Hurn: That is very clear. And then just maybe last one, very quick one. Just in terms of order book. Obviously, good growth in the first half. But have there been any cancellations of orders within the order book during the period? Any signs of possible cancellations?

Andrew Heath: No, I mean in terms of customer behaviour, we are not seeing any signs at all, but customers are starting to get anxious about what is in the order book. We have repeatedly said on these calls over the last 18 months it is something that we track routinely on a month-to-month basis, and we have seen no change in behaviour from our customers in relation to cancellations or delays.

Bruno Gjani (BNP Paribas): Just on orders, if I could just follow up. Could you provide some colour on how orders trended sequentially if we exclude that pre-buy impact in Q1? And would you expect the current run rate of orders to be sustained if we look out to Q3? Or do you expect things to slow? I guess, can you take anything away from July trading so far?

Andrew Heath: Yeah. Bruno, thanks for the question. I wasn't quite sure on the question related to pre-order points you made.

Bruno Gjani: Just I remember from the Q1, obviously you talked of certain division benefiting from a pre-buy effect in terms of the strong order growth that you saw on Q1. Some orders have been brought forward. So, if we just strip away that from the Q1 base sequentially, what did you see on your orders?

Andrew Heath: Well, okay. So yes, I mean, I would not characterise at pre-order. Maybe it is just language. I mean, we certainly as we came through the beginning of the year, we extended lead times coming out last year due to pricing pressures. So, we did get some benefits in terms of that in Q1.

But if you look at order growth and you compare it to Q1 last year, orders were up 5%, nearly 31% this year. Last year, orders were up 28%, and we did 11% this year in Q2. So, we are still seeing very strong order intake despite much tougher comps. And we have had the flash results for July, and we are still seeing strong order flow in July. So, as I said, we have no evidence as yet to suggest that customers are pulling back on late in August.

Bruno Gjani: Got it. And just in terms of the lead times on current orders that you are booking, are the lead times European customers coming down somewhat? Or is there no change really?

Andrew Heath: No, it has stabilized. As a consequence, the demand we are seeing, and again, supply chain ability to satisfy it, we are keeping our lead times broadly where they were. Having said that, I mean, we are using the Spectris Business System extensively to look at how we can reduce not only on the throughput inside or in facilities. I mean, those of you who came to the Malvern site earlier in the year when we did the Malvern Panalytical Investor Day, we showcased the Mastersizer line.

Malvern Panalytical did a similar exercise with the Zetasizer. So, if you add the Mastersizer and Zetasizer, that is about a quarter of Malvern Panalytical's revenue. And there, we have doubled the throughput in a smaller footprint, needing less people, and also the operations and supply chain, certain teams we work with suppliers as we put in the press release. I mean we have actually almost halved the order lead time there. So, in that case, we have actually reduced our order lead time, and that is allowing us to gain incremental demand from customers because we can meet their needs faster than the competition. So, we are very much using Spectris Business System as a self-help to reduce cost and waste but also make us more competitive as well.

Bruno Gjani: And if I could just touch upon guidance. So high single-digit like-for-like sales growth, to my mind, implies 8% growth for the full year, which is what consensus models. Now given that pricing is expected to be 5%, this implies H2 volume growth is close to 1%, which in the context of stellar order growth seems a bit cautious in my view. So, I guess, would it be fair to characterise a like-for-like sales guide for this year as being a tad cautious? Was it reflecting uncertainties in relation to supply chain? Any colour on that.

Andrew Heath: Well, I will let Derek get into some of the details. But I think as we look forward, we have confidence in our outlook and maintaining the guidance that we have talked about back at the beginning of the year. I mean, there are still some uncertainties in the supply chain for us. We have clearly increased working capital to provide more inventory to protect our deliveries to customers, which is exactly the right thing we should be doing.

And I would say, it is more about the known unknowns, for things that we know are going to happen. We do not yet know which way they are going to come from. And therefore, we have got to be pragmatic in the pace of that. But relative to the visibilities that we now have in the order book, that gives us a very high degree of confidence to go about high single-digit growth.

But I will let Derek go into some of the detail.

Derek Harding: Yeah. I mean, I would add. If you look for a math, then there is opportunity currently on the volume side. I mean as we just talk about guidance, it is worth pointing out page 48 of our statement. This is where we set out the impact of Omega. I know there is a little bit of confusion and noise this morning around the first half profit number. And I do not think that everyone quite captured the announcement we put out at the beginning of July that set out the impact of the disposal of Omega.

So, there were a number of range of ideas to where the profit number should be. But I just want to make sure that everyone spots that with Omega removed, the prior year profit number was £68 million for the first half and our growth was 6% on that. I think there was a consensus on the value of 17.5% growth, which I do not think anybody actually would have believed.

So, the growth in the first half was 6% and 68, and to point out for the full year last year, it was £189 million of profit, excluding Omega, just to make sure as you guys update your numbers, you can capture that.

But in terms of our broad guidance, we are not expecting expectations for the full year to change off the back of this statement.

Mark Henderson: I am a private shareholder not often seen at these meetings. But I am a little bit concerned about, not your company but many companies, of the impact of inflation, and to the extent to which we are seeing growth in profits being illusory profit growth rather than real profit growth. And that is manifest in your figures by the amount that is going into increased inventories. I think over half year to half year, they are 30% up and the reduction or the lack of cash flow conversion. This is typically what we see in an inflationary times.

But I wonder to what extent you would envisage a reduction in those inventories, in other words, an unwinding of this inflationary pressure?

Derek Harding: Mark, good morning. It is Derek Harding here. You are absolutely right that were the increase in inventory is simply down to price as opposed to volume that, that risk of inflation coming through would be a warning sign certainly against the cash flow. I think in our case, the predominant reason for the increase in inventory is to combat the supply chain issues that have been well documented. So, throughout the first half of this year, where we have had opportunities to obtain input materials, we have taken those opportunities. And in certain cases, that is involved us buying more inventory than we would normally hold with the purpose of making sure we can hit customer demand.

That also results in us as well, having a number of parts and products that are part built sitting on the balance sheet at the half year, particularly if they are awaiting the final component in order to get them completely built and then ship. So, there are a couple of specific volume-related issues that maybe inventory is higher than we would normally have.

Notwithstanding that, our working capital sits within the range that we typically guide towards the 11% to 15% sales. So, we are broadly comfortable with the position, and it is entirely intentional with the customer service.

To move on to your next question, will that unwind? Our expectation is that it will. We have significant orders coming through in the second half. And as Andrew talked about, we expect to see that volume pick up in the second half. And as a result of that factor, and hopefully, reductions in supply chain issues over time, we ought to see that inventory unwind.

And as I said earlier on the call, we expect our cash conversion for the full year to be back in our normal range of 80% to 90%. But there is also a cash impact in our conversion in the first half through the purchase of the building for PMS in Colorado, which, again, is a one-off in some ways when you look at our typical cash conversion. But the net effect is we anticipate strong cash generation this year backing on normal range.

Michael Tyndall (HSBC): Just a quick couple from me. The first one, just in relation to post the Omega disposal, we had reallocation of overheads to the other divisions. To what degree can you bring them down? I mean, effectively, you are a smaller size business now. I wonder to what degree there is a variability in some of those overheads that we can expect to try and drive that down?

And the second one is really a clarification. I am not sure I heard you correctly, but was there an element of the R&D uptick that related to redesign because of the supply chain issues? And if so, can you give us some quantification of how much that was?

Andrew Heath: Well, let me answer your second part of your question first, Mike, and I will pass it to Derek. I mean I would not get carried away in terms of the amount of engineering time that we are having to spend on supply chain. I mean it is an irritant, but it is not that material. So, in the scheme of things, the growth to 8.4% of revenue and R&D spend. The vast majority of that is a really meaningful increase in our investments for future growth.

Derek Harding: And on the overhead cost, Mike, it is fair point. If you actually look at the H1, we said in the prior year, you will see there was £2.2 million costs left over, if you like, if you deleted the Omega profit, it is £4.8 million for the full year last year. You have to be slightly careful, if you categorise that all this is part of head office costs, if you like, because a lot of it relates to shared services and shared capability if you think about IT, cybersecurity, some of those skill

sets where we hold stronger skill set at the centre and then allocate it to the platform in businesses that we do not end up duplicating the cost.

Nevertheless, there is opportunity to reduce that central cost and we would aim to do it. But as I say, what we need to do is look at the cost base across the entire Group, and it is a question of where it fits best. And through the Spectris Business System through some of the investments that we are making in terms of our ERP improvement and some of our process improvements over time, you will see that come down.

But it will all get captured in the overall margin of the Group, which, of course, we still believe we can improve year-on-year, and that remains the case for the remainder of this year.

Andrew Heath: All right. Thank you very much. And again, thank you, everyone, for joining the call and for your questions.

By way of closing, I just want to make a few points. As I said, I am very pleased that we did a good financial performance in the first half of this year. We absolutely are confident in delivering high single-digit organic growth and margin expansion for the full year. I am looking forward to talking to you at our Capital Markets Day in October and talk about really the next phase of our development.

We are a business that has a clear purpose with sustainability at its core. As I have said earlier, we are a more focused, higher quality, more profitable, less cyclical, more resilient business as a consequence of all the work we have done through executing our strategy for profitable growth. We are now very much positioned in diverse, attractive markets with structural and sustainable growth drivers.

We have got an excellent balance sheet that supports both our ambitions to invest organically, improving our internal efficiency as well as investing in growth through accelerating our spend in R&D as well as alongside that being to compound growth through disciplined M&A. And as such, I think we are in a strong position to drive our ambition to be a leading sustainable business.

So, with that, thank you very much again for joining and look forward to catching up with you all soon. Thank you very much.