

Spectris Industrial Solutions Division Presentation

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Strategy for Profitable Growth

Andrew Heath

Chief Executive, Spectris plc

Welcome

Good afternoon, everyone. Welcome to today's presentation on our Industrial Solutions division. Thank you for taking time out of your busy schedules to join us. I am Andrew Heath. I am the Chief Executive.

Now I am conscious that we have not spent as much time focusing on the businesses within ISD, as we have on our platform businesses over the past two to three years. As we are now coming to the end of the disposal programme, I thought it was timely to put the spotlight on the businesses we are retaining:

- PMS;
- Servomex; and
- Red Lion.

I am delighted to be here today to introduce you to Mary Beth Siddons, who is our President of our Industrial Solutions business. She joined Spectris in February this year and today is going to provide a teach-in on the three business that form our Industrial Solutions division going forward.

Our strategy for profitable growth

Now you have heard me say before, that at Spectris, we believe in being purpose-driven and very much true to our values as we execute on our strategy, delivering value beyond measure for all of our stakeholders.

When I stood up at our Capital Markets Day back in 2019, I said then that I believed Spectris represented an exciting opportunity to make a good company even stronger and that we would benefit from being a more focused and simplified business.

28 months later, I am very pleased with how we have executed our strategy for profitable growth, alongside the balanced and socially responsible approach we have taken to managing our business. As you saw from both our recent interims and Q3 results, this approach is really delivering for us.

We are benefiting from:

- Our focus on end markets with strong fundamentals;
- We have addressed our cost base;
- We have simplified the portfolio and optimised our assets, while also continuing to invest in our strategic growth initiatives and also R&D, while driving the application of the Spectris Business System.

So two years on, we have repositioned our portfolio, prioritising those businesses where we are leaders in high growth markets, where we have compelling and differentiated customer offerings and where we can deliver the greatest value. In the process, we are improving the quality of the Group. Nowhere has this been more the case than in Industrial Solutions.

Divestment programme well executed

Within ISD, we have gone from eight disparate operating companies to focus in on three high-quality, leading, specialist businesses: PMS, Servomex and Red Lion.

We have delivered five divestments, and the sale of our share in a joint venture in just two years. That is an outstanding achievement by our teams, especially against the backdrop of the pandemic.

This has also been done at attractive valuations, generating £682 million of proceeds, at an average multiple of 14 times. For some of those businesses, the multiple achieved was notably above those for the Group as a whole.

We have exited a number of end markets and we are now concentrated around pharma, semiconductors and energy, all underpinned by strong, sustainability thematics.

Pro forma sales in 2020 were around £260 million, but importantly the operating margin has improved from 15.5% in 2018 for the division as a whole to 20% for the three retained businesses on a pro forma basis. ISD is now the most profitable segment within the Group.

In the past two years, as well as delivering our divestment strategy to focus on the higher margin businesses, we have also been deploying the Spectris Business System, improving the businesses underlying operational performance, and investing in them for future growth. This is reflected in that higher margin.

More focused profitable division

So today, the Industrial Solutions division is more focused and has a much-improved financial profile.

As Mary Beth talks in further detail about the retained businesses, I trust you will see how they fit within the wider group and how they are very much aligned both with our strategy and with our purpose.

Back in 2019, I outlined the attributes of the type of businesses we wanted to own and PMS, Servomex and Red Lion all meet these criteria.

They are positioned in high-growth markets, with leading technologies, differentiated products and deep domain expertise, which positions them well with customers.

From a financial point of view, they are asset-light, have strong growth potential, high gross margins, with further operating margin expansion opportunity.

There is also the scope to compound growth here through M&A, and we have an active pipeline of potential acquisitions from bolt-on technologies to larger synergistic transactions. Our balance sheet provides us with significant firepower to look at transactions here, as well as for our platform businesses.

So today's presentation is a chance for us to really highlight the positive attributes we see and outline the prospects for each of the businesses both individually and collectively.

With that, I will now hand you over to Mary Beth.

As I mentioned, she joined us in February this year, and has some really exciting ideas as to how to get the most out of these businesses and how they can best work together to grow

and deliver on the opportunities. We will be talking more about this next year, but today our objective is for her to shine a light on each of the businesses in turn. Thank you.

Industrial Solutions Division Overview

Mary Beth Siddons

President, Industrial Solutions Division, Spectris plc

Thank you, Andrew, and good afternoon, everyone. It is a pleasure to be here today and talk to you about the great businesses that form the Industrial Solutions division.

I am truly excited to be a part of this team. What I have observed since joining Spectris are the many opportunities in these three businesses:

- The passion and our commitment to our customers;
- Our purpose; and
- The dedication of our employees.

Over my career, I have had the very good fortune of working with some iconic industry brands like Snap-on, ITW and the Marmon Group, a Berkshire Hathaway company. Industrial businesses that participate in a wide variety of end markets:

- Automotive;
- Food & beverage equipment;
- Retail;
- Consumer goods;
- Food manufacturing; and
- Aftermarket service.

I have a very high affinity for service and view it as an important strategic differentiator. The similarities in business models, diversified portfolios, managing the concept of flexibility within a framework is 100% transferrable to Spectris.

Additionally, having over 25 years of continuous improvement experience, learning from some of the best, like ITW, and the disciplined approach to business management, aligns completely to the Spectris Business System.

I would also like to take a moment and acknowledge the teams at Servomex, Particle Measuring Systems and Red Lion, along with all the ISD folks for their grace, patience and support as I was introduced to ISD and Spectris. Thank you.

High precision in-line sensing and monitoring solutions

Now let us turn to the strategy for the division, how each of the businesses fit in to that vision and how they align with the Spectris purpose. Our vision is:

- To be the leading provider of high-precision in-line sensing and monitoring solutions. As you will see later, we have differentiated products and support our customers when they experience challenges.

- We are focused on attractive end markets with attractive growth drivers and we have deep application expertise, providing value; and
- We differentiate ourselves through our product quality, application knowledge and service

Let us talk about our businesses.

PMS

PMS is the market leader in micro contamination monitoring solutions in the cleanest of clean environments such as pharma and semiconductor manufacturing. Our customers rely on our products to detect the smallest trace contaminations, helping them make cleaner drugs and better chips. We can trace contaminants down to 10 nanometres, which is 20 atoms wide and equivalent to measuring how much your fingernail grows every 10 seconds. Think about that.

Servomex

Servomex is an expert in gas and moisture analysis. Their instruments are utilised in critical applications such as monitoring emissions or ensuring the purity of gases where purity and control are essential for regulatory, safety and quality reasons.

As you will have seen from our Annual Report, they produce oxygen sensors that are used in critical care ventilators to monitor the amount of oxygen administered to a patient. Also measure the purity of gasses in a wide range of sometimes hazardous environments where normal sensors just cannot operate.

Red Lion

Red Lion sits at the heart of the Industrial Internet-of-Things and their products help customers to connect and monitor disparate assets providing them with the information they need to control their operations and improve operational efficiency. For example, a large mining company uses Red Lion's products to remotely monitor water levels, usage, flows and quality to improve their operations and to use water in a more sustainable and beneficial way.

As you can see, all three companies are helping make the world healthier and cleaner and our customers be more productive.

We are a global business with local presence. We have more than 1,300 employees in 21 different countries around the world, plus a network of partners in those where we are not physically present. Together we serve over 7,000 customers a year.

Over a third of our employees are in sales and services, which highlights the strong touch points we have with our customers

All three businesses have strong brands in their industries with a reputation for industry-leading technology and quality.

Strong underlying financial performance

Turning to our financials. The left-hand side chart shows the pro forma financials for the past five years. We have delivered a strong underlying performance, and this really illustrates the continued improvements the businesses have been making while we have been delivering the divestment strategy.

Sales have grown progressively through 2016 to 2019 with a compound annual growth rate of 10% and we are very resilient against the backdrop of COVID.

In 2020, sales only declined 8%, 9% on a like-for-like basis, and orders were only 3% lower like-for-like. Year-to-date, we are up 11% to-date, so we have seen a good recovery getting back to pre-COVID performance. This reflects the growth in our end markets but also continued investment in our businesses.

For example, PMS introduced 20 new products in 2020-2021 with another nine planned for next year. Both Red Lion and Servomex have completed product line refreshes and are executing on additional new product launches.

We have also been driving improvements in operational performance, as you can see in the margin expansion. This reflects the implementation of the profit improvement programme, as well as the deployment of Spectris Business System and pricing power from the new product introductions.

The right-hand side shows the splits by business, geography, route-to-market and between instrument and services. Our three businesses are roughly equally sized with PMS and Servomex very similar in terms of geographic focus and routes to market, as well as sharing other characteristics. Red Lion partners with more resellers and is very strong in North America.

I am excited about the opportunities for further growth and margin expansion, whether through growth in Europe, increasing our direct sales or increasing revenue from service. As mentioned earlier, I love service, supported by continued new product development, deploying a digital strategy and driving the Spectris Business System.

We are also looking at inorganic opportunities to invest in the businesses, to fill targeted gaps in our product portfolio and to expand into adjacent markets and technologies. While I cannot go into specifics, the focus is on synergistic acquisitions where we can leverage our existing businesses to increase value which are closely aligned to our vision and focus.

Well-positioned in attractive markets

Our businesses are positioned in a number of attractive end markets with high growth supported by a number of sustainability trends

For example, in Pharma:

- More widespread access to healthcare;
- More localised production to ensure security of supply;
- Increasing regulatory security and the need for data integrity; and
- Pharma companies being more receptive to automation. We are seeing the market grow at around 5% and 7% over the next several years.

In semicon:

- Localising production is also a trend, for example, with major US fabs now being built;
- Rising demand for advanced chips with greater processing power;
- Increasing desire for consumer electronics; and

- We are seeing this market grow around 6-8% over the next three years.

In the energy sector, the climate challenge is driving a need to reduce emissions, meet net zero targets and be more efficient with resource use, with increasing regulatory controls around this. It underpins the growth that we are seeing of 4-6% over the next several years.

Factory automation is ever more prevalent with ever greater demand to connect assets and access information to understand and control the performance of production process, compounded by:

- More remote working with more disparate assets;
- With more advanced process instrumentation; and
- An increasing focus on productivity growth and yield management with impacts on waste and safety.
- We see this growth of between 5-8% again over the next several years.

So overall, we see these businesses growing well above that of GDP, driven by both strong market drivers and the additional initiatives and investments I talked about earlier.

Let us look at each business in more detail.

PMS – contamination monitoring in high growth markets

We will start with Particle Measuring Systems. PMS is the technology leader in particulate contamination monitoring. PMS was founded in 1972 and invented laser particle counters.

Its technology can measure extremely small particle sizes as small as 20 nanometre in water and 20 nanometre in air molecular contamination concentrations in parts per trillion. PMS is organised around two key end markets, where purity and sterility is critical to the manufacturing process. The cleanrooms are controlled environments where product quality can be impacted by contaminants

In their Electronics business, which is 50% of their sales. As an example, PMS instruments ensure ultra-high purity gases for semiconductor manufacturing and production of electronics such as LED and LCD displays. Or ensuring ultra-pure water for critical cleaning/rinsing steps in the semiconductor processing.

In their Life Sciences or Pharma business, our instruments and real time monitoring systems are used by aseptic pharma manufactures to monitor airborne particles and undertake continuous air sampling. This helps eliminate process contamination and meet regulatory requirements.

PMS has recently won the Pharma Innovation Award for the IsoAir Pro product. This award is given by the Pharma Manufacturing Journal and is one of many awards PMS has received for product innovation.

Technology leader in ultra-purity solutions

So what are the key drivers for customers to invest in our products?

Contamination or poor-quality inputs can cause yield loss, product degradation and loss of process control. Customers need the highest sensitivity instruments to help maximise yield and productivity, measuring where the products are exposed to enable fast decision making.

In pharma, sterility assurance is critical to product safety and ensure customers meet regulatory requirements. As well as instruments and systems, PMS offers advisory services, supporting aseptic pharma manufacturers at every step of the process. They really understand the regulatory requirements and provide end-to-end solutions, a real competitive advantage versus peers

Customers come to PMS for their superior technology, with market leading levels of precision and sensitivity, giving customers a piece of mind.

Quality and reliability. PMS sets the standard for contamination monitoring by first designing reliability into its products and advisory services and their expertise. Its people are recognised as thought leaders. They actively participate with customers and industry standard committees to understand the evolving challenges they face.

They have an ongoing interaction with regulatory agencies ensuring continuous knowledge of new industry requirements, providing expert knowledge to support all stages of production. As a result, we stay close to our customers and add value working in partnership with them

Market leader with potential for further growth

The high-purity contamination monitoring market totals around \$2 billion. In its served market, PMS is the market leader, operating in a premium niche of the market given its high precision technology, expertise and breadth of offering.

Its market share is around 30% and it is a widely respected brand, given its high-end offering, which also supports good margins, as well as a growing underlying market. There are a number of adjacencies, such as bio-decontamination and environmental monitoring to expand into that can support this growth.

PMS case study

This case study is a great example of PMS working in partnership with one of our customers, AST. AST supplies aseptic filling and closing machines for sterile life sciences products. Its customers require a flexible, reliable and safe aseptic and pharmaceutical processing solution to bring their products to market quickly, but most importantly, safely, and in accordance with regulatory controls and Good Manufacturing Practice compliance.

AST has partnered with PMS so its contamination monitors are placed in AST's aseptic filling machines, providing them with a fully integrated system. This fully integrated solution reduces risk, ensures the quality and safety of the product and that it is in full compliance with regulation.

Servomex: Gas analysis solutions aligned to markets and applications

Now Servomex. Founded in 1952, Servomex is a premium player and experts in gas analysis sensing solutions that measure the composition and level of major gases used, produced or manufactured by global industries.

Servomex products tell you what gases you have, when you have it, and how you can use that information to improve your process control, quality, safety, emissions management or combustion control, all very important information.

Gas analysers can measure gas concentration across a wide range, from complete purity to tiny traces. Applications looking to control processes for safety and efficiency need to ensure

that the gas concentration or percentage stays within a certain level. Gas purity measurements, need to measure ultra-trace levels of contamination to ensure the required purity.

Parts-per-trillion levels is equivalent to taking all the water from 20 Olympic swimming pools and being able to detect one single drop of food colouring in it. Think about that.

Servomex is organised across three applications. One is Hummingbird, which represents 20% of sales, and are sensing technologies for medical and industrial applications. For example, its oxygen sensors are used in ventilators which saw a rapid increase in demand last year for COVID treatment, like with GE Medical.

Purity & Specialty. Applications for high purity gas analysis, for example, in semicon manufacturing or air separation applications, working with customers like Samsung and Intel.

Our Industrial Process and Emissions, what we call IP&E, primarily in oil, gas and petrochemicals process and safety applications and the combustion cycle in power generation and manufacturing processes.

Helping customers be cleaner, safer and more productive

Servomex products and services help its customers with process control, quality, safety and efficiency. It also helps customers monitor and control emissions and manage combustion processes for safety and resource efficiency.

With regulatory compliance and environmental concerns high on customers' agendas, Servomex instrument and systems assure their processes are compliant and safe and help improve operational productivity.

The variety of sensors and measurements that Servomex offers is a major competitive advantage and many applications require accurate stable gas analysis at extremely low detection limits. Servomex offers a single supplier solution for ultra-trace analysis.

We supply the widest range of gas analysers available from a single manufacturer, with a total of over 40 products utilising 14 different sensing technologies. Instead of choosing from just two or three sensing technologies to resolve an application challenge, we can apply the most accurate and cost-effective solution from its entire range.

This underpins our reputation as a gas sensing technology expert. It is the market leader for paramagnetic oxygen measurement, as well as application experts in gas analysis.

In addition, its depth of system and service capability is also a key attraction. Its portfolio also includes customised system builds and flexible support packages alongside technical support and training to ensure optimum analyser performance from the outset.

Development of a Servomex system requires genuine partnership between the systems team and our customers.

Differentiated premium offering

Servomex operates in a £600 million served market in which it has around an 8% market share. However, Servomex does not compete with the industrial automations companies who offer high volume and less critical applications and differentiates itself in the premium end of the market, supplying customers with the higher precision they need.

If you were to look purely at this segment, then the market share would be much higher. The wider process analyser market is much larger in scale, providing the opportunity to expand into attractive adjacencies.

Servomex case study

Many of Servomex's IP&E customers operate in hazardous environments. Gas monitoring and control in these scenarios is therefore critical to safety. It is also important from an environmental point of view, ensuring lower emissions and better resource use.

In hydrocarbon processing and power generation applications, process heaters and furnaces are integral. They allow fuel and air to react together and produce extremely high gas temperatures. In doing so, they use large quantities of fuel, generate emissions and can create a safety hazard for plant and personnel.

Servomex's FluegasExact and Laser 3 Plus Combustion are highly accurate, responsive gas analysis technologies. They measure oxygen, carbon monoxide, methane and other combustibles to help optimise the air-to-fuel ratio to control the combustion process. Excess oxygen would lead to reduced efficiency and increased emissions.

Keeping the combustion reaction at the optimum point therefore ensures safe operation, improving efficiency, while also reducing both fuel cost and emissions, and ensures compliance with regulations.

Red Lion - Focused on two primary industries

Since 1972, Red Lion has provided access to industrial information through automation and networking hardware, enabling communications to disparate plant assets and/or remote installations.

Its products include routers for industrial connectivity, ethernet switch products, human-machine interface products and panel meters. These products enable customers to connect, monitor and control their processes remotely, enabling companies to harness real-time data visibility to drive productivity.

Red Lion is focused on two segments:

- Factory Automation, and it is split between automotive and food and beverage.
- Infrastructure, where assets are dispersed geographically such as water & waste water, power transmission and distribution, upstream oil & gas and transportation.

Industrial connectivity driving growth

The expanding IIoT trend, remote working and more advanced process instrumentation are all driving the growth for these products. Customers want to better understand and control how their processes are running to drive improvements in performance and predict problems and maintenance requirements ahead of them occurring.

They need to be able to:

- Connect multiple types of equipment and systems;
- Aggregate real-time data; and
- Have that presented in a readily understandable format.

Data is required and information is invaluable.

Red Lion provides high quality, easy-to-use products which can seamlessly integrate customers' existing systems. Red Lion's USP is able to translate data from all industrial supervisory control and data acquisition and PLC systems. It is agnostic of who provided the industrial control system to its customers. This is supported by its responsive customer service and tech support. These are why customers come to Red Lion.

In its core North American market, there is a strong brand awareness, and here it is the market leader in the panel meter product segment, having won the Control Design Magazine's Readers' Choice Award in this category for 21 consecutive years.

Fragmented market provides opportunities

If we look at the market it operates in, it is sizeable, and growing. It does come up against some large-scale providers, with a full product range operating globally. However, that is not who we compete with. Our focus and value is our ability to connect devices from multiple suppliers, seamlessly and that underpins our strong reputation in North America.

It is a highly fragmented market, which provides opportunities. Red Lion is also looking to expand further geographically into specific markets in Europe and Asia.

Red Lion case study

In this case study, Red Lion worked closely with a food packaging equipment OEM, who needed an architecture to access real-time data globally to assess and monitor its performance.

The existing setup did not allow the monitoring of real-time data, inhibiting its ability to improve efficiency. It required local access to operational data, but without access to private machine data. It also wanted to significantly reduce its maintenance costs.

FlexEdge, one of Red Lion's new advanced automation devices was installed at the machine layer, connecting and communicating with multiple different PLCs and then configured the different datasets to the required destinations so that the data privacy was maintained.

As a result, the OEM eliminated \$1 million in annual licensing fees. Importantly, it had the real-time data needed to monitor operational output and increase efficiency, allowing it to further reduce its cost base.

Summary - Three attractive businesses

So we believe we have three attractive businesses with good organic growth and margin prospects, with the ability to compound growth through M&A.

PMS provides leading high-precision monitoring solutions and advisory services in two high growth areas. Given its technical leadership, it has strong sustainable margins and opportunities for further growth.

Servomex supplies differentiated premium gas analysis products and systems, combined with application knowledge and customer intimacy, and is well-positioned in a growing market. The markets it serves are underpinned by attractive regulatory and environmental drivers, again with opportunity to expand into adjacencies.

Red Lion provides products which help customers connect and monitor different technologies in an easy way. It operates in a highly fragmented market and again has the ability to grow.

We continue to develop our M&A pipeline, and evaluate and engage with potential targets to scale the businesses individually or in combination. There are some targets that provide the potential opportunity to assist both PMS and Servomex and to build an even stronger portfolio of premium, in-line sensing and monitoring capability.

A scalable model with high growth potential

As you will have seen, we have three really fantastic businesses, who all have differentiated offerings and serve attractive markets, which are underpinned by attractive trends.

We have delivered strong financial performance and we will continue to grow, expand our margins and gain market share to make us the leading provider of high-precision in-line sensing and monitoring solutions.

I would also like to say how excited I am to be here to help these businesses achieve this. Our vision is to be the leading provider of high precision in-line sensing and monitoring solutions. We have differentiated products and services. We support our customers and work with them to solve their challenges.

We will leverage the expertise across the Group:

- Driving the Spectris Business System;
- Building our service organisations;
- Providing analytics to improve customer performance;
- Continue the investments in new technologies; and
- Execute on our inorganic strategies to drive growth.

Thank you for your time. We are really excited about our future.

Conclusion

Andrew Heath

Chief Executive, Spectris plc

Thank you, Mary Beth. So in summary, we have delivered on the disposal programme, significantly simplifying and refocusing ISD, as well as the Group portfolio. Industrial Solutions is now made up of three high-quality specialist businesses, which we have profiled today. Going forward, ISD's focus will be on building on our strength in high precision, in-line sensing and monitoring solutions, based around PMS, Servomex and Red Lion.

Our strategy remains to invest organically to grow these businesses, and to also pursue M&A to compound growth and build scale. In the meantime, we will also take steps to run ISD as a more integrated division. We will retain the business units and brands, while looking for opportunities to leverage the existing infrastructure and drive efficiencies.

This will involve some restructuring, including:

- Leveraging common channels to market where they exist and make sense across PMS and Servomex;
- Leveraging our service infrastructure;
- Building service as a key competitive advantage across the businesses; and
- Strengthening the deployment of the Spectris Business System in back office and manufacturing processes.

Thank you for listening. We are now very happy to take your questions.

Q&A

Jonathan Hurn (Barclays): I just had a few questions, if I may. Firstly was just on the margin. Can you just give us a feel for the margin by the various businesses? Looking forward, which one of these businesses do you feel has the greatest upside? That was the first one.

Andrew Heath: Jonathan, thanks very much for your question. We are not going to disclose margin specifically by the businesses. However, suffice to say they are all high margin businesses. They all are either above 20% today or have the absolute potential to be above 20%. As we profiled earlier, the net of ISD as a group is above 20%.

We continue to invest in the businesses actually quite heavily. All the businesses have strong organic development roadmaps. We have been investing in Red Lion through a complete product refresh that Mary Beth took you through. Within PMS, we are continuing to invest in making sure we retain our leadership positions in terms of that level of precision and accuracy of measurements. Likewise, across the Servomex portfolio, we are making investments, including next generation gas analysers.

From year-to-year, the profile within each of those businesses can vary a bit depending on just where we are in the phase of some of our investment to say, overall, we certainly see the ability for the Industrial Solutions division to certainly be stay above 20%. As we deploy the Spectris Business System, we will use that to driver further efficiencies.

Jonathan Hurn: Just thinking about it going forward, I think if you look sort of pre-2020 and look at 2018-2019 in terms of that margin with increasing roughly 250 basis points a year, obviously, 2020 was impacted by COVID. As you look forward 2022, can you feel that you can regain some of the momentum that you saw in 2018 and 2019 in terms of the growth?

Andrew Heath: Yeah. Absolutely. I mean, these are high-quality specialist businesses which as Mary Beth has profiled. Our customers come to because of the level of precision we can offer, the flexibility and ability to integrate our instruments into the manufacturing process clearly from Red Lion's perspective. As you saw in our trading updates earlier through the year, the order intake has been very strong and that certainly has been the same case within Industrial Solutions. Mary Beth, you may well add your own flavour to that?

Mary Beth Siddons: I think the specialty, the applications, the service offering, the advisory services, I think that there is lots to look forward to as we enter 2022.

Jonathan Hurn: That is very clear. The second one, can I just ask about acquisitions. Obviously, you talk about the pipeline. If we look at that pipeline, there is some quite big acquisitions out there that could potentially make one of these businesses into a platform business and take it out of the Industrial Solutions portfolio?

Andrew Heath: Well, so our strategy absolutely remains in place in terms of continue to invest, as I said, just in terms of our organic offerings but also to sort of seek out good M&A to further scale the businesses, compound growth, and to create either, depending on the nature of the particular target, the businesses have potential to be platforms in their own right or ideally collectively because as we have now down the portfolio within Industrial Solutions, there is clearly a lot more overlap, particularly between PMS and Servomex.

If we can find good acquisitions that can complement both businesses, then that really strengthens our position in high precision in-line sensing and monitoring. That is very much our focus going forward. The strategy remains. It really, Jonathan, depends on the nature of the M&A that we could potentially transact on in terms of then really determining what the structure and shape of Industrial Solutions will be going forward.

However, as you say, I mean, there are plenty of opportunities out there; but the precision end of the market, it is less consolidated. If you look at the general sort of in-line process sensing and monitoring market, there are some players in the generalist space, big industrial companies. What differentiates us is really, we pick those specialty part of the markets that require the highest level of precision, require the premium products where we can build strong positions that are then defensible. That is the nature of the businesses that we are looking to acquire with exactly the same business exposure and business model.

As you look to the market share graphs, you can see that. If you break that down at the sort of high precision end, it is quite unconsolidated. Customers come because they need a certain level of precision. They need a certain analysis for performing certain measurement. As such, it is very technology specific in terms of which is the best technology to deliver that measurement. That gives us opportunity to build out the portfolio of ISD along those lines.

Jonathan Hurn: If I can squeeze one final one in. If you look at those growth rates that you put out there, obviously if you take the weighted average of those by the end markets. That should imply a level of around about 6%. As you look to FY22, is that a level that you feel that you could at least be within Industrial Solutions, or there is supply chain issues maybe within Red Lion but Semicon or something that maybe stops you hitting that around about 6% growth?

Mary Beth Siddons: Thanks, Jonathan. I think that we are fairly confident that those are achievable growth rates, given where we are at today and the markets that we find real attractive and our growth rates look like for sure they will continue into 2022.

Andrew Heath: Yeah. I think your question is also, Jonathan, on a through-cycle basis. For 2022, given our order intake during this year, we are well placed going into 2022. We are going to carry a much larger opening order book into 2022, which positions us very strongly for sustained growth next year.

The semiconductor market is still very buoyant. We are still seeing very strong demand in pharmaceuticals, certainly in the aseptic lab market. Whilst in Servomex, our oxygen sensors

had a big boost last year because of ventilator manufacturing under COVID, that actually sustained at higher levels than anticipated this year and we have also been able to put the Hummingbird oxygen sensors into other markets.

We are seeing the energy markets now back into positive territory. There is certainly some good momentum there going into next year.

Mark Davies Jones (Stifel): Can I ask a little bit further on the criteria for what you retained and what you sold, because some of the sold businesses are obviously quite well positioned in their niches as the exit prices indicated. Of what you retained, from what you have said, it is much easier to see how PMS and Servomex fit together and fit with your overall strategy in terms of precision relatively small niches, relatively small market shares. Red Lion sits slightly differently, I think, in terms of how it addresses this market and where it is positioned in the value chain and it seems to be a bigger market overall. Why does that make the cut on some of the other slightly more specialist companies not?

Andrew Heath: Yeah. Thanks for your question, Mark. I mean, when we did the initial analysis back in 2018-2019, as we said at the time, we very much looked at the relative positions of all our businesses in terms of their positions in the market, the nature of the competition, the growth prospects, the growth underpins and certainly the relative strength of each of those business.

In some ways, it will be a long answer to go through blow by blow. Like a company like BTG, for instance, which is the first business that we sold, high margin business, very good business, done well over many years. However, one, that business really, its genesis was in high quality graphic paper which clearly that market is in long-term decline. The business was repositioning itself to being able to access things like the cardboard packaging markets and the tissue market, where the levels of quality control are lower there.

The business itself had 60-70% of the revenue was service-related aftermarket spare parts related, which ordinarily you would say fantastic. We like business like that which we do. However, it was very much driven by their creping blade business which was under quite significant pressure from low cost producers in China and across Asia.

Net-net in balance, as a case study we looked to the business. That business has performed well. It has got very good margins but its prospects for future growth and sustaining those margins was under quite a bit of pressure. Therefore, we felt that it was the right time to sell the business and to maximise value and then recycle those assets.

That is the analysis, as a snapshot we took across all of the business. Without actually going through them individually. However, the ones that we have kept, PMS, Servomex, Red Lion, they all made the cut in 2019 and they still made the cut now. We see that they have got very strong technology, strong brands, strong customer presence, asset-light businesses, high gross margin, good growth prospects and with good sort of market underpins certainly from PMS, it is very much pharma, semicon. That business has grown very strongly even through COVID as a consequence of that.

Likewise, in Servomex, pharma, semicon and then high end of industrial processes, but we see opportunities there in terms of the energy transition away from hydrocarbons. We are going to be using hydrocarbons for many years to come, but there is going to be a transition

and we can play both in the emissions control, combustion control of hydrocarbons, which is very important from a safety and cleanliness perspective. Also, as we look at the whole energy transition, particularly into the blue hydrogen and potentially ultimately to green hydrogen, we see that our capability in gas analysis as being quite critical for that market. The good opportunity for Servomex.

Then within Red Lion, the industrial Internet-of-Things, Industry 4.0, the whole drive to greater connectivity and really understanding what is happening on the manufacturing process in real time, plus as a consequence of the pandemic, for much greater demand from customers for even further remote monitoring. We see that the Red Lion portfolio is very well-suited to really brownfield manufacturing process applications, because there they have USP for Red Lion is that their ability to interface into pretty much 99% plus of the world's SCADA systems, PLCs, remote terminal units. They have all the protocols and you can basically plug and play a Red Lion interface device into a manufacturing process.

You can read other suppliers controller units, provide that information back to the customers so that they can actually interpret what is going on in the manufacturing processes. We use our switches as well within the manufacturing businesses to communicate that data around the manufacturing facility and then also provide that in class-leading monitors and displays, the panel meter business in Red Lion, as Mary Beth said, we have had 20-plus years of continuous awards on that.

Red Lion is a bit of a different business, yes, but again we see from a monitoring solution perspective it has got a strong reputation with strong capability.

Mark Davies Jones: Great. That ability to read across all the SCADA and PLC inputs, is that something you think is unique there?

Andrew Heath: Well, that is pretty unique to Red Lion. I mean there are others there, but that is really what differentiates us. Certainly, our position in North America I think just underlines the capability of Red Lion. It is recognised in the industry as a supplier that you can buy. You can basically install it and it will plug and play with your existing SCADA, PLC systems.

Mark Davies Jones: Great. Just one final detail on that is, is also the biggest end market for Red Lion overall?

Andrew Heath: It is one of the big end markets and we are doing some direct sales to some of the larger OEMs. Traditionally, Red Lion is going to market through distribution. It is still a big and important part of Red Lion and that is one of its core capabilities is working its distribution network. However, we also do direct sales to the auto OEMs.

Again, oil and gas industry is a big buyer of Red Lion equipment. Then it spreads across multitude of industrial process all the way across food and beverage to the other end of the spectrum.

Andrew Douglas (Jefferies): Three questions for me, please. Can you just give us a feel – and I understand this will change every year given the strength of the businesses – but for a rough operational gearing that we should be modelling for this division if we are assuming, whatever it is, 6-7% growth going forward. Just how we should be modelling that?

Secondly, there was a comment before on product refresh helping margins. Does that mean that going forward you have to continue to be producing 9, 10, maybe even 20 products every year just to keep that margin progression going, otherwise you will have to find other alternatives to improve that margin.

Then that leads me on to my third question. You talk about Spectris Business System deployment. Are we in early days with regards to distribution compared to maybe others or just trying to figure out how much upside there is potentially from the deployment?

Andrew Heath: Yeah. I will take the first question and then I will pass to Mary Beth for your second and third questions. I mean, just in terms of operational gearing, the three businesses, PMS, Servomex, Red Lion are all high gross margin businesses, pretty much aligned with the Group gross margin. From a modelling perspective, you could certainly use the Group numbers to model that.

As a consequence, they all have high operational gearing, consistent with the other businesses across the Group.

Mary Beth Siddons: Okay. Then the second question, Andrew, around product refresh. For sure over the last couple of years, lots of product launches. I would say that over the last few years, we have invested more in our R&D with these three businesses. The outcome is some nice product launches based on where we see[?] customer, etc.

I think what you can expect from us is some more of that. We have got fairly robust product roadmaps. Now is it going to be in the same quantities? We will see. However, what I think you can also expect from us is to see different types of product offerings. As you know, innovation comes in many, many different types, not just product.

Therefore, we are excited to start to talk about service a little bit more and software. The short answer I guess is, is it going to be the same volume? We will see. However, we should start thinking about innovation beyond just product offering.

Andrew Douglas: Yeah. There is a third question. Do you think you need to spend the money better? Or is it a question of just making sure that the products that come out of the hopper are actually the ones that you need to drive this business forward?

Mary Beth Siddons: Go ahead, Andrew.

Andrew Heath: I mean, we would be very much on the journey of making sure we are spending our R&D dollars better and better. When I came into Spectris three years ago, I commented then that we were spending too much money on sustaining and maintaining some of our older products. As part of that strategy for profitable growth and subsequently we will be managing the portfolio strategy at the Group level in terms of the companies. Within the individual operating businesses and the platforms, they have also been looking very closely at their products and service portfolios and really looking at the 80-20 Pareto of where do we make money, who are our key customers, which are the key regions on some of the older products and services; are we really making the margins that we should be making, should we either be increasing the price or even retiring them or selling them off.

We have been going through that process. Our vitality index is now improving as we talked about I think at the half year. It is hit very much of an inflection point in 2021.

I think we are typically looking to just to be running our vitality index going forward between 30% and 40% for all our businesses. Within Industrial Solutions, and maybe I will just let Mary Beth just quickly just talk about some of the individual product programmes that we are doing today because I think it will give you a bit of a flavour of how we are spending our money more wisely.

Mary Beth Siddons: So again, it will vary by business a little bit. PMS, the funding to improve sensitivity, right, product refresh. In Servomex, again a new line of gas analysers. Red Lion around new platforms that have been developed, some have been launched. So I would say that in each of the businesses, again, that robust product roadmap based on 80-20 and voice of customer is all adding to the increase in our product vitality rates, which, as Andrew said, the goal is 30% to 40% to get it up in that range.

I will say again that we want to think about innovation and driving customer value beyond just products and start thinking about other areas where we can add more value.

Then your third question around SBS. It is a good question. The way that I would categorise it is that continuous improvement in the Spectris Business System is a journey. It is not a destination. Each of these businesses are in different places as it relates to the implementation of SBS. That is the good news. The good news is that we have not declared victory and we have got lots of opportunities.

As I said earlier, I have had the luxury of being exposed to this type of business operating model and methodology for many, many years. I am very excited to work with the teams to drive the improvements in the businesses and the operating functions and back offices, etc. I am very, very excited to see what we will be able to do over the next number of years.

Andrew Heath: We are very pleased to have Mary Beth here, given particularly her ITW experience, the ITW 80-20 principle, how they look at their businesses. Mary Beth is absolutely schooled in all of that and is bringing a lot of that knowledge and experience to bear in terms of really how we look in terms of the Spectris Business System to build on, not just our lean, waste reduction tools and our growth tools that we have but also in terms of looking across the portfolio, again, from a sort of Pareto 80-20 perspective.

Mary Beth, one of the reasons that I brought her into the Group is very much based on her experience not least her ITW stamp on lean and 80-20 principles that she picked up from ITW which are all very relevant to the journey we are on.

Robert Davies (Morgan Stanley): I was having a look on, I think it was slide nine of your pack, where you show there is a progression margins and sales growth over the period 2016 to 2019. Just be curious, that is obviously three- or four-years pre-16 the Group numbers was not as strong as they were over that period that you have shown. However, just be curious during that sort of 2013 to 2015 period, do you have any visibility? I know that maybe you do not have the data going back up far. I would just be curious if you had any visibility in terms of growth and margin volatility of those retained businesses over that period because obviously three of four-year period on the chart does not give us a huge amount of history. That was my first question.

Andrew Heath: Rob, okay, thanks for your question. Off the top of my head, I have not got that information to be candid with you. Equally, the Group was not structured in the same

way either. These are pro forma numbers. I am not sure how easy that should be to go that much further back in history to give you a realistic guide.

However, I think what characterises the three businesses that we have here is that they are all really strong brands with very strong customer recognition, where customers will buy from PMS, Servomex or Red Lion on a no-regrets basis because they know that they are buying the highest precision, the high quality.

As such, all three businesses are actually been very resilient. That came through during 2020. ISD really was the most resilient of all of our businesses last year, clearly helped by the pharma exposure within PMS and Servomex but equally and also the rebound in semicon has helped.

However, these are fairly essential bits of kit that customers need to buy to be able to control their process. Equally, given they are asset-light, we have also been able to flex well in terms of responding to the market. Red Lion had a bigger exposure obviously to industrial automation which got hammered last year. However, they did a very good job in holding their sales up as best they could at the same time adjusting their cost base. Their margins last year held up very well, certainly even absent the pandemic, they held up well.

These are three qualities specialist businesses that are well regarded in the marketplace, with an operating model that absolutely fits what we are looking for from a Group perspective.

Robert Davies: Okay. It is not fair to assume that there is quite big differentials in the drop throughs in those different businesses? I was leading myself towards the question around Red Lion versus PMS. Do you have, I guess, much higher operating leverage on the Red Lion business than you would on PMS because of the different end markets, industrial automation versus semi versus pharma or is that not the case?

Andrew Heath: Well, I mean, I just had a quick look at the numbers after Andy Douglas' question. PMS and Servomex are very much in line with the sort of Group average. Red Lion from a gross margin is a few basis points lower but still in the 50s. They are all pretty much in the same space. However, clearly as markets come back and we launch our new products in today keep our vitality up, we are well placed to grow and grow profitability.

I think the interesting aspect for all the businesses is the end markets are underpinned by some good fundamental drivers, whether it be pharma, semicon from a more connected world perspective than just the sheer computing power demands that is required through to making sure from an industrial process, they control safely but also cleanly and our customers meet their emissions requirements and certifications.

Equally from a Red Lion perspective, it is really the connectivity trend that is really underpinning this end markets and positioning.

Robert Davies: Then my two other questions. One was just on, I guess, apologies I missed it earlier in the presentation. However, just on medium term outlook, is the plan to keep these three businesses together? Is it just bolt-on and build up to have these convert themselves into standalone platform businesses if you can get the right acquisitions? Is that the plan, or is there a possibility that in three- or five-years' time we could still have these three businesses sitting within Industrial Solutions as a standalone division and just ticking alone? That was my second question.

Andrew Heath: Yeah. Our focus is very much around now that we have rationalised the portfolio significantly simplified and refocused ISD not just the Group, the focus is around high precision in-line sensing and monitoring. We have three great assets within that space today. I think I have answered the question earlier just about the M&A prospects. The premium end of the market is not consolidated.

Customers very much buy around key technologies, key products that are capable of the highest level of precision and accuracy for specific applications. So that gives us a good field actually for finding acquisitions that either overlap with our existing businesses or immediately adjacent to them. Certainly, our intention would be to build out portfolio of businesses very much focused on this space.

Equally, as I said earlier, it just depends on what an acquisition might be or the number of acquisitions we can do, whether it is focus on one of the businesses or whether overlaps one or more of the businesses. The Industrial Solutions portfolio, clearly, we are looking to compound growth through M&A and scale the business up. Just exactly how that evolves over the next few years is not necessarily fully in our control.

Robert Davies: My final question was just around the M&A opportunities. I guess, when you look across the competitive landscape, where do you see the biggest opportunities for M&A? Is it small divisions within larger industrial companies? Is it small private players? Who are the potential targets when you look across the different divisions or different bits of that division?

Mary Beth Siddons: I think that it is a sum of all of that. There are opportunities for product line bolt-ons for some of the businesses. There are more transformational opportunities. We are looking in all of those areas. It is not going to be any one solution. I think it is going to be a combination of those that will drive our M&A activity.

Andrew Heath: Everyone, thank you very much for joining us today and for your questions. As I said at the outset, I am really pleased with the delivery of the execution of our strategy for profitable growth over the last three years. We have repositioned the portfolio. We have significantly simplified and refocused the Group and not least so within Industrial Solutions.

As you have seen today with Industrial Solutions we have right now three high-quality specialist businesses in PMS, Servomex and Red Lion. I hope you found the profiling and the explanation of those businesses really helpful today. However, if you have any further questions, please come back through Siobhán Andrews, our Head of Investor Relations. If you have any further questions, we are happy to try and answer those.

As I said, through the questions, our strategy remains to invest organically in these businesses as well as to seek out good accretive and attractive M&A to further scale and compound the growth within Industrial Solutions.

I will leave it there. Mary Beth and I very much look forward to updating you on the future progress of Industrial Solutions in our upcoming various updates. Thank you very much for joining. If I do not speak to you between now and the end of the year, I wish you all a very happy Christmas. Thanks very much and take care.

[END OF TRANSCRIPT]